financial part

ERNST & YOUNG
Quality In Everything We Do

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

We have audited the accompanying consolidated financial statements of Československá obchodní banka, a. s. and its subsidiaries ("the ČSOB Group"), which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on the ČSOB Group, see Note 1 to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Ernst & Young

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

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

14 March 2007
Prague, Czech Republic

consolidated statement of income for the year ended 31 december 2006

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

(CZKm)	Note	2006	Reclassified 2005
Interest income		30,211	26,137
Interest expense		(12,253)	(10,371)
Net interest income	3	**17,958**	**15,766**
Net fee and commission income	4	6,890	6,517
Net trading income	5	2,761	2,613
Other operating income	6	2,774	4,929
General administrative expenses	7	(16,802)	(15,343)
Other operating expenses	8	(231)	(543)
Profit before impairment losses, provisions, contribution to pension fund clients and income tax		**13,350**	**13,939**
Impairment losses on loans and advances	15	(830)	346
Impairment losses on available-for-sale securities	13	-	(51)
Provisions	25	261	(433)
Contribution to pension fund clients		(384)	(402)
Share of profit of associates		45	-
Profit before income tax		**12,442**	**13,399**
Income tax expense	9	(2,797)	(2,896)
Profit for the year		**9,645**	**10,503**
Attributable to:			
Equity holders of the Bank		9,543	10,328
Minority interest		102	175

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

consolidated balance sheet as at 31 december 2006

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

(CZKm)	Note	31.12.2006	Restated 31.12.2005
ASSETS			
Cash and balances with central banks	10	18,394	15,017
Due from banks	11	46,676	81,713
Financial assets at fair value through profit or loss	12	173,562	189,086
Investment securities	13	172,171	174,613
Loans and leases	14	308,596	239,357
Pledged assets	12, 13	4,863	3,969
Investments in associated undertakings	40	658	-
Property and equipment	16	11,024	8,545
Goodwill and other intangible assets	17	4,503	4,306
Other assets, including tax assets	18	16,480	14,799
Prepayments and accrued income		5,374	5,133
Total assets		**762,301**	**736,538**
LIABILITIES			
Due to banks	19	32,002	23,664
Financial liabilities at fair value through profit or loss	20	98,651	122,704
Due to customers	21	504,294	472,431
Debt securities in issue	22	40,086	37,384
Other liabilities, including tax liabilities	23	26,816	23,578
Accruals and deferred income		1,813	1,671
Provisions	25	924	1,429
Subordinated liabilities	26	5,182	200
Total liabilities		**709,768**	**683,061**
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	27	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		1,403	1,458
Retained earnings		24,685	25,441
		52,139	52,950
Minority interest		**394**	**527**
Total equity		**52,533**	**53,477**
Total liabilities and equity		**762,301**	**736,538**

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 14 March 2007 and signed on its behalf by:

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

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

consolidated statement of changes in equity for the year ended 31 december 2006

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

(CZKm)	Attributable to equity holders of the Bank: Share capital (Note: 27)	Share premium account	Statutory reserve[1]	Cumulative Gains not recognised in the statement of income [2]	Retained earnings	Minority interest	Total Equity
At 1 January 2005	**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	-	-	-	-	(3,844)	-	(3,844)
At 31 December 2005	**5,105**	**2,259**	**18,687**	**1,458**	**25,441**	**527**	**53,477**
At 1 January 2006	**5,105**	**2,259**	**18,687**	**1,458**	**25,441**	**527**	**53,477**
Net after-tax unrealised (losses) on available-for-sale securities	-	-	-	(484)	-	-	(484)
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	879	-	-	879
Foreign currency translation	-	-	-	(17)	-	-	(17)
Net after-tax losses on available-for-sale securities transferred to net profit	-	-	-	3	-	-	3
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(436)	-	-	(436)
Net after-tax (losses) not recognised in the statement of income	-	-	-	(55)	-	-	(55)
Net profit	-	-	-	-	9,543	102	9,645
Total recognized income for 2006	-	-	-	(55)	9,543	102	9,590
Change in consolidation scope	-	-	-	-	28	(102)	(74)
Dividends paid (Note: 38)	-	-	-	-	(10,327)	-	(10,327)
Dividends of subsidiaries	-	-	-	-	-	(133)	(133)
At 31 December 2006	**5,105**	**2,259**	**18,687**	**1,403**	**24,685**	**394**	**52,533**

1) Statutory reserve represents accumulated transfers from retained earnings in accordance with the Czech Commercial Code. This reserve is not distributable.
2) Cumulative gains not recognised in the statement of income consist of the foreign currency translation adjustments of CZK (103) m, CZK (130) m and (147) as at 1 January 2005, 31 December 2005 and 31 December 2006, respectively; net gains on available-for-sale securities of CZK 977 m, CZK 1,085 m and CZK 604 m as at 1 January 2005, 31 December 2005 and 31 December 2006 respectively; net gains/(losses) on derivatives used as cash flow hedges of CZK (11) m, CZK 503 m and CZK 946 m as at 1 January 2005, 31 December 2005 and 31 December 2006, respectively.

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

consolidated statement of cash flows for the year ended 31 december 2006

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

(CZKm)	Note	2006	Restated 2005
Cash flow from / (used in) operating activities			
Profit before income tax		12,442	13,399
Adjustments for:			
Allowances and provisions for credit losses	15	830	(346)
Provisions	25	(261)	433
Depreciation and amortisation	7	1,879	2,140
Property impairment charge	8	29	244
Impairment on investment securities	13	-	51
Amortisation of discounts and premiums		1,077	640
Impairment of goodwill and other intangible assets	8	-	115
Net gain on disposal of securities other than trading		(232)	(569)
Net gain from derecognition of assets held-for-sale	6	(1,103)	-
Change in cumulative gains not recognised in the statement of income		(577)	(973)
Other		(827)	172
(Increase) / decrease in operating assets:			
Due from banks, non-demand		31,190	32,862
Financial assets at fair value through profit or loss		28,559	(104,751)
Loans and leases		(69,630)	(24,613)
Other assets		(1,940)	(3,201)
Prepayments and accrued income		(239)	437
Increase / (decrease) in operating liabilities:			
Due to banks, term		(3,453)	5,453
Financial liabilities at fair value through profit or loss		(24,033)	55,837
Due to customers		31,341	45,089
Promissory notes and certificates of deposit		(3,310)	8,293
Other liabilities		4,700	940
Accruals and deferred income		140	96
Net cash flow from operating activities before income tax		6,582	31,748
Net income tax paid		(4,464)	(3,591)
Net cash flow from operating activities		2,118	28,157
Cash flow from / (used in) investing activities			
Change in consolidation scope		(528)	(288)
Purchase of securities		(50,262)	(38,883)
Maturity / disposal of securities		45,855	29,152
Purchase of property, equipment and intangible assets		(4,703)	(3,015)
Disposal of property, equipment, intangible assets and assets held-for-sale		2,800	1,235
Net cash flow (used in) investing activities		(6,838)	(11,799)
Cash flow from / (used in) financing activities			
Issue of bonds		6,157	8,222
Repayment of bonds		(242)	(3,305)
(Decrease) / increase in minority interests		(133)	178
Increase / (decrease) in borrowings		8,322	(5,479)
Issue of subordinated liability	26	4,982	-
Dividends paid	38	(10,327)	(3,844)
Net cash flow from / (used in) financing activities		8,759	(4,228)
Effect of exchange rate changes on cash and cash equivalents		600	(145)
Net increase in cash and cash equivalents		**4,639**	**11,985**
Cash and cash equivalents at beginning of year	31	26,066	14,081
Net increase in cash and cash equivalents		4,639	11,985
Cash and cash equivalents at the end of year	31	**30,705**	**26,066**

The cash flow does not disclose interest and dividends received and interest paid since these items are classified as operating activities in a financial institution.

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

notes to the consolidated financial statements for the year ended 31 december 2006

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 and has its registered office at Na Příkopě 854/14 Praha 1, Corporate ID 00001350. 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 (Note: 40) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investment, pension insurance, leasing, factoring and distribution of life and non-life insurance products.

2. summary of significant accounting policies

a) basis of presentation

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

The preparation of consolidated 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 the classification of securities held-to-maturity (Note: 13), assets held-for-sale (Note: 18), allowances and provisions for credit losses (Note: 15), provisions (Note: 25), the fair value of financial instruments (Note: 12, 20), deferred income tax (Note: 24), other contingent assets and liabilities (Note: 29), the impairment of securities in the available-for-sale portfolio (Note: 13) and the impairment of goodwill (Note: 17) and are disclosed further.

b) consolidation

The consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates).

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.

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

Investments in associates are accounted for by the equity method. The Group's share of associates' post acquisition profits or losses is recognised in the statement of income, and its share of post-acquisition movements in equity is recognised in Retained earnings or in Cumulative gains not recognised in the statement of income.

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 amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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 the completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised ratably over the period for which 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 statement of income.

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 and the Group has no intention of trading the financial asset.

Held-to-maturity investments

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

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to liquidity needs 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 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 the fair value is positive and as liabilities when the fair value is negative.

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

The Group uses derivatives, designated as hedging on the date a contract is entered into, as cash flow hedges to manage the Group's interest rate risk. Cash flow hedges are used to minimise the variability in cash flows of interest-earning assets or interest-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 not recognized in the statement of income are recognized immediately in 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 whereas 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 reclassified as Pledged assets are further valued according to the rules for the portfolio in which they were originally held.

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 the 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 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

Finance lease, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the balance sheet in Loans and leases.

A receivable is recognized over the leasing period of and amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the statement of income.

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

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. 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 principal payments;

– the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for that financial asset because of financial difficulties; or

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

  • adverse changes in the payment status of borrowers in the group; or

  • national or local economic conditions that correlate with defaults on the assets in the group.

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, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation.

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	10 years (expected life of the lease)
Furniture	6 years
Equipment	4 – 30 years

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

Assets that are subject to depreciation 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 and other intangible assets

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

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

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

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

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

Amortisation of the software and other intangible assets is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	3 years
Other intangible assets	5 years

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

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

q) income taxes

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

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

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

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

r) financial liabilities designated at fair value through profit or loss

Financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

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

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

Financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in Net trading income and interest incurred is recorded in interest expense.

s) due to banks, Due to customers, Debt securities in issue and Subordinated liabilities (Funding)

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

t) financial guarantees

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

u) 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.

v) 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.

w) offsetting of financial assets and liabilities

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.

x) 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.

y) fiduciary activities

The Group commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. Those assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group. The assets are presented on the Group's off-balance sheet accounts at fair value.

z) IFRS/IAS accounting and reporting developments

In 2006, the Group started to apply the following standards:

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 and IFRS 4 (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.

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 (effective from 1 January 2006);
- 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).

Certain new standards, amendments and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the Group has not early adopted. The Group is expecting to adopt them in accordance with the effective date of the standards:

IFRS 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. IFRS 7 will have significant impact on the structure of consolidation statements and it will have no impact on equity and profit for the year.

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

- 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).
- IFRIC 9, Reassessment of Embedded Derivatives effective for periods beginning on or after 1 June 2006, that is from 1 January 2007).
- IFRIC 10, Interim Reporting and Impairment (effective for periods beginning on or after 1 November 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.

aa) comparatives

In 2006, certain items were presented differently from the presentation in the consolidated financial statements at 31 December 2005. To conform with changes in presentation in the current year, some balances have been reclassified. If an accounting error has occurred respective balances have been restated.

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

A reconciliation of the selected items of the statement of income for the year ended 31 December 2005 is provided below:

(CZKm)	31.12.2005 As reported	Reclassifications 1	2	3	4	31.12.2005 Reclassified
Net interest income	15,766			-	-	15,766
Interest paid from due to banks (Note: 3)	2,494			(1,244)		1,250
Interest paid from financial liabilities at fair value through profit or loss (Note: 3)	772			1,246		2,018
Interest paid from due to customers (Note: 3)	6,108				(19)	6,089
Interest paid from debt securities in issue (Note: 3)	988			(2)		986
Interest paid from subordinated liabilities (Note: 3)	-				19	19
Net fee and commission income	7,005	(488)	-			6,517
Fee and commission income (Note: 4)	8,489		(296)			8,193
Fee and commission expense (Note: 4)	(1,484)	(488)	296			(1,676)
Other operating expense (Note: 8)	(1,031)	488				(543)

An explanation of the reclassifications is as follows:
1. Contribution to the Deposit Insurance Fund.
2. Netting of insurance fee expense and revenues in case of leasing companies.
3. Interest expense from issued bonds and term deposits classified as financial instruments at fair value through profit or loss.
4. Interest expense from subordinated liabilities.

A reconciliation of the selected items of the balance sheet as at 31 December 2005 is provided below:

(CZKm)	31.12.2005 As reported	Adjustments 1	2	3	4	5	6	31.12.2005 Restated
Due from banks (Note: 11)	81,678	35						81,713
Financial assets at fair value through profit or loss (Note: 12)	190,555				(1,469)			189,086
Property and equipment (Note: 16)	8,371	925	(751)					8,545
Goodwill and other intangible assets	3,555		751	-				4,306
Goodwill (Note: 17)	3,555			(46)				3,509
Other intangible assets (Note: 17)	-		751	46				797
Other assets, including tax assets (Note: 18)	14,755	44						14,799
Due to banks (Note: 19)	22,947	717						23,664
Financial liabilities at fair value through profit or loss (Note: 20)	122,684						20	122,704
Due to customers (Note: 21)	472,631					(200)		472,431
Debt securities in issue (Note: 22)	38,848				(1,444)		(20)	37,384
Other liabilities, including tax liabilities (Note: 23)	23,292	286						23,578
Subordinated liabilities (Note: 26)	-					200		200
Accruals and deferred income	1,695				(24)			1,671

An explanation of the adjustments is as follows:

1. Inclusion of Centrum Radlická, a.s. in the scope of consolidation (Note: 40) – restatement.
2. Separation of intangible assets from Property and equipment – reclassification.
3. Additional identification of the intangible asset from the acquisition of Hornický penzijní fond Ostrava, a.s. (Note: 40) – restatement.
4. Elimination of mortgage debentures issued by Hypoteční banka, a.s. held by ČSOB in trading portfolio – restatement.
5. Separation of subordinated debt issued by Hypoteční banka, a.s. – reclassification.
6. Issued bonds classified as financial instruments at fair value through profit or loss – restatement.

3. net interest income

(CZKm)	2006	Reclassified 2005
Interest income		
Mandatory minimum reserves with central banks	171	148
Due from banks	2,225	2,108
Financial assets at fair value through profit or loss	5,591	4,619
Investment securities	7,030	6,373
Loans and leases	15,194	12,889
	30,211	**26,137**
Interest expense		
Due to banks	723	1,250
Financial liabilities at fair value through profit or loss	3,852	2,018
Due to customers	6,454	6,089
Debt securities in issue	1,158	986
Subordinated liabilities	58	19
Discount amortisation on other provisions (Note: 25)	8	9
	12,253	**10,371**
Net interest income	**17,958**	**15,766**

Included within interest income is accrued interest income of CZK 322 m (2005: CZK 236 m) related to impaired financial assets.

4. net fee and commission income

(CZKm)	2006	Reclassified 2005
Fee and commission income	8,800	8,193
Fee and commission expense	(1,910)	(1,676)
	6,890	**6,517**

5. net trading income

Net trading income, as reported in the statement of income, does not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. 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)	2006	Reclassified 2005
Net trading income – as reported	2,761	2,613
Net interest income (Note: 3)	1,739	2,601
	4,500	**5,214**
Foreign exchange	3,478	2,321
Fixed-income securities and money market	1,478	3,166
Commodity contracts	13	-
Interest rate contracts	(469)	(273)
	4,500	**5,214**

Included within Net trading income are net losses of CZK 321 m (2005: net gains of CZK 275 m) from financial assets and financial liabilities at fair value through profit or loss.

Included within trading-related net interest income is net interest expense of CZK 2,883 m (2005: net interest expense of CZK 1,630 m) from financial assets and financial liabilities at fair value through profit or loss.

Foreign exchange includes results arising from both customer and trading activities in foreign exchange cash, spot, forward, swap and option operations.

6. other operating income

(CZKm)	2006	2005
Net gain from derecognition of assets held-for-sale	1,103	-
Operating leasing and rental income	674	382
Release of impairment on property and equipment	149	467
Net gain on disposal of securities purchased on primary market	119	5
Net gain from derecognition of available-for-sale financial assets	113	564
Dividend income	62	71
Income from settlement of Slovenská inkasná	-	3,022
Other	554	418
	2,774	**4,929**

7. general administrative expenses

(CZKm)	2006	2005
Personnel expenses	7,575	6,216
Depreciation and amortisation (Notes: 16, 17)	1,879	2,140
Other general administrative expenses	7,348	6,987
	16,802	**15,343**

Personnel expenses

(CZKm)	2006	2005
Salaries and bonuses	5,082	4,444
Salaries and other short-term benefits of senior management	338	69
Social security costs	1,825	1,507
Other pension costs, including retirement benefits	330	196
	7,575	**6,216**

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Compensation Committee of the Supervisory Board. 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 in a Share Purchase Programme, which was launched for the years 2004 – 2006, that allowed them to purchase the Bank's shares in amounts commensurate to the Annual Performance Bonus. Following the cancellation of the Programme the Board of Directors are expected to receive compensation of CZK 269 m as an equivalent to the cancelled Program. The compensation is subject to the ratification of the Annual General Meeting.

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

Retirement benefits

The Group provides its Czech Republic employees (including senior management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1 % or 2 % of their salaries to the ČSOB 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)	2006	2005
Information technology	1,249	1,624
Marketing and public relations	1,177	1,143
Rent and maintenance	1,133	941
Retail service fees	1,009	817
Telecommunications and postage	673	636
Administration	260	281
Professional fees	252	315
Power and fuel consumption	193	166
Travel and transportation	193	155
Training	159	120
Insurance	71	79
Other	979	710
	7,348	**6,987**

8. other operating expenses

(CZKm)	2006	Reclassified 2005
Property impairment charge (Note: 16)	29	244
Goodwill and other intangible assets impairment (Note: 17)	-	115
Other	202	184
	231	**543**

9. income tax expense

(CZKm)	2006	2005
Current tax expense	2,236	3,080
Previous year under/(over) accrual	286	(331)
Deferred tax expense relating to the origination and reversal of temporary differences (Note: 24)	275	147
	2,797	**2,896**

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)	2006	2005
Profit before taxation	12,442	13,399
Applicable tax rates	24 %	26 %
Taxation at applicable tax rates	2,986	3,484
Previous year under/(over) accrual	286	(331)
Tax effect of non-taxable income	(1,271)	(970)
Tax effect of non-deductible expenses	779	647
Effect of foreign taxes	1	(20)
Effect on opening deferred taxes due to reduction in tax rate	-	89
Other	16	(3)
	2,797	**2,896**

10. cash and balances with central banks

(CZKm)	31.12.2006	31.12.2005
Cash on hand	7,141	7,095
Other cash value	2,157	1,114
Balances with central banks	9,096	6,808
	18,394	**15,017**

Mandatory minimum reserves are not available for use in the Group's day to day operations. Mandatory minimum reserves as at 31 December 2006 represented CZK 8,022 m (31 December 2005: CZK 4,943 m).

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on the mandatory minimum reserve balances at 1.5 % in both 2006 and 2005.

11. due from banks

(CZKm)	31.12.2006	Restated 31.12.2005
Analysed by product and bank domicile		
Current accounts		
domestic	447	690
foreign	1,321	1,213
Term placements		
domestic	5,073	7,124
foreign	132	185
Loans		
domestic	20,851	47,759
foreign	18,876	24,769
	46,700	**81,740**
Allowance for credit losses (Note: 15)	(24)	(27)
Net due from banks	**46,676**	**81,713**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions (within Loans) as at 31 December 2006 was CZK 21,084 m, of which CZK 1,936 m has been sold or repledged (31 December 2005: CZK 47,991 m and CZK 4,558 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

(CZKm)	31.12.2006	Restated 31.12.2005
Trading assets		
Treasury bills	20,612	4,546
Reverse repo transactions	66,944	108,141
Debt securities	14,655	13,125
Derivative contracts (Note: 30)	11,115	6,232
Term deposits	36,772	40,486
	150,098	**172,530**
Financial assets at fair value through profit or loss designated at inception		
Debt securities	24,246	17,446
Assets pledged as collateral in repo transactions	(782)	(890)
Total reduced by pledged assets	**173,562**	**189,086**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2006 was CZK 66,946 m, of which CZK 6,452 m has been either sold or repledged (31 December 2005: CZK 108,105 m and CZK 10,417 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.

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

13. investment securities

Investment securities by portfolio and issuer as at 31 December 2006:

(CZKm)	Issued by government bodies	Issued by credit institutions	Issued by other issuers	Total
Securities available-for-sale – at fair value				
Treasury bills	2,362	-	-	2,362
Debt securities	28,291	33,050	1,587	62,928
Equity securities	-	505	1,723	2,228
Provisions for impairment	-	(26)	(13)	(39)
Total available-for-sale portfolio	30,653	33,529	3,297	67,479
Securities held-to-maturity – at amortised cost				
Treasury bills	946	119	-	1,065
Debt securities	93,110	11,311	3,287	107,708
Total held-to-maturity portfolio	94,056	11,430	3,287	108,773
Total securities	**124,709**	**44,959**	**6,584**	**176,252**
Securities pledged as collateral in repo transactions				(4,081)
Total securities reduced by pledged assets				**172,171**

Investment securities by portfolio and issuer as at 31 December 2005:

(CZKm)	Issued by government bodies	Issued by credit institutions	Issued by other issuers	Total
Securities available-for-sale – at fair value				
Treasury bills	1,212	-	-	1,212
Debt securities	31,394	29,453	2,155	63,002
Equity securities	-	560	2,700	3,260
Provisions for impairment	-	(26)	(25)	(51)
Total available-for-sale portfolio	32,606	29,987	4,830	67,423
Securities held-to-maturity – at amortised cost				
Treasury bills	8,695	153	-	8,848
Debt securities	84,512	12,344	4,565	101,421
Total held-to-maturity portfolio	93,207	12,497	4,565	110,269
Total securities	**125,813**	**42,484**	**9,395**	**177,692**
Securities pledged as collateral in repo transactions				(3,079)
Total securities reduced by pledged assets				**174,613**

schedule of activity in investment securities

(CZKm)	2006 Available-for-sale	2006 Held-to-maturity	2006 Total	2005 Total
At 1 January	67,423	110,269	177,692	160,769
Foreign exchange adjustments	(743)	(2,462)	(3,205)	(1,331)
Purchases	25,738	23,432	49,170	48,549
Disposals (sales or redemption)	(23,943)	(21,680)	(45,623)	(28,582)
Change in consolidation scope	(37)	-	(37)	(1,297)
Amortisation of discounts and premiums	(312)	(787)	(1,099)	(782)
(Losses)/gains from changes in fair value	(668)	-	(668)	275
Provisions for impairment	-	-	-	(51)
Other	22	-	22	142
At 31 December	**67,480**	**108,772**	**176,252**	**177,692**

14. loans and leases

(CZKm)	31.12.2006	31.12.2005
Analysed by category of borrower		
Retail customers	114,654	81,468
Industrial companies	58,517	49,714
Other service companies	49,065	39,898
Trade companies	35,207	26,922
Finance lease customers	34,754	26,366
Government bodies	5,626	5,950
Other	17,754	15,389
Gross loans and leases	315,577	245,707
Allowance for credit losses (Note: 15)	(6,981)	(6,350)
Net loans and leases	**308,596**	**239,357**

Finance lease receivables may be analysed as follows:

(CZKm)	31.12.2006	31.12.2005
Not later than 1 year	18,512	16,369
Later than 1 year and not later than 5 years	17,317	12,558
Later than 5 years	440	85
Gross investment in finance leases	36,269	29,012
Unearned future finance income on finance leases	(1,515)	(2,646)
Net investment in finance leases	**34,754**	**26,366**
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	17,691	14,555
Later than 1 year and not later than 5 years	16,665	11,735
Later than 5 years	398	76
Net investment in finance leases	**34,754**	**26,366**

The allowance for uncollectible finance lease receivables included in the provision for credit losses amounted to CZK 939 m at 31 December 2006 (31 December 2005: CZK 835 m).

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

15. impairment losses on loans and advances

The table below summarises the changes in the Allowance for credit losses and the Provisions for guarantees and undrawn credit lines for 2006 and 2005:

(CZKm)	2006	2005
At 1 January	7,031	6,697
Change of consolidation scope	31	-
Write-offs	(870)	(1,036)
Recoveries	700	1,724
Net increase/(decrease) in allowances and provisions for credit losses	830	(346)
Foreign currency translation and other adjustments	(29)	(8)
31 December	**7,693**	**7,031**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2006 and 2005 are as follows:

(CZKm)	31.12.2006	31.12.2005
Allowance for credit losses		
Loans and leases (Note: 14)	6,981	6,350
Due from banks (Note: 11)	24	27
Provisions for guarantees and undrawn credit lines (Note: 28)	688	654
	7,693	**7,031**

16. property and equipment

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost (restated)				
At 1 January 2005	11,229	8,186	295	19,710
Foreign exchange adjustments	(50)	(34)	-	(84)
Change in consolidation scope	17	17	-	34
Transfers	186	1,329	(1,515)	-
Additions	211	57	2,202	2,470
Disposals	(2,180)	(1,181)	-	(3,361)
Net transfers to assets held-for-sale (Note: 18)	(2,714)	-	-	(2,714)
At 31 December 2005	6,699	8,374	982	16,055
Foreign exchange adjustments	78	69	-	147
Change in consolidation scope	-	32	-	32
Transfers	162	1,814	(1,976)	-
Additions	4	8	3,938	3,950
Disposals	(67)	(957)	-	(1,024)
Net transfers from assets held-for-sale	64	-	-	64
At 31 December 2006	6,940	9,340	2,944	19,224
Accumulated depreciation and impairment (restated)				
At 1 January 2005	3,263	5,798	-	9,061
Foreign exchange adjustments	(9)	(18)	-	(27)
Change in consolidation scope	2	12	-	14
Disposals	(762)	(975)	-	(1,737)
Impairment utilization and release	(504)	-	-	(504)
Impairment charge (Note: 8)	169	75	-	244
Charge for the year (Note: 7)	680	1,025	-	1,705
Net transfers to assets held-for-sale (Note: 18)	(1,246)	-	-	(1,246)
At 31 December 2005	1,593	5,917	-	7,510
Foreign exchange adjustments	15	38	-	53
Change in consolidation scope	-	26	-	26
Disposals	(30)	(746)	-	(776)
Impairment utilization and release	(126)	(35)	-	(161)
Impairment charge (Note: 8)	7	22	-	29
Charge for the year (Note: 7)	288	1,155	-	1,443
Net transfers from assets held-for-sale	76	-	-	76
At 31 December 2006	1,823	6,377	-	8,200
Net book value				
At 1 January 2005	**7,966**	**2,388**	**295**	**10,649**
At 31 December 2005	**5,106**	**2,457**	**982**	**8,545**
At 31 December 2006	**5,117**	**2,963**	**2,944**	**11,024**

The item Construction in progress includes expenditures on construction of the New headquarters building of the Bank, the carrying amount of which as at 31 December 2006 was CZK 2,574 m (31 December 2005: CZK 715 m). The value of the pledge to secure the loan as at 31 December 2006 was CZK 2,787m (31 December 2005: CZK 925 m).

17. goodwill and other intangible assets

(CZKm)	Goodwill	Software	Other intangible assets	Total
Historical cost (restated)				
At 1 January 2005	3,471	2,708	521	6,700
Change in consolidation scope	101	8	65	174
Additions	-	430	115	545
Disposals	-	(164)	(70)	(234)
At 31 December 2005	3,572	2,982	631	7,185
Foreign exchange adjustments	-	2	-	2
Change in consolidation scope	71	3	47	121
Additions	-	361	392	753
Disposals	-	(48)	(228)	(276)
At 31 December 2006	3,643	3,300	842	7,785
Accumulated amortisation and impairment (restated)				
At 1 January 2005	-	2,119	324	2,443
Change in consolidation scope	-	6	18	24
Disposals	-	(94)	(44)	(138)
Impairment charge (Note: 8)	63	52	-	115
Charge for the year (Note: 7)	-	388	47	435
At 31 December 2005	63	2,471	345	2,879
Foreign exchange adjustments	-	2	-	2
Change in consolidation scope	-	1	-	1
Disposals	-	(31)	(5)	(36)
Charge for the year (Note: 7)	-	391	45	436
At 31 December 2006	63	2,834	385	3,282
Net book value				
At 1 January 2005	**3,471**	**589**	**197**	**4,257**
At 31 December 2005	**3,509**	**511**	**286**	**4,306**
At 31 December 2006	**3,580**	**466**	**457**	**4,503**

Goodwill has been allocated to acquired subsidiaries (CZK 891 m) and the Retail/SME segment (CZK 2,689 m), each representing a cash-generating unit (Note: 32). 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. Cash flows beyond the three-year period have been extrapolated to five years using the expected average growth rate. The discount rate varies from 2.48 % to 3.26 % in the five-year period. Management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

18. other assets, including tax assets

(CZKm)	31.12.2006	Restated 31.12.2005
Hedging derivative contracts (Note: 30)	5,572	3,449
Other debtors, net of provisions	4,144	6,013
Receivables from securities clearing entities	2,287	80
Other receivables from clients	1,458	2,129
Current income tax receivable	1,332	156
Net deferred tax asset (Note: 24)	414	620
VAT and other tax receivables	323	122
Estimated receivables	232	552
Assets held-for-sale (Note: 16)	63	1,468
Items in the course of collection	55	94
Other	600	116
	16,480	**14,799**

In 2006, the Group sold a part of its building portfolio classified as Assets held-for-sale. The net book value of these buildings was CZK 1,414 m and the net gain realised from the transaction recognised in Other operating income 2006 was CZK 1,103 m (Note: 6), of which the net gain from the derecognition of the headquarter buildings represented CZK 976 m.

Included within Other debtors, net of provisions is a receivable from the Czech Ministry of Finance in the amount of CZK 1,789 m at 31 December 2006 (31 December 2005: CZK 1,656 m) related to the ex-IPB assets originally transferred to the Czech Consolidation Agency. The Group believes that the amount is fully covered by guarantee agreements issued by institutions of the Czech state.

19. due to banks

(CZKm)	31.12.2006	Restated 31.12.2005
Analysed by product and bank domicile		
Current accounts		
domestic	125	117
foreign	6,234	2,813
Term deposits		
foreign	497	3,910
Borrowings		
domestic	6,035	2,848
foreign	19,111	13,976
Total due to banks	**32,002**	**23,664**

20. financial liabilities at fair value through profit or loss

(CZKm)	31.12.2006	Reclassified 31.12.2005
Trading liabilities		
Securities sold, not yet purchased	1,845	61
Derivative contracts (Note: 30)	12,111	7,280
	13,956	7,341
Financial liabilities at fair value through profit or loss designated at inception		
Bonds in issue	1,400	20
Promissory notes	3,871	4,494
Repo transactions	9,843	19,102
Term deposits	69,581	91,747
	84,695	115,363
Total	**98,651**	**122,704**

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

21. due to customers

(CZKm)	31.12.2006	Reclassified 31.12.2005
Analysed by product		
Current accounts	255,810	225,612
Term deposits	248,484	246,819
Total due to customers	**504,294**	**472,431**
Analysed by customer type		
Individuals and households	291,614	269,724
Private companies and entrepreneurs	106,556	90,865
Foreign	53,918	53,476
Liability to pension fund policy holders	16,264	12,402
Government bodies	13,293	26,737
Other financial institutions	9,802	9,313
Non-profit institutions	9,141	7,631
Insurance companies	3,706	2,283
Total due to customers	**504,294**	**472,431**

22. debt securities in issue

Issue date	Currency	Maturity date	Effective interest rate	31.12.2006 (CZKm)	Restated 31.12.2005 (CZKm)
Bonds issued:					
May 2002	CZK	May 2007	4.60 %	1,152	1,197
December 2002	CZK	December 2007	PRIBOR 12M-0.30 %	329	477
February 2003	CZK	February 2008	3.09 %	851	838
June 2003	CZK	June 2008	2.67 %	450	450
September 2003	SKK	September 2008	4.94 %	199	192
September 2003	CZK	September 2008	3.31 %	1,363	1,357
November 2003	CZK	November 2010	3.79 %	415	405
February 2004	CZK	February 2009	3.56 %	1,218	1,225
June 2004	CZK	June 2009	3.95 %	1,366	1,383
June 2004	CZK	June 2009	PRIBOR 12M-0.11 %	447	382
October 2004	SKK	October 2009	4.80 %	501	479
November 2004	CZK	November 2007	3.39 %	83	4
January 2005	CZK	January 2010	3.35 %	2,037	1,095
March 2005	CZK	March 2008	2.73 %	982	641
May 2005	CZK	May 2010	2.84 %	1,657	750
September 2005	CZK	September 2020	3.14 %	303	319
October 2005	CZK	October 2015	PRIBOR 12M+0.05 %	3,151	2,586
November 2005	CZK	November 2015	3.69 %	1,388	1,397
November 2005	SKK	November 2010	2.90 %	639	613
May 2006	CZK	May 2011	3.55 %	960	-
June 2006	CZK	June 2009	3.08 %	844	-
July 2006	CZK	July 2009	3.55 %	922	-
August 2006	CZK	August 2011	3.58 %	448	-
				21,705	**15,790**
Promissory notes				18,376	21,588
Certificates of deposit				5	6
Total debt securities in issue				**40,086**	**37,384**

23. other liabilities, including tax liabilities

(CZKm)	31.12.2006	Restated 31.12.2005
Other clearing accounts	9,878	2,589
Items in the course of transmission	5,365	9,865
Other creditors	5,193	4,162
Estimated payables	2,527	2,230
Payables to securities clearing entities	690	1,025
Provisions for guarantees and undrawn credit lines (Note: 28)	688	654
Hedging derivative contracts (Note: 30)	486	431
VAT and other tax payables	287	294
Current income tax payable	104	1,126
Net deferred tax liability (Note: 24)	93	50
Current accounts from which value was collected	77	81
Other	1,428	1,071
	26,816	**23,578**

24. deferred income taxes

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

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

(CZKm)	2006	2005
At 1 January	570	810
Statement of income debit (Note: 9)	(275)	(147)
Available-for-sale securities		
Fair value remeasurement	166	8
Transfer to net profit	(9)	50
Cash-flow hedges		
Fair value remeasurement	(276)	(318)
Transfer to net profit	138	154
Change of consolidation scope	(4)	13
Exchange differences	11	-
At 31 December	**321**	**570**

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

(CZKm)	31.12.2006	31.12.2005
Deferred income tax asset (Note: 18)		
Legal claim	293	293
Provisions	253	184
Interest rate bonus	161	167
Impairment of occupied properties	61	224
Initially fee income	43	56
Allowances for credit losses	29	167
Accelerated tax depreciation	(21)	(51)
Available-for-sale securities	(111)	(260)
Cash flow hedges	(299)	(159)
Other temporary differences	5	(1)
	414	**620**
Deferred income tax liability (Note: 23)		
Finance lease valuation	207	149
Accelerated tax depreciation	94	42
Initially fee income	(7)	51
Allowances for credit losses	(144)	(148)
Other temporary differences	(57)	(44)
	93	**50**

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

(CZKm)	31.12.2006	31.12.2005
Provisions	62	14
Initial fee income	14	11
Available-for-sale securities	6	(46)
Interest rate bonus	(5)	45
Accelerated tax depreciation	(15)	(63)
Finance lease valuation	(59)	(1)
Allowances for credit losses	(129)	40
Impairment of occupied properties	(163)	(67)
Other temporary differences	14	9
Deferred tax expense resulting from reduction in tax rate	-	(89)
	(275)	**(147)**

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	Staff reduction charges	Onerous rent contract losses	Total
At 1 January 2006	993	260	176	1,429
Net provision release	(261)	-	-	(261)
Discount amortisation (Note: 3)	-	-	8	8
Utilised during year	(155)	(72)	(25)	(252)
At 31 December 2006	**577**	**188**	**159**	**924**

Staff reduction charges

In 2004 and 2005, the Bank announced programs to reduce the total number of personnel by approximately 850. Total charges of CZK 343 m were recorded in 2004 and 2005 to cover related costs. In accordance with the program the number of personnel had been reduced by 337 by the end of 2006. The Bank expects to use the remaining provision of CZK 188 m to cover the costs related to further reductions in the number of personnel by approximately 550 in 2007 and 2008.

Onerous rent contract losses

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

26. subordinated liabilities

(mil. Kč)	31.12.2006	31.12.2005
Subordinated liabilities	5,182	200

In September 2006, the Bank issued subordinated debt in the nominal amount of CZK 5,000 m to KBC Bank NV. The subordinated debt is repayable in 2016. Its coupon rate is PRIBOR + 0.35 % (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six years period and PRIBOR + 0.85 % (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six years period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank. The subordinated debt has been received to increase the capital adequacy ratio in order to support further business expansion.

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

27. share capital and treasury shares

The total authorised share capital as at 31 December 2006 and 2005 was CZK 5,105 m and composed 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 2006 and 2005.

28. contingent liabilities and commitments

	31.12.2006		31.12.2005	
(CZKm)	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
Contingent liabilities				
Guarantees issued	22,479	12,848	19,967	10,293
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	118,248	54,414	81,970	36,158
Documentary credits	2,641	1,179	1,876	888
	120,889	**55,593**	**83,846**	**37,046**
Provisions for guarantees and undrawn credit lines (Notes: 15 and 23)	688		654	

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 assets and liabilities

a) litigation

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

The Group is subject to a number of claims brought by Nomura, their affiliates and other parties in the context of the IPB acquisition amounting to tens of billions of Czech Crowns, but the Group is not able to reliably estimate the total effective claim, since the claims are interdependent. The Group believes that such claims are unfounded. In addition, potential losses arising from such claims are covered by guarantee agreements issued by institutions of the Czech state and thus they represent no risk of material impact to the financial position of the Group.

In addition, there are certain proceedings pending between the Bank and the Czech Consolidation Agency regarding the status of some assets related to the IPB acquisition. The Group believes that its position is sufficiently covered by legal arrangements concluded between the Bank and institutions of the Czech state.

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 that the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

c) assets under management and custody

Assets managed by the Group on behalf of others amounted to CZK 91,187 m as at 31 December 2006 (31 December 2005: CZK 90,345 m). Assets held by the Group under custody arrangements amounted to CZK 298,718 m as at 31 December 2006 (31 December 2005: CZK 245,007 m). Securities held on behalf of others as at 31 December 2006 amounted to CZK 64,960 m (31 December 2005: CZK 52,852 m).

d) operating lease commitments (Group is the lessee)

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

(CZKm)	31.12.2006	31.12.2005
Not later than 1 year	97	97
Later than 1 year and not later than 5 years	233	180
Later than 5 years	137	142
	467	**419**

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) operating lease receivables (Group is the lessor)

Future minimum lease payments under movable operating leases are as follows:

(CZKm)	31.12.2006	31.12.2005
Not later than 1 year	292	128
Later than 1 year and not later than 5 years	585	179
Later than 5 years	25	16
	902	**323**

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

30. 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 rate swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2006 and 2005 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.

	31.12.2006			31.12.2005		
	Contract/	Fair value		Contract/	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Interest rate related contracts						
Swaps	507,405	4,265	4,620	237,807	3,095	4,461
Forwards	113,088	65	68	67,412	45	66
Written options	5,911	-	-	13,167	-	12
Purchased options	6,218	25	-	13,557	15	-
	632,622	**4,355**	**4,688**	**331,943**	**3,155**	**4,539**
Foreign exchange contracts						
Swaps	238,663	5,290	5,310	195,346	2,435	1,813
Forwards	26,717	386	1,015	17,862	93	366
Written options	58,129	-	1,037	37,258	7	542
Purchased options	57,024	1,037	-	36,418	542	-
	380,533	**6,713**	**7,362**	**286,884**	**3,077**	**2,721**
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps	1,521	47	41	650	-	-
Total derivatives held for trading (Notes: 12, 20)	**1,014,776**	**11,115**	**12,111**	**619,577**	**6,232**	**7,280**

Hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to eliminate the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that 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.

The Group is expecting to realize net interest income from the hedged items in the period from 2007 till 2020. There was no significant cash flow hedge ineffectiveness as at 31 December 2006 and 2005.

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 489 m (31 December 2005: CZK 576 m) were designated as hedges and gave rise to currency losses for the year of CZK 58 m (31 December 2005: gains 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 2006 and 2005 are set out as follows:

	31. 12. 2006			Restated 31. 12. 2005		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	27,726	453	53	31,061	734	168
Cross currency interest rate swaps	33,906	5,119	285	32,894	2,715	245
	61,632	**5,572**	**338**	**63,955**	**3,449**	**413**
Net investment hedges						
Cross currency interest rate swaps	2,970	-	148	1,815	-	18
Total hedging derivatives (Notes: 18, 23)	**64,602**	**5,572**	**486**	**65,770**	**3,449**	**431**

31. cash and cash equivalents

analysis of the balances of cash and cash equivalents (Note: 2x) as shown in the balance sheets

(CZKm)	31. 12. 2006	Restated 31. 12. 2005
Cash and balances with central banks	10,372	10,074
Financial assets at fair value through profit or loss	18,328	5,401
Investment securities	5,772	10,078
Due from banks, demand	2,593	3,407
Due to banks, demand	(6,360)	(2,894)
Cash and cash equivalents	**30,705**	**26,066**

32. segment reporting

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

Segment reporting information by customer segments for 2006

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Group Total
Net interest income	12,409	2,067	-	2,514	968	17,958
Non-interest income	6,950	2,185	-	516	2,774	12,425
Segment expenses	(9,138)	(805)	-	(400)	(6,690)	(17,033)
Segment result	10,221	3,447	-	2,630	(2,948)	13,350
Impairment losses and provisions	(1,076)	(238)	582	(7)	170	(569)
Contribution to pension fund clients	(384)	-	-	-	-	(384)
Share of profit of associates	-	-	-	-	45	45
Profit before taxation	8,761	3,209	582	2,623	(2,733)	12,442
Income tax (expense) / benefit	(2,111)	(778)	(140)	(498)	730	(2,797)
Segment profit	6,650	2,431	442	2,125	(2,003)	9,645
Minority interests	-	-	-	-	(102)	(102)
Net profit	**6,650**	**2,431**	**442**	**2,125**	**(2,105)**	**9,543**
Assets	**205,185**	**116,507**	**99**	**306,949**	**133,561**	**762,301**

Segment reporting information by customer segments for 2005 (restated)

(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	6,584	2,129	3,193	953	1,200	14,059
Segment expenses	(8,475)	(859)	(525)	(381)	(5,646)	(15,886)
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**	**49,384**	**736,538**

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 and ALM: Asset Liability Management segment, Dealing segment.
Other: Non-banking subsidiaries, Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 107 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 2006 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	643,380	92,568	26,679	4,439
Slovak Republic	118,921	25,680	3,704	417
Total	**762,301**	**118,248**	**30,383**	**4,856**

The geographical segment reporting for 2005 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	587,763	73,113	26,686	2,705
Slovak Republic	148,775	8,857	3,139	463
Total	**736,538**	**81,970**	**29,825**	**3,168**

33. currency risk

The Group is exposed to the 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 2006. 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. 2006	31. 12. 2005
USD	(289)	33
SKK	(315)	(2,702)
EUR	2,369	2,891

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:

	2006				2005			
(%)	CZK	EUR	SKK	USD	CZK	EUR	SKK	USD
Assets								
Due from banks	3.44	3.25	10.09	3.36	4.28	2.87	4.87	5.64
Securities	4.23	4.78	6.03	5.72	4.57	4.61	5.78	5.42
Loans	4.40	4.19	5.99	7.54	4.84	3.87	5.35	6.57
Finance leases	6.53	5.17	6.91	-	6.94	-	7.58	-
Liabilities								
Due to banks	2.10	2.72	2.31	5.64	1.82	2.04	1.61	5.63
Due to customers	1.24	1.33	2.48	2.78	2.06	0.96	2.12	2.14
Debt securities in issue	3.23	-	4.06	-	4.60	-	4.04	-

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 interest rate sensitive non-trading 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 2006:

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(1,304)	9,074	(6,366)	(1,688)	284
EUR	(1,836)	6,707	(4,994)	343	(220)
USD	(1,662)	1,618	(80)	129	(5)
SKK	(4,629)	3,515	1,491	(695)	318

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

The tables above show interest rate sensitivity gap positions of the 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.

All the above tables were extracted from the management information systems of the Bank and other Group companies which are used for interest rate monitoring and interest rate risk management.

35. liquidity risk

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

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	8,751	-	-	-	-	9,643	18,394
Due from banks	2,593	27,799	2,793	13,048	443	-	46,676
Financial assets at fair value through profit or loss (including pledged assets)	-	117,187	15,032	8,455	28,349	5,321	174,344
Investment securities (including pledged assets)	-	8,824	14,408	84,563	66,268	2,189	176,252
Loans and leases	11,100	33,758	44,514	73,804	86,750	58,670	308,596
Investments in associated undertakings	-	-	-	-	-	658	658
Other financial assets	312	504	5,103	1,399	1,037	10,673	19,028
Total assets	22,756	188,072	81,850	181,269	182,847	87,154	743,948
Liabilities							
Due to banks	6,360	7,630	2,348	12,550	994	2,120	32,002
Financial liabilities at fair value through profit or loss	25	74,648	13,092	2,961	1,358	6,567	98,651
Due to customers	245,714	165,052	29,526	39,804	24,059	139	504,294
Debt securities in issue	-	17,552	3,063	8,989	10,480	2	40,086
Other financial liabilities	774	2,057	983	80	80	23,440	27,414
Subordinated debts	-	-	-	248	4,934	-	5,182
Total liabilities	252,873	266,939	49,012	64,632	41,905	32,268	707,629
Net liquidity gap	**(230,117)**	**(78,867)**	**32,838**	**116,637**	**140,942**	**54,886**	**36,319**

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	3,407	56,346	1,113	20,285	561	1	81,713
Financial assets at fair value through profit or loss (including pledged assets)	-	148,087	7,151	6,610	22,424	5,704	189,976
Investment securities (including pledged assets)	-	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	17,891	257,362	66,536	165,532	150,830	63,097	721,248
Liabilities							
Due to banks	2,894	7,056	27	2,149	4,341	7,197	23,664
Financial liabilities at fair value through profit or loss	-	95,158	20,957	120	50	6,419	122,704
Due to customers	225,780	153,360	28,895	43,139	21,087	170	472,431
Debt securities in issue	1	21,326	263	11,493	4,299	2	37,384
Other financial liabilities	842	1,401	655	520	263	19,426	23,107
Subordinated debts	-	-	-	200	-	-	200
Total liabilities	229,517	278,301	50,797	57,621	30,040	33,214	679,490
Net liquidity gap	**(211,626)**	**(20,939)**	**15,739**	**107,911**	**120,790**	**29,883**	**41,758**

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 (e.g. mandatory minimum reserves, overdue loans, clearing accounts).

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.

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 Group's balance sheet at their fair value:

(CZKm)	31.12.2006 Carrying value	31.12.2006 Fair value	Restated 31.12.2005 Carrying value	Restated 31.12.2005 Fair value
FINANCIAL ASSETS				
Due from banks	46,676	46,704	81,713	81,804
Investment securities	108,773	110,610	110,269	114,232
Loans and leases	308,596	317,006	239,357	246,585
FINANCIAL LIABILITIES				
Due to banks and subordinated liabilities	36,984	36,992	23,664	23,832
Due to customers and subordinated liabilities	504,494	504,641	472,631	472,551
Debt securities in issue	40,086	40,250	37,384	37,760

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

Due to banks and subordinated liabilities

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 and subordinated liabilities

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

Debt securities in issue

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

37. 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 as at 31 December 2006 are as follows:

(CZKm)	Due from banks	Financial assets at fair value	Loans and leases	Due to banks	Financial liabilities at fair value	Due to customers	Debt securities in issue
Senior management personnel	-	-	-	-	-	3	-
KBC Bank NV	2,706	9,454	-	660	38,974	-	-
Entities under common control	596	221	-	14,518	87	248	56
Associates	-	-	-	-	4	607	485
Joint ventures	428	-	-	4	-	-	2,362

The outstanding balances from related party transactions as at 31 December 2005 are as follows:

(CZKm)	Due from banks	Financial assets at fair value	Loans and leases	Due to banks	Financial liabilities at fair value	Due to customers	Debt securities in issue
Senior management personnel	-	-	-	-	-	3	-
KBC Bank NV	4,367	6,720	-	131	65,513	-	-
Entities under common control	2,485	162	-	11,325	419	3,416	763
Joint ventures	270	28	1,074	1	-	-	1,839

Relating interest income and interest expense for the year are as follows:

(mil. Kč)	Interest income 31.12.2006	Interest income 31.12.2005	Interest expense 31.12.2006	Interest expense 31.12.2005
KBC Bank NV	206	195	1,387	1,140
Entities under common control	29	4	383	308
Associates	-	-	51	-
Joint ventures	11	19	60	59

The Bank issued subordinated debt to KBC Bank NV amounted to CZK 4,982 m at 31 December 2006 (31 December 2005: Nil). Interest expense related to this subordinated debt in 2006 amounted to CZK 39 m (2005: Nil).

Hypoteční banka, a.s. issued subordinated debt to ČSOB Pojišťovna, a.s. amounted to CZK 200 m at 31 December 2006 (31 December 2005: CZK 200 m). Interest expense related to this subordinated debt in 2006 amounted to CZK 19 m (2005: CZK 19 m).

Guarantees given to KBC Bank NV as at 31 December 2006 amounted to CZK 224 m (31 December 2005: CZK 27 m). There were no guarantees received from KBC Bank NV as at 31 December 2006 (31 December 2005: CZK 629 m).

In 2006, ČSOB purchased collateralised debt obligations at fair value of CZK 10,846 m from a related party within KBC Group NV (2005: 6,494 m).

38. dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 21 April 2006, a dividend of CZK 2,023 per share was approved in respect of 2005 net profit. This dividend represented a total amount of CZK 10,327 m.

39. ČSOB's shareholders

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

(%)	2006	2005
KBC Bank NV	97.44	89.97
European Bank for Reconstruction and Development	-	7.47
Others	2.56	2.56
Total	**100.00**	**100.00**

On 20 December 2006, KBC Bank NV exercised its call option and purchased the entire shareholding of the European Bank for Reconstruction and Development. This purchase enabled KBC Bank NV, in compliance with the Czech legislation, to perform a buy-out of minority shareholders of the Bank (Note: 41).

On 31 December 2006, the Bank was directly controlled by KBC Bank NV whose ownership interest in ČSOB represented 97.44 % (31 December 2005: 89.97 %). On the same date, KBC Bank NV was controlled by KBC Group NV and therefore KBC Group NV was the company indirectly exercising ultimate control over ČSOB.

40. consolidated companies

Scope of consolidation includes 41 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Country of incorporation	31.12.2006	31.12.2005
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
Centrum Radlická, a.s.	Czech Republic	-	-
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 Factoring, a.s.	Czech Republic	100	50
ČSOB Factoring a.s.	Slovak Republic	100	50
ČSOB Investiční společnost, a.s.	Czech Republic	91	91
ČSOB Investment Banking Services, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Slovak Republic	100	100
ČSOB Leasing poisťovací maklér, s.r.o.	Slovak Republic	100	100
ČSOB Leasing pojišťovací makléř, s.r.o.	Czech Republic	100	100
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	100	95
Hornický penzijní fond Ostrava, a.s.	Czech Republic	-	100
Hypoteční banka, a.s.	Czech Republic	100	100
Motokov a.s.	Czech Republic	69	69
Zemský penzijní fond, a.s.	Czech Republic	100	-
Joint venture			
Českomoravská stavební spořitelna, a.s.	Czech Republic	55	55
Associate			
ČSOB Pojišťovna, a.s.	Czech Republic	25	-

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

Centrum Radlická, a.s. was included in the consolidation scope, although the Bank was not the legal owner of the entity at the balance sheet date. This is due to the existence of specific rights provided by the contractual agreement with the owner of Centrum Radlická, a.s. that enable the Bank to exercise control over the entity. The entity is engaged solely in the construction of the new headquarters building for the Bank and has no other activities. The Bank is obliged to purchase the entity during 2007 under a purchase agreement. As the control existed already in 2005, but the entity was not consolidated in the financial statements for 2005, the prior year comparatives were restated (Note: 2aa).

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

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

In addition, the Bank holds a majority shareholding in several other entities, which however are not controlled by the Bank and are not consolidated.

In 2006, ČSOB included Zemský penzijní fond, a.s. in the consolidation scope for the first time. The purchase consideration paid represented CZK 160 m. An intangible asset customer relationship was recognized in the amount of CZK 47 m (Notes: 2p, 17) and related goodwill was CZK 43 m.

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

The following table illustrates the summarised financial information of investment in ČSOB Pojišťovna, a.s.:

(CZKm)	31.12.2006	31.12.2005
Share of the associate's balance sheet		
Assets	6,664	-
Liabilities	6,006	-
Net assets	**658**	**-**
Carrying amount of the investment	**658**	**-**
Share of the associate's revenue and profit		
Revenue	1,122	-
Profit for the year	45	-

In April 2006, ČSOB purchased the remaining 50 % of shares in joint venture OB Heller, a.s. and became the sole shareholder of the company. Subsequently the entity was renamed ČSOB Factoring, a.s. The purchase consideration paid was CZK 375 m. Due to this acquisition the share in joint venture OB Heller Factoring, a.s. in the Slovak Republic increased, which was also subsequently renamed to ČSOB Factoring a.s. The purchase consideration paid was CZK 11 m. Related goodwill on the acquisition of both entities was CZK 28 m.

In 2005, ČSOB included Hornický Penzijní fond Ostrava, a.s. in the consolidation scope in 2005 for the first time. The purchase consideration paid represented CZK 223 m and the related goodwill was CZK 138 m. In 2006, a customer relationship related intangible asset was retrospectively recognised in the amount of CZK 46 m (Notes: 2p, 17). The related goodwill was decreased to CZK 93 m. In December 2006, Hornický penzijní fond Ostrava, a.s. merged with Penzijní fond Progres, a.s.

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 in 2005 for the first time. The purchase consideration paid represented CZK 65 m and the related goodwill was CZK 8 m.

In 2005, ČSOB included Auxilium, a.s. in the consolidation scope for the first time. No goodwill arose on consolidation.

In 2005, ČSOB increased its share in ČSOB Investiční společnost, a.s. The purchase consideration paid represented CZK 72 m. No goodwill arose on consolidation.

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

(CZKm)	Fair value recognised on acquisition 2006	Carrying value 2006	Fair value recognised on acquisition 2005	Carrying value 2005
Due from banks	43	43	423	423
Investment securities	585	585	1,253	1,253
Loans and leases	1,353	1,353	-	-
Property and equipment	7	7	14	14
Other intangible assets	47	-	45	-
Other assets and prepayments and accrued income	33	33	27	27
Prepayments and accrued income	2	2	19	19
	2,070	**2,023**	**1,781**	**1,736**
Due to banks	949	949	-	-
Due to customers	522	522	1,484	1,484
Debt securities in issue	97	97	-	-
Other liabilities and accruals and deferred income	43	43	110	110
Accruals and deferred income	2	2	-	-
	1,613	**1,613**	**1,594**	**1,594**
Fair value of net assets	457	410	187	142
Goodwill arising on acquisition	71		101	
Cost of acquisition	**528**		**288**	

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

In 2006, the acquired companies contributed to net profit in the amount of CZK 0 m in the period following their acquisition. If the acquisitions had occurred on 1 January 2006, Profit for the year would have been CZK 9,660 m.

In 2005, the acquired companies contributed to net profit in the amount of CZK 216 m in the period following their acquisition. If the acquisitions had occurred on 1 January 2005, Profit for the year would have been CZK 10,506 m.

For 2006 and 2005, the Group's interest in its joint ventures is as follows:

(CZKm)	31. 12. 2006	31. 12. 2005
Due from banks	3,800	6,393
Investment securities	34,995	34,380
Loans and leases	34,063	28,330
Due to banks and Subordinated liabilities	523	1,438
Due to customers	70,299	65,071
Net interest income	845	630
Net fee and commission income	463	435
General administrative expenses	611	610

41. events after the balance sheet date

Buy-out of minority shareholders of the Bank

KBC Bank NV purchased 7.47 % share previously owned by European Bank for Reconstruction and Development in December 2006 (Note: 39). By virtue of the purchase, KBC Bank NV presently holds more than 90 % share of the capital of the Bank. Based on the Czech Commercial Code, such an ownership enables KBC Bank NV to request the Board of Directors to call a General Meeting, whereby a proposal will be submitted for a buy-out by KBC Bank NV of the remaining shares held by the minority shareholders of the Bank. A prerequisite for such a buy-out is approval by the CNB. KBC Bank NV has submitted a formal request to the CNB, and on 8 March 2007, the CNB has given its formal consent to the proposed consideration. It is expected that the buy-out will be approved by the Annual General Meeting which is to take place at 20 April 2007.

Termination of activities of ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond

The Group as a sole participant of the mutual fund called for a buy-out of all its collective investments units. This buy-out including a settlement of all liabilities to the sole participant was realised in January 2007. As a consequence of the buy-out, the Board of Directors of ČSOB Investiční společnost, a.s. decided to terminate the activities of the mutual fund and asked the CNB for a withdrawal of permission to create the mutual fund. The CNB decision on the withdrawal of the permission was delivered to ČSOB Investiční společnost, a.s. on 5 March 2007. This decision comes into effect on 21 March 2007. Based on the above mentioned, the entity will be excluded from the scope of consolidation in 2007.

ERNST & YOUNG
Quality In Everything We Do

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

We have audited the accompanying financial statements of Československá obchodní banka, a. s., which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on Československá obchodní banka, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Československá obchodní banka, a. s. as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young

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

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

14 March 2007
Prague, Czech Republic

separate statement of income for the year ended 31 december 2006

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

(CZKm)	Note	2006	Reclassified 2005
Interest income		22,300	19,210
Interest expense		(9,130)	(7,361)
Net interest income	3	**13,170**	**11,849**
Net fee and commission income	4	5,544	5,370
Net trading income	5	2,511	2,697
Other operating income	6	2,146	4,248
General administrative expenses	7	(13,530)	(12,657)
Other operating expenses	8	(213)	(534)
Profit before impairment losses, provisions and income tax		**9,628**	**10,973**
Impairment losses on loans and advances	15	(237)	142
Impairment losses on available-for-sale securities	13	-	(51)
Provisions	25	289	(506)
Profit before income tax		**9,680**	**10,558**
Income tax expense	9	(2,103)	(2,154)
Profit for the year		**7,577**	**8,404**

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

separate balance sheet as at 31 december 2006

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

(CZKm)	Note	31.12.2006	Reclassified 31.12.2005
ASSETS			
Cash and balances with central banks	10	17,850	14,838
Due from banks	11	41,818	75,369
Financial assets at fair value through profit or loss	12	181,481	193,527
Investment securities	13	133,270	132,133
Loans	14	176,024	139,753
Pledged assets	12, 13	4,863	4,209
Investments in subsidiaries, associates and joint ventures	37	27,753	26,985
Property and equipment	16	5,892	5,975
Goodwill and other intangible assets	17	3,289	3,234
Other assets, including tax assets	18	16,898	13,192
Prepayments and accrued income		4,039	3,956
Total assets		**613,177**	**613,171**
LIABILITIES			
Due to banks	19	13,911	10,677
Financial liabilities at fair value through profit or loss	20	99,380	123,224
Due to customers	21	413,353	391,865
Debt securities in issue	22	16,257	21,854
Other liabilities, including tax liabilities	23	24,139	21,066
Accruals and deferred income		247	239
Provisions	25	805	1,340
Subordinated liabilities	26	4,982	-
Total liabilities		**573,074**	**570,265**
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 statement of income		1,366	1,419
Retained earnings		13,522	16,272
Total equity		**40,103**	**42,906**
Total liabilities and equity		**613,177**	**613,171**

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 14 March 2007 and signed on its behalf by:

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

Hendrik Scheerlinck
Member of the Board of Directors
and Senior Executive Officer

separate statement of changes in equity for the year ended 31 december 2006

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 statement of income [2)]	Retained earnings	Total Equity
At 1 January 2005	**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 statement of income	-	-	-	750	-	750
Net profit	-	-	-	-	8,404	8,404
Total recognized income for 2005	-	-	-	750	8,404	9,154
Dividends paid	-	-	-	-	(3,844)	(3,844)
At 31 December 2005	**5,105**	**1,423**	**18,687**	**1,419**	**16,272**	**42,906**
Net after-tax unrealised (losses) on available-for-sale securities	-	-	-	(511)	-	(511)
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	860	-	860
Foreign currency translation	-	-	-	(5)	-	(5)
Net after-tax losses on available-for-sale securities transferred to net profit	-	-	-	39	-	39
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(436)	-	(436)
Net after-tax losses not recognised in the statement of income	-	-	-	(53)	-	(53)
Net profit	-	-	-	-	7,577	7,577
Total recognized income for 2006	-	-	-	(53)	7,577	7,524
Dividends paid (Note: 39)	-	-	-	-	(10,327)	(10,327)
At 31 December 2006	**5,105**	**1,423**	**18,687**	**1,366**	**13,522**	**40,103**

1) Statutory reserve represents accumulated transfers from retained earnings in accordance with the Czech Commercial Code. This reserve is not distributable.
2) Cumulative gains not recognised in the statement of income consist of the foreign currency translation adjustments of CZK (181) m, CZK (193) m and CZK (198) m as at 1 January 2005, 31 December 2005 and 31 December 2006, respectively; net gains on available-for-sale securities of CZK 838 m, CZK 1,105 m and CZK 633 m as at 1 January 2005, 31 December 2005 and 31 December 2006, respectively; net gains on derivatives used as cash flow hedges of CZK 12 m, CZK 507 m and CZK 931 m as at 1 January 2005, 31 December 2005 and 31 December 2006, respectively.

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

separate statement of cash flows for the year ended 31 december 2006

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

(CZKm)	Note	2006	2005
Cash flow from / (used in) operating activities			
Profit before income tax		9,680	10,558
Adjustments for:			
Allowances and provisions for credit losses	15	237	(142)
Provisions	25	(289)	506
Depreciation and amortisation	7	1,187	1,618
Property impairment charge	8	29	330
Amortisation of discounts and premiums		812	647
Impairment of goodwill and other intangible assets	8	-	63
Net loss / (gain) on disposal of securities other than trading		52	(195)
Net gain from derecognition of assets held-for-sale	6	(1,103)	-
Impairment on investment securities	13	-	51
Change in cumulative gains not recognized in the statement of income		(527)	(787)
Other		(615)	147
(Increase) / decrease in operating assets:			
Due from banks, non-demand		31,164	34,299
Financial assets at fair value through profit or loss		25,552	(105,983)
Loans		(36,477)	(168)
Other assets		(4,073)	(2,968)
Prepayments and accrued income		(83)	608
Increase / (decrease) in operating liabilities:			
Due to banks, term		(3,388)	3,792
Financial liabilities at fair value through profit or loss		(23,844)	55,877
Due to customers		21,488	35,218
Promissory notes and certificates of deposit		(6,325)	7,177
Other liabilities		4,638	1,300
Accruals and deferred income		8	(258)
Net cash flow from operating activities before income tax		18,123	41,690
Net income tax paid		(3,777)	(2,982)
Net cash flow from operating activities		14,346	38,708
Cash flow from / (used in) investing activities			
Purchase of investment securities		(31,996)	(30,960)
Purchase of subsidiary, associate and joint venture companies		(167)	(13,330)
Maturity / disposal of securities		24,192	22,862
Purchase of property, equipment and intangible assets		(1,229)	(1,916)
Disposal of property, equipment, intangible assets and assets held-for-sale		2,555	973
Net cash flow (used in) investing activities		(6,645)	(22,371)
Cash flow from / (used in) financing activities			
Issue of bonds		674	2,010
Increase / (decrease) in borrowings		3,161	(5,422)
Issue of subordinated liability	26	4,982	-
Dividends paid	39	(10,327)	(3,844)
Net cash flow (used in) financing activities		(1,510)	(7,256)
Effect of exchange rate changes on cash and cash equivalents		600	(145)
Net increase in cash and cash equivalents		**6,791**	**8,936**
Cash and cash equivalents at beginning of year	31	20,600	11,664
Net increase in cash and cash equivalents		6,791	8,936
Cash and cash equivalents at the end of year	31	27,391	20,600

The cash flow does not disclose interest and dividends received and interest paid since these items are classified as operating activities in a financial institution.

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

notes to the separate financial statements for the year ended 31 december 2006

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 and has its registered office at Na Příkopě 854/14 Praha 1, Corporate ID 00001350. 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 securities, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. Preparation of the separate financial statements is required by the Act on Accounting. Simultaneously, the Bank prepares also consolidated financial statements of ČSOB Group in accordance with the EU IFRS.

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 the classification of securities on held-to-maturity (Note: 13), assets held-for-sale (Note: 18), allowances and provisions for credit losses (Note: 15), provisions (Note: 25), the fair value of financial instruments (Notes: 12, 20), deferred income tax (Note: 24), other contingent assets and liabilities (Note: 29), the impairment of securities in the available-for-sale portfolio (Note: 13) and the impairment of goodwill (Note: 17) 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 statement of income.

d) investments in subsidiaries, associates 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.

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

Investments in subsidiaries, associates and jointly controlled entities are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and jointly controlled entities are recorded in 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 amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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 the completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised ratably over the period for which 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 and the Bank has no intention of trading the financial asset.

Held-to-maturity investments

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

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to liquidity needs 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.

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 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 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.

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 the fair value is positive and as liabilities when the fair value is negative.

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

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

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. A derivative is considered 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 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 not recognized in the statement of income are recognized immediately in 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 whereas 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 reclassified as Pledged assets are further valued according to the rules for the portfolio in which they were originally held.

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, as appropriate. The difference between the 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 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. 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 principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it 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, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation.

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	10 years (expected life of the lease)
Furniture	6 years
Equipment	4 – 30 years

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

Assets that are subject to depreciation 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 and other intangible assets

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

Intangible assets include software, licences and other intangible assets.

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

Amortisation of the software and other intangible assets is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	3 years
Other intangible assets	5 years

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

p) income taxes

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

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

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

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

q) financial liabilities designated at fair value through profit or loss

Financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in

accordance with a documented risk management or investment strategy.

Financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in Net trading income and interest incurred is recorded in interest expense.

r) due to banks, Due to customers, Debt securities in issue and Subordinated liabilities (Funding)

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

s) financial guarantees

In the ordinary course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Other liabilities, including tax liabilities. The fee is recognised in the statement of income in Net fee and commission income. Any increase and decrease in the liability relating to financial guarantees is included in Impairment losses on loans and advances.

t) 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.

u) 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.

v) offsetting of financial assets and liabilities

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.

w) 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.

x) fiduciary activities

The Bank commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. Those assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank. The assets are presented on the Bank's off-balance sheet accounts at fair value.

y) IFRS/IAS accounting and reporting developments

In 2006, the Bank started to apply the following standards:

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 and IFRS 4 (Amendments) – 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.

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 (effective from 1 January 2006);
- 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).

Certain new standards, amendments and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods and which the Bank has not early adopted. The Bank is expecting to adopt them in accordance with the effective date of the standards:

IFRS 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. IFRS 7 will have significant impact on the structure of the Bank's financial statements and it will have no impact on equity and profit for the year.

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

- 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).
- IFRIC 9, Reassessment of Embedded Derivatives effective for periods beginning on or after 1 June 2006, that is from 1 January 2007).
- IFRIC 10, Interim Reporting and Impairment (effective for periods beginning on or after 1 November 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.

z) comparatives

In 2006, certain items were presented differently from the presentation applied in the financial statements at 31 December 2005.

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

A reconciliation of the selected items of the statement of income for the year ended 31 December 2005 is provided below:

(CZKm)	**31. 12. 2005 As reported**	**Reclassifications**	**31. 12. 2005 Reclassified**
Contribution to the Deposit Insurance Fund			
Other operating expenses (Note: 8)	(969)	435	(534)
Net fee and commission income (Note: 4)	5,805	(435)	5,370
Interest expense from issued bonds and term deposits classified as financial instruments at fair value through profit or loss			
Interest paid from liabilities to banks (Note: 3)	2,186	(1,244)	942
Interest paid from debt securities in issue (Note: 3)	442	(43)	399
Interest paid from financial liabilities at fair value through profit or loss (Note: 3)	772	1,287	2,059

A reconciliation of the selected items of the balance sheet as at 31 December 2005 is provided below:

(CZKm)	**31. 12. 2005 As reported**	**Reclassifications**	**31. 12. 2005 Reclassified**
Intangible assets			
Property and equipment (Note: 16)	6,520	(545)	5,975
Goodwill and intangible assets (Note: 17)	2,689	545	3,234
Issued bonds classified as financial instruments at fair value through profit or loss			
Debt securities in issue (Note: 22)	22,354	(500)	21,854
Financial liabilities at fair value through profit or loss (Note: 20)	122,724	500	123,224

3. net interest income

(CZKm)	2006	Reclassified 2005
Interest income		
Mandatory minimum reserves with central banks	161	141
Due from banks	2,135	2,047
Financial assets at fair value through profit or loss	5,782	4,753
Investment securities	5,751	5,188
Loans	8,471	7,081
	22,300	**19,210**
Interest expense		
Due to banks	304	942
Financial liabilities at fair value through profit or loss	3,895	2,059
Due to customers	4,374	3,952
Debt securities in issue	510	399
Subordinated liabilities	39	-
Discount amortisation on other provisions (Note: 25)	8	9
	9,130	**7,361**
Net interest income	**13,170**	**11,849**

Included within interest income is accrued interest income of CZK 223 m (2005: CZK 154 m) related to impaired financial assets.

4. net fee and commission income

(CZKm)	2006	Reclassified 2005
Fee and commission income	7,039	6,714
Fee and commission expense	(1,495)	(1,344)
	5,544	**5,370**

5. net trading income

Net trading income, as reported in the statement of income, does not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. 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)	2006	Reclassified 2005
Net trading income – as reported	2,511	2,697
Net interest income (Note: 3)	1,887	2,694
	4,398	**5,391**
Foreign exchange	3,322	2,395
Fixed-income securities and money market	1,629	3,268
Commodity contracts	13	-
Interest rate contracts	(566)	(272)
	4,398	**5,391**

Included within Net trading income are net losses of CZK 321 m (2005: net gains of CZK 282 m) from financial assets and financial liabilities at fair value through profit or loss.

Included within trading-related net interest income is net interest expense of CZK 2,736 m (2005: net interest expense of CZK 1,544 m) from financial assets and financial liabilities at fair value through profit or loss.

Foreign exchange includes results arising from both customer and trading activities in foreign exchange cash, spot, forward, swap and option operations.

6. other operating income

(CZKm)	2006	2005
Net gain from derecognition of assets held-for-sale	1,103	-
Dividend income	446	175
Net gain on disposal of securities purchased on primary market	119	5
Operating leasing and rental income	67	87
Release of impairment on property and equipment	149	467
Income from settlement of Slovenská inkasná	-	3,022
Net (loss)/gain from derecognition of available-for-sale financial assets	(52)	195
Other	314	297
	2,146	**4,248**

7. general administrative expenses

(CZKm)	2006	2005
Personnel expenses	6,232	5,002
Depreciation and amortisation (Notes: 16, 17)	1,187	1,618
Other general administrative expenses	6,111	6,037
	13,530	**12,657**

Personnel expenses

(CZKm)	2006	2005
Salaries and bonuses	4,099	3,578
Salaries and other short-term benefits of senior management	338	69
Social security costs	1,503	1,223
Other pension costs, including retirement benefits	292	132
	6,232	**5,002**

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Compensation Committee of the Supervisory Board. 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 in a Share Purchase Programme, which was launched for the years 2004 – 2006, that allowed them to purchase the Bank's shares in amounts commensurate to the Annual Performance Bonus. Following the cancellation of the Programme, the Board of Directors are expected to receive compensation of CZK 269 m as an equivalent to the cancelled Program. The compensation is subject to the ratification of the Annual General Meeting.

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

Retirement benefits

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

Other general administrative expenses

(CZKm)	2006	2005
Information technology	1,124	1,503
Rent and maintenance	1,025	887
Retail service fees	1,009	815
Marketing and public relations	909	875
Telecommunications and postage	571	545
Administration	214	218
Power and fuel consumption	181	166
Travel and transportation	173	138
Professional fees	169	245
Training	129	92
Insurance	51	63
Other	556	490
	6,111	**6,037**

8. other operating expenses

(CZKm)	2006	Reclassified 2005
Property impairment charge (Note: 16)	29	330
Goodwill and other intangible assets impairment (Note: 17)	-	63
Other	184	141
	213	**534**

9. income tax expense

(CZKm)	2006	2005
Current tax expense	1,644	2,250
Previous year under accrual/(over) accrual	288	(308)
Deferred tax expense relating to the origination and reversal of temporary differences (Note: 24)	171	212
	2,103	**2,154**

Further information about deferred income tax is presented in Note: 24.

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)	2006	2005
Profit before taxation	9,680	10,558
Applicable tax rates	24 %	26 %
Taxation at applicable tax rates	2,323	2,745
Previous year under accrual/(over) accrual	288	(308)
Tax effect of non-taxable income	(1,189)	(829)
Tax effect of non-deductible expenses	671	470
Effect on opening deferred taxes due to reduction in tax rate	-	82
Other	10	(6)
	2,103	**2,154**

10. cash and balances with central banks

(CZKm)	31.12.2006	31.12.2005
Cash on hand	7,133	7,094
Other cash values	2,156	1,113
Balances with central banks	8,561	6,631
	17,850	**14,838**

Mandatory minimum reserves are not available for use in the Bank's day to day operations. Mandatory minimum reserves as at 31 December 2006 represented CZK 7,487 m (31 December 2005: CZK 4,766 m).

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The National Bank of Slovakia paid interest on the mandatory minimum reserve balances at 1.5 % in both 2006 and 2005.

11. due from banks

(CZKm)	31.12.2006	31.12.2005
Analysed by product and bank domicile		
Current accounts		
domestic	69	9
foreign	1,181	909
Term placements		
foreign	-	104
Loans		
domestic	22,541	50,233
foreign	18,051	24,141
	41,842	**75,396**
Allowance for credit losses (Note: 15)	(24)	(27)
Net due from banks	**41,818**	**75,369**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions (within Loans domestic) as at 31 December 2006 was CZK 20,090 m, of which CZK 1,936 m has been sold or repledged (31 December 2005: CZK 47,316 m and CZK 4,558 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.

12. financial assets at fair value through profit or loss

(CZKm)	31.12.2006	31.12.2005
Trading assets		
Treasury bills	20,612	4,546
Reverse repo transactions	66,944	108,175
Debt securities	17,257	15,178
Derivative contracts (Note: 30)	11,136	6,246
Term deposits	37,402	40,486
	153,351	**174,631**
Financial assets at fair value through profit or loss designated at inception		
Debt securities	28,912	19,786
Assets pledged as collateral in repo transactions	(782)	(890)
	181,481	**193,527**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2006 was CZK 66,946 m, of which CZK 6,452 m has been either sold or repledged (31 December 2005: CZK 108,139 m and CZK 10,417 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.

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

13. investment securities

Investment securities by portfolio and issuer as at 31 December 2006

(CZKm)	Issued by government bodies	Issued by credit institutions	Issued by other issuers	Total
Securities available-for-sale – at fair value				
Debt securities	12,708	42,173	891	55,772
Equity securities	-	82	301	383
Provisions for impairment	-	(26)	(13)	(39)
Total available-for-sale portfolio	12,708	42,229	1,179	56,116
Securities held-to-maturity – at amortised cost				
Debt securities	67,981	10,119	3,135	81,235
Total securities	**80,689**	**52,348**	**4,314**	**137,351**
Securities pledged as collateral in repo transactions				(4,081)
Total securities reduced by pledged assets				**133,270**

Investment securities by portfolio and issuer as at 31 December 2005

(CZKm)	Issued by government bodies	Issued by credit institutions	Issued by other issuers	Total
Securities available-for-sale – at fair value				
Debt securities	18,180	35,901	1,349	55,430
Equity securities	-	58	863	921
Provisions for impairment	-	(26)	(25)	(51)
Total available-for-sale portfolio	18,180	35,933	2,187	56,300
Securities held-to-maturity – at amortised cost				
Treasury bills	4,590	-	-	4,590
Debt securities	59,017	10,980	4,565	74,562
Total held-to-maturity portfolio	63,607	10,980	4,565	79,152
Total securities	**81,787**	**46,913**	**6,752**	**135,452**
Securities pledged as collateral in repo transactions				(3,319)
Total securities reduced by pledged assets				**132,133**

Schedule of Activity in Investment Securities

(CZKm)	2006 Available-for-sale	2006 Held-to-maturity	2006 Total	2005 Total
At 1 January	56,300	79,152	135,452	124,479
Foreign exchange adjustments	(800)	(2,485)	(3,285)	(1,302)
Purchases	15,245	16,219	31,464	37,741
Disposals (sales or redemption)	(13,145)	(11,100)	(24,245)	(22,667)
Amortisation of discounts and premiums	(302)	(551)	(853)	(754)
(Losses)/gains from changes in fair value	(622)	-	(622)	342
Transfer to Investment in subsidiaries, associates and joint ventures	(601)	-	(601)	(2,443)
Provisions for impairment	-	-	-	(51)
Other	41	-	41	107
At 31 December	**56,116**	**81,235**	**137,351**	**135,452**

Transfer to Investment in subsidiaries, associates and joint ventures represents the reclassification of investments which met the criteria for consolidation.

14. loans

(CZKm)	31.12.2006	31.12.2005
Analysed by category of borrower		
Government bodies	3,944	4,147
Industrial companies	58,465	49,547
Trade companies	31,876	24,080
Retail customers	18,628	11,847
Other service companies	59,288	47,517
Other	9,230	7,781
Gross loans	181,431	144,919
Allowance for credit losses (Note: 15)	(5,407)	(5,166)
Net loans	**176,024**	**139,753**

15. impairment losses on loans and advances

The table below summarises the changes in the Allowance for credit losses and the Provisions for guarantees and undrawn credit lines for 2006 and 2005:

(CZKm)	2006	2005
At 1 January	5,847	5,638
Write-offs	(352)	(614)
Recoveries	434	970
Net increase/(decrease) in allowances and provisions for credit losses	237	(142)
Foreign currency translation and other adjustments	(47)	(5)
31 December	**6,119**	**5,847**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2006 and 2005 are as follows:

(CZKm)	31.12.2006	31.12.2005
Allowance for credit losses		
Loans (Note: 14)	5,407	5,166
Due from banks (Note: 11)	24	27
Provisions for guarantees and undrawn credit lines (Note: 28)	688	654
	6,119	**5,847**

16. property and equipment

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost (reclassified)				
At 1 January 2005	9,595	6,080	241	15,916
Foreign exchange adjustments	(22)	(25)	-	(47)
Transfers	1,043	563	(1,606)	-
Additions	-	-	1,587	1,587
Disposals	(1,952)	(800)	-	(2,752)
Net transfers to assets held-for-sale (Note: 18)	(2,714)	-	-	(2,714)
At 31 December 2005	5,950	5,818	222	11,990
Foreign exchange adjustments	78	40	-	118
Transfers	159	460	(619)	-
Additions	-	-	671	671
Disposals	(52)	(540)	-	(592)
Net transfers from assets held-for-sale	64	-	-	64
At 31 December 2006	6,199	5,778	274	12,251
Accumulated depreciation and impairment (reclassified)				
At 1 January 2005	2,867	4,599	-	7,466
Foreign exchange adjustments	(3)	(18)	-	(21)
Disposals	(540)	(764)	-	(1,304)
Impairment utilization and release	(503)	-	-	(503)
Impairment charge (Note: 8)	278	52	-	330
Charge for the year (Note: 7)	635	658	-	1,293
Net transfers to assets held-for-sale (Note: 18)	(1,246)	-	-	(1,246)
At 31 December 2005	1,488	4,527	-	6,015
Foreign exchange adjustments	15	30	-	45
Disposals	(25)	(528)	-	(553)
Impairment utilization and release	(126)	(35)	-	(161)
Impairment charge (Note: 8)	7	22	-	29
Charge for the year (Note: 7)	276	632	-	908
Net transfers from assets held-for-sale	76	-	-	76
At 31 December 2006	1,711	4,648	-	6,359
Net book value				
At 1 January 2005	**6,728**	**1,481**	**241**	**8,450**
At 31 December 2005	**4,462**	**1,291**	**222**	**5,975**
At 31 December 2006	**4,488**	**1,130**	**274**	**5,892**

17. goodwill and other intangible assets

(CZKm)	Goodwill	Software	Other intangible assets	Total
Historical cost (reclassified)				
At 1 January 2005	2,752	2,077	494	5,323
Foreign exchange adjustments	-	(1)	-	(1)
Additions	-	222	107	329
Disposals	-	(45)	(59)	(104)
At 31 December 2005	2,752	2,253	542	5,547
Foreign exchange adjustments	-	1	-	1
Additions	-	192	366	558
Disposals	-	(24)	(217)	(241)
At 31 December 2006	2,752	2,422	691	5,865
Accumulated depreciation and impairment (reclassified)				
At 1 January 2005	-	1,699	303	2,002
Foreign exchange adjustments	-	(1)	-	(1)
Disposals	-	(40)	(36)	(76)
Impairment charge (Note: 8)	63	-	-	63
Charge for the year (Note: 7)	-	284	41	325
At 31 December 2005	63	1,942	308	2,313
Foreign exchange adjustments	-	1	-	1
Disposals	-	(17)	-	(17)
Charge for the year (Note: 7)	-	247	32	279
At 31 December 2006	63	2,173	340	2,576
Net book value				
At 1 January 2005	**2,752**	**378**	**191**	**3,321**
At 31 December 2005	**2,689**	**311**	**234**	**3,234**
At 31 December 2006	**2,689**	**249**	**351**	**3,289**

Goodwill has been allocated to the Retail/SME segment, representing a cash-generating unit (Note: 32). 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. Cash flows beyond the three-year period have been extrapolated to five years using the expected average growth rate. The discount rate varies from 2.48 % to 3.26 % in the five-year period. Management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

18. other assets, including tax assets

(CZKm)	31.12.2006	31.12.2005
Other debtors, net of provisions	6,260	5,650
Hedging derivative contracts (Note: 30)	5,586	3,514
Receivables from securities clearing entities	2,287	80
Current income tax receivable	1,233	55
Other receivables from clients	566	1,400
Net deferred tax asset (Note: 24)	192	347
Estimated receivables	115	417
VAT and other tax receivables	71	59
Assets held-for-sale (Note: 16)	63	1,468
Items in the course of collection	46	94
Other	479	108
	16,898	**13,192**

In 2006, the Bank sold a part of its building portfolio classified as Assets held-for-sale. The net book value of these buildings was CZK 1,414 m and the net gain realised from the transaction recognised in Other operating income in 2006 was CZK 1,103 m (Note: 6), of which the net gain from the derecognition of the headquarter buildings represented CZK 976 m.

Included within Other debtors, net of provisions is a receivable from the Czech Ministry of Finance in the amount of CZK 1,789 m at 31 December 2006 (31 December 2005: CZK 1,656 m) related to the ex-IPB assets originally transferred to the Czech Consolidation Agency. The Bank believes that the amount is fully covered by guarantee agreements issued by institutions of the Czech state.

19. due to banks

(CZKm)	31.12.2006	31.12.2005
Analysed by product and bank domicile		
Current accounts		
domestic	131	129
foreign	6,235	2,777
Term deposits		
foreign	734	4,121
Borrowings		
domestic	3,830	2,130
foreign	2,981	1,520
Total due to banks	**13,911**	**10,677**

20. financial liabilities at fair value through profit or loss

(CZKm)	31.12.2006	Reclassified 31.12.2005
Trading liabilities		
Securities sold, not yet purchased	1,845	61
Derivative contracts (Note: 30)	12,340	7,320
	14,185	7,381
Financial liabilities at fair value through profit or loss designated at inception		
Bonds issued	1,900	500
Promissory notes	3,871	4,494
Repo transactions	9,843	19,102
Term deposits	69,581	91,747
	85,195	115,843
	99,380	**123,224**

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

21. due to customers

(CZKm)	31.12.2006	31.12.2005
Analysed by product		
Current accounts	255,746	225,881
Term deposits	157,607	165,984
Total due to customers	**413,353**	**391,865**
Analysed by customer type		
Individuals and households	215,772	200,365
Private companies and entrepreneurs	107,841	92,137
Foreign	53,918	53,476
Government bodies	13,201	26,683
Other financial institutions	9,802	9,313
Non-profit institutions	9,141	7,631
Insurance companies	3,678	2,260
Total due to customers	**413,353**	**391,865**

22. debt securities in issue

Issue date	Currency	Maturity date	Effective interest rate	31.12.2006 (CZKm)	Reclassified 31.12.2005 (CZKm)
Bonds issued					
September 2003	SKK	September 2008	4.94 %	319	306
October 2004	SKK	October 2009	4.80 %	560	536
November 2005	CZK	November 2015	3.69 %	1,388	1,397
November 2005	SKK	November 2010	2.90 %	639	613
December 2006	SKK	December 2011	4.72 %	674	-
				3,580	**2,852**
Promissory notes				12,672	18,996
Certificates of deposit				5	6
Total debt securities in issue				**16,257**	**21,854**

23. other liabilities, including tax liabilities

(CZKm)	31.12.2006	31.12.2005
Other clearing accounts	9,878	2,589
Items in the course of transmission	5,271	9,812
Other creditors	4,097	3,505
Estimated payables	2,297	1,929
Payables to securities clearing entities	690	1,025
Provisions for guarantees and undrawn credit lines (Note: 28)	688	654
Hedging derivative contracts (Note: 30)	369	440
VAT and other tax payables	220	200
Current accounts from which value was collected	77	81
Current income tax payable	-	669
Other	552	162
	24,139	**21,066**

24. deferred income taxes

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

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

(CZKm)	2006	2005
At 1 January	347	677
Statement of income debit (Note: 9)	(171)	(212)
Available-for-sale securities		
Fair value remeasurement	162	(9)
Transfer to net profit	(12)	47
Cash-flow hedges		
Fair value remeasurement	(272)	(310)
Transfer to net profit	138	154
At 31 December	**192**	**347**

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

(CZKm)	31.12.2006	31.12.2005
Deferred income tax asset (Note: 18)		
Legal claim	293	293
Provisions	253	181
Accelerated tax depreciation	28	-
Other temporary differences	19	(18)
Impairment of occupied properties	13	174
Allowances for credit losses	-	159
Available-for-sale securities	(120)	(282)
Cash-flow hedges	(294)	(160)
	192	**347**

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

(CZKm)	31.12.2006	31.12.2005
Provisions	72	16
Accelerated tax depreciation	28	(38)
Trading assets valuation	-	(30)
Deferred tax expense resulting from reduction in tax rate	-	(82)
Allowances for credit losses	(159)	20
Impairment of occupied properties	(161)	(42)
Available-for-sale securities	12	(46)
Other temporary differences	37	(10)
	(171)	**(212)**

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.

25. provisions

(CZKm)	Litigation and other losses	Staff reduction charges	Onerous rent losses	Total
At 1 January 2006	904	260	176	1,340
Net provision release	(289)	-	-	(289)
Discount amortisation (Note: 3)	-	-	8	8
Utilised during year	(157)	(72)	(25)	(254)
At 31 December 2006	**458**	**188**	**159**	**805**

Staff reduction charges

In 2004 and 2005, the Bank announced programs to reduce the total number of personnel by approximately 850. Total charges of CZK 343 m were recorded in 2004 and 2005 to cover related costs. In accordance with the programs the number of personnel had been reduced by 337 by the end of 2006. The Bank expects to use the remaining provision of CZK 188 m to cover the costs related to further reductions in the number of personnel by approximately 550 in 2007 and 2008.

Onerous rent contract losses

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

26. subordinated liabilities

In September 2006, the Bank issued subordinated debt in the nominal amount of CZK 5,000 m to KBC Bank NV. The subordinated debt is repayable in 2016. Its coupon rate is PRIBOR + 0.35 % (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six years period and PRIBOR + 0.85 % (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank may prepay the debt at any time following the first six year period. The repayment of the debt is subordinated to all other classes of liabilities in the event of the liquidation of the Bank. The subordinated debt has been received to increase the capital adequacy ratio in order to support further business expansion.

27. share capital and treasury shares

The total authorised share capital as at 31 December 2006 and 2005 was CZK 5,105 m and composed 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 2006 and 2005.

28. contingent liabilities and commitments

(CZKm)	31.12.2006 Contract amount	31.12.2006 Risk weighted amount	31.12.2005 Contract amount	31.12.2005 Risk weighted amount
Contingent liabilities				
Guarantees issued	22,479	12,848	19,967	10,293
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	107,849	49,241	74,014	32,203
Documentary credits	2,641	1,179	1,876	888
	110,490	**50,420**	**75,890**	**33,091**
Provisions for guarantees and undrawn credit lines (Notes: 15 and 23)	688		654	

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: 25), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank is subject to a number of claims brought by Nomura, their affiliates and other parties in the context of the IPB acquisition amounting to tens of billions of Czech Crowns, but the Bank is not able to reliably estimate the total effective amount, since the claims are interdependent. The Bank believes that such claims are unfounded. In addition, potential losses arising from such claims are covered by guarantee agreements issued by institutions of the Czech state and thus they represent no risk of material impact to the financial position of the Bank.

In addition, there are certain proceedings pending between the Bank and the Czech Consolidation Agency regarding the status of some assets related to the IPB acquisition. The Bank believes that its position is sufficiently covered by legal arrangements concluded between the Bank and institutions of the Czech state.

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 that the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

c) assets under management and custody

Assets managed by the Bank on behalf of others amounted to CZK 3,256 m as at 31 December 2006 (31 December 2005: CZK 2,603 m). Assets held by the Bank under custody arrangements amounted to CZK 290,386 m as at 31 December 2006 (31 December 2005: CZK 236,680 m). Securities held on behalf of others as at 31 December 2006 amounted to CZK 64,960 m (31 December 2005: CZK 52,852 m).

d) operating lease commitments

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

(CZKm)	31.12.2006	31.12.2005
Not later than 1 year	84	95
Later than 1 year and not later than 5 years	181	174
Later than 5 years	123	141
	388	**410**

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.

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 rate swaps to convert fixed rate assets to floating rates.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2006 and 2005 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.

	31.12.2006			31.12.2005		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Interest rate related contracts						
Swaps	528,424	4,295	4,683	243,905	3,118	4,483
Forwards	113,088	65	68	67,412	45	66
Written options	5,911	-	-	13,167	-	12
Purchased options	6,218	25	-	13,557	15	-
	653,641	**4,385**	**4,751**	**338,041**	**3,178**	**4,561**
Foreign exchange contracts						
Swaps	241,798	5,290	5,467	197,161	2,434	1,831
Forwards	26,739	376	1,023	17,862	92	366
Written options	58,129	-	1,037	37,258	-	542
Purchased options	57,024	1,037	-	36,418	542	-
	383,690	**6,703**	**7,527**	**288,699**	**3,068**	**2,739**
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps	1,521	48	42	650	-	-
Total derivatives held for trading (Notes: 12, 20)	**1,038,952**	**11,136**	**12,340**	**627,490**	**6,246**	**7,320**

Hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to eliminate the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that 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.

The Bank expects to realize net interest income from the hedged items in the period between 2007 and 2020. There was no significant cash flow hedge ineffectiveness as at 31 December 2006 and 2005.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding hedging derivatives as at 31 December 2006 and 2005 are set out as follows:

	31.12.2006			31.12.2005		
	Contract /	Fair value		Contract /	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	34,830	467	84	42,436	799	195
Cross currency interest rate swaps	33,906	5,119	285	32,766	2,715	245
(Notes: 18, 23)	**68,736**	**5,586**	**369**	**75,202**	**3,514**	**440**

31. cash and cash equivalents

Analysis of the balances of cash and cash equivalents (Note: 2w) as shown in the balance sheets

(CZKm)	31.12.2006	31.12.2005
Cash and balances with central banks	10,363	10,073
Trading portfolio assets	19,154	5,757
Investment securities	2,990	6,758
Due from banks, demand	1,250	918
Due to banks, demand	(6,366)	(2,906)
Cash and cash equivalents	**27,391**	**20,600**

32. segment reporting

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

Segment reporting information by customer segments for 2006

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Total
Net interest income	8,535	1,996	-	2,515	124	13,170
Non-interest income	5,161	2,070	-	516	2,454	10,201
Segment expenses	(6,491)	(714)	-	(401)	(6,137)	(13,743)
Segment result	7,205	3,352	-	2,630	(3,559)	9,628
Impairment losses and provisions	(539)	(149)	582	(7)	165	52
Profit before taxation	6,666	3,203	582	2,623	(3,394)	9,680
Income tax (expense)/benefit	(1,599)	(768)	(140)	(498)	902	(2,103)
Net profit	**5,067**	**2,435**	**442**	**2,125**	**(2,492)**	**7,577**
Assets	**64,633**	**112,572**	**99**	**306,949**	**128,924**	**613,177**

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	4,911	1,908	3,302	953	1,241	12,315
Segment expenses	(5,984)	(652)	(481)	(381)	(5,693)	(13,191)
Segment result	6,423	2,937	2,931	2,611	(3,929)	10,973
Impairment losses and provisions	(99)	27	474	-	(817)	(415)
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**

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 and ALM: Asset Liability Management segment, Dealing segment.
Other: Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 107 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 2006 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	506,843	82,222	20,479	1,151
Slovak Republic	106,334	25,627	2,891	78
Total	**613,177**	**107,849**	**23,370**	**1,229**

The geographical segment reporting for 2005 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	473,356	64,926	21,875	886
Slovak Republic	139,815	9,088	2,289	974
Total	**613,171**	**74,014**	**24,164**	**1,860**

33. currency risk

The Bank is exposed to the 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 2006. 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)	31.12.2006	31.12.2005
EUR	1,642	2,421
USD	(341)	(49)
SKK	(1,778)	(2,993)

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:

	2006				2005			
(%)	CZK	EUR	SKK	USD	CZK	EUR	SKK	USD
Assets								
Due from banks	4.27	3.25	10.09	3.36	4.85	2.70	7.49	2.05
Securities	4.84	4.77	6.03	5.72	4.89	4.62	6.65	5.39
Loans	4.44	4.15	6.06	7.54	4.30	3.58	4.96	6.00
Liabilities								
Due to banks	1.54	2.67	2.31	5.64	1.41	2.03	1.04	5.63
Due to customers	0.85	1.33	2.47	2.78	0.86	0.96	1.85	2.14
Debt securities in issue	3.69	-	4.23	-	3.69	-	4.04	-

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 interest rate sensitive non-trading 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 2006:

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(530)	11,966	(9,752)	(3,849)	2,165
EUR	(1,885)	6,646	(4,989)	356	(128)
USD	(1,662)	1,618	(80)	129	(5)
SKK	(5,260)	4,140	1,521	(711)	310

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

The tables above 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.

All the above tables were extracted from the management information systems of the Bank which are used for interest rates monitoring and interest rate risk management.

35. liquidity risk

The following table sets out the financial assets and liabilities of the Bank by remaining maturity as at 31 December 2006:

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	8,207	-	-	-	-	9,643	17,850
Due from banks	1,250	23,605	2,903	12,926	1,134	-	41,818
Financial assets at fair value through profit or loss (including pledged assets)	-	118,628	16,248	13,541	28,539	5,307	182,263
Investment securities (including pledged assets)	-	2,990	9,613	61,959	62,445	344	137,351
Loans	10,937	28,489	25,942	34,106	17,787	58,763	176,024
Other financial assets	-	1,666	4,837	1,382	982	9,890	18,757
Total assets	20,394	175,378	59,543	123,914	110,887	83,947	574,063
Liabilities							
Due to banks	6,366	4,498	-	2,486	561	-	13,911
Financial liabilities at fair value through profit or loss	25	74,666	13,147	3,463	1,505	6,574	99,380
Due to customers	245,273	128,258	15,564	7,875	16,254	129	413,353
Debt securities in issue	-	11,848	1,501	1,518	1,388	2	16,257
Other financial liabilities	-	88	278	-	-	23,112	23,478
Subordinated liabilities	-	-	-	-	4,982	-	4,982
Total liabilities	251,664	219,358	30,490	15,342	24,690	29,817	571,361
Net liquidity gap	**(231,270)**	**(43,980)**	**29,053**	**108,572**	**86,197**	**54,130**	**2,702**

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 (including pledged assets)	-	148,705	7,161	9,577	23,278	5,696	194,417
Investment securities (including pledged assets)	-	6,758	11,082	55,142	61,600	870	135,452
Loans	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	611	50	6,436	123,224
Due to customers	226,066	126,596	15,613	9,215	14,221	154	391,865
Debt securities in issue	1	18,735	263	1,456	1,397	2	21,854
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**

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 (e.g. mandatory minimum reserves, overdue loans, clearing accounts).

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. 2006 Carrying value	Fair value	31. 12. 2005 Carrying value	Fair value
FINANCIAL ASSETS				
Due from banks	41,818	41,777	75,369	75,408
Investment securities	81,235	82,715	79,152	82,540
Loans	176,024	176,024	139,753	140,358
FINANCIAL LIABILITIES				
Due to banks and subordinated liabilities	18,893	18,901	10,677	10,839
Due to customers	413,353	413,364	391,865	391,865
Debt securities in issue	16,257	16,266	21,854	22,085

The following methods and assumptions were used in estimating the 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 reprice within relatively short time periods; therefore, it is assumed that 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

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

Due to banks and subordinated liabilities

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

Debt securities in issue

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

37. significant subsidiary, associate and joint venture companies

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

Name	Country of incorporation	31.12.2006 (%)	31.12.2006 Carrying amount	31.12.2005 (%)	31.12.2005 Carrying amount
Subsidiaries					
Auxilium, a. s.	Czech Republic	100	5,375	100	5,725
Bankovní informační technologie, s.r.o.	Czech Republic	100	30	100	30
Business Center, s.r.o.	Slovak Republic	100	234	100	234
Centrum Radlická, a.s.	Czech Republic	-	-	-	-
ČSOB Asset Management, a.s.	Czech Republic	21	85	21	85
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic	100	52	100	52
ČSOB distribution, a.s.	Slovak Republic	100	35	100	35
ČSOB d.s.s., a.s.	Slovak Republic	100	560	100	560
ČSOB Factoring, a.s.	Czech Republic	100	375	50	18
ČSOB Investiční společnost, a.s.	Czech Republic	73	344	73	344
ČSOB Investment Banking Services, a.s.	Czech Republic	100	5,246	100	5,246
ČSOB Leasing, a.s.	Czech Republic	100	2,900	100	2,900
ČSOB Leasing, a.s.	Slovak Republic	90	931	90	931
ČSOB Penzijní fond Progres, a.s.	Czech Republic	100	288	100	65
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100	1,007	100	1,007
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100	593	100	593
ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	100	2,015	95	2,015
Hornický penzijní fond Ostrava, a.s.	Czech Republic	-	-	100	223
Hypoteční banka, a.s.	Czech Republic	100	5,382	100	5,382
Motokov a.s.	Czech Republic	1	-	1	-
Zemský penzijní fond, a.s.	Czech Republic	100	160	-	-
Joint venture					
Českomoravská stavební spořitelna, a.s.	Czech Republic	55	1,540	55	1,540
Associates					
ČSOB Pojišťovna, a. s.	Czech Republic	25	601	-	-
			27,753		**26,985**

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

ČSOB Factoring, a.s. (formerly OB Heller, a.s.) was included in joint venture companies in 2005. In April 2006, the Bank purchased the remaining 50 % of shares and became the sole shareholder of the company.

Centrum Radlická, a.s. was included in subsidiaries, although the Bank was not the legal owner of the entity at the balance sheet date. This is due to the existence of specific rights provided by the contractual agreement with the owner of Centrum Radlická, a.s. that enable the Bank to exercise control over the entity. The entity is engaged solely in the construction of the new ČSOB headquarters building and has no other activities. The Bank is obliged to purchase the entity during 2007 under a purchase agreement.

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

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

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

In addition, the Bank holds a majority shareholding in several other entities, which however are not controlled by the Bank and are not consolidated.

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 as at 31 December 2006 are as follows:

(CZKm)	Due from banks	Financial assets at fair value	Investment securities	Loans	Due to banks	Financial liabilities at fair value	Due to customers	Debt securities in issue
Senior management	-	-	-	-	-	-	3	-
KBC Bank NV	2,706	9,454	-	-	660	38,974	-	-
Entities under common control	596	221	-	-	65	87	248	56
Subsidiaries								
ČSOB Factoring, a.s.	-	-	-	2,360	-	-	-	-
ČSOB Investiční společnost, a.s.	-	-	-	-	-	-	287	-
ČSOB Investment Banking Services, a.s.	-	3	-	39	-	1	1	688
ČSOB Leasing, a.s. CR	-	814	-	2,595	-	-	21	-
ČSOB Leasing, a.s. SR	-	31	-	5,145	-	56	310	-
ČSOB Penzijní fond Stabilita, a.s.	-	-	-	-	-	462	-	-
Hypoteční banka, a.s.	1,569	7,264	14,735	-	2	-	-	-
Other	168	-	-	243	237	56	769	179
Joint venture – Českomoravská stavební spořitelna, a.s.	950	-	-	-	10	-	-	-
Associate – ČSOB Pojišťovna, a.s.	-	-	-	-	-	4	607	-

The outstanding balances from related party transactions as at 31 December 2005 are as follows:

(CZKm)	Due from banks	Financial assets at fair value	Investment securities	Loans	Due to banks	Financial liabilities at fair value	Due to customers	Debt securities in issue
Senior management	-	-	-	-	-	-	3	-
KBC Bank NV	4,368	6,720	-	-	131	65,513	-	-
Entities under common control	2,485	162	-	-	43	419	3,416	263
Subsidiaries								
Auxilium, a. s.	-	-	-	-	-	-	405	465
Business Center, s.r.o.	-	-	-	-	-	-	384	-
ČSOB Leasing, a.s. CR	-	358	-	2,237	-	-	22	-
ČSOB Leasing, a.s. SR	-	250	-	4,394	-	19	31	-
ČSOB Penzijní fond Stabilita, a.s.	-	-	-	-	-	445	-	-
Hypoteční banka, a.s.	3,489	3,904	10,796	-	10	-	-	-
Other	46	-	-	42	212	35	594	171
Joint ventures								
Českomoravská stavební spořitelna, a.s.	600	62	-	-	2	-	-	-
ČSOB Factoring, a.s.	-	-	-	2,149	-	-	-	-

Relating interest income and interest expense for the year are as follows:

	Interest income		Interest expense	
(CZKm)	31.12.2006	31.12.2005	31.12.2006	31.12.2005
KBC Bank NV	206	195	1,387	1,140
Entities under common control	29	4	14	3
Subsidiaries				
Hypoteční banka, a.s.	618	540	2	8
Other	377	305	84	88
Associates	-	-	12	-
Joint ventures	24	37	-	-

Dividend income received from subsidiaries, associates and joint ventures in 2006 amounted to CZK 430 m (2005: CZK 130 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2006 amounted to CZK 13 m (2005: CZK 87 m).

The Bank issued subordinated debt to KBC Bank NV amounted to CZK 4,982 m at 31 December 2006 (31 December 2005: Nil). Interest expense related to this subordinated debt in 2006 amounted to CZK 39 m (2005: Nil).

Guarantees given to KBC Bank NV as at 31 December 2006 amounted to CZK 224 m (31 December 2005: CZK 27 m). There were no guarantees received from KBC Bank NV as at 31 December 2006 (31 December 2005: CZK 629 m).

In 2006, ČSOB purchased collateralised debt obligations at fair value of CZK 10,763 m from a related party within KBC Group (31 December 2005: CZK 6,407 m).

39. dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 21 April 2006, a dividend of CZK 2,023 per share was approved in respect of 2005 net profit. This dividend represented a total amount of CZK 10,327 m.

40. ČSOB's shareholders

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

(%)	2006	2005
KBC Bank NV	97.44	89.97
European Bank for Reconstruction and Development	-	7.47
Others	2.56	2.56
Total	**100.00**	**100.00**

On 20 December 2006, KBC Bank NV exercised its call option and purchased the entire shareholding of the European Bank for Reconstruction and Development. This purchase enabled KBC Bank NV, in compliance with the Czech legislation, to perform a buy-out of minority shareholders of the Bank (Note: 41).

On 31 December 2006, the Bank was directly controlled by KBC Bank NV whose ownership interest in ČSOB represented 97.44 % (31 December 2005: 89.97 %). On the same date, KBC Bank NV was controlled by KBC Group NV and therefore KBC Group NV was the company indirectly exercising ultimate control over ČSOB.

41. events after the balance sheet date

Buy-out of minority shareholders of the Bank

KBC Bank NV purchased 7.47 % share previously owned by European Bank for Reconstruction and Development in December 2006 (Note: 40). By virtue of the purchase, KBC Bank NV presently holds more than 90 % share of the capital of the Bank. Based on the Czech Commercial Code, such an ownership enables KBC Bank NV to request the Board of Directors to call a General Meeting, whereby a proposal will be submitted for a buy-out by KBC Bank NV of the remaining shares held by the minority shareholders of the Bank. A prerequisite for such a buy-out is approval by the CNB. KBC Bank NV has submitted a formal request to the CNB, and on 8 March 2007, the CNB has given its formal consent to the proposed consideration. It is expected that the buy-out will be approved by the Annual General Meeting which is to take place at 20 April 2007.

Termination of activities of ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond

The Bank as a sole participant of the mutual fund called for a buy-out of all its collective investment units. This buy-out including a settlement of all liabilities to the sole participant was realised in January 2007. As a consequence of the buy-out, the Board of Directors of ČSOB Investiční společnost, a.s. decided to terminate the activities of the mutual fund and asked the CNB for a withdrawal of permission to create the mutual fund. The CNB decision on the withdrawal of the permission was delivered to ČSOB Investiční společnost, a.s. on 5 March 2007. This decision comes into effect on 21 March 2007. Based on the above mentioned, the entity will be excluded from the subsidiaries of the Bank in 2007.