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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

Douglas Burnham
Partner

Roman Hauptfleisch
Auditor, Licence No. 2009

9 April 2008
Prague, Czech Republic

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

Consolidated Financial Statements
Year Ended 31 December 2007

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

Consolidated statement of income for the year ended 31 December 2007

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

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

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

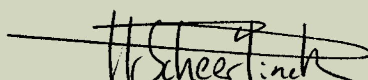
Consolidated balance sheet as at 31 December 2007

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

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

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

These consolidated financial statements were approved for issue by the Board of Directors on 9 April 2008 and signed on its behalf by:



Pavel Kavánek

Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck

Member of the Board of Directors
and Senior Executive Officer

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

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

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

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

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

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

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

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

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

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

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

1. Corporate information

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

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

2. Accounting policies

2.1 Basis of preparation

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

Statement of compliance

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

Basis of consolidation

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

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

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

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

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

2.2 Significant accounting judgements and estimates

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

Deferred tax assets

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

2.3 Summary of significant accounting policies

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

(1) Foreign currency translation

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Financial instruments - recognition and derecognition

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

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the balance sheet on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

(3) Financial instruments - initial recognition and subsequent measurement

Classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially

at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Derivatives held for trading

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

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

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

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

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

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

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

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

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

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

(iii) Held-to-maturity investments

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

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

(iv) Loans and receivables

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

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

(v) Available-for-sale financial assets

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

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

(vi) Financial liabilities at amortised cost

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

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

(4) Repurchase and reverse repurchase agreements

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

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

(5) Determination of fair value

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

(6) Impairment of financial assets

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

– significant financial difficulty of the issuer or obligor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

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

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

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

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

(i) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

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

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

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

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

(ii) Assets carried at fair value

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

(iii) Renegotiated loans

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

(7) Hedge accounting

(i) Cash flow hedges

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

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;

- the hedge is highly effective on an ongoing basis. A derivative is considered to be highly effective if the Group achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

The effective portion of the change in the fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into earnings in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognized immediately in the statement of income.

(ii) Hedge of a net investment in foreign operations

The hedge of a net investment in foreign operations is accounted for on a similar basis to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the Foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income. Gains and losses accumulated in equity are included in the statement of income when the foreign operation is disposed of.

(8) Offsetting financial instruments

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

(9) Leasing

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

(i) Group company as a lessee

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

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

(ii) Group company as a lessor

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

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

(10) Recognition of income and expenses

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

(i) Interest income and expense

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

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

(ii) Fee and commission income

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

(iii) Dividend income

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

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

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

(11) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding mandatory minimum reserves), loans and advances to credit institutions and deposits from credit institutions.

(12) Investment property

The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated under the straight-line method to write-off the cost of each asset to its residual value over its estimated useful life.

(13) Investments in associates

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

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

(14) Property and equipment

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

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

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

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

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

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

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

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

(15) Business combinations and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

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

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

(16) Intangible assets

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

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

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

Software	4 years
Other intangible assets	5 years

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

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

(17) Financial guarantees

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

(18) Employee retirement benefits

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

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

(19) Provisions

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

(20) Taxes

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

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

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

The Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(21) Fiduciary activities

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

(22) Segment reporting

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

2.4 Future changes in accounting policies

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

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

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

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

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

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

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

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

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

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

2.5 Comparatives

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

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

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

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

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

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

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

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

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

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

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

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

The explanation for the reclassifications is as follows:

Reclassification resulting from IFRS 7 implementation:

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

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

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

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

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

The explanation for the adjustments is as follows:

Reclassification resulting from IFRS 7 implementation:

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

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

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

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

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

3. Scope of consolidation and business combination

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2007, there were not acquired any companies.

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

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

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

4. Segment information

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

Segment reporting information by customer segments for 2007

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

Segment reporting information by customer segments for 2006

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

Definitions of customer segments:

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

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

Financial markets and ALM: Asset Liability Management segment, Dealing segment.

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

The Bank also operates Poštovní spořitelna (Postal Savings Bank), which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 118 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

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

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

The geographical segment reporting for 2006 is as follows:

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

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

5. Interest income

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

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

6. Interest expense

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

7. Net fee and commission income

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

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

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

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

9. Other net income

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

10. Staff expenses

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

Management bonus scheme

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

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

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

Retirement benefits

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

11. General administrative expenses

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

12. Impairment losses

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

13. Taxation

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Dividends paid

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

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

15. Cash and balances with central banks

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

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

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

16. Financial assets at fair value through profit or loss

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

17. Financial investments

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

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

18. Loans and receivables

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

Of which finance lease receivables may be analysed as follows:

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

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

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

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

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

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

19. Investment in associate and joint venture

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

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

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

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

20. Derivative financial instruments

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

Credit risk associated with derivative financial instruments

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

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

All derivatives are traded over-the-counter.

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

Trading derivatives

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

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2007 and 2006 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

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

Hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or

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

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

There was no significant cash flow hedge ineffectiveness as at 31 December 2007 and 2006.

The Group hedges part of the currency translation risk of net investments in foreign operations through cross currency interest rate swaps and currency deposits. Deposits amounting to CZK 659 m (31 December 2006: CZK 489 m) were designated as hedges and gave rise to currency gains for the year of CZK 21 m (31 December 2006: losses CZK 58 m), which have been deferred in equity.

The contract or notional amounts and positive and negative fair values of the Group's outstanding hedging derivatives as at 31 December 2007 and 2006 are set out as follows:

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

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

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

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

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

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

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

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

21. Accrued interest income and expenses

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

22. Investment property

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

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

23. Property and equipment

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

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

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

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

24. Goodwill and other intangible assets

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

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

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

25. Other assets

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

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

26. Financial liabilities at fair value through profit or loss

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

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

27. Financial liabilities at amortised cost

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

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

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

28. Other liabilities

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

29. Provisions

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

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

Restructuring

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

Contractual engagements

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

30. Share capital and other reserves

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

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

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

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

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

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

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

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

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

31. Fair value of financial instruments

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

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

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

Held-to-maturity investments

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

Loans and receivables to credit institutions and balances with central banks

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

Loans and receivables to other than credit institutions

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

Deposits received from credit institutions and subordinated liabilities

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

Deposits received from other than credit institutions

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

Debt securities in issue

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

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

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

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

32. Additional cash flow information

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

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

Change in operating assets

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

Change in operating liabilities

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

Non-cash items included in profit before tax

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

33. Maturity analysis of assets and liabilities

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

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

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

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

34. Contingent assets, liabilitiest and commitments

Contingent assets

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

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

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

The above contractual amounts represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements.

Litigation

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

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

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

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

Taxation

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

Operating lease commitments (Group is the lessee)

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

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

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

Operating lease receivables (Group is the lessor)

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

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

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

35. Repurchase agreements and collateral

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

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

Under reverse repurchase agreements, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

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

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

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

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

36. Related party disclosures

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

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

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

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

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

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

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

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

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

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

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

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

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

37. Events after the balance sheet date

MF CZ receivable

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

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

Transformation of business in Slovakia

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

The structure of shareholders of ČSOB SK is as follows:

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

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

The KBC Bank share is represented by a cash deposit.

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

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

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

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

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

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

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

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

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

38. Risk management

38.1 Introduction

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

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

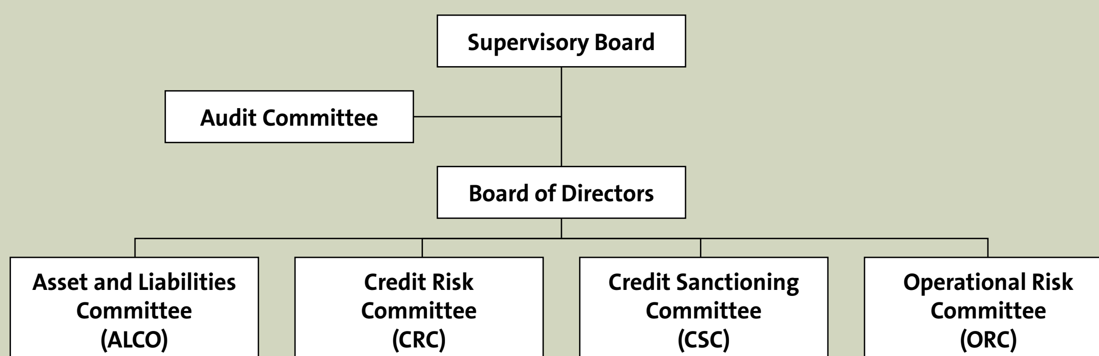
Risk management structure

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

The structure of Value and Risk Management in ČSOB is based on a uniform principle of Value and Risk Management applied within the KBC Group. It is based on the risk governance model that defines the responsibilities and tasks of various bodies and persons within the organization to guarantee the sound management of value creation and all the associated risks.

This model includes:

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



Board of Directors

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

Supervisory Board

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

Risk committees

Asset and liability committee

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

Credit risk committee

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

Credit risk sanctioning committee

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

Operational risk committee

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

Other bodies

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

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

Value and Risk Management (VRM)

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

Credits unit

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

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

Asset and liability management unit (ALM)

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

Financial Markets unit (FM)

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

Risk mitigation

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

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

Excessive risk concentration

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

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

Basel II

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

38.2 Credit risk

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

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

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

Corporate and large SME credits

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

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

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

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

Acceptance Process

The acceptance process for Corporate and large SME clients is organized in three steps. First, the relationship manager of the introducing entity prepares a written credit proposal. In a second step, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares a recommendation. Credit files that carry only limited expected loss can be approved by a Head of a Corporate Branch. Finally, a decision is made at the appropriate decision-making level (committee). The "four eyes" principle is always respected. The decision always includes an approved counterparty rating.

The newly created rating models that assign to each client a specific probability of default enable determining the level of potential risk and adapt the acceptance process accordingly. Thus, the Group can modify the acceptance authority, follow a simpler framework in cases with lower risk, adjust price policy, set more precisely monitoring rules, implement advanced risk control based on the portfolio system, etc. The new rating models were integrated into specialized rating tools, that can be used also for pricing purposes.

Retail and small SME credits

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

Acceptance process

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

Portfolio risk management

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

Derivative financial instruments

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

Credit-related commitments risk

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

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

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

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

Risk concentrations of the maximum exposure to credit risk

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

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

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

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

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

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

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

Quality of credit portfolio

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

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

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

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

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

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

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

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

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairments in an individual assessment yet. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The local management is responsible

for deciding the length of this period that can extend for as long as one year. The impairment allowance is then reviewed by the credit management to ensure alignment with the Group's overall policy.

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

38.3 Liquidity risk and funding management

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

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

The ratio during the year was as follows:

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

Analysis of financial liabilities by remaining contractual maturity

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

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

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

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

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

38.4 Market risk

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

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

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

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

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

Objectives and limitations of the VaR methodology

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

VaR assumptions

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

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

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

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

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

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

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

Market risk – Non-trading (ALM risk)

Interest rate risk

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

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

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

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

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

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

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

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

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

Currency risk

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

Equity price risk

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

Prepayment risk

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

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

38.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and systems errors or from external events. Operational risks include legal, compliance and tax risks. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

39. Capital

The Group actively manages capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision (Basel II) and adopted by the CNB in the Regulation No. 123/2007 Coll., on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 July 2007).

During the past year, the Group complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Group manages its capital structure considering the changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may ask the sole shareholder to increase capital and optimise its structure.

(CZKm)	2007	2006
Tier 1 capital	37,751	36,755
Tier 2 capital	12,007	5,063
Deductible items of Tier 1 and Tier 2	(1,127)	(815)
Total capital	**48,631**	**41,003**
Risk weighted assets	**453,551**	**450,044**
Capital adequacy ratio	10.7 %	9.1 %

In order to keep a long-term target for the capital adequacy ratio and to cover its new business activities the Group received a subordinated loan provided by KBC Bank. This subordinated debt is a part of Tier 2 capital.

In December 2007, the Group's Tier 1 capital was increased by CZK 6,000 m (Note: 30).

Parts of facades are adjusted for climbing plants to enhance integration in the green surroundings. This is further bolstered by interior green systems which have a psychological function but also enhance shading and zoning and improve the quality of air.

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Ernst & Young

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

D. Burnham | Roman Hauptfleisch

Douglas Burnham
Partner

Roman Hauptfleisch
Auditor, Licence No. 2009

9 April 2008
Prague, Czech Republic

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

Separate Financial Statements
Year Ended 31 December 2007

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

Separate statement of income for the year ended 31 December 2007

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

(mil. Kč)	Note	2007	Reclassified 2006
Interest income	4	28,280	22,279
Interest expense	5	(12,770)	(8,846)
Net interest income		**15,510**	**13,433**
Fee and commission income	6	7,659	7,039
Fee and commission expense	6	(1,760)	(1,495)
Net fee and commission income		**5,899**	**5,544**
Dividend income		4,208	446
Net gains from financial instruments at fair value through profit or loss	7	1,854	2,248
Net realised gains on available-for-sale financial assets		(133)	(52)
Other net income	8	617	1,603
Operating income		**27,955**	**23,222**
Staff expenses	9	(6,076)	(6,433)
General administrative expenses	10	(6,621)	(6,205)
Depreciation and amortisation	21, 22	(1,031)	(1,187)
Provisions	27	229	400
Operating expenses		**(13,499)**	**(13,425)**
Impairment losses	11	(1,119)	(117)
Profit before tax		**13,337**	**9,680**
Income tax expense	12	(1,994)	(2,103)
Profit for the year		**11,343**	**7,577**

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

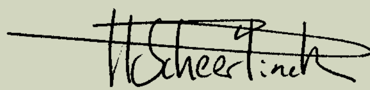
Separate balance sheet as at 31 December 2007

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

(CZKm)	Note	31. 12. 2007	Reclassified 31. 12. 2006
ASSETS			
Cash and balances with central banks	14	31,909	31,850
Financial assets held for trading	15	232,282	152,828
Financial assets designated at fair value through profit or loss	15	29,078	28,482
Available-for-sale financial assets	16	92,450	54,984
Held-to-maturity investments	16	90,174	81,234
Loans and receivables	17	247,578	203,842
Investments in subsidiaries, associates and joint ventures	18	33,329	27,753
Derivatives used for hedging	19	5,579	5,134
Accrued interest income	20	7,589	5,816
Current tax assets		563	1,233
Deferred tax assets	12	704	192
Property and equipment	21	6,095	5,892
Goodwill and other intangible assets	22	3,494	3,289
Non-current assets held-for-sale		27	63
Other assets	23	7,326	10,585
Total assets		**788,177**	**613,177**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	16,395	14,185
Financial liabilities designated at fair value through profit or loss	24	146,289	84,663
Financial liabilities at amortised cost	25	559,830	453,774
Derivatives used for hedging	19	1,309	370
Accrued interest expenses	20	537	735
Current tax liabilities		158	-
Other liabilities	26	17,747	17,854
Provisions	27	1,099	1,493
Total liabilities		**743,364**	**573,074**
Share capital	28	5,855	5,105
Share premium		6,673	1,423
Statutory reserve		18,687	18,687
Retained earnings		15,323	13,522
Available-for-sale reserve	28	(827)	633
Cash flow hedge reserve	28	(700)	931
Foreign currency translation reserve	28	(198)	(198)
Total equity		**44,813**	**40,103**
Total liabilities and equity		**788,177**	**613,177**

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

These separate financial statements were approved for issue by the Board of Directors on 9 April 2008 and signed on its behalf by:



Pavel Kavánek

Chairman of the Board of Directors
and Chief Executive Officer

Hendrik Scheerlinck

Member of the Board of Directors
and Senior Executive Officer

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

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

(CZKm)	Share capital (Note: 28)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 28)	Total Equity
At 1 January 2006	**5,105**	**1,423**	**18,687**	**16,272**	**1,419**	**42,906**
Net losses on available-for-sale securities	-	-	-	-	(472)	(472)
Net gains on cash flow hedges	-	-	-	-	424	424
Foreign currency translation	-	-	-	-	(5)	(5)
Total income and expense for the year recognised directly in equity	-	-	-	-	(53)	(53)
Profit for the year	-	-	-	7,577	-	7,577
Total income and expense for the year	-	-	-	7,577	(53)	7,524
Dividends paid (Note: 13)	-	-	-	(10,327)	-	(10,327)
At 31 December 2006	**5,105**	**1,423**	**18,687**	**13,522**	**1,366**	**40,103**
At 1 January 2007	**5,105**	**1,423**	**18,687**	**13,522**	**1,366**	**40,103**
Net losses on available-for-sale securities	-	-	-	-	(1,460)	(1,460)
Net losses on cash flow hedges	-	-	-	-	(1,631)	(1,631)
Foreign currency translation	-	-	-	-	-	-
Total income and expense for the year recognised directly in equity	-	-	-	-	(3,091)	(3,091)
Profit for the year	-	-	-	11,343	-	11,343
Total income and expense for the year	-	-	-	11,343	(3,091)	8,252
Capital increase	750	5,250	-	-	-	6,000
Dividends paid (Note: 13)	-	-	-	(9,542)	-	(9,542)
At 31 December 2007	**5,855**	**6,673**	**18,687**	**15,323**	**(1,725)**	**44,813**

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

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

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

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

(CZKm)	Note	2007	Reclassified 2006
OPERATING ACTIVITIES			
Profit before tax		13,337	9,680
Adjustments for:			
Change in operating assets	30	(167,241)	(29,603)
Change in operating liabilities	30	157,769	(9,532)
Non-cash items included in profit before tax	30	2,373	1,164
Net gain from investing activities		(14)	(1,115)
Income tax paid		(802)	(3,777)
Net cash flows from operating activities		**5,422**	**(33,183)**
INVESTING ACTIVITIES			
Purchase of investment securities		(14,903)	(13,733)
Acquisition of subsidiary, associate and joint venture companies		(5,575)	(167)
Maturity / disposal of securities		5,521	11,101
Purchase of property, equipment and intangible assets		(1,466)	(1,229)
Disposal of property, equipment, intangible assets and assets held-for-sale		72	2,778
Net cash flows (used in) investing activities		**(16,351)**	**(1,250)**
FINANCING ACTIVITIES			
Issue of bonds		712	674
Issue of subordinated liability		6,975	4,982
Capital increase		6,000	-
Dividends paid		(9,542)	(10,327)
Net cash flows from / (used in) financing activities		**4,145**	**(4,671)**
Net decrease in cash and cash equivalents		**(6,784)**	**(39,104)**
Cash and cash equivalents at the beginning of the year	30	23,223	62,140
Net decrease in cash and cash equivalents		(6,784)	(39,104)
Net foreign exchange differences		(25)	187
Cash and cash equivalents at the end of the year	30	**16,414**	**23,223**
Additional information			
Interest paid		(12,968)	(9,505)
Interest received		26,507	22,930
Dividends received		4,208	446

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

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

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

1. Corporate information

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

2. Accounting policies

2.1 Basis of preparation

The separate financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss, and all derivative contracts that have been measured at fair value. The separate financial statements are presented in millions of Czech Crowns (CZKm). The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of ČSOB Bank in accordance with the EU IFRS.

Statement of compliance

The ČSOB's separate financial statements have been prepared in accordance with EU IFRS.

2.2 Significant accounting judgements and estimates

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

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

Deferred tax assets

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

2.3 Summary of significant accounting policies

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

(1) Foreign currency translation

Items included in the financial statements of the Bank are initially measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). As the Bank operated in the Czech Republic and the Slovak Republic until the 31 December 2007, it had two functional currencies - Czech Crowns and Slovak Crowns. The separate financial statements are presented in Czech Crowns, which is the Bank's presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from

the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

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

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

(2) Investments in subsidiaries, associates and jointly controlled entities

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

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

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

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

(3) Financial instruments – recognition and derecognition

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

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Bank recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the balance sheet on the day it is physically transferred to or from the Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

(4) Financial instruments – initial recognition and subsequent measurement

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

(i) Derivatives held for trading

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

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading

derivative. To the extent that the Bank cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value in the balance sheet with changes in fair value reflected in the statement of income.

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

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

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

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

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

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

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

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

(iii) Held-to-maturity investments

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

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

(iv) Loans and receivables

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

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

(v) Available-for-sale financial assets

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

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

(vi) Financial liabilities at amortised cost

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

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

(5) Repurchase and reverse repurchase agreements

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

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

(6) Determination of fair value

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

(7) Impairment of financial assets

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

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

(i) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an

observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

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

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

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

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

(ii) Assets carried at fair value

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

(iii) Renegotiated loans

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

(8) Hedge accounting

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

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;

- the hedge is highly effective on an ongoing basis. A derivative is considered to be highly effective if the Bank achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

The effective portion of the change in the fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains from financial instruments at fair value through profit

or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into earnings in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognized immediately in the statement of income.

(9) Offsetting financial instruments

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

(10) Leasing

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

Bank as a lessee

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

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

(11) Recognition of income and expenses

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

(i) Interest income and expense

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

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

(ii) Fee and commission income

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

(iii) Dividend income

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

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

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

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (excluding mandatory minimum reserves), loans and advances to credit institutions and deposits from credit institutions.

(13) Property and equipment

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

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

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

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

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

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

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

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

(14) Goodwill

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

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

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

(15) Intangible assets

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

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

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

Software	4 years
Other intangible assets	5 years

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

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

(16) Financial guarantees

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

(17) Employee retirement benefits

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

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

(18) Provisions

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

(19) Taxes

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

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

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

The Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(20) Fiduciary activities

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

(21) Segment reporting

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

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

2.4 Future changes in accounting policies

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

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

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

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

- IAS 23, Borrowing Costs (effective for periods beginning on or after 1 January 2009).
- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for periods beginning on or after 1 March 2007).
- IFRIC 12, Service Concession Arrangements (effective for periods beginning on or after 1 January 2008).
- IFRIC 13, Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008).
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning on or after 1 January 2008).

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

2.5 Comparatives

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

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

Structure as reported	2006	Changes in the structure Explanation		2006	Structure as amended
Interest income	22,300		-	22,300	Interest income
Interest expense	(9,130)		-	(9,130)	Interest expense
Net interest income	**13,170**		**-**	**13,170**	**Net interest income**
		1	7,039	7,039	Fee and commission income
		1	(1,495)	(1,495)	Fee and commission expense
Net fee and commission income	**5,544**			**5,544**	**Net fee and commission income**
		2	446	446	Dividend income
Net trading income	2,511		-	2,511	Net gains from financial instruments at fair value through profit or loss
		3	(52)	(52)	Net realised gains on available-for-sale financial assets
Other operating income	2,146	2,3	(394)	1,752	Other net income
		4	(6,232)	(6,232)	Staff expenses
General administrative expenses	(13,530)	4,5,6	7,206	(6,324)	General administrative expenses
Other operating expenses	(213)	5	213		
		6	(1,187)	(1,187)	Depreciation and amortisation
Provisions	289		-	289	Provisions
Impairment losses on loans and advances	(237)		-	(237)	Impairment losses
Profit before income tax	**9,680**		**-**	**9,680**	**Profit before tax**
Income tax expense	(2,103)		-	(2,103)	Income tax expense
Profit for the year	**7,577**		**-**	**7,577**	**Profit for the year**

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

Structure as reported	2006	Changes in the structure Explanation		2006	Structure as amended
ASSETS					**ASSETS**
Cash and balances with central banks	17,850		-	17,850	Cash and balances with central banks
Due from banks	41,818	7	(41,818)		
		8,10	153,341	153,341	Financial assets held for trading
Financial assets at fair value through profit or loss	181,481	8	(152,570)	28,911	Financial assets designated at fair value through profit or loss
Investment securities	133,270	9	(133,270)		
		9	56,116	56,116	Available-for-sale financial assets
		9,10	81,234	81,234	Held-to-maturity investments
Loans	176,024	7	41,818	217,842	Loans and receivables
Pledged assets	4,863	10	(4,863)		
		11	5,585	5,585	Derivatives used for hedging
Investments in subsidiaries, associates and joint ventures	27,753		-	27,753	Investments in subsidiaries, associates and joint ventures
Property and equipment	5,892		-	5,892	Property and equipment
Goodwill and other intangible assets	3,289		-	3,289	Goodwill and other intangible assets
		12	1,233	1,233	Current tax assets
		12	192	192	Deferred tax assets
		13	63	63	Non-current assets held-for-sale
Other assets, including tax assets	16,898	11,12,13	(7,073)	9,825	Other assets
Prepayments and accrued income	4,039	10	12	4,051	Accrued interest income
Total assets	**613,177**		**-**	**613,177**	**Total assets**
LIABILITIES					**LIABILITIES**
Due to banks	13,911	14	(13,911)		
		15	14,185	14,185	Financial liabilities held for trading
Financial liabilities at fair value through profit or loss	99,380	15	(14,185)	85,195	Financial liabilities at fair value through profit or loss
Due to customers	413,353	16	(413,353)		
Debt securities in issue	16,257	17	(16,257)		
		14,16,17,18	448,503	448,503	Financial liabilities at amortised cost
		11	369	369	Derivatives used for hedging
Other liabilities, including tax liabilities	24,139	11	(369)	23,770	Other liabilities
Accruals and deferred income	247		-	247	Accrued interest expenses
Provisions	805		-	805	Provisions
Subordinated liabilities	4,982	18	(4,982)		
Total liabilities	**573,074**		**-**	**573,074**	**Total liabilities**
EQUITY					**EQUITY**
Share capital	5,105		-	5,105	Share capital
Share premium account	1,423		-	1,423	Share premium
Statutory reserve	18,687		-	18,687	Statutory reserve
Cumulative gains not recognised in the statement of income	1,366	19	(1,366)		
		19	633	633	Available-for-sale reserve
		19	931	931	Cash flow hedge reserve
		19	(198)	(198)	Foreign currency translation reserve
Retained earnings	13,522		-	13,522	Retained earnings
Total equity	**40,103**		**-**	**40,103**	**Total equity**
Total liabilities and equity	**613,177**		**-**	**613,177**	**Total liabilities and equity**

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

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

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

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

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

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

(CZKm)	After changes of the 2006 structure	Reclassification				Reclassified 2006
		1	2	3	4	
Interest income	22,300	(21)				22,279
Interest expense	(9,130)	284				(8,846)
Net gains from financial instruments at fair value through profit or loss	2,511	(263)				2,248
Other net income	1,752		(149)			1,603
Staff expenses	(6,232)			(129)	(72)	(6,433)
General administrative expenses	(6,324)		29	129	(39)	(6,205)
Provisions	289				111	400
Impairment losses	(237)		120			(117)

The explanation for the reclassifications is as follows:

Reclassification resulting from IFRS 7 implementation:

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

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

2. Amounts of charge and reversal of impairment on property and equipment were reclassified from General administrative expenses and Other net income to Impairment losses
3. Expenses on employees training and education were reclassified from General administrative expenses to Staff expenses
4. Provisions utilised to cover the respective expenses were reclassified from Staff and General administrative expenses to Provisions

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

(CZKm)	2006 As reported	Reclassification 1	2	3	4	5	2006 Reclassified
Cash and balances with central banks	17,850		14,000				31,850
Financial assets held for trading	153,341			(513)			152,828
Financial assets designated at fair value through profit or loss	28,911			(429)			28,482
Available-for-sale financial assets	56,116			(1,132)			54,984
Loans and receivables	217,842		(14,000)				203,842
Derivatives used for hedging	5,585			(451)			5,134
Accrued interest income	4,051			2,525	(760)		5,816
Other assets	9,825				760		10,585
Financial liabilities at fair value through profit or loss	85,195			(532)			84,663
Financial liabilities at amortised cost	448,503	5,271					453,774
Derivatives used for hedging	369			1			370
Accrued interest expenses	247			531	(43)		735
Other liabilities	23,770	(5,271)			43	(688)	17,854
Provisions	805					688	1,493

The explanation for the adjustments is as follows:

Reclassification resulting from IFRS 7 implementation:

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

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

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

A reconciliation of cash and cash equivalents as at 31 December 2006 is as follows:

(CZKm)	2006	2005
Cash and cash equivalents – as reported	27,391	20,600
Inclusion of the reverse repo operation with central bank	14,000	47,316
Exclusion of trading portfolio assets	(19,154)	(5,757)
Exclusion of investment securities	(2,990)	(6,758)
Inclusion of loans and advances to credit institutions	9,444	11,432
Inclusion of deposits from credit institutions	(5,468)	(4,693)
Cash and cash equivalents – reclassified	23,223	62,140

3. Segment information

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

Segment reporting information by customer segments for 2007

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Statement of income					
Net interest income	10,417	2,381	2,024	688	15,510
Net fee and commission income	4,394	1,112	(139)	532	5,899
Dividend income	-	-	40	4,168	4,208
Net gains from financial instruments at fair value through profit or loss	1,411	1,112	358	(1,027)	1,854
Net realised gains on available-for-sale financial assets	-	-	(133)	-	(133)
Other operating income	60	16	(15)	556	617
Operating income	**16,282**	**4,621**	**2,135**	**4,917**	**27,955**
Depreciation and amortisation	(187)	(2)	(1)	(841)	(1,031)
Other operating expenses	(6,970)	(837)	(491)	(4,170)	(12,468)
Operating expenses	**(7,157)**	**(839)**	**(492)**	**(5,011)**	**(13,499)**
Impairment losses	(1,384)	167	-	98	(1,119)
Profit before tax	**7,741**	**3,949**	**1,643**	**4**	**13,337**
Income tax (expense)/benefit	(1,858)	(948)	(194)	1,006	(1,994)
Segment profit	**5,883**	**3,001**	**1,449**	**1,010**	**11,343**
Assets and liabilities					
Total assets	**77,678**	**111,371**	**462,571**	**136,557**	**788,177**
Total liabilities	**360,054**	**105,457**	**228,317**	**49,536**	**743,364**

Segment reporting information by customer segments for 2006

(CZKm)	Retail / SME	Corporate	Financial markets and ALM	Other	Total
Statement of income					
Net interest income	8,537	1,998	1,943	955	13,433
Net fee and commission income	3,844	1,072	(62)	690	5,544
Dividend income	-	-	49	397	446
Net gains from financial instruments at fair value through profit or loss	1,269	1,021	1,115	(1,157)	2,248
Net realised gains on available-for-sale financial assets	-	-	6	(58)	(52)
Other operating income	61	4	(21)	1,559	1,603
Operating income	**13,711**	**4,095**	**3,030**	**2,386**	**23,222**
Depreciation and amortisation	(211)	(6)	(1)	(969)	(1,187)
Other operating expenses	(6,557)	(731)	(405)	(4,545)	(12,238)
Operating expenses	**(6,768)**	**(737)**	**(406)**	**(5,514)**	**(13,425)**
Impairment losses	(541)	(147)	(7)	578	(117)
Profit before tax	**6,402**	**3,211**	**2,617**	**(2,550)**	**9,680**
Income tax (expense)/benefit	(1,536)	(771)	(497)	701	(2,103)
Segment profit	**4,866**	**2,440**	**2,120**	**(1,849)**	**7,577**
Assets and liabilities					
Total assets	**61,680**	**112,477**	**306,949**	**132,071**	**613,177**
Total liabilities	**329,543**	**101,871**	**85,488**	**56,172**	**573,074**

Definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover of less than CZK 300 m.
Corporate: Companies with a turnover of greater than CZK 300 m and non-banking institutions in the financial sector.
Financial markets and ALM: Asset Liability Management segment, Dealing segment.
Other: Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank), which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 118 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

The Bank operated in the Czech Republic and the Slovak Republic. The Bank's secondary segment reporting by geographical segment for 2007 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	653,986	102,891	24,723	1,391
Slovak Republic	134,191	21,502	3,232	75
Total	**788,177**	**124,393**	**27,955**	**1,466**

The geographical segment reporting for 2006 is as follows:

(CZKm)	Total assets	Credit commitments	Revenues	Capital expenditure
Czech Republic	506,843	82,222	20,445	1,151
Slovak Republic	106,334	25,627	2,777	78
Total	**613,177**	**107,849**	**23,222**	**1,229**

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

4. Interest income

(CZKm)	2007	2006
Cash balances with central banks	1,002	161
Loans and receivables		
Credit institutions	1,069	2,135
Other than credit institutions	10,994	8,471
Available-for-sale financial assets	2,468	2,045
Held-to-maturity investments	3,971	3,706
Financial assets held for trading	7,482	4,886
Financial assets designated at fair value through profit or loss	1,294	875
	28,280	**22,279**

Included within interest income is accrued interest income of CZK 369 m (2006: CZK 223 m) related to impaired financial assets.

5. Interest expense

(CZKm)	2007	2006
Financial liabilities at amortised cost		
Credit institutions	378	304
Other than credit institutions	5,974	4,374
Debt instruments in issue	661	510
Subordinated liabilities	352	39
Discount amortisation on other provisions (Note: 27)	6	8
Financial liabilities designated at fair value through profit or loss	5,399	3,611
	12,770	**8,846**

6. Net fee and commission income

(CZKm)	2007	2006
Fee and commission income		
Payment services	5,073	4,886
Credit commitments	686	724
Collective investments	628	492
Securities	211	192
Custody	150	133
Asset management	36	37
Other	875	575
	7,659	**7,039**
Fee and commission expense		
Payment services	649	662
Contribution to Deposit Insurance Fund	415	343
Commissions to agents	73	45
Other	623	445
	1,760	**1,495**
Net fee and commission income	**5,899**	**5,544**

7. Net gains from financial instrument at fair value through profit or loss

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

(CZKm)	2007	2006
Net gains from financial instruments at fair value through profit or loss - as reported	1,854	2,248
Net interest income (Notes: 4, 5)	3,377	2,150
	5,231	**4,398**
Financial instruments held for trading		
Interest rate contracts	7,642	4,944
Foreign exchange	219	(701)
Commodity contracts	(14)	13
	7,847	4,256
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	(242)	551
Financial liabilities designated at fair value through profit or loss	(5,421)	(3,608)
	(5,663)	(3,057)
Exchange differences revaluations	3,047	3,199
Financial instruments at fair value through profit or loss	**5,231**	**4,398**

8. Other net income

(CZKm)	2007	2006
Operating leasing and rental income	70	67
Net gain on disposal of associates, joint ventures and subsidiaries	49	-
Net gain on disposal of loans and receivables	28	119
Net gain on disposal of non-current assets held-for-sale	22	1,103
Other	448	314
	617	**1,603**

9. Staff expenses

(CZKm)	2007	2006
Wages and salaries	4,195	4,171
Wages and other short-term benefits of senior management	99	338
Social security charges	1,311	1,503
Pension and similar expense	129	123
Other	342	298
	6,076	**6,433**

Management bonus scheme

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

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

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

Retirement benefits

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

10. General administrative expense

(CZKm)	2007	2006
Retail service fees	953	1,009
Marketing	924	923
Rental expenses	822	712
Communication	804	752
Information technology	709	690
Other building expenses	506	575
Administration	403	338
Professional fees	336	218
Travel and transportation	164	141
Car expenses	82	86
Insurance	44	52
Other	874	709
	6,621	**6,205**

11. Impairment losses

(CZKm)	2007	2006
Impairment on loans and receivables (Note: 17)	(1,259)	(170)
Provisions for loan commitments and guarantees (Note: 27)	140	(67)
Impairment on property and equipment (Note: 21)	-	120
	(1,119)	**(117)**

12. Taxation

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

(CZKm)	2007	2006
Current tax expense	1,653	1,644
Previous year (over) / under accrual	(23)	288
Deferred tax expense relating to the origination and reversal of temporary differences	250	171
Deferred tax expense resulting from reduction in tax rate	114	-
	1,994	**2,103**

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

(CZKm)	2007	2006
Profit before taxation	13,337	9,680
Applicable tax rates	24%	24%
Taxation at applicable tax rates	3,201	2,323
Previous year (over) / under accrual	(23)	288
Tax effect of non-taxable income	(1,775)	(1,189)
Tax effect of non-deductible expenses	455	671
Effect on opening deferred taxes due to reduction in tax rate	114	--
Other	22	10
	1,994	**2,103**

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

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

The movement on the deferred tax account is as follows:

(CZKm)	2007	2006
At 1 January	192	347
Statement of income charge	(364)	(171)
Available-for-sale securities		
Fair value remeasurement (Note: 28)	433	162
Transfer to net profit	(26)	(12)
Cash-flow hedges		
Fair value remeasurement (Note: 28)	398	(272)
Transfer to net profit	71	138
At 31 December	**704**	**192**

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

(CZKm)	2007	2006
Deferred income tax asset		
Available-for-sale securities	258	(120)
Cash-flow hedges	175	(294)
Provisions	164	253
Legal claim	97	293
Accelerated tax depreciation	22	28
Impairment of occupied properties	1	13
Other temporary differences	(13)	19
	704	**192**

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

(CZKm)	2007	2006
Allowances for credit losses	-	(159)
Accelerated tax depreciation	(1)	28
Impairment of occupied properties	(10)	(161)
Available-for-sale securities	(16)	12
Provisions	(48)	72
Deferred tax expense resulting from reduction in tax rate	(114)	-
Legal claim	(147)	-
Other temporary differences	(28)	37
	(364)	**(171)**

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

13. Dividends paid

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

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

14. Cash and balances with central banks

(CZKm)	2007	2006
Cash	9,366	9,290
Mandatory minimum reserves	3,200	7,487
Other balances with central banks	19,343	15,073
	31,909	**31,850**

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

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

15. Financials assets at fair value through profit or loss

(CZKm)	2007	2006
Financial assets held for trading		
Loans and advances		
Reverse repo transactions	47,138	66,853
Money market placements	110,241	37,236
Debt instruments	56,521	36,837
Debt securities pledged as collateral	3,923	766
Derivative contracts (Note: 19)	14,459	11,136
	232,282	**152,828**
Financial assets designated at fair value through profit or loss		
Debt instruments	27,714	28,482
Debt securities pledged as collateral	1,364	-
	29,078	**28,482**
Financial assets at fair value through profit or loss	**261,360**	**181,310**

16. Financial investments

(CZKm)	2007	2006
Available-for-sale financial assets		
Debt securities	91,901	54,640
Equity securities	588	383
Provisions for impairment	(39)	(39)
	92,450	**54,984**
Held-to-maturity investments		
Debt securities	90,174	81,234
Financial investments	**182,624**	**136,218**

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

17. Loans and receivables

(CZKm)	2007	2006
Analysed by category of borrower		
Central government	11,298	11,486
Non credit institutions	3,170	3,398
Credit institutions	20,727	27,132
Corporate	186,925	140,082
Retail	31,409	27,175
Gross loans	253,529	209,273
Allowance for impairment losses	(5,951)	(5,431)
	247,578	**203,842**

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

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2006	**4,725**	**469**	**5,194**
Net increase / (decrease) in allowances for credit losses	193	(23)	170
Write-offs	(352)	-	(352)
Recoveries	434	-	434
Foreign currency translation	(13)	(2)	(15)
At 31 December 2006	**4,987**	**444**	**5,431**
Net increase / (decrease) in allowances for credit losses	1,354	(95)	1,259
Write-offs	(650)	-	(650)
Foreign currency translation	(84)	(5)	(89)
At 31 December 2007	**5,607**	**344**	**5,951**

The gross amount of loans and receivables individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2007, amounts to CZK 7,004 m (31 December 2006: CZK 6,847 m).

The fair value of collateral held by the Bank relating to loans individually determined to be impaired at 31 December 2007 amounts to CZK 1,432 m (31 December 2006: CZK 1,612 m). The collateral consists of cash, securities, guarantees received and properties.

18. Investments in subsidiaries, associates and join ventures

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

Name	Country of incorporation	2007 (%)	2007 Carrying amount	2006 (%)	2006 Carrying amount
Subsidiaries					
Auxilium, a. s.	Czech Republic	100	5,375	100	5,375
Bankovní informační technologie, s.r.o.	Czech Republic	100	30	100	30
Business Center, s.r.o.	Slovak Republic	100	234	100	234
Centrum Radlická a.s.	Czech Republic	100	969	-	-
ČSOB Asset Management, a.s.	Czech Republic	21	85	21	85
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic	100	52	100	52
ČSOB distribution, a.s.	Slovak Republic	100	35	100	35
ČSOB d.s.s., a.s.	Slovak Republic	100	560	100	560
ČSOB Factoring, a.s.	Czech Republic	100	1,175	100	375
ČSOB Investiční společnost, a.s.	Czech Republic	73	344	73	344
ČSOB Investment Banking Services, a.s.	Czech Republic	100	5,263	100	5,246
ČSOB Leasing, a.s. CZ	Czech Republic	100	4,700	100	2,900
ČSOB Leasing, a.s. SK	Slovak Republic	90	931	90	931
ČSOB Penzijní fond Progres, a.s.	Czech Republic	100	518	100	288
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100	1,007	100	1,007
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100	593	100	593
ČSOB korporátní fond, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	100	1,300	-	-
ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	-	-	100	2,015
Hypoteční banka, a.s.	Czech Republic	100	8,017	100	5,382
Zemský penzijní fond, a.s.	Czech Republic	-	-	100	160
Joint venture					
Českomoravská stavební spořitelna, a.s.	Czech Republic	55	1,540	55	1,540
Associates					
ČSOB Pojišťovna, a. s., a member of the ČSOB Holding	Czech Republic	25	601	25	601
			33,329		**27,753**

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

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

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

In March 2007, ČSOB purchased Centrum Radlická, a.s. The entity was established for the purpose of the construction and operation of the new ČSOB headquarters building and has no other activities.

In 2007, IPB Leasing, a.s. merged with ČSOB Investment Banking Services, a.s.

In 2007, Zemský penzijní fond, a.s. merged with ČSOB Penzijní fond Progres, a.s.

The activities of ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond were terminated in 2007. The Bank as a sole participant of the mutual fund called for a buy-out of all its collective investment units. This buy-out, including the settlement of all liabilities to the sole participant, was realised in January 2007. As a consequence of the buy-out, the Board of Directors of ČSOB Investiční společnost, a.s. decided to terminate the activities of the mutual fund. The CNB decision on the withdrawal of the permission came into effect on 21 March 2007.

19. Derivative financial instruments

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

Credit risk associated with derivative financial instruments

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

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

All derivatives are traded over-the-counter.

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

Trading derivatives

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

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2007 and 2006 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

(CZKm)	2007 Notional amount	2007 Fair value Positive	2007 Fair value Negative	2006 Notional amount	2006 Fair value Positive	2006 Fair value Negative
Interest rate related contracts						
Swaps	887,408	7,390	7,770	528,424	4,295	4,772
Forwards	143,834	89	71	113,088	65	68
Options	21,668	83	42	12,129	25	-
	1,052,910	**7,562**	**7,883**	**653,641**	**4,385**	**4,840**
Foreign exchange contracts						
Swaps/Forwards	215,063	1,907	3,374	188,590	3,439	3,997
Cross currency interest rate swaps	114,569	3,504	1,622	79,947	2,227	2,404
Options	129,211	1,071	1,071	115,153	1,037	1,037
	458,843	**6,482**	**6,067**	**383,690**	**6,703**	**7,438**
Equity contracts						
Forwards	100	-	20	100	-	20
Commodity contracts						
Swaps	3,368	415	436	1,521	48	42
Total derivatives held for trading (Notes: 15, 24)	**1,515,221**	**14,459**	**14,406**	**1,038,952**	**11,136**	**12,340**

Hedging derivatives

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

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

There was no significant cash flow hedge ineffectiveness as at 31 December 2007 and 2006.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding hedging derivatives as at 31 December 2007 and 2006 are set out as follows:

(CZKm)	2007 Notional amount	2007 Fair value Positive	2007 Fair value Negative	2006 Notional amount	2006 Fair value Positive	2006 Fair value Negative
Cash flow hedges						
Single currency interest rate swaps	51,734	1	825	34,830	142	190
Cross currency interest rate swaps	43,259	5,578	484	33,906	4,992	180
Total hedging derivatives	**94,993**	**5,579**	**1,309**	**68,736**	**5,134**	**370**

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

(CZKm)	2007	2006
Interest income	298	574
Taxation	(72)	(138)
Net gains (Note: 28)	**226**	**436**

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

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

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

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

(CZKm)	2007	2006
Less than 3 months	3,208	900
More than 3 months but not more than 6 months	2,352	2,262
More than 6 months but not more than 1 year	1,200	6,397
More than 1 year but not more than 2 years	5,429	1,746
More than 2 years but not more than 5 years	46,415	31,144
More than 5 years	36,389	26,287
	94,993	**68,736**

20. Accrued interest income and expenses

(CZKm)	2007	2006
Accrued interest income		
Cash balances with central banks	49	-
Financial assets held for trading	1,317	513
Financial assets designated at fair value through profit or loss	522	429
Available-for-sale financial assets	1,500	1,132
Loans and receivables	1,355	1,137
Held-to-maturity investments	2,490	2,153
Derivatives used for hedging	356	452
	7,589	**5,816**
Accrued interest expenses		
Financial liabilities designated at fair value through profit or loss	401	538
Financial liabilities at amortised cost	274	198
Derivatives used for hedging	(138)	(1)
	537	**735**

21. Property and equipment

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2006	6,172	2,464	801	2,553	11,990
Depreciation and impairment at 1 January 2006	(1,489)	(2,116)	(629)	(1,781)	(6,015)
Net book value at 1 January 2006	**4,683**	**348**	**172**	**772**	**5,975**
Additions	211	220	26	214	671
Disposals	(85)	-	(3)	(10)	(98)
Net transfers from assets held-for-sale	65	-	-	-	65
Depreciation and amortisation	(276)	(243)	(38)	(351)	(908)
Impairment charge (Note: 11)	(7)	-	-	(21)	(28)
Impairment release (Note: 11)	113	-	-	35	148
Foreign exchange adjustments	58	2	2	5	67
Net book value at 31 December 2006	**4,762**	**327**	**159**	**644**	**5,892**

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Total
Cost at 1 January 2007	6,473	2,466	651	2,661	12,251
Depreciation and impairment at 1 January 2007	(1,711)	(2,139)	(492)	(2,017)	(6,359)
Net book value at 1 January 2007	**4,762**	**327**	**159**	**644**	**5,892**
Additions	448	257	107	187	999
Disposals	(3)	(1)	(2)	(8)	(14)
Depreciation and amortisation	(283)	(189)	(38)	(259)	(769)
Foreign exchange adjustments	(13)	-	-	-	(13)
Net book value at 31 December 2007	**4,911**	**394**	**226**	**564**	**6,095**
of which					
Cost at 31 December 2007	6,896	2,361	687	2,395	12,339
Depreciation and impairment at 31 December 2007	(1,985)	(1,967)	(461)	(1,831)	(6,244)

The net book value of the Construction in progress, included in Property and equipment, amounted to CZK 460 m at 31 December 2007 (31 December 2006: CZK 274 m).

22. Goodwill and other intangible assets

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2006	2,752	2,253	542	5,547
Amortisation and impairment at 1 January 2006	(63)	(1,942)	(308)	(2,313)
Net book value at 1 January 2006	**2,689**	**311**	**234**	**3,234**
Additions	-	192	366	558
Disposals	-	(7)	(217)	(224)
Amortisation and impairment	-	(247)	(32)	(279)
Net book value at 31 December 2006	**2,689**	**249**	**351**	**3,289**

(CZKm)	Goodwill	Software	Other intangible assets	Total
Cost at 1 January 2007	2,752	2,422	691	5,865
Amortisation and impairment at 1 January 2007	(63)	(2,173)	(340)	(2,576)
Net book value at 1 January 2007	**2,689**	**249**	**351**	**3,289**
Additions	-	329	138	467
Disposals	-	-	-	-
Amortisation and impairment	-	(218)	(44)	(262)
Net book value at 31 December 2007	**2,689**	**360**	**445**	**3,494**
of which				
Cost at 31 December 2007	2,752	2,744	828	6,324
Depreciation and impairment at 31 December 2007	(63)	(2,384)	(383)	(2,830)

Goodwill has been allocated to the Retail / SME segment, representing a cash-generating unit (Note: 3). The recoverable amount has been determined based on a value in use calculation. That calculation uses cash-flow projections based on the financial budgets approved by the management covering a period 2008 - 2010. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate. Cash flows are represented by net profit generated by the cash-generating unit above the required capital calculated as 8% of its risk weighted assets and a terminal value of the business. The first ten-year period future cash flows were discounted using a risk free rate of 4.5% adjusted by a market risk premium of 6.5%. For the calculation of the terminal value a sustainable discount rate of 9.5% was used. The management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

23. Other assets

(CZKm)	2007	2006
Other debtors, net of provisions (Note: 36.2)	6,357	5,867
Prepaid charges	467	684
Accrued income (Note: 36.2)	382	190
Receivables from securities clearing entities (Note: 36.2)	68	2,727
VAT and other tax receivables	36	71
Other receivables from clients (Note: 36.2)	-	566
Other	16	480
	7,326	**10,585**

Included within Other debtors, net of provisions is a receivable from the Czech Ministry of Finance (MF CZ) in the amount of CZK 1,687 m at 31 December 2007 (31 December 2006: CZK 1,789 m) related to the ex-IPB assets originally transferred to the Czech Consolidation Agency. The Bank believes that the amount is fully covered by guarantee agreements issued by the institutions of the Czech state (Note: 32).

24. Financial liabilities at fair value through profit or loss

(CZKm)	2007	2006
Financial liabilities held for trading		
Short positions	1,989	1,845
Derivative contracts (Note: 19)	14,406	12,340
	16,395	**14,185**
Financial liabilities designated at fair value through profit or loss		
Term deposits	117,293	69,135
Repo transactions	21,937	9,810
Promissory notes	5,299	3,870
Bonds issued	1,760	1,848
	146,289	**84,663**
Financial liabilities at fair value through profit or loss	**162,684**	**98,848**

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

25. Financial liabilities at amortised cost

(CZKm)	2007	2006
Deposits received from credit institutions		
Current accounts	16,859	11,818
Term deposits	28,208	13,111
Repo transactions	12,723	3,931
	57,790	**28,860**
Deposits received from other than credit institutions		
Current accounts	291,139	250,293
Term deposits with agreed maturity	137,935	110,384
Term deposits at notice	36,583	37,727
Other deposits	5,432	5,271
	471,089	**403,675**
Debt securities in issue		
Bonds issued	4,257	3,580
Promissory notes	14,728	12,672
Certificates of deposit	5	5
	18,990	**16,257**
Subordinated liabilities		
Subordinated debt	**11,961**	**4,982**
Financial liabilities at amortised cost	**559,830**	**453,774**

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

26. Other liabilities

(CZKm)	2007	2006
Other clearing accounts	9,933	9,878
Other creditors	3,818	3,703
Accrued charges	1,509	988
Payables to employees including social security charges	1,424	1,731
Payables to securities clearing entities	684	690
VAT and other tax payables	186	220
Income received in advance	87	43
Other debts to clients	54	77
Other	52	524
	17,747	**17,854**

27. Provisions

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loan commitments and guarantees	Total
At 1 January 2007	458	188	159	688	1,493
Additions	52	-	-	266	318
Amounts utilised	(152)	(57)	(24)	-	(233)
Unused amounts reversed	(48)	-	-	(406)	(454)
Discount amortisation (Note: 5)	-	-	6	-	6
Foreign currency translation	(7)	-	-	(24)	(31)
At 31 December 2007	**303**	**131**	**141**	**524**	**1,099**

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

Restructuring

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

Contractual engagements

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

28. Share capital and other reserves

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

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

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

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

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

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

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

Other reserves

The following table shows movements of Other reserves in 2007 and 2006:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2006	**1,105**	**507**	**(193)**	**1,419**
Net unrealised gains on available-for-sale financial investments	(672)	-	-	(672)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	38	-	-	38
Tax effect of net gains on available-for-sale financial investments (Note: 12)	162	-	-	162
Net unrealised gains on cash flow hedges	-	1,132	-	1,132
Net gain on cash flow hedges reclassified to the statement of income (Note: 19)	-	(436)	-	(436)
Tax effect of net gain on cash flow hedges (Note: 12)	-	(272)	-	(272)
Foreign currency translation	-	-	(5)	(5)
At 31 December 2006	**633**	**931**	**(198)**	**1,366**
Net unrealised gains on available-for-sale financial investments	(2,000)	-	-	(2,000)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal and impairment	107	-	-	107
Tax effect of net gains on available-for-sale financial investments (Note: 12)	433	-	-	433
Net unrealised gains on cash flow hedges	-	(1,803)	-	(1,803)
Net gain on cash flow hedges reclassified to the statement of income (Note: 19)	-	(226)	-	(226)
Tax effect of net gain on cash flow hedges (Note: 12)	-	398	-	398
Foreign currency translation	-	-	-	-
At 31 December 2007	**(827)**	**(700)**	**(198)**	**(1,725)**

29. Fair value of financial instruments

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

(CZKm)	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	31,909	31,909	31,850	31,850
Financial assets held for trading	232,282	232,282	152,828	152,828
Financial assets designated at fair value through profit or loss	29,078	29,078	28,482	28,482
Available-for-sale financial assets	92,450	92,450	54,984	54,984
Loans and receivables	247,578	247,573	203,842	203,801
Held-to-maturity investments	90,174	88,868	81,234	82,715
Derivatives used for hedging	5,579	5,579	5,134	5,134
Financial liabilities				
Financial liabilities held for trading	16,395	16,395	14,185	14,185
Financial liabilities designated at fair value through profit or loss	146,289	146,289	84,663	84,663
Financial liabilities at amortised cost	559,830	559,905	453,774	453,802
Derivatives used for hedging	1,309	1,309	370	370

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

Held-to-maturity investments

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

Loans and receivables to credit institutions and balances with central banks

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

Loans and receivables to other than credit institutions

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

Deposits received from credit institutions and subordinated liabilities

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

Deposits received from other than credit institutions

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

Debt securities in issue

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

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

(CZKm)	2007 Quoted market price	2007 Valuation techniques based on market observable inputs	2007 Total
Financial assets			
Financial assets held for trading	17,854	214,428	232,282
Financial assets designated at fair value through profit or loss	18,163	10,915	29,078
Available-for-sale financial assets	24,215	68,235	92,450
Derivatives used for hedging	-	5,579	5,579
Financial liabilities			
Financial liabilities held for trading	1,989	14,406	16,395
Financial liabilities designated at fair value through profit or loss	-	146,289	146,289
Derivatives used for hedging	-	1,309	1,309

(CZKm)	2006 Quoted market price	2006 Valuation techniques based on market observable inputs	2006 Total
Financial assets			
Financial assets held for trading	9,354	143,474	152,828
Financial assets designated at fair value through profit or loss	17,927	10,555	28,482
Available-for-sale financial assets	27,974	27,010	54,984
Derivatives used for hedging	-	5,134	5,134
Financial liabilities			
Financial liabilities held for trading	1,845	12,340	14,185
Financial liabilities designated at fair value through profit or loss	-	84,663	84,663
Derivatives used for hedging	-	370	370

30. Additional Cash flow information

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

(CZKm)	2007	2006
Cash and balances with central banks	28,709	24,363
Loans and advances to credit institutions	4,604	10,693
Deposits from credit institutions	(16,899)	(11,833)
Cash and cash equivalents	**16,414**	**23,223**

Change in operating assets

(CZKm)	2007	2006
Net change in financial assets held for trading	(79,454)	23,398
Net change in financial assets designated at fair value through profit or loss	(596)	(9,040)
Net change in available-for-sale financial assets	(39,334)	(1,130)
Net change in loans and receivables	(46,797)	(40,588)
Net change in derivatives used for hedging	(2,546)	(908)
Net change in accrued interest income	(1,773)	650
Net change in other assets	3,259	(1,985)
	(167,241)	**(29,603)**

Change in operating liabilities

(CZKm)	2007	2006
Net change in financial liabilities held for trading	2,210	4,778
Net change in financial liabilities designated at fair value through profit or loss	61,626	(30,389)
Net change in financial liabilities at amortised cost	93,299	18,992
Net change in derivatives used for hedging	939	(762)
Net change in accrued interest expenses	(198)	(658)
Net change in other liabilities	(107)	(1,493)
	(157,769)	**(9,532)**

Non-cash items included in profit before tax

(CZKm)	2007	2006
Allowances and provisions for credit losses	1,119	237
Depreciation and amortisation	1,031	1,187
Amortisation of discounts and premiums	438	551
Net property impairment (release)	-	(120)
Provisions	(229)	(400)
Other	14	(291)
	2,373	**1,164**

31. Maturity analysis of assets and liabilities

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

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	191,692	12,307	13,823	14,460	**232,282**
Financial assets designated at fair value through profit or loss	399	5,228	23,451	-	**29,078**
Available-for-sale financial assets	4,438	32,127	55,336	549	**92,450**
Loans and receivables	132,481	68,733	41,413	4,951	**247,578**
Held-to-maturity investments	5,521	33,826	50,827	-	**90,174**
Total carrying value	**334,531**	**152,221**	**184,850**	**19,960**	**691,562**
LIABILITIES					
Financial liabilities held for trading	1,458	506	25	14,406	**16,395**
Financial liabilities designated at fair value through profit or loss	141,586	4,630	50	23	**146,289**
Financial liabilities at amortised cost	230,255	102,130	227,417	28	**559,830**
Total carrying value	**373,299**	**107,266**	**227,492**	**14,457**	**722,514**

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

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Financial assets held for trading	128,436	6,243	6,967	11,182	**152,828**
Financial assets designated at fair value through profit or loss	1,618	6,232	20,632	-	**28,482**
Available-for-sale financial assets	6,713	26,817	21,110	344	**54,984**
Loans and receivables	79,126	47,032	18,921	58,763	**203,842**
Held-to-maturity investments	5,750	34,604	40,880	-	**81,234**
Total carrying value	**221,643**	**120,928**	**108,510**	**70,289**	**521,370**
LIABILITIES					
Financial liabilities held for trading	22	841	1,004	12,318	**14,185**
Financial liabilities designated at fair value through profit or loss	83,011	1,393	50	209	**84,663**
Financial liabilities at amortised cost	175,984	128,273	149,187	330	**453,774**
Total carrying value	**259,017**	**130,507**	**150,241**	**12,857**	**552,622**

32. Contingent assets, liabilities and commitments

Contingent assets

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

Contingent liabilities and commitments

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

(CZKm)	2007	2006
Loan commitments	131,528	107,849
Financial guarantees	30,316	22,479
Other commitments	2,423	2,641
	164,267	**132,969**
Provisions for loan commitments and guarantees (Note: 27)	524	688

The above contractual amounts represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements.

Litigation

Other than the litigation for which provisions have already been made (Note: 27), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

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

In June 2007, the Bank initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable from MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency (Note: 23). The Bank believes that its position in this case is strong and is confident that the International Court of Arbitration will rule in its favour. This assessment of the outcome of this case is supported by the opinions of external lawyers.

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

Taxation

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

Operating lease commitments

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

(CZKm)	2007	2006
Not later than 1 year	28	84
Later than 1 year and not later than 5 years	407	181
Later than 5 years	93	123
	528	**388**

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

33. Repurchase agreements and collateral

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

(CZKm)	2007	2006
Financial assets		
Cash and balances with central banks	18,000	14,000
Financial assets held for trading	47,138	66,853
Loans and receivables	-	6,074
	65,138	**86,927**

Under reverse repurchase agreements, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2007 was CZK 108,602 m, of which CZK 14,737 m has been either sold or repledged (31 December 2006: CZK 87,036 m and CZK 8,388 m, respectively).

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

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

34. Related party disclosures

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

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

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Accrued interest income	Other assets
KBC Bank NV	16,116	-	-	96	-	-	3
Entities under common control	489	9,156	-	408	-	131	-
Subsidiaries							
ČSOB Asset Management, a.s.	4	-	-	10	-	-	-
ČSOB Factoring, a.s. CZ	15	-	-	2,372	-	-	-
ČSOB Factoring a.s. SK	-	-	131	-	-	-	-
ČSOB Investiční společnost, a.s.	-	-	-	-	-	-	99
ČSOB Investment Banking Services, a.s.	1	-	-	35	-	-	-
ČSOB Leasing, a.s. CZ	949	-	9,798	18,072	-	13	-
ČSOB Leasing, a.s. SK	255	-	-	5,430	-	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	-	-	-	872	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	-	167	-	-	-
Centrum Radlická a.s.	-	-	-	300	-	-	-
Hypoteční banka, a.s.	6,668	6,388	34,432	3,899	-	960	-
Other	3	-	-	-	-	-	-
Associates							
ČSOB Pojišťovna, a.s.	22	-	-	-	-	-	-
Joint ventures							
Českomoravská stavební spořitelna, a.s.	-	-	-	950	-	7	-

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

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Accrued interest expenses	Other liabilities
Directors / Senior management personnel	-	-	95	-	-	-
KBC Bank NV	4,541	77,048	31,490	-	6	-
Entities under common control	66	2,470	636	-	-	19
Subsidiaries						
ČSOB Asset Management, a.s.	13	-	204	-	-	-
ČSOB Investiční společnost, a.s.	-	-	269	-	-	-
ČSOB Investment Banking Services, a.s.	5	-	664	-	1	-
ČSOB Leasing, a.s. CZ	199	-	10,139	53	17	-
ČSOB Leasing, a.s. SK	42	-	350	-	-	-
ČSOB Penzijní fond Stabilita, a.s.	24	445	-	-	-	-
ČSOB Property Fund, uzavřený investiční fond, a.s.	-	-	43	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	399	-	3	-
Centrum Radlická a.s.	-	-	79	-	-	-
Bankovni Informacni Technologie, s.r.o.	-	-	203	-	-	-
Hypoteční banka, a.s.	-	-	5	-	-	-
Other	5	55	514	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	48	51	584	-	14	-
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	2,521	-	8	-

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

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Derivatives used for hedging	Accrued interest income	Other assets
KBC Bank NV	9,457	-	-	2,706	-	-	-	1
Entities under common control	221	10,653	-	596	-	-	110	57
Subsidiaries								
ČSOB Asset Management, a.s.	-	-	-	-	-	-	-	13
ČSOB Factoring, a.s. CZ	-	-	-	2,360	-	-	-	-
ČSOB Factoring a.s. SK	-	-	-	166	-	-	-	-
ČSOB Investiční společnost, a.s.	-	-	-	-	-	-	-	5
ČSOB Investment Banking Services, a.s.	3	-	-	39	-	-	-	-
ČSOB Leasing, a.s. CZ	814	-	-	2,595	-	10	5	-
ČSOB Leasing, a.s. SK	31	-	-	5,145	-	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	-	168	-	-	-	-
Hypoteční banka, a.s.	2,386	4,781	14,448	1,569	60	-	347	2,635
Other	-	-	-	76	-	-	-	1
Joint ventures								
Českomoravská stavební spořitelna, a.s.	-	-	-	950	-	-	5	-

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

(CZKm)	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives used for hedging	Accrued interest expenses	Other liabilities
Directors / Senior management personnel	-	-	3	-	-	-
KBC Bank NV	3,817	35,155	5,642	-	1	-
Entities under common control	7	80	372	-	-	-
Subsidiaries						
ČSOB Asset Management, a.s.	-	-	178	-	-	-
ČSOB Investiční společnost, a.s.	-	-	287	-	-	-
ČSOB Investment Banking Services, a.s.	-	-	689	-	-	-
ČSOB Leasing, a.s. CZ	-	-	21	28	3	-
ČSOB Leasing, a.s. SK	56	-	310	-	-	-
ČSOB Penzijní fond Stabilita, a.s.	17	445	-	-	-	-
ČSOB stavebná sporiteľňa, a.s.	-	-	417	-	2	-
Bankovni Informacni Technologie, s.r.o.	-	-	125	-	-	-
Hypoteční banka, a.s.	-	-	2	-	-	-
Other	1	55	467	-	-	-
Associates						
ČSOB Pojišťovna, a.s.	4	-	607	-	-	-
Joint ventures						
Českomoravská stavební spořitelna, a.s.	-	-	10	-	-	-

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

(CZKm)	2007 Interest income	2007 Interest expense	2006 Interest income	2006 Interest expense
KBC Bank NV	142	2,505	206	1,506
Entities under common control	23	196	29	14
Subsidiaries				
ČSOB Asset Management, a.s.	-	6	-	4
ČSOB Factoring, a.s. CZ	85	-	48	-
ČSOB Factoring a.s. SK	7	-	7	-
ČSOB Investiční společnost, a.s.	-	9	-	4
ČSOB Investment Banking Services, a.s.	2	43	-	2
ČSOB Leasing, a.s. CZ	282	3	123	1
ČSOB Leasing, a.s. SK	266	4	191	1
ČSOB Penzijní fond Stabilita, a.s.	-	-	-	38
ČSOB stavebná sporiteľňa, a.s.	10	20	3	17
Centrum Radlická a.s.	6	-	-	-
Bankovni Informacni Technologie, s.r.o.	-	3	-	2
Hypoteční banka, a.s.	1,099	7	618	2
Other	1	11	-	14
Associates				
ČSOB Pojišťovna, a.s.	-	14	-	12
Joint ventures				
Českomoravská stavební spořitelna, a.s.	40	8	24	-

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

(CZKm)	2007 Guarantees received	2007 Guarantees given	2006 Guarantees received	2006 Guarantees given
KBC Bank NV	432	73	-	224
Entities under common control	-	20	-	20
Subsidiaries				
ČSOB Leasing, a.s. CZ	-	532	-	-

Dividend income received from subsidiaries, associates and joint ventures in 2007 amounted to CZK 4,190 m (2006: CZK 430 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2007 amounted to CZK 140 m (2006: CZK 12 m).

35. Events after the balance sheet date

MF CZ receivable

As described in Notes 23 and 32, ČSOB has initiated an arbitration before the International Court of Arbitration at the International Chamber of Commerce in Paris in order to resolve its dispute with the MF CZ regarding payment of the Bank's receivable in the amount of CZK 1,656 m plus related accrued interest in the amount of CZK 122 m from MF CZ arising from the ex-IPB assets originally transferred to the Czech Consolidation Agency.

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

Transformation of business in Slovakia

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

The structure of shareholders of ČSOB SK is as follows:

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

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

The KBC Bank NV share is represented by a cash deposit.

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

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

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

The net assets contributed by the Bank to ČSOB SK represent CZK 4,192 m. The main effects on the Bank's financial statements are shown below.

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

(CZKm)	2007
Interest income	22,928
Interest expense	(9,248)
Net interest income	**13,680**
Fee and commission income	6,889
Fee and commission expense	(1,578)
Net fee and commission income	**5,311**
Dividend income	4,207
Net gains from financial instruments at fair value through profit or loss	1,109
Net realised gains on available-for-sale financial assets	(133)
Other net income	549
Operating income	**24,723**
Staff expenses	(5,176)
General administrative expenses	(5,774)
Depreciation and amortisation	(854)
Provisions	229
Operating expenses	**(11,575)**
Impairment losses	(785)
Profit before tax	**12,363**
Income tax expense	(1,773)
Profit for the year	**10,590**

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

(CZKm)	2007
ASSETS	
Cash and balances with central banks	28,655
Financial assets held for trading	155,200
Financial assets designated at fair value through profit or loss	29,078
Available-for-sale financial assets	91,753
Loans and receivables	201,957
Held-to-maturity investments	86,974
Investments in subsidiaries, associates and joint ventures	33,329
Derivatives used for hedging	5,579
Accrued interest income	7,271
Current tax assets	563
Deferred tax assets	664
Property and equipment	4,574
Goodwill and other intangible assets	3,477
Non-current assets held-for-sale	27
Other assets	7,161
Total assets	**656,262**
LIABILITIES AND EQUITY	
Financial liabilities held for trading	12,974
Financial liabilities designated at fair value through profit or loss	76,378
Financial liabilities at amortised cost	503,253
Derivatives used for hedging	1,309
Accrued interest expenses	365
Other liabilities	17,112
Provisions	986
Total liabilities	**612,377**
Share capital	5,855
Share premium	6,673
Statutory reserve	18,687
Retained earnings	14,389
Available-for-sale reserve	(821)
Cash flow hedge reserve	(700)
Foreign currency translation reserve	(198)
Total equity	**43,885**
Total liabilities and equity	**656,262**

36. Risk management

36.1 Introduction

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

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

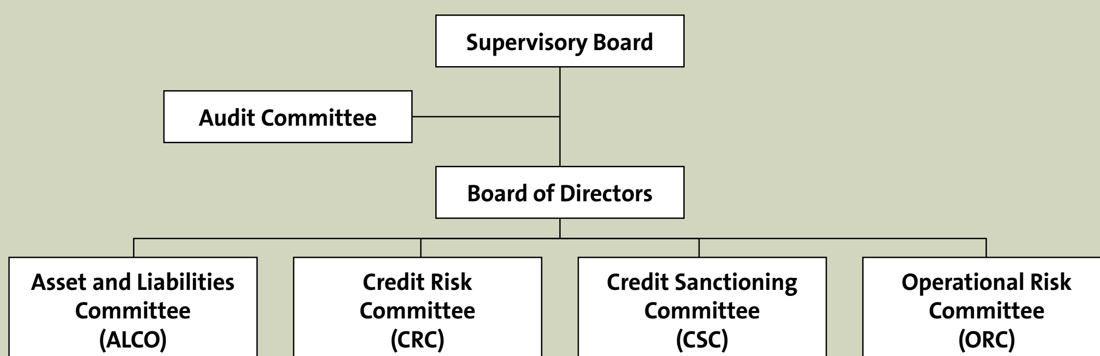
Risk management structure

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

The structure of Value and Risk Management in ČSOB is based on a uniform principle of Value and Risk Management applied within the KBC Group. It is based on the risk governance model that defines the responsibilities and tasks of various bodies and persons within the organization to guarantee the sound management of value creation and all the associated risks.

This model includes:

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



Board of Directors

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

Supervisory Board

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

Risk committees

Asset and liability committee

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

Credit risk committee

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

Credit risk sanctioning committee

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

Operational risk committee

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

Other bodies

ecutive Officers (SEO) responsible for Financial Markets and Risk Management

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

Value and Risk Management (VRM)

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

Credits unit

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

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

Asset and liability management unit (ALM)

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

Financial Markets unit (FM)

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

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

Risk mitigation

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

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

Excessive risk concentration

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

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

Basel II

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

36.2 Credit risk

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

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

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

Corporate and large SME credits

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

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

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

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

Acceptance Process

The acceptance process for Corporate and large SME clients is organized in three steps. First, the relationship manager of the introducing entity prepares a written credit proposal. In a second step, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares a recommendation. Credit files that carry only limited expected loss can be approved by a Head of a Corporate Branch. Finally, a decision is made at the appropriate decision-making level (committee). The "four eyes" principle is always respected. The decision always includes an approved counterparty rating.

The newly created rating models that assign a specific probability of default to each client determine the level of potential risk and the acceptance process is adapted accordingly. Thus, the Bank can modify the acceptance authority, follow a simpler framework in cases of lower risk, adjust price policy, set more precise monitoring rules, implement advanced risk control based on the portfolio system, etc. New rating models were integrated into specialized rating tools, which can be used also for pricing purposes.

Retail and small SME credits

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

Acceptance process

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

Portfolio risk management

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

Derivative financial instruments

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

Credit-related commitments risk

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

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

(CZKm)	Note	2007	2006
Cash and balances with central banks	14	22,543	22,560
Financial assets held for trading	15	232,282	152,828
Financial assets designated at fair value through profit or loss	15	29,078	28,482
Available-for-sale financial assets	16	92,450	54,984
Loans and receivables	17	247,578	203,842
Held-to-maturity investments	16	90,174	81,234
Derivatives used for hedging	19	5,579	5,134
Accrued interest income	20	7,589	5,816
Other assets	23	6,807	9,350
Total		734,080	564,230
Contingent liabilities	32	32,739	25,120
Commitments	32	131,528	107,849
Total		164,267	132,969
Total credit risk exposure		**898,347**	**697,199**

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

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2007 was CZK 59,160 m (2006: CZK 13,745 m) before taking account of collateral or other credit enhancements and CZK 59,160 m (2006: CZK 13,745 m) net of such protection.

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

(CZKm)	2007	2006
Czech Republic	555,008	434,611
Slovak Republic	160,667	135,012
Other Europe	167,942	109,798
Other	14,730	17,778
Total	**898,347**	**697,199**

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

(CZKm)	2007	2006
Central government	227,118	153,695
Non-credit institutions	7,890	7,325
Credit institutions	266,968	225,469
Insurance companies	1,063	923
Financial services	52,244	17,326
Other non-financial companies	303,400	258,364
Retail customers	39,664	34,097
Total	**898,347**	**697,199**

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

The Bank also obtains guarantees from its parent company for loans to its subsidiaries.

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

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

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

Quality of credit portfolio

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

(CZKm)	2007			
	Unimpaired assets	Impaired assets		Total
	PD rating 1-7	Collectively PD rating 8-9	Individually PD rating 10-12	
Financial assets designated at fair value through profit or loss	29,078	-	-	29,078
Available-for-sale financial assets	91,901	-	-	91,901
Loans and receivables				
Central government	11,298	-	-	11,298
Noncredit institutions	3,170	-	-	3,170
Credit institutions	20,234	485	8	20,727
Corporate	181,176	994	4,755	186,925
Retail	28,9111	257	2,241	31,409
	244,789	1,736	7,004	253,529
Held-to-maturity investments	90,174	-	-	90,174
Total	**455,942**	**1,736**	**7,004**	**464,682**

(CZKm)	2006			
Financial assets designated at fair value through profit or loss	28,482	-	-	28,482
Available-for-sale financial assets	54,640	-	-	54,640
Loans and receivables				
Central government	11,486	-	-	11,486
Noncredit institutions	3,398	-	-	3,398
Credit institutions	27,106	-	26	27,132
Corporate	129,500	5,375	5,207	140,082
Retail	25,109	452	1,614	27,175
	196,599	5,827	6,847	209,273
Held-to-maturity investments	81,234	-	-	81,234
Total	**360,955**	**5,827**	**6,847**	**373,629**

The table below shows an ageing analysis of gross past due but not impaired loans and receivables of the Bank:

(CZKm)	2007		2006	
	Less than 30 days	More than 30 days but less than 90 days	Less than 30 days	More than 30 days but less than 90 days
Corporates	743	191	134	8
Retail	983	303	2,047	390
Total	**1,726**	**494**	**2,181**	**398**

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

(CZKm)	2007		2006	
	Gross amount	Impairment	Gross amount	Impairment
Available-for-sale financial assets				
Equity securities	39	(39)	39	(39)
Loans and receivables				
Credit institutions	8	(5)	26	(24)
Corporates	4,755	(3,806)	5,207	(3,579)
Retail	2,241	(1,796)	1,614	(1,384)
	7,004	(5,607)	6,847	(4,987)
Total	**7,043**	**(5,646)**	**6,886**	**(5,026)**

The carrying amount of the financial assets whose terms have been renegotiated was CZK 835 m at 31 December 2007 (31 December 2006: CZK 631 m) (Note: 2.3 (7) (iii)).

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment yet. Allowances are evaluated on each reporting date with each portfolio subject to separate review.

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

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

36.3 Liquidity risk and funding management

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

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

The ratio during the year was as follows:

(%)	2007	2006
31 December	166	241
Average during the period	185	354
Highest	368	804
Lowest	132	217

Analysis of financial liabilities by remaining contractual maturity

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

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

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
Financial liabilities					
Financial liabilities held for trading	1,458	506	25	14,406	**16,395**
Financial liabilities designated at fair value through profit or loss	141,586	4,630	50	23	**146,289**
Financial liabilities at amortised cost	509,324	11,417	27,250	11,839	**559,830**
Total carrying value	**652,368**	**16,553**	**27,325**	**26,268**	**722,514**

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

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
Financial liabilities					
Financial liabilities held for trading	22	841	1,004	12,318	**14,185**
Financial liabilities designated at fair value through profit or loss	83,011	1,393	50	209	**84,663**
Financial liabilities at amortised cost	413,308	11,879	23,185	5,402	**453,774**
Total carrying value	**496,341**	**14,113**	**24,239**	**17,929**	**552,622**

36.4 Market risk

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

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

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

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

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

Objectives and limitations of the VaR methodology

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

VaR assumptions

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

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

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

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2007	176.2	23.6	(26.9)	172.9
Average during the period	158.8	10.0	(10.0)	158.8
Highest	228.1	35.5	(36.0)	227.6
Lowest	67.6	1.3	(0.3)	68.6

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

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2006	77.7	5.3	(3.0)	80.0
Average during the period	77.1	7.3	(5.8)	78.6
Highest	141.1	33.5	(35.7)	138.9
Lowest	50.2	1.7	(0.3)	51.6

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

Market risk – Non-trading (ALM risk)

Interest rate risk

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

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

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

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

(CZKm)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity 0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(6)	(1)	(2)	(104)	(165)	(278)
EUR	+ 10	(1)	(1)	-	13	9	20
SKK	+ 10	(4)	-	-	(1)	(1)	(6)
USD	+ 10	-	-	-	1	-	1

(CZKm)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity 0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	6	1	2	105	166	280
EUR	- 10	1	1	-	(13)	(10)	(21)
SKK	- 10	4	-	-	1	1	6
USD	- 10	-	-	-	(1)	-	(1)

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

(CZKm)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity 0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(2)	4	(6)	(118)	(214)	(336)
EUR	+ 10	(1)	(1)	1	21	69	89
SKK	+ 10	(1)	-	-	(1)	(1)	(3)
USD	+ 10	(1)	-	-	-	4	3

(CZKm)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity 0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	- 10	2	(4)	6	118	215	337
EUR	- 10	1	1	(1)	(21)	(69)	(89)
SKK	- 10	1	-	-	1	1	3
USD	- 10	1	-	-	-	(4)	(3)

Currency risk

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

Equity price risk

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

Prepayment risk

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

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

36.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and systems errors, or from external events. Operational risks include legal, compliance and tax risks. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

37. Capital

The Bank actively manages capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("Basel II") and adopted by the CNB in the Regulation No. 123/2007 Coll. on the rules of prudent business carried out by banks, savings and loan cooperatives and securities traders (effective as from 1 June 2007).

During the past year, the Bank complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure considering the changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may ask the sole shareholder to increase capital and optimise its structure.

(CZKm)	2007	2006
Tier 1 capital	31,477	27,869
Tier 2 capital	12,618	4,983
Deductible items of Tier 1 and Tier 2	(855)	(815)
Total capital	**43,240**	**32,037**
Risk weighted assets	**388,996**	**344,999**
Capital adequacy ratio	11.1 %	9.3 %

In order to keep a long-term target for the capital adequacy ratio and to cover its new business activities the Bank received a subordinated loan provided by KBC Bank NV. This subordinated debt is part of Tier 2 capital.

In December 2007, the Bank's Tier 1 capital was increased by CZK 6,000 m (Note: 28).