ČSOB

annual report 2006
Československá obchodní banka, a. s.

We could compare our work in the financial sector to sports.

As sportsmen satisfy the needs of spectators, financial institutions

meet the needs of their own clients.

Like sportsmen, we aslo have very high goals. We enjoy competition, we allow

dreams to come true, we play fair and we want to come across as one strong team.

ČSOB's basic information

Business name:	Československá obchodní banka, a. s.
Registered office:	Na Příkopě 854/14, Praha 1 - Nové Město, Postal Code 115 20, Czech Republic
Legal status:	Joint-stock company
Registration:	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration:	21 December 1964
ID No.:	00001350
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 261 351 111, +420 222 041 111
Fax:	+420 224 225 049
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz

ČSOB's Organisational Unit in the Slovak Republic

Business name:	Československá obchodní banka, a.s., branch of a foreign bank in the Slovak Republic
Registered office:	Michalská 18, Bratislava, Postal Code 815 63, Slovak Republic
Legal status:	Organisational unit of a foreign entity
Registration:	Registered in the Commercial Registry of the District Court in Bratislava I, Section Po, Entry 168/B
Date of registration:	8 April 1993
ID No.:	30 805 066
Bank code:	7500
SWIFT:	CEKOSKBX
Telephone:	+421 259 661 111
Fax:	+421 254 414 795
E-mail:	info@csob.sk
Internet address:	http://www.csob.sk

competition is motivating.

It challenges people to do better. In competition, performance can be compared with Competition also motivates people to strive for higher goals.

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trust makes us feel obliged!
Every day we prove to our clients and business partners
that we are a reliable, strong and valuable partner to them.
We very much value this trust.

selected financial highlights

Consolidated, EU IFRS[1]	2006	(excl. RE[2]) 2006	(Restated) 2005	(Restated – excl. SI[3]) 2005	(Restated) 2004
Results for the year (CZKm)					
Operating income	30,383	29,408	29,825	26,803	25,010
Operating expenses	17,033	16,916	15,886	15,886	14,646
Profit before income tax	12,442	11,583	13,399	10,377	9,723
Income tax expense	2,797	2,591	2,896	2,110	2,746
Profit for the year [4]	9,543	8,891	10,328	8,092	6,901
At year-end (CZKm)					
Due to customers	504,294	504,294	472,431	472,431	425,858
Due to banks	32,002	32,002	23,664	23,664	24,722
Debt securities in issue	40,086	40,086	37,384	37,384	24,207
Subordinated debt	5,182	5,182	200	200	200
Loans and leases – net	308,596	308,596	239,357	239,357	214,608
Due from banks	46,676	46,676	81,713	81,713	111,737
Shareholders' equity	52,139	52,139	52,950	52,950	45,708
Total assets	762,301	762,301	736,538	736,538	613,519

[1] International Financial Reporting Standards as adopted by the European Union.
[2] Sale of real estates in Prague.
[3] Slovenská inkasná.
[4] Profit for the year attributable to equity holders of the bank.

Ratios (%)	2006	(excl. RE) 2006	(Restated) 2005	(Restated – excl. SI) 2005	(Restated) 2004
Return on average shareholder's equity (ROAE)[5]	18.41	17.15	21.01	16.46	14.93
Return on average assets (ROAA)	1.27	1.19	1.53	1.20	1.13
Cost-income ratio	56.06	57.53	54.02	59.27	59.89
Bank capital adequacy ratio (at year end)	9.29	n/a	10.55	n/a	12.11
Total shareholders' equity to total assets (at year end)	6.84	6.84	7.19	7.19	7.45

[5] Average shareholders' equity is determined as the average of quarterly shareholders' equity balances in the year.

	2006	2005	2004
CZK/EUR (average)	28.34	29.78	31.90
Pribor 3M	2.30	2.01	2.36

Rating

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

	Long-term	Short-term	Financial Strength	Individual	Support
Moody's [6]	A1	Prime-1	C		
Fitch [7]	A+	F1		B/C	1
Capital Intelligence [8]	BBB+	A2	BBB+		2

[6] Last update in February 2007.
[7] Last update in April 2006.
[8] Last update in January 2005.

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

Ladies and gentlemen,

You are reading the Annual Report of a company which reconfirmed in 2006 that it is healthy, strong and dynamic, and, in many respects, that it outperforms the market in which it operates. The total net profit of the ČSOB Group, excluding one-off items, grew by 10% year-on-year. The ČSOB Group's total net profit of CZK 9.543 bn is also significant in the context of the KBC Group as a whole given that the ČSOB Group contributes more than 70% to the net profit of the Central Eastern Europe Business Unit, which itself plays an increasingly important role in the KBC Group. According to the valuation of the market price of ČSOB shares made for the purpose of the planned squeeze-out of ČSOB minority shareholders, the market capitalization of ČSOB can be estimated at CZK 185 bn, which represents approximately 20% of the total market capitalization of the KBC Group.

Three business areas where we achieved the fastest growth in 2006 were providing loans to small and medium-size enterprises, financing housing needs (mortgages and building loans) and asset management, including both discretionary asset management for individuals and the offer of mutual and pension funds. Due to our continuing innovations on the Czech and Slovak markets, our market positions have strengthened further, confirming that there is an ever-growing demand for the financial solutions we offer to our clients.

The ČSOB Group is currently going through a comprehensive transformation, which started two years ago. We have been investing into the optimization of internal processes, into the strengthening of the distributional abilities provided by our multibranding concept, into the development of bancassurance and into the most valuable asset we have, our employees, regarding both their professional development and the environment in which they work, where the focus on client and mutual cooperation represents one of our crucial values.

This transformation process has already brought its first results. For example, selling more than 50 % of our pension funds through the unique network of ČMSS agents, selling about one third of the mortgages of Hypoteční banka through the ČSOB branch network and the outstanding parallel performance of the “red” PSB and “blue” ČSOB brands are all achievements which illustrate that the multibranding concept brings us a huge comparative advantage, which we are able to utilise. Combining our brands of ČSOB, Hypoteční banka and, more recently, PSB in the field of mortgages and ČMSS in the field of building loans, we have confirmed our No. 1 position on the Czech market for financing housing needs, with a share of 32 %. Bancassurance is doing well, too, as we cover an ever-growing proportion of mortgages, consumer loans and cards with our own insurance schemes. Our review of the health of the ČSOB Group provides assurance that the transformation of our work environment into a high performing culture is also proceeding in the right direction. Our modern, ecological headquarters in Prague Radlice, where more than 2,500 Group employees are moving just as this Annual Report is published, presents a great opportunity for all of us to make a big step on this road to transformation.

Our biggest challenges of today include continuing the process of the transformation of the corporate culture which has already started, achieving distributional and operational excellence and adapting to the introduction of the euro in Slovakia, anticipated on 1 January 2009, which will also provide a great opportunity for us to prepare for the subsequent introduction of the euro in the Czech Republic. I am convinced that we will successfully pass all these tests.

My thanks go to all who have contributed to our success so far.

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

company profile

profile of ČSOB

Československá obchodní banka, a. s. operates as a universal bank on two national markets, the Czech Republic and, (through its foreign branch) Slovakia. ČSOB was established by the State in 1964 as a bank providing foreign trade financing and convertible currency operations. It was privatized in June 1999 when the Belgian KBC Bank, a member of the KBC Group, became its majority owner. In June 2000, ČSOB took over the enterprise Investiční a Poštovní banka, a.s.

ČSOB's business profile on the Czech and Slovak markets comprises segments of retail clientele (individuals), small and medium-size companies, corporate and non-banking financial institutions, financial markets and private banking. For its retail banking in the Czech Republic, ČSOB operates under two brand names – ČSOB and Poštovní spořitelna (Postal Savings Bank – PSB), which uses the wide distribution network of the Czech Post. The clients of ČSOB are served through 214 branches in the Czech Republic and 105 branches in Slovakia. The clients of PSB are served through 20 Financial Centers and around 3,350 post offices. Both ČSOB and PSB also provide their services through various direct-banking channels. The branch network of ČSOB offers the products and services of the whole ČSOB Group.

The ČSOB Group is the leading financial group in both the Czech Republic and Slovakia. Its total assets are around EUR 30 bn. The Group employs 10,000 people and serves almost 5 million customers. Combining the retail brands ČSOB (banking, insurance, asset management, pension funds, leasing and factoring), PSB (banking through the postal network), Hypoteční banka (mortgages) and ČMSS (financing housing needs), the ČSOB Group has significant market shares in various businesses. In the Czech market, the ČSOB Group is No. 1 in financing the housing needs of individuals, capital guaranteed funds, leasing and in total AUM and deposits. It holds a leading position in bancassurance, which is being reinforced by the organizational structure of the KBC Group (Country Teams) that has been in place since May 2006.

The primary goal of the ČSOB Group is to build a strong, long-term partnership with each client by being a good listener and offering suitable solutions, not just products, and providing clients with livelong advisory services in the areas of personal and family needs, SME and corporate finance.

The company has been operating under two brands in the Czech market:

ČSOB

Poštovní spořitelna

ČSOB's Annual Reports, financial calendar, general presentations and up-to-date ratings are available at www.csob.cz.

profile of the KBC Group

The ČSOB Group is a member of the KBC Group, which was formed in early 2005 as a result of the merger of the KBC Bank and Insurance Holding Company (which was created in 1998 through the merger in Belgium of the ABB Insurance Group, the Almanij-Kredietbank Group and the CERA Bank Group) and its parent company, Almanij. The Group has three main direct subsidiaries: KBC Bank, KBC Insurance, and Kredietbank Luxembourgeoise.

The KBC Group is a well capitalized, multi-channel bancassurance group with, traditionally, a strong market share position in Belgium. At the end of 2006, its market capitalization reached almost 34 billion euros. KBC has successfully expanded its geographic reach over the last nine years to include Central Europe and now has a strong presence in the Czech Republic, Slovakia, Poland and Hungary, and recently also expanded towards Romania, Bulgaria and Serbia. Via its minority share in NLB, it also has an indirect presence in Slovenia and other Balkan states. The Group caters mainly for retail customers, small and medium-sized enterprises and private banking clientele, but is also active in corporate banking and market activities.

main central european KBC Group companies and participations

(as at 31 December 2006)[1)]

Country	Banks and insurance companies	Interest percentage (direct and indirect)
Czech Republic	ČSOB (bank)	97
	ČSOB Pojišťovna (insurance company)	99
Hungary	K&H Bank (bank)	100
	K&H Insurance (insurance company)	100
Poland	Kredyt Bank (bank)	80
	Warta (insurance company)	100
Slovakia	ČSOB (bank)	See Czech Republic
	ČSOB Poisťovňa (insurance company)	99
Slovenia	NLB (bank)	34
	NLB Life (insurance company)	67

1) From the end of 2006 to early 2007, agreements were reached on the acquisition of the leasing company Romstal Leasing and the equity broker Swiss Capital in Romania, A Banka in Serbia, the online broker Equitas in Hungary and DZI Insurance in Bulgaria. Several of these agreements still have to be approved by the relevant government authorities.

Some key figures for the KBC Group as at 31 December 2006 are given below. More information can be found on KBC's corporate website at www.kbc.com.

key data, KBC Group

(as at 31 December 2006)

Total assets (EURbn)	325.4
Market capitalization (EURbn)	33.7
Net profit (EURbn)	3.43
CAD-ratio, KBC Bank (%)	11.7
Solvency ratio, KBC Insurance (%)	374
Number of staff (FTEs)	51,000

Long-term ratings	Fitch	Moody's	S & P
KBC Bank	AA-	Aa3 [2)]	AA-
KBC Insurance	AA	-	AA-

2) In February 2007, Moody's increased its long-term rating for KBC Bank from Aa3 to Aaa.

managing and supervisory bodies of ČSOB

ČSOB's board of directors

(as at 31 December 2006)

ČSOB's Board of Directors works as the Bank's statutory body. It has five members who are the top managers of ČSOB. The Board of Directors manages directly the managers in the position of the Chief Executive Officer and Senior Executive Officers. These managers, reporting directly to the Board, constitute the executive top management of the Bank.

First name and surname	Position	Member since	Date of the beginning of the member's current term of office
Pavel Kavánek	Chairman /* and Chief Executive Officer	17. 10. 1990	19. 5. 2004
Petr Knapp	Member and Senior Executive Officer	20. 5. 1996	19. 5. 2004
Jan Lamser	Member and Senior Executive Officer	26. 5. 1997	19. 5. 2004
Philippe Moreels	Member and Senior Executive Officer	1. 3. 2002 /**	17. 4. 2002
Hendrik Scheerlinck	Member and Senior Executive Officer	27. 9. 2006 /**	27. 9. 2006

/* Chairman since 26 May 2004
/** co-opted

introduction of the members of the board of directors

Pavel Kavánek
(born on 8 December 1948)
Chairman of the Board of Directors and Chief Executive Officer

Education: University of Economics, Prague and The Pew Economic Freedom Fellowship at Georgetown University.
He has been working for ČSOB since 1972. He has been a member of the Board of Directors of ČSOB since 1990 and its Chairman and CEO since 1993.

Membership in other company bodies: Vice-Chairman of the Supervisory Board of ČMSS, Member of the Supervisory Board of ČSOB AM ČR and ČSOB IS, President of the Czech Banking Association, Chairman of the Supervisory Board of the Dagmar and Václav Havel Foundation VIZE 97.

Petr Knapp
(born on 7 May 1956)
Member of the Board of Directors and Senior Executive Officer

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

Membership in other company bodies: Chairman of the Supervisory Board of ČSOB Factoring ČR (until 14. 8. 2006, business name O.B.HELLER), member of the Board of Directors of Hospodářská komora Hlavního města Prahy, member of the Managing Board of VŠ umělecko-průmyslová.

Jan Lamser
(born on 8 December 1966)
Member of the Board of Directors and Senior Executive Officer

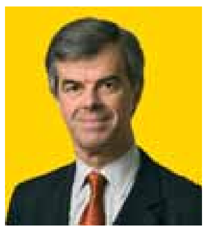
Education: Mathematics-Physics Department of Charles University, University of Economics, Prague and École des Hautes Études Commerciales in Paris.
He has been working for ČSOB since 1995 and has been a member of the Board of Directors since 1997. In 1998, he was appointed Director of the Strategic Development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

Membership in other company bodies: member of the Supervisory Board of ČMSS.

Philippe Moreels
(born on 25 February 1959)
Member of the Board of Directors and Senior Executive Officer

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

Membership in other company bodies: Chairman of the Supervisory Board of Hypoteční banka, ČSOB distribution and ČSOB d.s.s., member of the Supervisory Board of ČSOB AM ČR, ČSOB AM SR (until 16. 1. 2007), ČSOB Poisťovňa and ČSOB IS.



Hendrik Scheerlinck
(born on 6 January 1956)
Member of the Board of Directors and Senior Executive Officer

Education: Law and economics at the Catholic University in Leuven, Belgium (1979 and 1980, respectively).
His first working experience was at a legal office in Leuven. Since 1984, he has been working for the Kredietbank Group, or KBC. He started his banking career at the Brussels Headquarters, and continued to hold various managerial positions in the bank's representative offices and branches in Europe (General Manager of KBC Bank operations in Germany; Member of the Management Board of Merca Lease Germany, a KBC affiliate), in Asia (manager of the Kredietbank representative office in Taipei, Taiwan) and in the United States (Senior Credit Adviser in the New York branch; Regional Manager in Atlanta). He comes to ČSOB from KBC New York, where he served as General Manager of KBC North America.

Changes in the Board of Directors during 2006
In 2006, Mr. Patrick Daems resigned from his position in the Board of Directors. In September, Mr. Hendrik Scheerlinck was co-opted by the Board of Directors.

other top managers
(as at 31 December 2006)

Besides the members of the Board of Directors, ČSOB's top management also comprises other Senior Executive Officers who are not members of the Board of Directors – Geert DeKegel, Petr Hutla and Daniel Kollár.

introduction of other top managers

Geert DeKegel
(born on 22 May 1962)
Senior Executive Officer

Education: Graduated from the Catholic University at Leuven, School of Sociology, in 1985.
Since 1988 from Geert DeKegel worked for Kredietbank – retail branch manager in 1988–1996; KBC retail-branch manager form 1996. In 1999 he joined ČSOB. Geert DeKegel has been working in the position of Senior Director, Banking & Investment Products, since 1 May 2006.

Petr Hutla
(born on 24 August 1959)
Senior Executive Officer

Education: Graduated from ČVUT-FEL (Czech Technical University, Faculty of Electrical Engineering). Petr Hutla worked for Tesla Pardubice in 1983–1993, form 1991 in the position of economic associate director. In 1993 he joined ČSOB – initially as the director of the branch at Pardubice and the main branch at Hradec Králové, in 1997–2000 as the director of the main branch in Prague 1. From 2001 to May 2005, Petr Hutla was Senior Director, Corporate Accounts. From 1 June 2005 to 30 April 2006 he worked in the position of Senior Director, Personnel and Strategic Management; since 1 May 2006 he has been Senior Director, Human Resources & Services.

Membership in other company bodies: member of the Board of Directors of Hyporeal Praha, Nadace Karla Pavlíka (foundation), Vice-Chairman of the Board of Directors of Divadlo Archa, o.p.s.

Daniel Kollár
(born on 1 December 1969)
Senior Executive Officer of ČSOB SR, branch of the foreign bank

Education: Graduated from the Slovak Technical and Economic University in Bratislava.
In 1993–1994, he worked for the company ELV.S.Senec as an export manager. In 1994–1996, he worked in OPUS Trading a.s. as a member of the Board of Directors and Chief Executive Officer. In 1997–2004, he worked in ČSOB Leasing SR as chairman of the Board of Directors and Chief Executive Officer. Since 1 June 2004, he has been employed at ČSOB.

Membership in other company bodies: member of the Supervisory Boards of ČSOB SP, ČSOB Leasing SR, ČSOB distribution, ČSOB AM SR and RVS, Chairman of the Supervisory Board of the Business Center.

Work address:
Československá obchodní banka, a.s., branch of a foreign bank in the Slovak Republic, Michalská 18, Bratislava, Postal Code 815 63, Slovak Republic.

ČSOB's supervisory board

(as at 31 December 2006)

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

First name and surname	Position	Member since	Date of the beginning of the member's current term of office
Jan Švejnar	Chairman /*	9. 10. 2003 /**	19. 5. 2004
Jan Oscar Cyriel Vanhevel	Member	22. 4. 2006	22. 4. 2006
John Arthur Hollows	Member	22. 4. 2006	22. 4. 2006
Patrick Roland Vanden Avenne	Member	22. 4. 2006	22. 4. 2006
Anne Fossemalle	Member	22. 9. 2004 /**	20. 4. 2005
Riet Docx	Member	1. 12. 2004 /**	20. 4. 2005
František Hupka	Member (elected by employees)	23. 6. 2005	23. 6. 2005
Libuše Gregorová	Member (elected by employees)	23. 6. 2005	23. 6. 2005
Martina Kopecká	Member (elected by employees)	23. 6. 2005	23. 6. 2005

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

introduction of the members of the supervisory board

Jan Švejnar
(born on 2 October 1952)
Chairman of the Supervisory Board

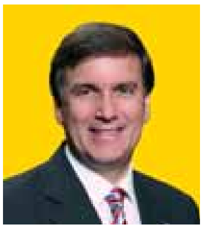
Education: Industrial and Work Relations – Cornell University; Ph.D. in Economics – Princeton University.
An independent economist living abroad since 1970. Since 1992, he has evenly divided his work capacity between activities in Prague and the USA. He has primarily devoted his academic career to economies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

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

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

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

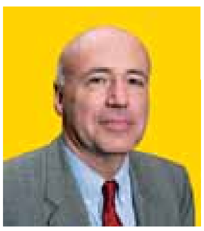
Membership in other company bodies: member of the Supervisory Board of ČSOB Poisťovňa.



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

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

Membership in other company bodies: member of the Supervisory Board of ČSOB AM ČR, ČSOB AM SR.



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

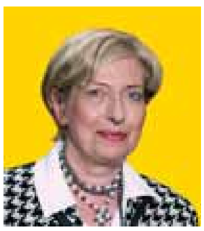
Education: The Catholic University in Leuven (Belgium), with a degree in economics and law, and Stanford University (USA), with a degree in business administration.
He owns and manages a number of companies in the food and wood processing industres and in logistics. As the outstanding shareholder of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

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

Anne Fossemalle
(born on 16 March 1964)
Member of the Supervisory Board

Education: Institut National Agronomique in Paris, Masters Degree in Engineering from École Nationale du Genie Rural des Eaux et des Forets and Masters Degree in Economics from Stanford University, USA.
From 1989 to 1993, she worked for Credit National, the third largest French bank. Since 1993, she has been working for EBRD. From 1993 to 1994, she was a member of a team processing agricultural projects; from 1994 to 1997 she worked as Principal Banker in a team focused on Hungary. Currently, she is working in a team for financial institutions with EBRD (London) as Senior Banker responsible for major investment projects.

Membership in other company bodies: NLB, BRD (Rumania), FUIB (Ukraine), Ukraine Fund (Ukraine).



Riet Docx
(born on 15 September 1950)
Member of the Supervisory Board

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

František Hupka
(born on 13 April 1971)
Member of the Supervisory Board elected by employees

In 1991, he joined ČSOB as an IT support specialist. At the present time, he is Director of the Working Committee of Trade Unions.

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

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

Membership in other company bodies: Bytové družstvo Vojáčkova 612 (Member of the Board).

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

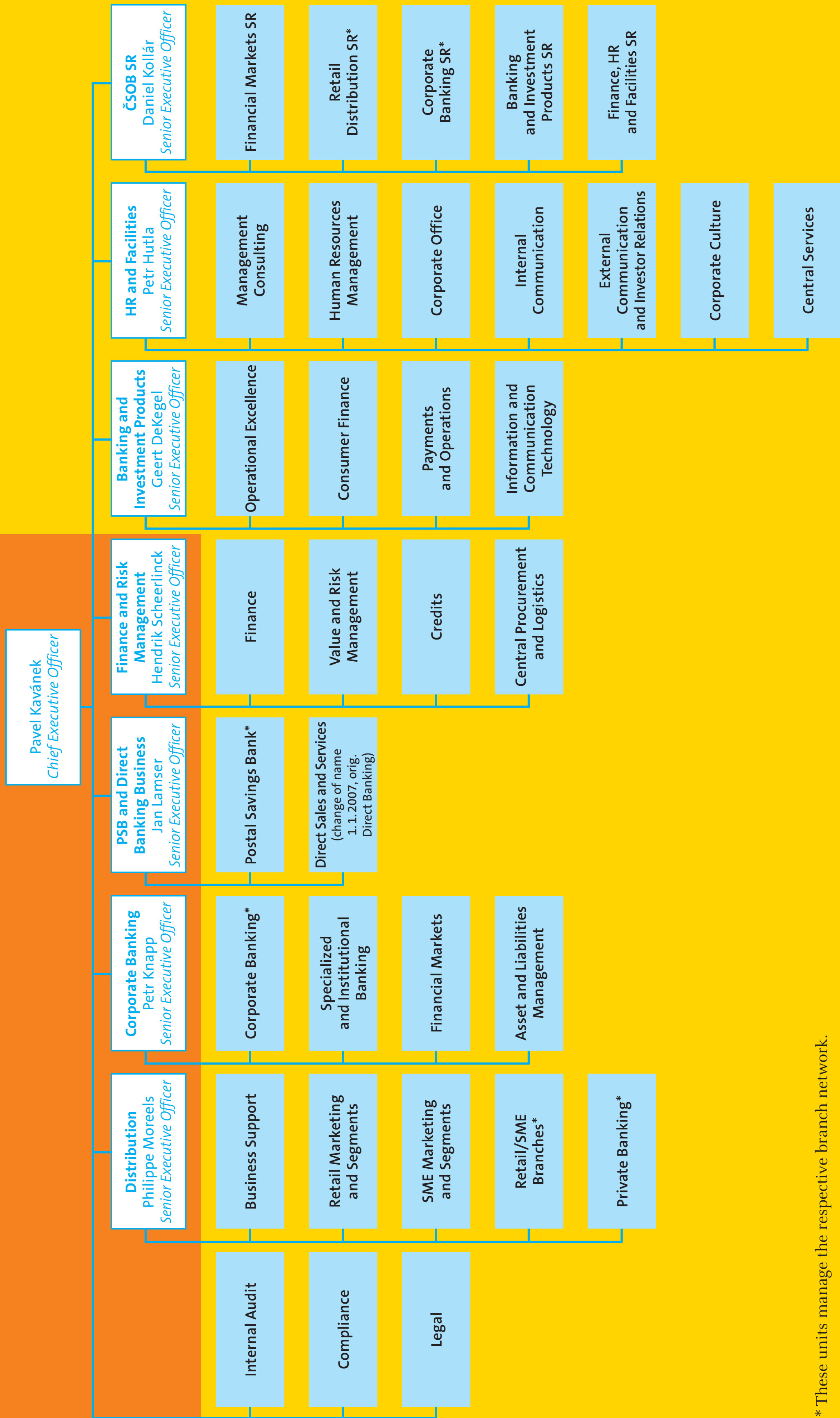
Education: She graduated from the University of Economics, Prague.
She has been working at the ČSOB Pardubice branch since 1994, and in the position of Corporate Banker for Retail/SME clients since 2002.

changes in the supervisory board during 2006

In 2006, Messrs. André Albert Ghislain Bergen, Francois Florquin and Marko Voljč resigned from their positions in the Supervisory Board. The General Meeting elected to the Supervisory Board new members Messrs. Patrick Roland Georges Zeno Vanden Avenne, John Arthur Hollows and Jan Oscar Cyriel Vanhevel.

The work address of all members of the Board of Directors, other top managers (excluding Daniel Kollár) **and members of the Supervisory Board is:**
Československá obchodní banka, a. s.
Na Příkopě 854/14
Praha 1 - Nové Město
Postal Code 115 20, Czech Republic

ČSOB organisation chart (as at 31 december 2006)



* These units manage the respective branch network.

the macroeconomic framework of ČSOB's business

the czech economy in 2006

2006 was another successful year for the Czech economy. Although the annual rate of growth of real GDP more than doubled in relation to the average for the previous decade, demand-driven inflation did not accelerate. Nonetheless, the central bank raised its key interest rate in the second half of the year with regard to a less favourable inflation outlook.

Gross domestic product (GDP) grew in 2006 by 6.1 % in real terms compared to 2005. Hence, the rate of growth is identical to the result of 2005. Also, the structure of aggregate demand remains favourable, despite the relatively lower significance of net exports and a greater role played by household consumption. The Czech growth rate is an undisputable success when compared it with that of the eurozone (+2.6 %). If compared with the achievements of some other countries, namely Slovakia (+8.3 %), the success is relative.

The consumption-driven demand of Czech households in 2006 was boosted on one hand by continued real wage growth of +3.9 % and by the willingness of households to incur debts on the other hand. The volume of loans provided to households in December 2006 increased by 29.4 % compared to December 2005, while consumer credit grew by 23.0 % and housing loans by 32.7 %.

The lead of the growth rate of housing loans over the growth rate of consumer credits indicates that the growing purchasing power of households benefited not only sellers of normal goods and services (retail sales grew by 6.4 % last year against +4.0 % in 2005), but also construction firms active in residential building (the approximate price of newly permitted residential buildings rose 14.6 % year-on-year). In 2006, the real growth rate of the entire construction segment reached 6.6 %.

The average annual percentage rate of costs (RPSN) charged to households went in opposite directions between December 2005 and 2006, depending on the purpose of the loan: the rate on consumer decreased from 14.21 % to 13.52 % per annum, while the rate on housing loans increased slightly, from 4.68 % to 4.78 % p.a. The development of interest rates paid by households reflects, among other things, tough competition between loan providers. In the same period, the two-week repo rate of the CNB jumped from 2.00 % to 2.50 %, the annual PRIBOR rose from 2.53 % to 2.89 % and the ten-year SWAP rates increased from 3.52 % to 3.68 % p.a.

A drawback of the relatively low Czech interest rates is the fact that, despite low inflation, deposit products offer a negligible, if not a negative, real yield to savers. Investors then tend to look for alternative places to invest their available capital. Ever more popular is investment into mutual funds, real estate and shares. The financial account of the Czech balance of payments proves that popular investment instruments are not always of domestic origin. There are various reasons for this; one of them is the still low number of sufficiently liquid high quality stocks, which depreciates the otherwise attractive growth performance of the Prague Stock Exchange (growth of about 10% the main stock index in 2006 followed 40% and 60% hikes in 2005 and 2004, respectively).

The year-on-year inflation of consumer prices mostly moved in the lower half of the CNB inflation band in the Czech Republic in 2006, i.e. within the range 2 – 3 % year-on-year, with the exception of the year end, when inflation moved below the band. In 2006, average CPI inflation was 2.5 %, while most of it resulted from price deregulations and other administrative changes. After adjustment for these effects, last year's price growth was negligible, amounting to a mere 0.3 % year-on-year on average. The average growth of industrial producer prices was nearly 1 percentage point lower than that of consumer prices.

Compared to the year before, the trade surplus increased further in 2006 from CZK 38.6 bn to CZK 44.4 bn despite the fact that the koruna strengthened again, not only nominally (by 4.8 % against the euro) but also in real terms. However, but not even the better result of foreign trade combined with rapid growth of GDP managed to avoid the deepening of the current account deficit from 2.6 % of GDP in 2005 to 4.2 % in 2006. The worsening of the current account balance reamins, even after the adjustment for reinvested profits.

The labour market experienced a positive development in 2006. The unemployment rate dropped by about 1 percentage point and, thanks to a sharp increase in vacancies, the number of job-seekers per job mediated by labour offices fell by half.

The Czech economic outlook looks slightly less optimistic than the current situation. In the foreseeable future, the indecisive result of Parliamentary elections held in June 2006 creates only limited room for implementation of badly needed fiscal reforms. The inability to meet the requirements of the fiscal discipline, which was behind the official abordonment of the goal to adopt the euro by 2010, combined with economic cooling, could postpone the adoption of the single European currency even beyond another officially declared date.

macroeconomic indicators of the Czech Republic

Indicator	Measurement Unit	2006	2005	2004	2003	2002
GDP	%, y/y	6.1	6.1	4.2	3.6	1.9
Industrial output	%, y/y	9.7	6.7	9.6	5.5	1.9
Construction output	%, y/y	6.6	4.2	9.7	8.9	2.5
Inflation rate (CPI)	average, %	2.5	1.9	2.8	0.1	1.8
Unemployment rate	average, %	7.2	8.0	8.4	7.8	7.3
Current account	% of GDP	(4.2)	(2.6)	(6.0)	(6.2)	(5.5)
Foreign direct investment	% of GDP	4.2	9.4	4.6	2.3	11.3
Official FX reserves	months of imports	3.3	4.2	3.8	5.0	5.6
Gross foreign indebtedness	% of GDP	38	38.5	36.4	34.7	33.0
Public budgets balance	% of GDP	(3.0)	(3.5)	(2.9)	(6.6)	(6.8)
Money supply (M2)	at year-end, %, y/y	9.9	8.0	4.4	6.9	3.5
PRIBOR 3m	average, %	2.30	2.01	2.36	2.28	3.55
CZK/EUR	average	28.34	29.78	31.90	31.84	30.81
CZK/USD	average	22.61	23.95	25.70	28.23	32.74

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

the slovak economy in 2006

2006 was another successful year for the Slovak economy. The gross domestic product of the Slovak Republic grew at its fastest since the start of economic reforms, and Slovakia is among the most quickly growing economies of the EU. The rapid growth of the economic sector manifested itself in a favourable development of the labour market and in a further reduction of the rate of unemployment, down to an 8-year minimum level. The development of inflation and foreign trade was less favourable in 2006. In the first half-year, it was negatively influenced by the high prices of imported raw materials. The change of government after parliamentary elections has slowed down the pace of reforms, but has not changed their trend nor the goal to adopt the euro in 2009.

The growth of the Slovak economy in 2006 reached 8.3 %, mainly due to a significant acceleration of household consumption, which was boosted by the improved situation in the labour market and growing real wages. The strong growth of the economic sector last year was also helped by investment, although it was not as high as in 2005. From the point of view of the GDP created, the rapid growth of the economy is mainly due to the growth of the industrial sector. Its record growth last year was achieved mainly due to the development of car production, but the main positive effects of the roll-out of production of the two new car plants in Slovakia (PSA and KIA) will fully affect the economic output only in the years 2007 – 8.

Compared to 2005, inflation in 2006 slightly increased to 4.5 %, which was mainly caused by the quicker growth of regulated prices, by more expensive foods and by higher fuel prices due to the unfavourable development of oil prices in the first half of the year. Higher inflation and fears that the Maastricht inflation criterion would not be met persoaded the central bank to increase the main interest rate in four steps, from the original 3 % to 4.75 %.

It was the strengthening of the Slovak koruna which helped to slow inflation, mainly in the second half of the year. Inflation peaked in August at a level of 5.1 %. In 2006, the Slovak currency strengthened against the euro by 3.7 %, and it even added as much as 4.5 % against the dollar. However, the development of the exchange rate of the Slovak koruna was not spread evenly over the year. In June and in July, the National Bank of Slovakia had to intervene against the weakening Slovak koruna which was caused by political uncertainty. However, the situation in the FX market stabilised in the second half-year, and the koruna resumed its strengthening trend, which culminated at the end of the year. The central bank then intervened against further strengthening of the currency.

The high growth rate of the economy last year, primarily based on consumption and investment, accompanied by higher prices of imported raw materials, resulted in a year-on-year deterioration of the trade balance, which reached as much as SKK 92.1 bn. However, the subsequent deficit of the current account of the balance of payments (-7.9 % of GDP) was partly covered by an inflow of foreign capital, mainly by foreign direct investment, the value of which nearly doubled in 2006.

The recovery of the credit market gathered momentum last year and loans provided to the private sector grew at a double-digit rate. Loans to non-financial enterprises and especially to households grew significantly. As in previous years, households clearly preferred housing loans. Unlike 2005, households placed more of their savings in bank deposits (+15.6 %).

The Slovak economy experienced very favourable growth last year, which is most likely to continue in 2007 as well. The economic growth remains strong and the fulfilment of the Maastricht inflation and budget criteria is also within reach. The Slovak koruna remains successful from the point of view of its role within ERM-II.

macroeconomic indicators of the Slovak Republic

Indicator	Measurement Unit	2006	2005	2004	2003	2002	
GDP	%, y/y	8.3	6.0	5.4	4.6	4.1	
Industrial output	%, y/y	9.8	3.6	4.2	4.8	6.4	
Construction output	%, y/y	14.8	14.7	5.7	6.0	4.1	
Inflation rate	average, %	4.5	2.7	7.5	8.5	3.3	
Unemployment rate	average, %	13.3	16.2	18.1	17.4	18.5	
Current account	% of GDP	(7.9)	(8.6)	(7.8)	(6.0)	(7.8)	
Foreign direct investment	% of GDP	7.6	4.4	7.2	6.5	16.9	
Official FX reserves	months of imports	3.3	5.0	4.9	5.1	5.1	
Gross foreign indebtedness	% of GDP	51.7	58.7	50.0	49.1	47.5	
Public budgets balance	% of GDP	(3.7)	(3.1)	(3.0)	(3.7)	(7.7)	[1)]
Money supply (M3)	at year-end, %, y/y	15.3	7.8	15.0	-	-	
BRIBOR 3m	average, %	4.32	2.93	4.67	6.18	7.79	
SKK/EUR	average	37.24	38.59	40.05	41.49	42.70	
SKK/USD	average	29.72	31.02	32.37	36.77	45.34	

[1)] Estimate of the Ministry of Finance of the Slovak Republic

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

partnership is binding for us.
In partnerships, you know people rely on you and you cannot fail them. It does not matter whether they are clients or colleagues in your team.

report of the board of directors

2006 most significant events

In 2006, ČSOB undertook a number of significant steps in addition to its day-to-day business activities. The most notable milestones were the sale of a real estate portfolio, acquisitions in the factoring and pension fund industries, the adoption of the new KBC Group governance structure, the issuance of subordinated debt, and a change in the ČSOB shareholder structure.

Sale of real estate portfolio. In January, ČSOB sold 10 buildings in downtown Prague prior to the relocation of HQ employees to a new HQ building in a Prague suburb in 2007. Later in the year, ČSOB sold 21 buildings in various locations throughout the country, enabling it to focus more on its main sphere of business.

Acquisitions. In April, ČSOB increased its stake in the factoring company OB HELLER ČR from 50 % to 100 %. Thus, ČSOB also increased its indirect stake in OB HELLER SR to 100 %. In August, both companies were rebranded as ČSOB Factoring. In June, ČSOB acquired a pension fund, Zemský PF, that manages more than CZK 500 m in assets for approximately 14,000 clients. The acquisition of Zemský PF followed the 2005 acquisition of Hornický PF with approximately 19,000 clients. On 31 December 2006, Hornický PF merged with ČSOB PF Progres.

Rating upgrade. In April, Fitch Ratings upgraded ČSOB's individual rating from C to B/C. This reflects, according to Fitch Ratings, a strengthening of the Bank's franchise, a clean balance sheet and a good track record as a conservative, well-managed institution.

New KBC Group governance structure. Since 1 May 2006, the KBC Group has started implementing a new organisational structure, which emphasises its international dimension and makes it easier to develop business initiatives and synergies across the countries in which it operates. In line with the new structure, so-called Country Teams have been established in both the Czech and Slovak Republics to improve the communication between KBC management and individual "national" managers and to improve the co-ordination of the key activities of the KBC Group in individual national markets, to achieve potential synergies and develop a more efficient model of bancassurance (see chapter Corporate Governance).

Subordinated debt. In order to allow for further business expansion, the KBC Group provided ČSOB with the possibility of increasing its Tier-II capital by up to CZK 12 bn in the form of a long-term (10-year) subordinated debt facility advanced by KBC Dublin. The first tranche of CZK 5 bn was drawn in September 2006; the remaining facility, of up to CZK 7 bn, will bolster ČSOB's capital base by the end of 2007, depending on the level of business development.

Change in shareholder structure. In December, KBC Bank raised its 89.97% stake in ČSOB to 97.44 % by exercising its call option on 381,365 ČSOB shares held by the EBRD under a Put and Call Option Agreement, dating back to the time of privatisation in 1999. This operation was financed with KBC Bank's capital surplus.[1)]

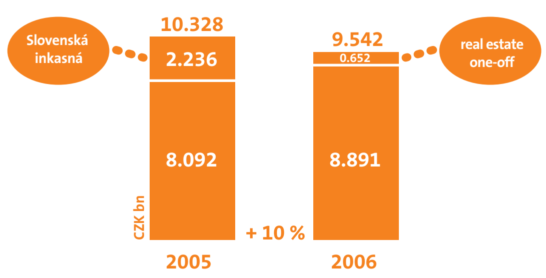
[1)] There were no Treasury shares held by the Bank at 31 December 2006.

2006 awards

- In the **2006 Zlatá koruna** contest, ČSOB performed the **best of all Czech financial groups**, being awarded 9 medals, including 3 gold medals in the following categories:
  - ČSOB Loan for Better Living – No. 1 among retail loans,
  - ČSOB PF Progres – No. 1 in pension extrainsurance,
  - ČSOB Leasing – No. 1 in leasing.
- ČSOB won the award **Bank of the Year 2006 Czech Republic** in the listing published every year by the specialist journal **The Banker**, published by the Financial Times group.
- ČSOB Bank was awarded **The Best Bank Czech Republic** within the **Achievement Awards 2006**. These awards are published every year by the magazine and internet portal Finance New Europe. This year the awards were focused on innovations.
- ČSOB won **The Absolute Winner** category and **The Most Favorite Financial Institution** category in the **Zlatý Měšec** ("Golden Pocket") contest of the Czech internet portal mesec.cz. This competition was run as a public inquiry for the fourth time. ČSOB Group subsidiaries also won in the following categories: The Bank, The Building Savings Society, The Investment Company.
- ČSOB Bank was again voted **The Best Foreign Exchange Bank 2006** by **Global Finance**.

Group results at a glance

The ČSOB Group's net profit for 2006 was CZK 9.543 bn (profit attributable to equity holders of the Bank). Underlying net profit, excluding the effects of the one-time gain related to Slovenská inkasná in 2005 and the one-time gain related to the sale of the real estate portfolio in Prague downtown[2)] in January 2006, grew by 10 % compared to the previous year and reached CZK 8.891 bn. The profit was generated mainly by strong business growth in the SME and mortgage segments on the lending side and sales of mutual and pension funds on the assets under management (AUM) side. While assets under management[3)] and deposits increased year-on-year by CZK 47.9 bn (+ 8 %) to CZK 650.9 bn, the outstanding volume of Group business loans rose by 28 % year-on-year and topped CZK 315.6 bn. Despite the solid rise in lending, the quality of the lending portfolio remained stable, non-performing loans[4)] accounted for 1.69 % of gross loans and the Group's loan loss ratio ended at -0.24 %.



[2)] P/L effect of the real estate one-off: other operating income CZK +975 m, general administrative expense CZK -117 m, income tax expense CZK -206 m, i.e. net profit CZK +652 m.

[3)] Based on AKAT methodology.

[4)] NPLs are measured as loans over 90 days overdue, excluding retail loans (category G, K) that are 100% provisioned.

During 2006, ČSOB improved its financial ratios (excluding one-time gains related to Slovenská inkasná and the real estate portfolio sale): The cost-income ratio fell from 59.3 % (reclassified) to 57.5 % and the loans-to-assets ratio from 33.4 % to 41.4 %. Net interest income increased by 14 % year-on-year and non-interest income by 6 % year-on-year. Operating income, excluding the one-offs, rose by 10 % year-on-year, while operating expenses, excluding these one-offs, increased by 6 %. However, disregarding also the one-time items of accruals for untaken holidays and anniversaries and accruals for the cancellation of the Share Purchase Programme for Senior Management, operating expenses remained under strict control, with a year-on-year increase of 2 %.

ČSOB's innovation leadership in 2006

In 2006, the ČSOB Group successfully continued in its Innovation Leadership agenda, consisting of ongoing product innovations, distribution innovations and instant process simplification. The Group's Innovation Leadership was rewarded by the Finance New Europe magazine in the Achievement Awards 2006, focused on innovation, in which ČSOB was named The Best Bank Czech Republic.

Thanks to instant innovations, the ČSOB Group confirmed its **No. 1 position in the Czech market of financing the housing needs of private individuals** (aggregating mortgages and building loans), holding a share of 31.7 %. The ČSOB Group was very active in this field last year and brought new products, innovated existing products and extended its distribution network. During 2006, ČSOB launched such products as an easier pre-mortgage loan, express appraisal of flats free of charge, and a new product called ČSOB Mortgage 2 in 1, a combination of a mortgage with a non-specific consumer loan. The ČSOB Group also introduced the possibility of transferring a mortgage to the new buyer of a property without adjustment of the mortgage parameters and offered the possibility of increasing the mortgage amount during the construction of a house or a flat. In addition, the ČSOB Group has developed a distribution innovation. In April, PSB became the third distribution channel for mortgages within the ČSOB Group next to Hypoteční banka and ČSOB. PSB Mortgage is thus newly available at 75 selected post offices and 20 PSB Financial Centers.

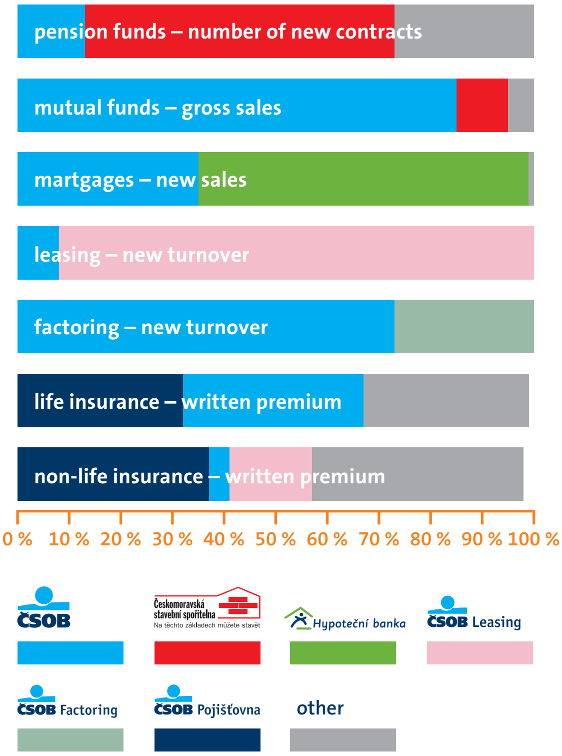
In 2006, the ČSOB Group continued in bringing new electronic solutions in the market and, thus, enhanced client convenience:

- **CashBack.** ČSOB is the first, and still the only, bank to offer CashBack services in the Czech market. Since November, PIN-secured CashBack transactions have been available for ČSOB and PSB card holders at AHOLD super- and hypermarkets' cashiers.
- **e-Toll.** ČSOB is the only provider of a payment system for the new country-wide highway e-toll. In September, ČSOB introduced TollTool and Fleet Card Centrum, enabling it to service a central e-toll system in the Czech Republic.
- **ČSOB Flexims.** Launching this product, ČSOB became the first bank in the country to provide on-line processing of export and import documentary transactions and guarntees.
- **Embossed chip cards.** ČSOB and PSB launched embossed chip cards that further enhance the security of client funds. ČSOB and PSB clients now hold 1.7 m cards in the Czech Republic, which is the most in the market.
- **Payment button.** ČSOB introduced the so-called payment button in both the Czech and Slovak Republics in order to enable internet shop customers to pay quickly and easily.
- **Enhanced security of e-banking.** ČSOB, as the first of the large Czech banks, introduced SMS authentication of e-banking access.
- **ČSOB Go and Deal.** Via this new product, ČSOB clients can make FX transactions on-line.

Group synergies

The major competitive advantage of the ČSOB Group is its bancassurance competency, combined with a powerful multi-channel distribution using a variety of strong brands.

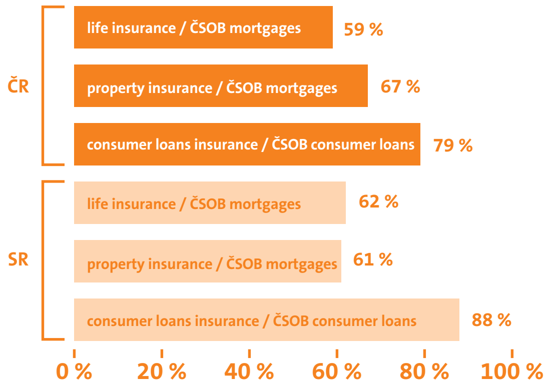
Multibranding and Multichannel. The following Figure illustrates 2006 cross-selling activities within the ČSOB Group. This distribution model allows the ČSOB Group to efficiently combine diversification with specialization.



Every second pension fund contract has been sold through the network of ČMSS. Also mutual funds' sales have been significantly aided by ČMSS. The ČSOB Group's long-term success in financing housing needs has been built on the power of the brands of ČMSS ("Fox" brand), Hypoteční banka ("green" brand) and ČSOB ("blue" brand). While the "Fox" brand is No. 1 among Czech building societies, the combined effort of the "green" sales network and "blue" branches succeeded in raising the ČSOB Group's market share in mortgages. In April 2006, PSB ("red" brand) became the third distribution channel for mortgages within the ČSOB Group. Further, ČSOB's banking network accounts for about one-tenth of ČSOB Leasing's turnover and more than two-thirds of ČSOB Factoring's turnover. Life insurance policies were sold equally through ČSOB Pojišťovna (Insurance Company CZ), ČSOB's banking network and other parties. In selling non-life insurance, ČSOB Pojišťovna is largely aided by ČSOB Leasing. Finally, thanks to an active offer of Group products via the "blue" banking network, ČSOB Bank's penetration ratio (retail+SME) rose by 14 % year-on-year to reach 4.21 products per customer. [5]

[5] There is no standard methodology in calculating penetration ratios. Thus the reported penetration ratio can be compared only in time, not across banks.

Bancassurance. ČSOB sees bancassurance as a powerful concept with high potential. The ČSOB Group aims to be No. 1 in combining banking products with its own insurance products. The bancassurance focus has been enhanced by the change in the KBC Group organizational structure in May 2006. A good example of a bancassurance innovation is Credit Protection Insurance, launched in August 2006, under which the life risk cover linked to consumer loans was extended by unemployment and temporary disability cover.



Number of new contracts insured / all insurable.

In 2006, about 60 % of ČSOB mortgages, both in the Czech Republic and Slovakia, were linked to life insurance. Almost 9 out of 10 consumer loans provided by ČSOB SR in 2006 were insured against default by ČSOB Poisťovňa (Insurance Company SR).

ČSOB Group in the Czech Republic

retail financial services

As described above, the financing of **housing needs** is one of the ČSOB Group's priorities. The outstanding volume of housing loans [6] reached almost CZK 118 bn as at the end of 2006 and improved by 34 % year-on-year. Thanks to continued innovation, the outstanding volume of the ČSOB Group's mortgages, provided under the brands of Hypoteční banka, ČSOB, and PSB, rose to CZK 55.8 bn, which represents year-on-year growth of 43 %. The ČSOB Group thus recorded a 24.2% market share in the sale of new mortgages. The average mortgage amount rose by 13 % to CZK 1.4 m. Building loans rose by 24 % and reached a total volume of CZK 62.1 bn. ČMSS maintained its No. 1 position in the Czech building loans and savings market with a share of 45.4 % in loans and 35.4 % in deposits.

Total **consumer lending** rose by 39 % year-on-year and reached an amount of CZK 9.6 bn. The outstanding volume of consumer loans and credit cards increased in 2006 by 38 % to CZK 5.9 bn. The outstanding volume of PSB consumer loans and credit cards rose by 38 % year-on-year. American mortgages had continued strong growth (by 66 % year-on-year) to CZK 2.6 bn. In 2006, ČSOB significantly improved its market share to 9 % mainly due to the successful sale of ČSOB Loan for Better Living, which is classified as a consumer loan. [7)]

[6)] Mortgages to individuals together with building loans to individuals (ČMSS 100%).

[7)] ČSOB shows business volumes in compliance with the market share methodology. Due to the change of market share methodology by CNB, ČSOB also changed the business volume classification.

Postal Savings Bank (PSB), ČSOB's second retail banking brand, is the key player in the lower mass retail market, serving over 2 million clients. PSB offers its services through the postal network of some 3,400 post offices in the Czech Republic, 20 own PSB Financial Centers and various direct channels. PSB followed its long term strategy of becoming the No.1 bank for mass retail in the next ten years and building PSB as a modern, multi-channel bank. The multi-channel distribution of PSB services has been enhanced by the introduction of CashBack into the Czech market and the launch of close cooperation with ČMSS, whose 2,400 financial advisors will actively promote selected PSB products. As in previous years, PSB continues to attract urban and young clients. The focus on the youth has had great success – more than 30 % of new clients are younger than 30 years and the number of Mini Accounts and Junior Accounts grew by 56 % and 34 % respectively. PSB is also focused on the sale of investment products – the outstanding volume of Postal Investment Program rose by 43 % to almost CZK 2 bn. In 2006, PSB also completed its product portfolio by introducing a variety of mortgages further focused on the quality of service and continued promoting the use of direct channels. 68 % of PSB clients' bank orders were submitted via direct channels.

services for SMEs

The SME business is one of the most dynamic components of the ČSOB Group's success. **Loan exposure to SMEs** exceeded CZK 44 bn, which is more than 50 % higher than in 2005. All types of SME loans recorded a strong increase – investment loans grew by 68 % to CZK 24.7 bn and overdrafts by 78 % to CZK 9.9 bn. Despite the strong growth, the quality of the credit portfolio remained stable. The dynamic development of the SME segment has been driven by bringing innovations and simplifications and by targeting specific sub-segments of SME clients (such as municipalities and housing cooperatives). ČSOB is also becoming increasingly involved in intermediating EU structural funds. In July 2006, the European Investment Bank provided a EUR 5 m credit to ČSOB to be channeled further to municipalities and private companies to finance infrastructure projects. **SME AUM and deposits** exceeded CZK 100 bn, also thanks to a new service for SME clients called Comprehensive Financial Advisory. As at the end of 2006, the number of products sold per SME client in ČSOB reached 3.42, which is a 9% improvement year-on-year.

services for corporate clients

For the second year in a row ČSOB recorded strong growth in the segment of companies with business turnover above CZK 300 m, both in assets and liabilities, and claims market leadership in this top end of the market. ČSOB is the primary provider of FX, interest rate and commodity hedging products to this customer group and retains its traditional pole position in trade finance operations. In addition, ČSOB's market research shows that more and more corporate clients are granting ČSOB prime bank status. Hence, **corporate and institutional banking** remains one of the key contributors to the overall profitability of the Bank and Group. In 2006, corporate loans increased by 17 % year-on-year and surpassed CZK 85 bn to form 32 % of total Group business lending on the Czech market. The Bank's well established track record in structured finance has again been confirmed, especially in acquisition finance, syndicated loans and real estate finance. ČSOB obtained the mandates for several reference deals such as Tatra, ČSA and VGP Industrie Park Sever. Despite the negative market trends in export finance, the Bank also succeeded in concluding one of the biggest deals with Irisbus France.

Behind the growth of ČSOB's market shares in the Czech Republic stand the successful concept of multibranding and the Group's Innovation Leadeship.

To support this long-term development of the core business, the Bank made substantial investments in areas such as image media campaigns, new credit risk monitoring systems and advanced training of staff in strategic financial advisory skills. In ČSOB's view, corporate banking must be based on a highly professional and customised client approach. The Bank thus continues to upgrade its service levels in areas of specialised and corporate finance, whilst remaining firmly committed to a local approach through its 11 regional corporate branches. At the same time, ČSOB again devoted substantial resources to the innovation of key banking products, for example in the area of documentary transactions and guarantees, where a completely new system, called Flexims, has been introduced.

asset management

Nowadays in the Czech Republic, the use of alternative forms of savings is catching up with deposits and the ČSOB Group is a clear leader in this development. In 2006, the dynamic growth of mutual and pension funds continued. Discretionary asset management [8)] and mutual funds went up by 23 % and reached an amount of CZK 125.7 bn. Pension funds surged 31 % year-on-year and reached CZK 16.3 bn.

ČSOB AM ČR is one of the leading companies in the market of **discretionary asset management** [9)], with a market share of 23 % in the segment of institutions and more than 42 % in the segment of private individuals as at 31 December 2006. The volume of assets managed (both private individuals and institutional clients, advisory mandates excluded) reached CZK 60.2 bn at the end of 2006, a year-on-year increase of almost 20 %. Interest in the sophisticated asset management services of the ČSOB Group has risen further, especially in the segment of municipalities and SME clients, where ČSOB AM ČR is ready to provide a tailor-made solution and help to support and enhance the level of their cash management and financial yields.

Assets in **mutual funds** grew by 26 % year-on-year and amounted to CZK 65.5 bn, [10)] while gross sales exceeded CZK 25 bn. Assets in ČSOB's mutual funds grew above the market to reach 27 % at the end of 2006. Growing by 82 % during 2006 in the assets in capital guaranteed funds (CGFs), ČSOB confirmed its No. 1 position in this niche. This success results from a combination of KBC expertise in managing CGFs and ČSOB's capability of offering them in the Czech market. In 2006, ČSOB also launched new tailor-made mutual funds for housing cooperatives and home owners. The ČSOB AM Group ČR [11)] has also successfully implemented distribution through the agents of ČMSS and further developed sales through offices of the Czech Post, through the PSB franchise. ČSOB IS was awarded the most popular investment company prize in the Czech Republic within the Zlatý Měšec contest organized by the Czech internet portal mesec.cz.

8) Based on AKAT methodology.

9) Based on AKAT methodology.

10) Based on AKAT methodology.

11) ČSOB AM Group ČR consists of two companies: ČSOB AM ČR and ČSOB IS – the first covering the area of the asset management of clients money, and the second the mutual fund business.

ČSOB has been offering two strong pension funds with different investment profiles: ČSOB PF Stabilita (conservative investment strategy, mainly fixed-return securities) and ČSOB PF Progres (more stocks and foreign bonds). Following the 2005 acquisition of Hornický PF, ČSOB acquired Zemský PF with approximately 14,000 clients and over CZK 500 m of assets in June 2006. Hence, in addition to the organic growth of CZK 3.1 bn (17 %) in assets under management in ČSOB PF Stabilita and ČSOB PF Progres (the most popular investment company in the Czech Republic), the ČSOB Group now manages CZK 1.7 bn of assets in Hornický PF and Zemský PF. The total volume of clients' assets placed in ČSOB pension funds amounts to CZK 16.3 bn. With more than 534,000 active clients, ČSOB is the fourth largest provider of pension insurance in the country (14.7 %) but its market share is the fastest growing (+1.6 percentage points year-on-year).

Behind the outstanding sales results stands the excellent performance of the distribution channels, in particular the agent network of ČMSS, which sold more than 76,000 pension fund contracts in 2006. In addition, excellent portfolio return again supported pension fund sales – ČSOB PF Progres remained the best performing pension fund on the market over the long term and received several public awards for the best performing pension fund (first place in Zlatá koruna, third place in the MasterCard Bank of the Year awards in the category Pension Fund of the year 2006, second place in Zlatý měšec). The ČSOB pension funds' success of 2006 was completed by the merger of ČSOB PF Progres and Hornický PF on 31 December 2006.

other core financial services

ČSOB's performance on **financial markets** was enormously successful in 2006, especially the derivatives desk, cash management, foreign exchange, sales and primary issues. The Bank's derivatives activities were the most profitable part of the whole KBC Group foreign exchange operations trading. In foreign exchange, ČSOB again confirmed its leading position in the local market. The main reasons for such a good result and positioning are a proper trading strategy and very good contacts and relationships with the vast majority of foreign banks and investment houses active on the local market, which are use ČSOB as the main bank for the execution of their orders and as an information source.

For the sixth year in a row, **ČSOB Leasing ČR** confirmed its No. 1 position with 2006 turnover amounting to CZK 21.8 bn, which is 20 % higher compared to 2005. ČSOB Leasing ČR also ranked first among financial intermediaries and support financial institutions in the ranking of the 100 most important Czech companies.

In line with the new KBC governance structure implemented in May 2006, the ČSOB Group started to consolidate 25 % of the **insurance** company ČSOB Pojišťovna in its accounts. Increasing the total volume of written premium by 12 % year-on-year to CZK 7.7 bn, ČSOB Pojišťovna raised its market share to 6.4 % and confirmed its No. 4 position in the market. In 2006, ČSOB Pojišťovna reported a net profit of CZK 668 m, which is the best result in its history.

direct banking

Both direct banking and cards grew rapidly in 2006. The ČSOB Group's customers increasingly use direct channels to make payments. For 8 out of 10 domestic payment orders, customers of ČSOB used **e-banking services**. Almost 40 % of ČSOB customers use at least one on-line channel to access their money. The most frequently used direct channel is Phone banking followed by Internet banking. Internet banking is also the fastest growing channel with a 28% year-on-year increase to 564,000 users. In 2006, ČSOB and PSB clients made almost 54.5 million transactions through direct channels, which is 17 % higher than in the previous year. Internet banking transactions grew by 62 % to 15.1 million transactions a year.

PSB achieved a major milestone in May 2006 when it issued its one-millionth payment card. Also, the ČSOB brand was very active and raised its card portfolio by almost 9 %. ČSOB as a whole ended 2006 with more than 1.7 million payment cards in the Czech Republic. ČSOB strengthened its leadership in acquiring business as well. The number of POS terminals increased to 16,808 and the number of ATMs grew by almost 50 to 585.

All in all, **innovations in direct channels and electronic solutions**, such as CashBack, e-Toll, ČSOB Flexims and e-banking security enhancements described above, strongly contributed to the successful development of the ČSOB Group.

Total ČSOB Groups's business lending in Slovakia Surged 64 % year-on-year, especially due to continuous product and distribution innovations.

ČSOB Group in Slovakia

In the Slovak market, the ČSOB Group also delivered very good business results in 2006, using the 84 retail branches and 14 SME-specialized Business Centers of ČSOB SR and the network of ČSOB's Slovak subsidiaries. **Total ČSOB Group's business lending in Slovakia surged** 64 % year-on-year and reached almost CZK 49 bn, thanks to growth in all segments: Retail (+ 98 %), Corporate (+ 76 %), SME (+ 79 %), Leasing (+ 35 %). Mortgages as the main part of retail loans rose by 140 % year-on-year. In terms of total loans, ČSOB SR maintains fourth position in the Slovak market with an 8 % market share.

Behind the excellent business results in Slovakia stand continuous **product improvements and distribution innovations**. ČSOB SR is also focusing on strengthening insurance sales via the bank network in line with the KBC Group strategy.

ČSOB SR introduced many new products for SME clients, such as the Agricultural Bridging Loan, the Starter Loan for Municipalities and the ČSOB Loan for Doctors and Pharmacies. ČSOB SR also extended its range of packages for SMEs with its first all inclusive package called ČSOB Business Account KOMPLET. After ČSOB SR started financing development projects in 2005, it managed the financing of the two largest real estate projects in Slovakia in 2006: Bratislavské nábrežie s.r.o. in the amount of EUR 144.7 m and Ballymore Eurovea a.s. in the amount of EUR 319.5 m.

Retail innovations include ČSOB Mortgage, with the lowest installments for young people aged under 36, and the ČSOB Children Account. Retail branches also started to provide advice on other products from the Group such as the investment products of ČSOB AM SR, insurance of ČSOB Poisťovna, pension savings of ČSOB d.s.s. and housing-related products of ČSOB SP.

As concerns the number of mutual funds offered, ČSOB is a leader in the Slovak market. In 2006, ČSOB SR offered 8 new CGFs and thus contributed to the increase of ČSOB AM SR's share in Slovak mutual funds market in terms of AUM to 10.5 %.

ČSOB Group strategy

The ČSOB Group feels strong commitment to its customers in the systematic increase of the delivered value. To be able to sustain its leading position as a provider of financial services, the ČSOB Group is improving the three main pillars of its "core competences": Distribution excellence, Operational excellence and High performance corporate culture. These pillars are sustained by many supporting processes that have already been activated or will be triggered in the near future.

Distribution excellence. The ČSOB Group is focused on deepening its relationship with clients through customer-centricity, i.e. by providing comprehensive financial solutions and services to them according to their needs. Thus the ČSOB Group is leveraging its multi-channel distribution network through enhanced sales performance, cooperation and innovation. Multibranding as well as bancassurance are the Group's main domains.

Operational excellence. The ČSOB Group is continuously improving the productivity and efficiency of its operations through sound cost process management, integration and simplification. The Group wants to increase the speed and quality of its processes while keeping costs under strict control.

High performance corporate culture. By inspiring employees, promoting basic corporate values and standards of behavior among them and developing their potential, the ČSOB Group systematically enhances the approach of its people to clients to attain a top quality level. The inner change of the corporate culture will help the Group to achieve a sustainable high business performance.

comments to ČSOB Group's financial performance in 2006

As described above, the ČSOB Group maintained its high profitability and achieved very good financial results in 2006, reporting a profit for the year attributable to equity holders of the Bank of CZK 9.543 bn. The underlying profit growth of 10 % [12] has been primarily achieved thanks to good business growth across all client segments: a 6.7% growth in client deposits, a 20.2% growth of assets under management [13] and a 28.9% growth in client credits. The growth of business volumes increased the operating income and was only partially consumed by the growth of operating expenses. The creation of credit loss provisions is in line with the growth of the loan portfolio.

[12] Excluding one-time gains related to Slovenská inkasná and the real estate portfolio sale

[13] Based on AKAT methodology.

The financial balances set out below were drawn from ČSOB's 2006 **audited consolidated** financial statements prepared **according to EU IFRS**, unless stated otherwise.

consolidated profit and loss account

Net interest income increased significantly by 13.9 % to CZK 17.96 bn. The increase is the main indicator of business growth and was achieved despite the fact that interest income from long term benchmark positions in ALM still has a downward trend due to the repricing of assets at lower interest rates. The main contribution to the increase comes from the higher volume of loans and improving margins due to the better loan/deposit ratio. Financial Markets in Slovakia also significantly contributed to the positive development.

Net fee and commission income increased by 5.7 % to CZK 6.89 bn. The growth in the Retail segment is driven mainly by the sale of mutual funds. PSB shows a decrease after some types of fees were discontinued. There is a positive impact from some one-time items, e.g. in ČMSS.

Net trading income increased by 5.7 % to CZK 2.76 bn. The growth mainly reflects increased activity of the customer desk in Financial Markets rather than increased proprietary trading. The increased activity of Corporate and SME clients in the customer desk is partially offset by lower income from over-the-counter transactions with Retail clients.

Other operating income decreased by 43.7 % to CZK 2.77 bn. The income of this line realized in 2005 was boosted by one-time income from Slovenská inkasná, while income realized in 2006 includes income from the sale of a property portfolio (mainly buildings in Prague).

General administrative expenses increased by 9.5 % to CZK 16.8 bn. The increase is shown mainly in Personnel expenses and is only partially related to operational issues. It is partly attributable to the regular growth of salaries, higher bonuses paid due to positive business results and increasing FTEs in subsidiaries and Slovakia related to business growth, and partly attributable to some one-off items, such as expenses related to the sale of the real estate portfolio, an accrual for untaken holidays and anniversaries and an accrual for compensation for Senior Management stemming from the cancellation of the existing Share Purchase Programme (as a part of the planned squeeze-out of minority shareholders).

Impairment losses on loans and advances contribute negatively to the profit by CZK 0.83 bn. While the previous year of 2005 showed a net release of provisions (due to the improved quality of the credit portfolio and the significant contribution from the historical portfolio, where recoveries and sales were successfully realized) the development of 2006 generally meets the expectations for this year and the final provision charge corresponds with the fast growing credit portfolio in the Bank and subsidiaries.

Provisions contribute positively to the profit mainly due to the release of reserves for litigation.

consolidated balance sheet

At the end of 2006, consolidated assets totaled CZK 762 bn, which represents an increase of CZK 26 bn compared to the end of 2005. The rapid growth of Loans and leases is partially offset by a lower volume of Due from banks and Financial assets at fair value through profit and loss.

Due from banks shows a decrease in volume by 43 % to CZK 46.7 bn due to the increasing volume of loans and leases, which leads to the lower placement of funds in Reverse Repo operations with the CNB.

Financial assets at fair value through profit and loss show a decrease in volume by 8.2 % to CZK 173.6 bn, which corresponds with a lower volume of financial liabilities at fair value through profit and loss.

Loans and leases show significant growth in volume by 28.9 % to CZK 308.6 bn. This fast growth is a result of positive business development in all business segments of the Bank and subsidiaries. The fastest growth was achieved in the SME segment (+50.1 % [14)]) and Hypoteční banka (+40.4 %).

Property and equipment (including intangible assets, excluding goodwill) show an increase of 28 % to CZK 11.9 bn, among other reasons due to the progress in construction in Centrum Radlická, a subsidiary founded in relation to the construction of the new headquarters in Prague Radlice. Operating lease contracts concluded by ČSOB Leasing ČR also add to the volume increase in this line.

Financial liabilities at fair value through profit and loss shows a decrease of 19.6 % to CZK 98.7 bn, which corresponds with the lower volume of financial assets at fair value through profit and loss.

Due to customers shows an increase of 6.7 % to CZK 504.3 bn. The fastest growth was achieved by PSB (10.1 % [15)]) and the SME segment (8.6 % [16)]). The development of deposit volume is closely related to the volume development of assets under management (mutual funds and discretionary asset management), which are not reported in the balance sheet. This volume shows a 20.2% [17)] year-on-year increase.

Subordinated liabilities show a significant increase after a subordinated loan of CZK 5 bn was received from KBC Dublin. The issuance of subordinated debt is in line with the KBC Group policy and resulted in a capital adequacy ratio of the Bank of 9.29 % at the end of 2006.

Equity remained at the level of the previous year because 100% of the 2005 profit was paid out as dividend, in-line with the decision of the general meeting.

[14)] Based on Internal management reporting system.

[15)] Based on Internal management reporting system.

[16)] Based on Internal management reporting system.

[17)] Based on AKAT methodology.

ambition is like a bar in athletics – it needs to be set higher and higher. For us, no bar is high enough. We are proud that we offer useful products and top quality services. At the same time we know that every success means setting the bar higher, and that is our challenge.

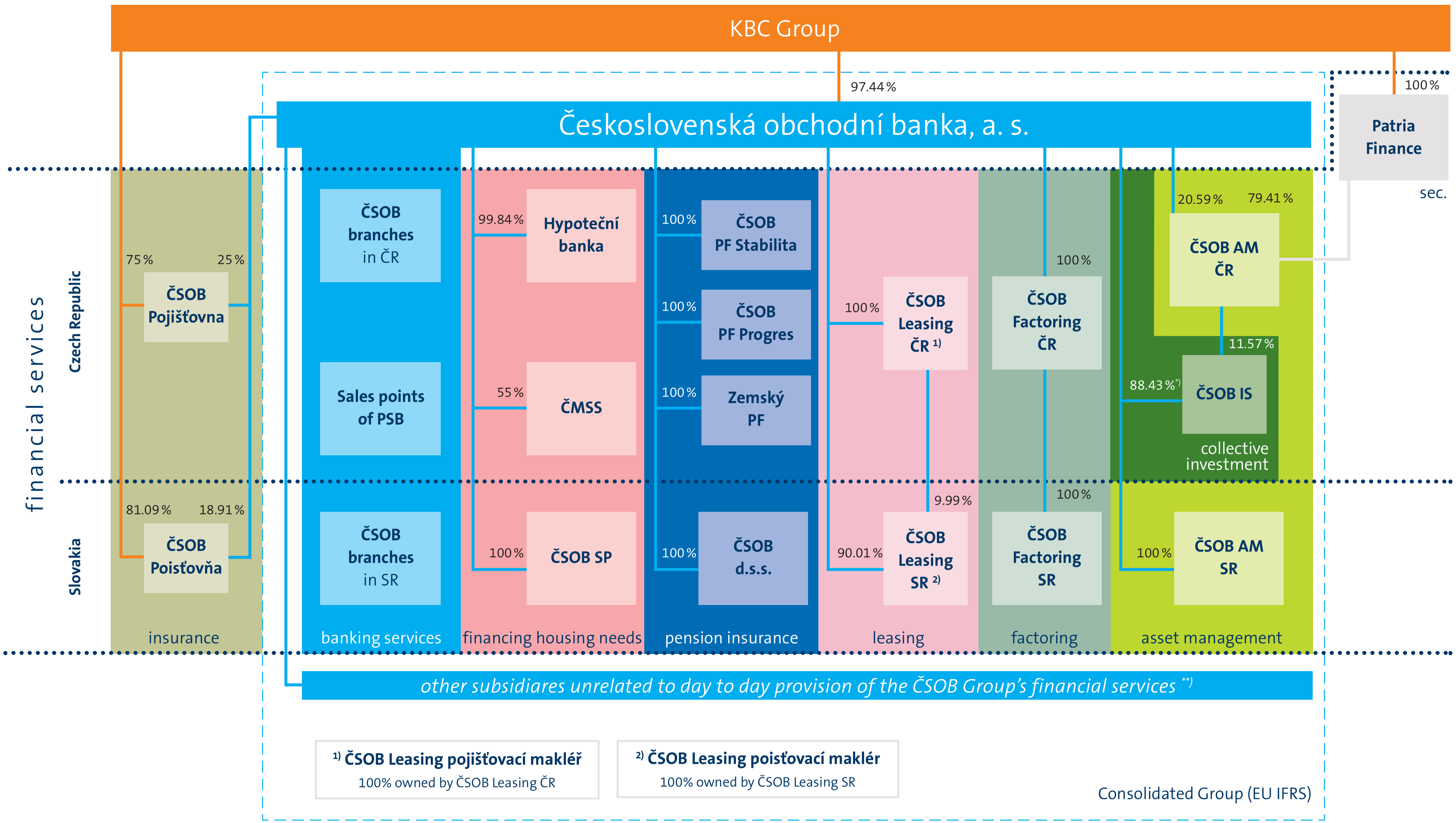
ČSOB Group

The ČSOB Group operates in the Czech Republic and in Slovakia. As at 31 December 2006, ČSOB had property participations in 50 legal entities and 41 companies were included in the group of consolidated companies. 14 subsidiaries offered financial services. The offer of financial services in ČSOB is completed by 3 fellow subsidiaries – ČSOB Pojišťovna, ČSOB Poisťovňa and Patria Finance.

In 2006, Zemský PF was added to the ČSOB Group. The acquisition of this pension fund strengthened the position of ČSOB on the pension insurance market. Hornický PF, which was added to the Group in 2005, merged as at 31 December 2006 with ČSOB PF Progres. In 2006, the remaining 50 % of the voting rights of the companies OB HELLER ČR and OB HELLER SR were acquired and the companies were renamed as ČSOB Factoring (ČR and SR).

The ČSOB Group offers its clients services in the following areas:

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



As at 31 December 2006

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

**) A complete list of companies consolidated by ČSOB is stated in the part "Additional Information" of the ČSOB Annual Report 2006.

Hypoteční banka, a.s.

Czech Republic

Date of establishment:
10. 1. 1991

Business activities:
Provision of mortgage loans and issuance of mortgage bonds

Share capital as at 31. 12. 2006 (CZKths)*:
2,634,739

Shareholders as at 31. 12. 2006 (% share and name):**
99.84 % Československá obchodní banka, a. s.
0.16 % other shareholders

* As at 31 December 2006 the subscribed and paid-up share capital increased to CZK 3,458,101.5 ths. At January 2007, minority shareholders paid-up an additional CZK 5.5 ths. The share capital increase was registered in the Commercial Register on 25 January 2007.
** After the capital increase, ČSOB holds 99.87 % of shares and other shareholders 0.13 % of shares.

Key indicators*:

	2006	2005
Volume of receivables from clients (in balance sheet, CZKm)	64,889	46,202
Number of newly approved mortgage loans (pcs)	18,721	14,715
Volume of newly approved mortgage loans (CZKm)	26,778	18,763
Market share (%) in the Czech Republic [by volume of newly approved mortgage loans for citizens according to MMR's methodology**]	24	23

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

In 2006, Hypoteční banka increased the volume of mortgage loans granted to citizens by 44 %. Since 1 January 2007, Hypoteční banka has been exclusively focused on providing loans to citizens. The bank maintained its position as the second-largest provider of mortgage loans in the Czech Republic (measured by the volume of newly provided mortgage loans).

Hypoteční banka has remained the leader in the area of innovations on the domestic mortgage market and has introduced a number of initiatives, simplifying and accelerating the process of arranging loans. This regards, in particular, express appraisals of flats, 40-year maturity of mortgage loans and pre-mortgage loans.

In 2006, Hypoteční banka further developed its multibrand policy. It started selling mortgages through the sales network of Poštovní spořitelna (Postal Savings Bank) and prepared introduction of a special mortgage insurance in co-operation with the insurer ČSOB Pojišťovna. The volume of newly provided ČSOB mortgages grew year-on-year by 66 %.

On 1 January 2006, the bank changed its business name from Českomoravská hypoteční banka, a.s. to Hypoteční banka, a.s.

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Českomoravská
stavební spořitelna
Na těchto základech můžete stavět

Českomoravská stavební spořitelna, a.s.

Czech Republic

Date of establishment:
26. 6. 1993
Business activities:
Building savings and loans

Share capital as at 31. 12. 2006 (CZKths):
1,500,000
Shareholders as at 31. 12. 2006:
(% share and name):
55 % Československá obchodní banka, a. s.
45 % Bausparkasse Schwäbisch Hall AG

Key indicators*:

	2006	2005
Loans and bridging loans (CZKm)	61,878	48,754
Volume of client deposits (CZKm)	126,966	118,310
Number of valid contracts (pcs)	2,201,796	2,286,445
Volume of target amounts of newly concluded contracts (CZKm)	79,694	69,448
Market share (%) [by volume of target amounts of newly concluded contracts] **	43	41.9

* Based on internal management reporting system.
** 2005 and 2006 market shares are expert estimates.

2006 meant another record for ČMSS in terms of the volume of granted construction savings loans and bridging loans – CZK 22.966 bn. The volume of newly concluded saving contracts also grew year-on-year. In 2006, ČMSS concluded contracts for CZK 79.694 bn and confirmed its No. 1 position in the area of construction savings.

To these excellent results it is also necessary to add the company's activity in the area of product cross-selling – 77,450 pension insurance contracts were sold (pension funds ČSOB PF Stabilita and ČSOB PF Progres), and investors invested CZK 2.608 bn in mutual funds (ČSOB, KBC, Union Investment).

Besides growing business results, ČMSS can boast adding other financial products to its range. In 2006, this included the bank products of Poštovní spořitelna – ČMSS Client card with payment functions, postgiro account, consumer credits and risk life insurance from the insurance company R+V.

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

Czech Republic

Date of establishment:
26. 10. 1994
Business activities:
Supplementary pension insurance with state contribution

Share capital as at 31. 12. 2006 (CZKths):
97,167
Shareholders as at 31. 12. 2006 (% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Number of concluded contracts (pcs)	61,763	54,059
Funds registered in favour of participants (CZKm)	12,247	10,289
of which contributions of participants (CZKm)	9,447	7,923
Market value of the investment portfolio (CZKm)	12,714	10,884
Appreciation of participants' funds (%)	2.7**	4.0
Market share (%) in the Czech Republic [by the number of participants]	9.9	10.1

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

In 2005, ČSOB PF Stabilita achieved a 4% appreciation of the participants' funds. This above-average appreciation of clients' funds resulted in the growth of the number of newly concluded contracts in 2006, when ČSOB PF Stabilita acquired approximately 62 ths new clients and the total number of new participants grew by 8.6 % year-on-year.

In 2006, co-operation within the ČSOB Group was further strengthened and approximately 54 % of new contracts were concluded through the distribution networks of other companies of the ČSOB Group (ČMSS and ČSOB). In 2005, their share was 40 %.

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

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

Czech Republic

Date of establishment:
14. 2. 1995
Business activities:
Supplementary pension insurance
with state contribution

Share capital as at 31. 12. 2006 (CZKths):
50,000
Shareholders as at 31. 12. 2006
(% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Number of concluded contracts (pcs)	64,649	67,807
Funds registered in favour of participants (CZKm)	3,383	1,070
of which contributions of participants (CZKm)	2,786	913
Market value of the investment portfolio (CZKm)	3,437	1,097
Appreciation of participants' funds (%)	2.2**	5.0
Market share (%) in the Czech Republic [by the number of participants]	4.4	2.5

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

In the years 2002 to 2005, ČSOB PF Progres achieved the highest appreciation of the clients' funds in the supplementary pension insurance market. This performance also resulted in the growth of newly concluded contracts in 2006. ČSOB PF Progres acquired approximately 65 ths new clients (mainly thanks to co-operation with ČMSS) and increased its market share by 1.4 percentage point measured by the number of participants, which is the highest growth among pension funds in 2006.

Last year, ČSOB PF Progres won a number of awards. Besides the Zlatá koruna 2006 award for the best pension fund and 3rd place in MasterCard's "Bank of the Year" contest in the category of pension funds, the pension fund also took second place in the Zlatý Měšec 2006 poll looking for the most popular pension fund in the Czech Republic.

In 2006, the pension fund Hornický PF merged with ČSOB PF Progres. The merger was successfully completed with registration in the Commercial Register on 31 December 2006. On the date of the merger, Hornický PF had 19,023 clients and managed funds registered in favour of participants of CZK 1,126 m.

ČSOB PF Progres applies a dynamic investment strategy with a focus mainly on young clients, where the length of saving is typically longer.

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ZEMSKÝ PENZIJNÍ FOND

Zemský penzijní fond, a. s.

Czech Republic

Date of establishment:
26. 10. 1994
Business activities:
Supplementary pension insurance with state contribution

Share capital as at 31. 12. 2006 (CZKths):
50,325
Shareholders as at 31. 12. 2006 (% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Number of concluded contracts (pcs)	1,009	1,902
Funds registered in favour of participants (CZKm)	569	497
of which contributions of participants (CZKm)	426	372
Market value of the investment portfolio (CZKm)	671	606
Appreciation of participants' funds (%)	4.6**	4.6
Market share (%) in the Czech Republic [by the number of participants]	0.40	0.46

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

Zemský PF is one of the pension funds in the Czech supplementary insurance market which achieves above-average long-term appreciation of participants' funds. After taking second and third places alternately in the years 1999 to 2005, the results for 2006 placed the fund in first place in the list of pension funds ranked by the rate of appreciation of funds registered in favour of clients.

In the past, Zemský PF was mainly focused on co-operation with employer entities. Its insurance core is formed by more than 56 % participants with employer's contribution.

Zemský PF became a member of the ČSOB Group in June 2006.

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Internet: www.zpf.cz

ČSOB Leasing, a.s.

Czech Republic

Date of establishment:
31. 10. 1995
Business activities:
Financial services (financial and operational leasing, customer credits, hire-purchase)

Share capital as at 31. 12. 2006 (CZKths):
2,900,000
Shareholders as at December 31, 2006 (% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Volume of new leasing turnover in the Czech Republic (CZKbn)	21.77	18.24
Number of concluded contracts in the Czech Republic (pcs)	32,419	25,655
Relevant market share in the Czech Republic measured by volume of transactions (%)**	15.72	15.23

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

ČSOB Leasing ČR is the largest leasing company in the Czech Republic with a nationwide network of 14 branches. Since 2001, ČSOB Leasing ČR has been the leader in the leasing market with the largest market share.

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

ČSOB Leasing ČR offers its clients a complete range of products: financial leasing, customer credits, hire-purchase and operational leasing (including full-service leasing and fleet management). In 2006, the products of ČSOB Leasing ČR won significant awards in the 2006 Zlatá koruna contest for the best financial products – the golden crown for the product "Brand financing of cars" and the bronze crown award for the product for the exclusive financing of tractors, "Valtra Finance".

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ČSOB Factoring, a.s.

Czech Republic

Date of establishment:
16. 6. 1992
Business activities:
Factoring

Share capital as at 31. 12. 2006 (CZKths):
35,400
Shareholders as at 31. 12. 2006 (% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Turnover of receivables (CZKbn)	19.5	16.6
Market share in the Czech Republic (%) [by turnover of factoring receivables]	18.6	19.1

* Based on internal management reporting system.

ČSOB Factoring ČR is the third largest factoring company in the Czech Republic with an 18.6% market share. It provides its clients with alternative financial resources in the form of financing assigned receivables from the delivery of goods or provision of services, usually with a 90-day or shorter maturity. Factoring financing is very flexible and can be provided on the basis of assignment of both domestic and export receivables, with recourse and without recourse. The services also include management of assigned receivables, including collection. In the case of factoring without recourse, the company also offers its clients that it will take on the risk of non-payment.

In 2006, ČSOB Factoring ČR achieved a CZK 19.5 bn turnover of assigned receivables from factoring transactions, which means year-on-year growth of 17.5 %.

Until 14 August 2006, ČSOB Factoring, a.s. operated under the business name O.B.HELLER a.s. Rebranding was carried out after ČSOB had acquired the remaining 50 % of the shares of the company.

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

Czech Republic

Date of establishment:
31. 12. 1995
Business activities:
Client asset management

Share capital as at 31. 12. 2006 (CZKths):
34,000
Shareholders as at 31. 12. 2006
(% property share / % share in voting rights and name):
79.41 % / 20.59 % Patria Finance, a.s.
20.59 % / 52.94 % Československá obchodní banka, a. s.
0 % / 26.47 % KBC Asset Management NV

Key indicators:

	2006	2005
Assets under management (CZKbn) *	85.75	79.84

* Volume of assets according to AKAT methodology (institutions, private individuals and foreign funds, incl. value of advisory mandate).

ČSOB AM ČR provides its clients with investment services in the field of securities management. It is one of the most prominent companies operating in this market. The company manages assets for private individuals, institutions and Group clients (ČSOB, ČSOB's pension funds, the building society ČMSS, the insurance company ČSOB Pojišťovna). In the market segment of asset management for private individuals, the company has taken 1st place with a 42.8% market share; market share in the segment for institutions is 23 %. The company also manages the assets of selected foreign funds of the KBC Group.

In 2006, the volume of assets under management grew by approximately 7.4 %. This growth was mainly driven by the interest of ČSOB Group clients in sophisticated asset management services, especially in the segment of small and medium-size enterprises (growth by 50 %) and corporate clients. ČSOB AM ČR is able to offer these clients "tailor-made" services. The volume of assets of Group clients grew as well.

The company is offers a complete range of investment products. The company benefits from co-operation with branches and the client departments of ČSOB.

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

Czech Republic

Date of establishment:
3. 7. 1998 (transformed from O.B. INVEST, investiční společnost, spol. s r.o.)
Business activities:
Collective investment

Share capital as at 31. 12. 2006 (CZKths):
216,000
Shareholders as at 31. 12. 2006 (% property share / % share in voting rights and name):
73.15 % / 0 % Československá obchodní banka, a. s.
15.28 % / 15.28 % Auxilium, a.s.
11.57 % / 84.72 % ČSOB Asset Management, a.s., a member of the ČSOB Group

Key indicators*:

	2006	2005
Volume of assets under management (CZKbn)	12.6	11.3**

* Based on internal management reporting system.
** The volume includes Czech mutual funds offered by ČSOB IS.

ČSOB IS is a prominent company managing open-ended mutual funds. In 2006, the number of open-ended mutual funds was enlarged by two new funds: ČSOB bytových družstev and ČSOB realitní mix.

In 2007, the company plans another expansion of its product range. In January 2007, ČSOB korporátní fond was created. The creation of a fund investing in real estate is also considered. At the same time, by agreement with the only stakeholder, the fund ČSOB výnosový will be wound up in the first months of 2007 with subsequent liquidation.

Since 1 January 2007, ČSOB IS has become a distributor of KBC funds for the Czech Republic. The company participates in the preparation of products for the entire Group, thereby enhancing the synergic effects achieved within the entire KBC Group.

Funds managed by ČSOB IS as at 31 December 2006: ČSOB akciový mix, ČSOB bohatství, ČSOB bond mix, ČSOB bytových družstev, ČSOB dluhopisových příležitostí, ČSOB nadační, ČSOB realitní mix, ČSOB středoevropský, ČSOB výnosový.

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PATRIA

Patria Finance, a.s.

Czech Republic

Date of establishment:
23. 5. 1994
Business activities:
Securities trading and consultancy services in the field of corporate finance

Share capital as at 31. 12. 2006 (CZKths):
100,000
Shareholders as at 31. 12. 2006 (% share and name):
100 % KBC Securities NV

Patria Finance itself and through its subsidiaries (Patria Online, a.s., Patria Direct, a.s., and Patria Finance CF, a.s.) offers investment banking services – securities trading, consultancy in the field of management and financing companies, operation of the Internet portal **www.patria.cz**, which provides information from the financial market, and mediation of trading for clients on the Prague Stock Exchange and on foreign stock exchanges. The company conducts its own financial research.

Securities trading in 2006 was exclusively directed to stock markets. Patria Finance maintained 1st place in the volume of shares trading carried out on the Prague Stock Exchange and further increased the volume of trading in foreign securities.

In 2006, the consolidated net profit of the Patria Group exceeded CZK 230 m. The number of clients for whom securities trading is mediated via the Internet exceeded 6,000.

Patria Finance is one of the most significant companies in the field of advisory for mergers and acquisitions. In 2006, income from these services grew further. The development of the economic sector in the Czech Republic creates room for further growth of advisory for medium-sized and large companies.

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

Czech Republic

Date of establishment:
17. 4. 1992
Business activities:
Insurance of citizens and entrepreneurs in the area of life and non-life insurance

Share capital as at 31. 12. 2006 (CZKths):
1,536,400
Shareholders as at 31. 12. 2006 (% share and name):
75 % KBC Insurance NV
25 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Number of insurance contracts (pcs)	533,586	472,881
Volume of written premium (CZKths)	7,674,006	6,875,382
Number of claims settled (pcs)	141,247	132,053
Market share in the non-life insurance market (%)	4.5	4.1
Market share in the life insurance market (%)	9.4	8.8

* Based on internal management reporting system.

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

One of the main tasks of the commercial service of ČSOB Pojišťovna in 2006 was the renegotiation of old life-insurance contracts to the more variable and more modern products of the Universal life series. In particular, clients appreciated the new savings products of investment life insurance. Co-operation in the area of bancassurance further the deepened.

At the end of the year, the rating agency Standard & Poor's increased the long-term rating and the rating of the financial strength of ČSOB Pojišťovna to BBB+ with a positive outlook. ČSOB Pojišťovna therefore ranks among the best rated Czech companies.

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ČSOB stavebná sporiteľňa, a.s.

Slovak Republic

Date of establishment:
8. 11. 2000
Business activities:
Building savings and loans

Share capital as at 31. 12. 2006 (SKKths):
720,000
Shareholders as at 31. 12. 2006
(% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Loans and bridging loans (SKKm)	2,386	3,389
Volume of client deposits (SKKm)	6,212	5,245
Number of valid contracts (pcs)	115,535	120,617
Volume of target amounts of newly concluded contracts (SKKm)	1,195	2,468

* Based on internal management reporting system.

In 2006 ČSOB SP, a building savings bank, launched the process of restructuring the company to improve its position in the building savings system market. Considering product development and sales, a new product called HYPO Plus was launched at the beginning of the year, which became quite successful among numerous clients. In the course of the 10 months after the launch, the product had a 10% share by volume of the whole product portfolio.

ČSOB SP's new strategy was elaborated for the period 2007–2010 as part of the new Financial and Business Plan for 2007 and Action Plan for the period 2007–2008. New measures were taken to ensure a more aggressive approach to recovering of classified outstanding debts.

By changing the restructuring of the loan portfolio, the number of remedial items has increased. This resulted in a negative business balance for 2006.

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ČSOB Leasing, a. s.

Slovak Republic

Date of establishment:
10. 12. 1996
Business activities:
Financial services

Share capital as at 31. 12. 2006 (SKKths):
1,500,000
Shareholders as at 31. 12. 2006
(% share and name):
90 % Československá obchodní banka, a. s.
10 % ČSOB Leasing, a.s. (Czech Republic)

Key indicators*:

	2006	2005
Volume of leasing turnover in the Slovak Republic (SKKbn)	12.1	9.3
Number of contracts in the Slovak Republic (pcs)	14,053	11,326
Market share (%) in the Slovak Republic by volume of transactions	16.7	16.3

* Based on internal management reporting system.

ČSOB Leasing SR is one of the leading companies operating in the Slovak leasing market, with a market share of about 16.7 % in financing movables and immovables. In the leasing market of movables, ČSOB Leasing SR is now in first place.

In 2006, the company achieved 29.7% year-on-year growth in the volume of leasing turnover. The results achieved were significantly influenced by its stronger position in the area of used cars financing, by establishing itself in the real estate market and by its stable dominance in the area of financing lorries and technological equipment.

ČSOB Leasing SR provides complete financing of all movable and immovable assets, and uses all financial products – consumer loan, hire purchase, financial leasing and operational leasing. The main product is still financial leasing, representing about 80 % of the whole product portfolio.

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ČSOB Factoring

ČSOB Factoring a.s.

Slovak Republic

Date of establishment:
24. 2. 1997
Business activities:
Factoring

Share capital as at 31. 12. 2006 (SKKths):
30,000
Shareholders as at 31. 12. 2006 (% share and name):
100 % ČSOB Factoring, a.s. (Czech Republic)

Key indicators*:

	2006	2005
Turnover of receivables (SKKbn)	4.27	5.40
Market share (%) in the Slovak Republic [by total turnover of receivables]	9.45	17.00

* Based on internal management reporting system.

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

In 2006, the company reported turnover of assigned receivables from factoring transactions amounting to SKK 4.27 bn. The company has taken fourth place in the Slovak factoring market with a 9.45% share.

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

After the remaining part of the shares were taken over by ČSOB OB HELLER Factoring a.s. was rebranded in 2006 to ČSOB Factoring a.s. The company has been incorporated into the financial group of ČSOB, not only through its assets, but also formally.

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ČSOB d.s.s., a. s.

Slovak Republic

Date of establishment:
20. 10. 2004
Business activities:
Pension savings

Share capital as at 31. 12. 2006 (SKKths):
360,000
Shareholders as at 31. 12. 2006 (% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
AUM (SKKm)	1,590	530

* Based on internal management reporting system.

ČSOB d.s.s. was established in the autumn of 2004 in connection with pension reform in Slovakia. In 2005, the company started its business activities, i.e. concluding retirement pension savings contracts. In April 2005, the company met a condition requiring it to acquire at least 50,000 clients according to Act No. 43/2004 Coll. on Retirement Pension Savings. As at 31 December 2006, the company had more than 101,000 clients.

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

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

Slovak Republic

Date of establishment:
10. 6. 2004
Business activities:
Client asset management

Share capital as at 31. 12. 2006 (SKKths):
60,000
Shareholders as at 31. 12. 2006
(% share and name):
100 % Československá obchodní banka, a. s.

Key indicators*:

	2006	2005
Individual asset management (SKKm)	4,077	3,420
Mutual funds (SKKm)	14,057	9,030

* Based on internal management reporting system.

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

In 2006, the company launched 8 new local funds, so at the end of 2006 it offered its clients 9 local funds, of which 3 funds were for clients of the private banking. In 2006, the company further strengthened its fourth place in the Slovak market of mutual funds and its market share in Slovakia exceeded 10 %.

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ČSOB Poisťovňa, a.s.

Slovak Republic

Date of establishment:
1. 1. 1992*

Business activities:
Insurance of citizens and entrepreneurs in the area of life and non-life insurance

Share capital as at 31. 12. 2006 (SKKths):
838,000

Shareholders as at 31. 12. 2006 (% share and name):
81.09 % KBC Insurance NV
18.91 % Československá obchodní banka, a. s.

* Date of certificate of incorporation 9 June 1992.

Key indicators**:

	2006	2005
Number of new insurance contracts (pcs)	77,773	88,724
Volume of written premium (SKKths)	1,914,054	1,833,908
Number of claims settled (pcs)	18,672	19,457
Markets share of the non-life insurance market (%)	3.14	3.47
Market share of the life insurance market (%)	4.46	3.65

** Based on internal management reporting system.

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

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

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strategy **is a powerful weapon...**
Having a clear focus and plan, we can reach our goals. Bringing all details together, we can sustain our No. 1 position in the bancassurance market in the long term.

value and risk management

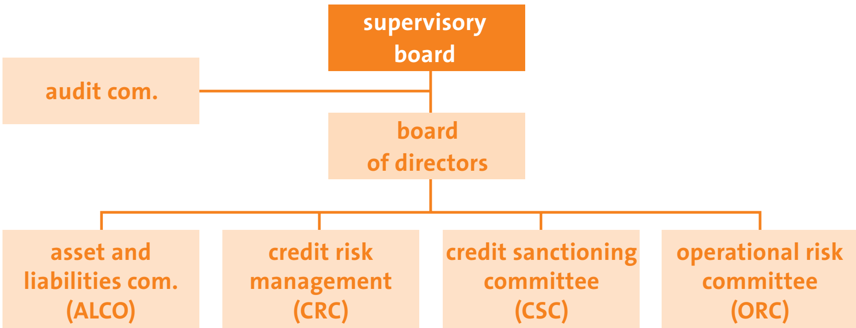
Risk is a basic ingredient of any kind of business. The most important risks typical for the banking business are credit risk, market risk, liquidity risk and operational risk. Extensive attention is also paid to other types of risks like strategy risk, reputation risk and regulatory risk. The critical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

All units within the ČSOB Group are preparing for changes in the regulations of the banking sector according to the recommendations of the Basel Committee on Banking Supervision. Activities undertaken in this area are connected with the ČSOB Group's participation in a joint project with the Czech National Bank (CNB) and the Czech Banking Association.

organisation of value and risk management

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

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



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

credit risk

general overview

The objective of the Credit department consists of credit risk management and the execution of the credit process, that is:

- Advisory and underwriting of credit applications
- Preparation of contractual documentation, booking and drawing of credit lines
- Collateral management
- Restructuring and recovery of distressed debt

The efficiency of the credit process is dependent on a number of other activities that also fall within the responsibility of the Credit department:

- Risk modeling (development of rating and scoring models, analysis of collateral recovery etc.; models are independently validated by the Value and Risk Management unit)
- Data management and reporting (processing and analysis of data describing the risk profile of individual portfolios and their key trends and proposal of steps reacting to the current situation)
- Technical support (administration and development of IT tools supporting the credit process)

The third task of the Credit department can be described as "business architecture". This area includes a number of activities related to product development and management of the credit process.

In terms of organisation, the Credit department is split into two parts. Retail Credit is focused on credit risk related to private idividuals and micro-business (small SMEs). Non-retail Credit manages credit risk related to corporate clients (including larger SMEs), banks and institutions.

corporate credits

credit risk modelling and Basel II

From 2005 until March 2006, ČSOB developed and implemented internal rating models/tools within the credit process for Corporates, SMEs, municipals, housing cooperatives and other clients, including two key subsidiaries of ČSOB Group – Hypoteční banka and ČMSS. The models were built in compliance with Basel II rules, which allow the use of 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% and 0.40%). Clients with PD rating 8 or 9 are considered as "weak normal" and the management of such files is monitored by the Bad Debts unit.

In 2006, ČSOB validated the performance of models developed in previous years. The validation confirmed the relatively good predictive power of internal models. However in some cases, rating models were modified in order to improve their quality (e.g. predictive power). The validation of a model is performed by an independent person 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.

ČSOB uses models developed by the KBC Group for assessing the quality of sovereign and banking counterparts. These models are validated in KBC as well.

In the past year, ČSOB primarily focused on the completion of the technical infrastructure and data quality required for the Pillar I – regulatory capital calculation and reporting of Basel II. Implementation of Fermat, the software tool for capital adequacy calculation and reporting, was completed. As a result, in parallel with the current Basel I approach, ČSOB produced the first Basel II calculations by the end of 2Q 2006, and each month thereafter.

In 2007, ČSOB will roll out risk measurement based on PD models further into the Group (e.g. ČSOB Leasing). ČSOB, together with KBC Bank, will also focus on the finalisation of the methodology, performance and interpretation of credit risk stress testing results for various scenarios of the future credit portfolio development. ČSOB will also strengthen the use of the Basel II toolbox in internal processes, especially in areas such as pricing, loan approval, collateralisation and credit risk monitoring.

ČSOB plans to adopt Basel II IRB methodology at a local level from the date of Basel II’s legal approval in the Czech Republic (1 July 2007 is expected) and to contribute to the consolidated KBC Group level from March 2007.

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 the second step, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares advice. Finally, a decision is made at the appropriate decision-making level (committee). The “four eyes” principle is always observed. The decision always includes an approved counterparty rating. Credit files that carry only limited expected loss can be advised by the Head of the Corporate Branch.

A number of new internal rating models were implemented in the Corporate and SME segment as a part of the Basel II process. Some models were developed in-house while others were taken from the KBC Group. All rating models assign to each client a PD rating and a specific probability of default. The models were certified by a national regulator and can be used for regulatory capital calculation.

The newly created rating models, which assign to each client a specific probability of default, enable the level of potential risk to be determined and adapt the acceptance process accordingly. Thus, the Bank can modify the acceptance authority, follow a simpler framework in cases with lower risk, adjust price policy, set monitoring rules more precisely, implement advanced risk control based on portfolio system, etc. The new rating models were integrated into specialized rating tools, which can also be used for pricing purposes. The new system was completed by the end of June 2006.

The consolidation of credit exposures within the ČSOB Group and coordination of the approval process are important elements of our acceptance process. Since 2004, ČSOB has determined the total exposure using a Group Risk Database that consolidates exposure across the entire ČSOB Group. Loans to corporate clients are approved on the basis of KBC Group risk, i.e. taking into account the exposure within the entire KBC Group. The decision about consolidation is made, again, at the appropriate decision-making level (up to a pre-defined level, subsidiaries can decide on the deal within their delegated authority). Exposures exceeding the pre-defined level have to be approved by ČSOB / the KBC Group.

credit administration

Improvement of process efficiency remains our key goal in the area of credit administration (loan documentation, contract booking and collateral management). Thanks to a number of process improvements implemented in 2006, the ČSOB Group succeeded in absorbing the growing workload (mainly in the SME area) and maintained control over operational costs at the same time. One of the key 2006 achievements was the standardisation and automation of the loan documentation process. Optimisation of collateral management remains the key objective for 2007.

bad debts

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

historical cases and state asset administration

The Bad Debts department is still responsible for the collection process related to the historical portfolio (selected credit files granted before 1993). During 2006, the Bad Debts department succeeded in collecting more than CZK 650 m, thus influencing significantly the total profit of the Group. The Bad Debts department also successfully steered the payment of an extraordinary dividend of CZK 294 m by Motokov to the ČSOB Group. The Bad Debts department also administrates special state assets for the Czech and Slovak Ministries of Finance.

retail credits

This department is responsible for the design and implementation of credit processes (acceptance, maintenance, collection) and for risk management (methodology, implementation, reporting) in the area of retail credits (microbusiness and private individuals).

The department is also responsible for the development of scoring models, provision models and Basel II implementation in the retail segment. The Bank has implemented the IRB approach for the calculation of the capital requirement. This includes the development of scorecards for retail portfolios within the bank and its subsidiaries (Hypoteční banka, ČMSS), estimates of key parameters such as PD, EAD and LGD within defined homogenous sets of exposures (so-called pools) and the process of its 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 set by the KBC Group via the Model Management Framework and have to be approved by local Credit Risk Committee and 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) which add 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 behavioral data. The acceptance process also covers pre-approved limits for existing clients.

Modifications to our key application processing system (CRIF) continued throughout 2006 with the aim of increasing process efficiency and client comfort. The existing tool supports application processing from the moment of a client’s first visit. CRIF is connected to the main transactional system, thus leading client officers through the entire process. All this contributes to a substantially faster application process, higher flexibility in setting up products and a reduction of operational risk.

portfolio risk management

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

annex: volumes and ratios

loan portfolio structure

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

	31.12.2006	31.12.2005
Current exposure	**314.7**	**244.3**
Write-offs (during the year)	0.8	0.9
Historical exposure	**0.9**	**1.4**
Write-offs (during the year)	0.1	0.1
Total	**315.6**	**245.7**
Total Write-offs (during the year)	0.9	1.0

Notes: Loans are defined as aggregate of On-Balance sheet exposure excluding Accrued interest.
The decrease of Historical exposure is related namely to the repayment of exposure towards the client ČSOB INTERTOUR.

loans classification

CNB regulatory classification, EU IFRS consolidated, gross amounts

	31.12.2006		31.12.2005	
	Loans CZKbn	Share of total (%)	Loans CZKbn	Share of total (%)
Standard	244.4	77.4	201.7	82.1
Classified	71.2	22.6	44.0	17.9
of which				
Watch	56.5	17.9	31.2	12.7
Sub-standard	6.9	2.2	5.9	2.4
Doubtful	3.3	1.1	2.9	1.2
Loss	4.5	1.4	4.0	1.6
Total	**315.6**	**100.0**	**245.7**	**100.0**

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

The second table displays the portfolio quality measured by the newly implemented Basel II models (the system of 12 PD rating grades). Although the methodology is not applied by all subsidiaries, the concept of PD ratings allows a presentation of the Group IRB rating distribution:

credit risk distribution

EU IFRS consolidated, gross amounts (CZKbn)

EU IFRS class.	PD rating	31.12.2006		31.12.2005	
		Volume	% of total loans	Volume	% of total loans
Normal	1 – 7	293.0	92.9	227.6	92.7
AQR	8 – 9	13.6	4.3	10.1	4.1
Uncertain	10 – 11	4.5	1.4	4.0	1.6
Irrecoverable	12	4.5	1.4	4.0	1.6
Total		**315.6**	**100.0**	**245.7**	**100.0**

market risk

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

The Bank's risk is monitored by a separate limit system for the trading and investment portfolio. The limits are approved by the Bank's Board of Directors. Development of the position in both portfolios was overseen by the Treasury and Financial Markets Committee (FINTREA). This responsibility was passed to the new ALCO Committee regarding the investment portfolio and to the Senior Executive Officers responsible for Risk Management and Financial Markets in November 2006. The Bank sets its limits in compliance with the limits of the KBC Group that concern the ČSOB Group.

The market risk of the trading portfolio is evaluated on a daily basis, and the market risk of the investment portfolio is evaluated on either a weekly or monthly basis. Reports on the utilization of limits are regularly included in risk reports submitted to the ALCO Committee, to the Senior Executive Officers responsible for Risk Management and Financial Markets, to the Board of Directors, the Audit Committee and to the Supervisory Board.

In 2006, the Bank applied to the CNB for approval to use an internal model used for the management of market risk in the trading portfolio for capital adequacy purposes. The approval process is expected to be completed in the first half of 2007.

trading portfolio

Within the ČSOB Group, only the Bank has trading activities. The ČSOB Front Office (dealing room) is primarily focused on providing customer services in foreign exchange markets, money markets, capital markets and commodities markets, inclusive of derivatives instruments. The ČSOB Front Office supports all the financial activities of the Bank and, to a limited extent, trades for its own account (trading with interest rate and foreign exchange instruments). The Front Office does not trade for its own account regarding equities or foreign exchange options. The Bank holds limited technical positions in interest rates options. In 2006, the Bank did not trade commodities on its own account.

methodology

The Bank uses the historical Value-at-Risk (VAR) method to measure and monitor interest rate and foreign exchange risks in the trading book observing the relevant Basel II standards (ten-day holding period and 99% one-sided confidence interval, historical data going back at least 250 days). The accuracy of estimated results is verified through back-testing.

Standard VAR calculations are supplemented with a sophisticated system of stress tests. They consist of examples of 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.

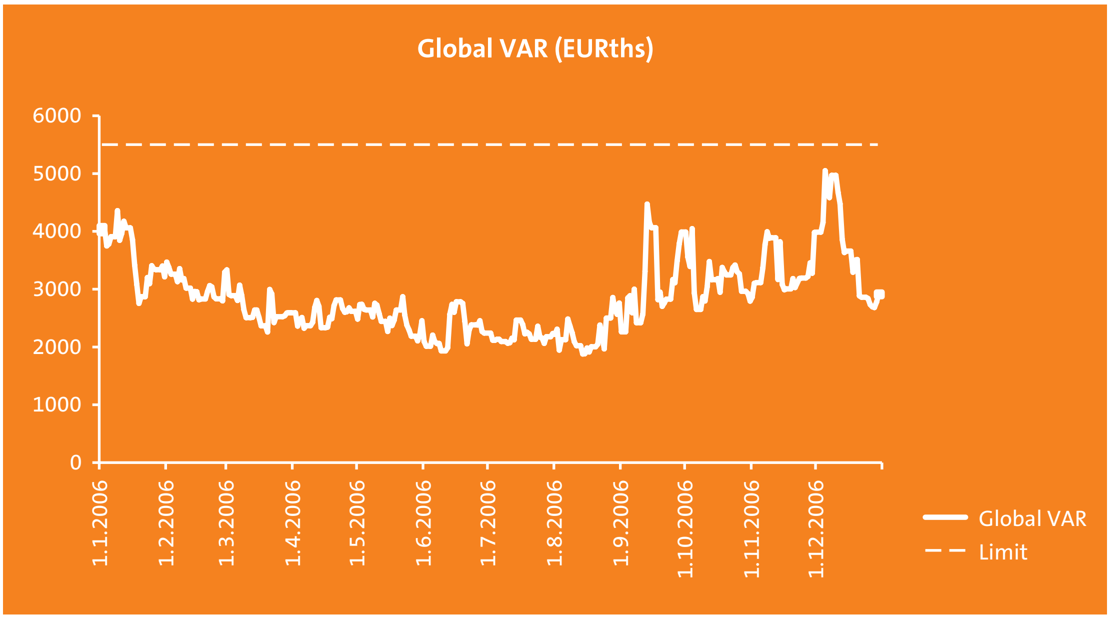
To supplement the system of risk management, the Bank also uses other methods of risk monitoring, such as interest rate sensitivity (BPV–Basis Point Value) and stop-loss limits.

risk in 2006

The risk of ČSOB's trading book is monitored by a system of limits with a uniform basic structure within the whole KBC Group, supplemented by a local limits structure. The market risk of the trading portfolio represents Global Historical Value-at-Risk (VAR), which contains foreign exchange and interest rate risks. Throughout the year, Global VAR moved within the approved limits of EUR 5.5 m with a maximum utilisation of EUR 5.05 m. This limit was increased by EUR 3 m in January 2007 intended for asset swap proprietary trading. The following table shows utilization of the Global VAR limit during 2006.

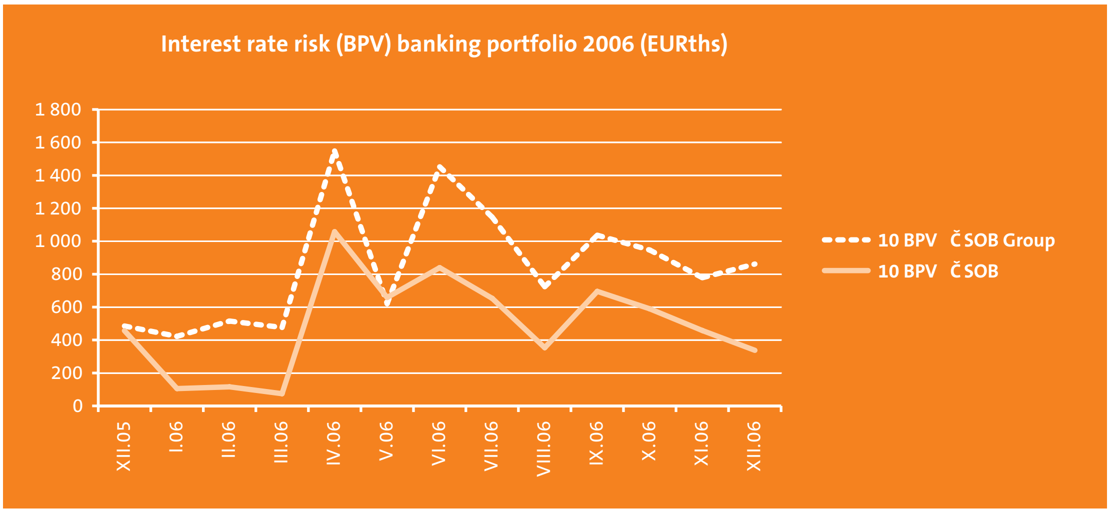
utilization of the Bank's limit for market risk from trading operation (EURths)

	Limit	Average	Maximum	31.12.2006
Global VAR	5,500	2,860	5,050	2,911



the Bank's interest rate risk from investment portfolio (10 BPV sensitivity in EURths)

	Limit	Average	Maximum	31.12.2006
ČSOB Group	8,700	847	1,548	862
ČSOB		653	1,973	832
ALCO position	4,700	96	159	16



investment portfolio

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

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

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

The foreign exchange risk of the banking book is managed with the objective of minimising positions held in individual currencies. Tradable positions are transferred to the trading book, where they are managed within the FX trading limits. Nominal limits are used for the follow-up of the currency risk.

The interest rate risk of the banking book is managed through a system of market-oriented internal prices for products with fixed maturities. For products with non-specified maturities (current accounts, notice deposits) a benchmark maturity mix is established with regard to the actual behavior of the products. Also for the investment of own equity, an investment benchmark is defined.

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

methodology

The interest rate risk of the banking book is measured by means of a system of sensitivity limits, duration and interest rate mismatch limits (interest rate gaps). Stress tests based on the historical volatility of interest rates are applied as an additional measurement tool. These stress tests have been defined based on the principal component analysis technique and capture both parallel and non-parallel movements of the yield curve.

risk in 2006

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

liquidity risk

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

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

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

Medium- and long-term liquidity is monitored on a monthly basis in the currencies in which the Bank holds a significant position. The monitoring is based on the creation of liquidity scenarios based on real cash flows reflecting the probable behaviour of individual assets and liabilities classes. The liquidity stress tests are further developed in line with the KBC Group methodology and encompass both idiosyncratic events, general market events and operational events.

The Bank and the Group show balanced and sufficient liquidity by the proper allocation of their sources, especially by a stable broad client base.

During 2006, the liquidity of the Bank and of the ČSOB Group was sufficient.

stock liquidity ratio in 2006

In %	Limit min.	Average	Minimum	31.12.2006
ČSOB Group	110	561	285	741
ČSOB	110	354	217	217

operational risk

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

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

Since 2004, the systematic collection of data on operational risk events has been provided in compliance with the uniform classification applied in the KBC Group. The data colledted is evaluated and analyzed on a regular basis. Lessons are drawn from past losses so that they can be avoided in the future. Significant events and losses which arise due to operational risk are regularly reported to the Bank's management. In the area of main business and supportive processes, the implementation of steps for risk identification, assessment, monitoring and reporting in key areas of the Bank's activities have continued in 2006. Steps for operational risk mitigation are implemented continuously according to action plans.

During 2006, Group standards for the KBC Group entities were issued and implemented, e.g., accounting controls organization and information classification. The Scenario case study was executed, with the assessment of the Financial Markets of the Mizuho case, where the operational risk loss was caused by "fat fingers" error.

In the area of prevention and procedures leading to reducing potential losses, business continuity plans in individual departments of the Bank with a special focus on defining crucial activities of individual departments are being developed or updated based on new Business Impact Analysis (BIA). These procedures are being implemented in the whole ČSOB Group in 2006 and 2007.

compliance risk

ČSOB has introduced guidelines for money laundering and terrorist financing prevention. Bank employees check clients and are trained to identify any significant deviation from normal or usual business conduct. The Bank applies control procedures for the identification of fraudulent deals in order to consistently protect clients and shareholders.

corporate governance

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

The members of the Board of Directors are elected by the company's General Meeting. They went through mandatory assessment by the Czech National Bank, where their professional qualifications were thoroughly examined. In compliance with the Banking Act, the Bank's Board of Directors has a full-scale executory composition. The connection of the function of the Chairman of the Board of Directors with that of the Chief Executive Officer corresponds with this requirement. Shareholders and clients of the Bank are informed about the composition of the Board of Directors and their professional and personal qualifications by the publication of all relevant data required by applicable laws in regular reports.

The Board of Directors of the Bank performs its tasks within the framework of competencies of the statutory body as defined by the Articles of Association and relevant management documents of the company. The Board of Directors fulfils its tasks with due professional care and bears full responsibility for them as required by the Commercial Code. In 2006, Mr. Patrick Daems resigned from his position on the Board of Directors. In September, Mr. Hendrik Scheerlinck was co-opted to the Board of Directors.

The Board of Directors meets regularly, once a week, and follows a fixed agenda set up on the basis of the strategic timetable of main topics and other documents of an operational nature submitted for discussion by individual members of the Board. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of this top body are attended by the director of the Bank's corporate office, who acts as secretary of the Board and is responsible for preparing the meetings and taking their minutes.

Pursuant to the Bank's Articles of Association, the Supervisory Board of Československá obchodní banka, a. s. has nine members. Six of them are elected by the General Meeting and three of them are elected by the employees of the Bank. In 2006, Messrs. André

Albert Ghislain Bergen, Francois Florquin and Marko Voljč resigned from their positions on the Supervisory Board. The General Meeting elected to the Supervisory Board new members, Messrs. Patrick Roland Georges Zeno Vanden Avenne, John Arthur Hollows and Jan Oscar Cyriel Vanhevel.

In compliance with its plan of work, the Supervisory Board held five meetings in 2006, where it discussed issues falling under its powers according to the Bank's Articles of Association. Background materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by members of the Board of Directors, who personally present materials to be discussed. During its meetings, the Supervisory Board presented requirements for submission of supplementary materials, and these requirements were always satisfied at the next session.

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

According to its authorisations, the Supervisory Board selected an external auditor for the Bank. This auditor regularly attends meetings of the Audit Committee, thus providing for an independent, comprehensive and qualified opinion of whether the Bank's financial statements express the situation and performance of the Bank correctly in all material respects. Within the meaning of the Rules of Conduct of the Supervisory Board, administrative and organisational support is provided by the Banks's corporate office, whose director is responsible for taking the minutes of its meetings.

On 1 May 2006, the shareholder of ČSOB, the KBC Group, started implementing a new organisational structure, which emphasizes its international dimension and makes it easier to develop business initiatives and synergies across the countries where it has been operating. One of the most significant elements of the new arrangement of the KBC Group is the separation of bancassurance operations in Belgium into an independent Central European division. The Central Europe division includes the Czech Republic, Slovakia, Hungary and Poland. So-called Country Teams have been set up within these countries. The main scope of work and the goal of activities of the Country Teams is to improve communication between KBC management and individual "national" managers and the co-ordination of key activities of the KBC Group in individual national markets to achieve possible synergies and build up a more efficient model of bancassurance. The new management structure of the KBC Group does not mean any change in the legal status of individual entities. All decisions regarding business activities of individual companies of the ČSOB Group will further be taken the by existing bodies of these companies.

corporate social responsibility

Just like an individual helps a blind person to cross the street, a handicapped person to climb the stairs or simply contributes to charity, ČSOB helps those in need. The Bank perceives its social responsibility not only within the limits of sponsorship or support of charity organizations, but mainly as a long-term investment in the future. Therefore, ČSOB is environmentally responsible and strives to care for its employees and their families and its clients.

education will put an end to social exclusion

The prevention of social exclusion is the main objective of our activities. We help to overcome social and health barriers and handicaps which form an obstacle to the equal approach to education. We support educational projects for social, ethnic or age groups that would have been endangered by social exclusion if they had not had access to the knowledge, technologies and skills which are standard for the majority.

The program entitled "Equal Chances" consists of three projects, which focus on prevention of social exclusion by supporting various forms of education.

It is the aim of the successful partnership between ČSOB and the Committee of Good Will, lasting for over ten years, to offer chances of education at secondary, higher technical schools and universities to children whose chances – due to their disadvatntages – are not the same as those of their peers. ČSOB contributions, amounting to more than CZK 20 m over the past ten years, are used for scholarships for children from orphanages, socially disadvataged families and children with disabilities. The program, structured as a combination of social and merit scholarship, has tens of successful graduates, including highly qualified experts from prestigious Czech universities.

In cooperation with the civic association Life 90, we try to provide seniors with internet literacy within the successful project "Internet for Seniors". With the growing ratio of seniors leading active lives in the population, the need to overcome the historical debt in their IT literacy is becoming more urgent. Using computers means, amongst other things, having access to cheaper, or free, financial services. That is why ČSOB supports the activities of seniors who try to learn and teach their peers to work with the Internet. A caravan with mobile access to the Internet and trained staff, supported financially and materially by ČSOB, tours villages and towns throughout the Czech Republic. In addition to overcoming their fear of e-communication, seniors can also try out a simulation of e-banking or ATM procedures.

Social integration programs organized by People in Need are the third project which is supported by ČSOB. The activities of People in Need in the Czech Republic focus on the integration of children and young people from socially disadvataged groups of the population. Supported by ČSOB, People in Need dispatch trained field workers to various communities, helping children to acquire the habits of regular preparation for school. The tasks of field volunteers, mostly university students, in this program are to offer the motivation which the children's families have often given up, to open opportunities for children who cannot be mediated by their parents, to help children understand what they should learn and to help them manage the curriculum. Young people can then aviod the vicious circle of social exclusion in which their families live.

new ČSOB headquarters

The new building of the ČSOB Prague headquarters is undoubtedly an example of our care for employees and of our contribution to the sustainable development of the environment. The building will accommodate more than 2,500 employees in environmentally-friendly, flexible offices and has opportunities for relaxation directly on-site. The new building is designed so as to offer variable working spaces with numerous opportunities not only for work requiring maximum concentration, but also for team meetings, project-based work, and easier communication across all professional groups of employees. Naturally, in the building there is room designed for mental relaxation that ise necessary for good performance. Welfare facilities, such as restaurants, a cafe, drugstore and flowershop, are also present.

ČSOB did not forget the surroundings of its new headquarters. When designing the building, the architects and developers used primarily environmentally-friendly technologies and solutions, bringing green vegetation inside the building, into the atriums and to the roof. Therefore, the new headquarters use natural and renewable sources, such as daylight, heat recovery, rainwater used for watering, etc. The new building of the headquarters meets "silver" LEED, which is the globally acknowledged certificate of environmentally-friendly building.

When developing the entire area, the idea was that the building should not invade the original urban concept. Simultaneously with constructing its new HQ, ČSOB repaired and restored the original St. John of Nepomuk Chapel and the area of the original cemetery nearby. The adjacent park, restored by ČSOB, will also be open to the public. By renewing the central area of the former Radlice square, ČSOB returned the history to the district of Radlice.

We are professionals **and we know that this is the only way to be in the financial business. We think, act and communicate clearly and transparently in all circumstances. We use appropriate strength at the right moment and in the right place.**

statement of the Supervisory Board of ČSOB

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

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

3. The separate financial statements were audited by Ernst & Young, Audit & Advisory, s.r.o., člen koncernu. The auditors have opined that the separate financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Bank on a stand-allone basis as at 31 December 2006, and the stand-alone results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

   The auditors have opined that the consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the ČSOB Group on a consolidated basis as at 31 December 2006, and the consolidated results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

4. The Supervisory Board has reviewed the 2006 separate annual financial statements and the proposal for distribution of profit and has accepted the results of the audit of the 2006 separate annual financial statements and has recommended to the General Meeting to approve them. The Supervisory Board has also checked the Board of Director's Report on Relations between Related Parties (Related Parties Report).

financial part

ERNST & YOUNG
Quality In Everything We Do

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Ernst & Young

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

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

14 March 2007
Prague, Czech Republic

consolidated statement of income for the year ended 31 december 2006

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

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

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

consolidated balance sheet as at 31 december 2006

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

(CZKm)	Note	31.12.2006	Restated 31.12.2005
ASSETS			
Cash and balances with central banks	10	18,394	15,017
Due from banks	11	46,676	81,713
Financial assets at fair value through profit or loss	12	173,562	189,086
Investment securities	13	172,171	174,613
Loans and leases	14	308,596	239,357
Pledged assets	12, 13	4,863	3,969
Investments in associated undertakings	40	658	-
Property and equipment	16	11,024	8,545
Goodwill and other intangible assets	17	4,503	4,306
Other assets, including tax assets	18	16,480	14,799
Prepayments and accrued income		5,374	5,133
Total assets		**762,301**	**736,538**
LIABILITIES			
Due to banks	19	32,002	23,664
Financial liabilities at fair value through profit or loss	20	98,651	122,704
Due to customers	21	504,294	472,431
Debt securities in issue	22	40,086	37,384
Other liabilities, including tax liabilities	23	26,816	23,578
Accruals and deferred income		1,813	1,671
Provisions	25	924	1,429
Subordinated liabilities	26	5,182	200
Total liabilities		**709,768**	**683,061**
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	27	5,105	5,105
Share premium account		2,259	2,259
Statutory reserve		18,687	18,687
Cumulative gains not recognised in the statement of income		1,403	1,458
Retained earnings		24,685	25,441
		52,139	52,950
Minority interest		**394**	**527**
Total equity		**52,533**	**53,477**
Total liabilities and equity		**762,301**	**736,538**

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

These consolidated financial statements were approved for issue by the Board of Directors on 14 March 2007 and signed on its behalf by:

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

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

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

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

(CZKm)	Attributable to equity holders of the Bank: Share capital (Note: 27)	Share premium account	Statutory reserve[1)]	Cumulative Gains not recognised in the statement of income [2)]	Retained earnings	Minority interest	Total Equity
At 1 January 2005	**5,105**	**2,259**	**18,687**	**863**	**18,957**	**356**	**46,227**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	335	-	-	335
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	1,001	-	-	1,001
Foreign currency translation	-	-	-	(27)	-	-	(27)
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(227)	-	(4)	(231)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(487)	-	-	(487)
Net after-tax gains not recognised in the statement of income	-	-	-	595	-	(4)	591
Net profit	-	-	-	-	10,328	175	10,503
Total recognized income for 2005	-	-	-	595	10,328	171	11,094
Dividends paid	-	-	-	-	(3,844)	-	(3,844)
At 31 December 2005	**5,105**	**2,259**	**18,687**	**1,458**	**25,441**	**527**	**53,477**
At 1 January 2006	**5,105**	**2,259**	**18,687**	**1,458**	**25,441**	**527**	**53,477**
Net after-tax unrealised (losses) on available-for-sale securities	-	-	-	(484)	-	-	(484)
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	879	-	-	879
Foreign currency translation	-	-	-	(17)	-	-	(17)
Net after-tax losses on available-for-sale securities transferred to net profit	-	-	-	3	-	-	3
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(436)	-	-	(436)
Net after-tax (losses) not recognised in the statement of income	-	-	-	(55)	-	-	(55)
Net profit	-	-	-	-	9,543	102	9,645
Total recognized income for 2006	-	-	-	(55)	9,543	102	9,590
Change in consolidation scope	-	-	-	-	28	(102)	(74)
Dividends paid (Note: 38)	-	-	-	-	(10,327)	-	(10,327)
Dividends of subsidiaries	-	-	-	-	-	(133)	(133)
At 31 December 2006	**5,105**	**2,259**	**18,687**	**1,403**	**24,685**	**394**	**52,533**

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

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

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

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

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

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

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

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

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

1. introduction

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company and has its registered office at Na Příkopě 854/14 Praha 1, Corporate ID 00001350. It is a universal bank operating in the Czech Republic and the Slovak Republic providing a wide range of financial services and products in Czech Crowns, Slovak Crowns and foreign currencies to its domestic and foreign customers.

Furthermore, the ČSOB Group (Note: 40) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investment, pension insurance, leasing, factoring and distribution of life and non-life insurance products.

2. summary of significant accounting policies

a) basis of presentation

The ČSOB Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS). The consolidated financial statements have been prepared under the historical cost convention modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts.

The consolidated financial statements are expressed in millions of Czech Crowns (CZKm).

The preparation of consolidated financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, include the classification of securities held-to-maturity (Note: 13), assets held-for-sale (Note: 18), allowances and provisions for credit losses (Note: 15), provisions (Note: 25), the fair value of financial instruments (Note: 12, 20), deferred income tax (Note: 24), other contingent assets and liabilities (Note: 29), the impairment of securities in the available-for-sale portfolio (Note: 13) and the impairment of goodwill (Note: 17) and are disclosed further.

b) consolidation

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

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

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

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

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

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

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

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

c) segment reporting

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

d) foreign currency translation

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

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

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

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

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

e) interest income and expense

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

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

f) fees and commissions paid and received

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

g) contribution to pension fund clients

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

h) financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in Net trading income in the period in which they arise.

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

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

i) fair valuation

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

j) recognition and derecognition of financial instruments

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

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

k) derivative financial instruments

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

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

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

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;

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

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

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

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

l) securities repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as Pledged assets whereas the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in Due to banks, Financial liabilities at fair value through profit or loss or Due to customers, as appropriate. Securities reclassified as Pledged assets are further valued according to the rules for the portfolio in which they were originally held.

Securities purchased under agreements to resell ('reverse repos') are recorded as Due from banks, Financial assets at fair value through profit or loss or Loans and leases, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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

m) leases

Group company is the lessee

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

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

Group company is the lessor

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

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

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

n) impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. This assessment is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

– significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets carried at fair value

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

o) property and equipment

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

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

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

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

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

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

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

p) goodwill and other intangible assets

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

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

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

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

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

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

Software	3 years
Other intangible assets	5 years

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

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

q) income taxes

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

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

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

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

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

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

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

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

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

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

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

t) financial guarantees

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

u) provisions

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

v) employee retirement benefits

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

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

w) offsetting of financial assets and liabilities

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

x) cash and cash equivalents

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

y) fiduciary activities

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

z) IFRS/IAS accounting and reporting developments

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

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

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

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

IAS 39 and IFRS 4 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

Other new standards, amendments or interpretations:

- IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006);
- IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006);
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards (effective from 1 January 2006);
- IFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006).

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

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. IFRS 7 will have significant impact on the structure of consolidation statements and it will have no impact on equity and profit for the year.

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

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives effective for periods beginning on or after 1 June 2006, that is from 1 January 2007).
- IFRIC 10, Interim Reporting and Impairment (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007).

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

aa) comparatives

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

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

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

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

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

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

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

An explanation of the adjustments is as follows:

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

3. net interest income

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

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

4. net fee and commission income

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

5. net trading income

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

(CZKm)	2006	Reclassified 2005
Net trading income – as reported	2,761	2,613
Net interest income (Note: 3)	1,739	2,601
	4,500	**5,214**
Foreign exchange	3,478	2,321
Fixed-income securities and money market	1,478	3,166
Commodity contracts	13	-
Interest rate contracts	(469)	(273)
	4,500	**5,214**

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

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

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

6. other operating income

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

7. general administrative expenses

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

Personnel expenses

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

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Compensation Committee of the Supervisory Board. The key performance indicator of the Annual Performance Bonus is based on the growth of the net consolidated profit per share within the calendar year.

As a motivating tool, the members of the Board of Directors were participating in a Share Purchase Programme, which was launched for the years 2004 – 2006, that allowed them to purchase the Bank's shares in amounts commensurate to the Annual Performance Bonus. Following the cancellation of the Programme the Board of Directors are expected to receive compensation of CZK 269 m as an equivalent to the cancelled Program. The compensation is subject to the ratification of the Annual General Meeting.

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

Retirement benefits

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

Other general administrative expenses

(CZKm)	2006	2005
Information technology	1,249	1,624
Marketing and public relations	1,177	1,143
Rent and maintenance	1,133	941
Retail service fees	1,009	817
Telecommunications and postage	673	636
Administration	260	281
Professional fees	252	315
Power and fuel consumption	193	166
Travel and transportation	193	155
Training	159	120
Insurance	71	79
Other	979	710
	7,348	**6,987**

8. other operating expenses

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

9. income tax expense

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

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

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

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

10. cash and balances with central banks

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

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

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

11. due from banks

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

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

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

12. financial assets at fair value through profit or loss

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

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

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

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

13. investment securities

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

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

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

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

schedule of activity in investment securities

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

14. loans and leases

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

Finance lease receivables may be analysed as follows:

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

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

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

15. impairment losses on loans and advances

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

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

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

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

16. property and equipment

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

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

17. goodwill and other intangible assets

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

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

18. other assets, including tax assets

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

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

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

19. due to banks

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

20. financial liabilities at fair value through profit or loss

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

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

21. due to customers

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

22. debt securities in issue

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

23. other liabilities, including tax liabilities

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

24. deferred income taxes

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

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

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

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

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

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

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

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

25. provisions

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

Staff reduction charges

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

Onerous rent contract losses

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

26. subordinated liabilities

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

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

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

27. share capital and treasury shares

The total authorised share capital as at 31 December 2006 and 2005 was CZK 5,105 m and composed of 5,105,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

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

There were no Treasury shares held by the Group at 31 December 2006 and 2005.

28. contingent liabilities and commitments

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

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

29. other contingent assets and liabilities

a) litigation

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

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

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

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

b) taxation

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

c) assets under management and custody

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

d) operating lease commitments (Group is the lessee)

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

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

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

e) operating lease receivables (Group is the lessor)

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

(CZKm)	31. 12. 2006	31. 12. 2005
Not later than 1 year	292	128
Later than 1 year and not later than 5 years	585	179
Later than 5 years	25	16
	902	**323**

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

30. derivatives

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

Credit risk associated with derivative financial instruments

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

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

All derivatives are traded over-the-counter.

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

Trading derivatives

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

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2006 and 2005 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

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

Hedging derivatives

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

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

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

Starting in 2005, the Group hedges part of the currency translation risk of net investments in foreign operations through cross currency interest rate swaps and currency deposits. Deposits amounting to CZK 489 m (31 December 2005: CZK 576 m) were designated as hedges and gave rise to currency losses for the year of CZK 58 m (31 December 2005: gains CZK 23 m), which have been deferred in equity.

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

(CZKm)	31.12.2006 Contract / Notional	31.12.2006 Fair value Positive	31.12.2006 Fair value Negative	Restated 31.12.2005 Contract / Notional	Restated 31.12.2005 Fair value Positive	Restated 31.12.2005 Fair value Negative
Cash flow hedges						
Single currency interest rate swaps	27,726	453	53	31,061	734	168
Cross currency interest rate swaps	33,906	5,119	285	32,894	2,715	245
	61,632	**5,572**	**338**	**63,955**	**3,449**	**413**
Net investment hedges						
Cross currency interest rate swaps	2,970	-	148	1,815	-	18
Total hedging derivatives (Notes: 18, 23)	**64,602**	**5,572**	**486**	**65,770**	**3,449**	**431**

31. cash and cash equivalents

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

(CZKm)	31.12.2006	Restated 31.12.2005
Cash and balances with central banks	10,372	10,074
Financial assets at fair value through profit or loss	18,328	5,401
Investment securities	5,772	10,078
Due from banks, demand	2,593	3,407
Due to banks, demand	(6,360)	(2,894)
Cash and cash equivalents	**30,705**	**26,066**

32. segment reporting

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

Segment reporting information by customer segments for 2006

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

Segment reporting information by customer segments for 2005 (restated)

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Group Total
Net interest income	11,164	1,801	133	2,039	629	15,766
Non-interest income	6,584	2,129	3,193	953	1,200	14,059
Segment expenses	(8,475)	(859)	(525)	(381)	(5,646)	(15,886)
Segment result	9,273	3,071	2,801	2,611	(3,817)	13,939
Impairment losses and provisions	(391)	(4)	1,073	-	(816)	(138)
Contribution to pension fund clients	(402)	-	-	-	-	(402)
Profit before taxation	8,480	3,067	3,874	2,611	(4,633)	13,399
Income tax (expense)/benefit	(2,160)	(803)	(255)	(679)	1,001	(2,896)
Segment profit	6,320	2,264	3,619	1,932	(3,632)	10,503
Minority interests	-	-	-	-	(175)	(175)
Net profit	**6,320**	**2,264**	**3,619**	**1,932**	**(3,807)**	**10,328**
Assets	**149,787**	**99,057**	**795**	**437,515**	**49,384**	**736,538**

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

Definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover less than CZK 300 m.
Corporate: Companies with a turnover greater than CZK 300 m and non-banking institutions in the financial sector.
Historic: Exceptional loans with Czech state coverage and certain other loans granted by the Group to previously state-owned companies.
Financial markets and ALM: Asset Liability Management segment, Dealing segment.
Other: Non-banking subsidiaries, Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 107 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

The Bank operates in the Czech Republic and the Slovak Republic. The Group's secondary segment reporting by geographical segment for 2006 is as follows:

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

The geographical segment reporting for 2005 is as follows:

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

33. currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2006. Included in the table are the significant net on- and off-balance sheet assets and liabilities positions (trading and banking) of the Group, categorised by currency.

(CZKm)	31.12.2006	31.12.2005
USD	(289)	33
SKK	(315)	(2,702)
EUR	2,369	2,891

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

34. interest rate risk

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

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

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

Set out below is management's estimate of the interest rate sensitivity gap positions for the Group in the major currencies as at 31 December 2006:

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

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

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

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

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

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

35. liquidity risk

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

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

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

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	9,139	-	-	-	-	5,878	15,017
Due from banks	3,407	56,346	1,113	20,285	561	1	81,713
Financial assets at fair value through profit or loss (including pledged assets)	-	148,087	7,151	6,610	22,424	5,704	189,976
Investment securities (including pledged assets)	-	13,516	17,740	75,831	67,396	3,209	177,692
Loans and leases	5,040	37,061	34,593	62,656	60,411	39,596	239,357
Other financial assets	305	2,352	5,939	150	38	8,709	17,493
Total assets	17,891	257,362	66,536	165,532	150,830	63,097	721,248
Liabilities							
Due to banks	2,894	7,056	27	2,149	4,341	7,197	23,664
Financial liabilities at fair value through profit or loss	-	95,158	20,957	120	50	6,419	122,704
Due to customers	225,780	153,360	28,895	43,139	21,087	170	472,431
Debt securities in issue	1	21,326	263	11,493	4,299	2	37,384
Other financial liabilities	842	1,401	655	520	263	19,426	23,107
Subordinated debts	-	-	-	200	-	-	200
Total liabilities	229,517	278,301	50,797	57,621	30,040	33,214	679,490
Net liquidity gap	**(211,626)**	**(20,939)**	**15,739**	**107,911**	**120,790**	**29,883**	**41,758**

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

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

The unspecified band includes assets and liabilities for which the remaining maturity could not be reliably estimated (e.g. mandatory minimum reserves, overdue loans, clearing accounts).

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

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

36. fair values of financial assets and liabilities

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

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

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

Due from banks

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

Investment securities

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

Loans and leases

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

Due to banks and subordinated liabilities

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

Due to customers and subordinated liabilities

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

Debt securities in issue

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

37. related parties

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

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

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

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

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

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

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

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

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

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

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

38. dividends

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

39. ČSOB's shareholders

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

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

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

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

40. consolidated companies

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

Name	Country of incorporation	31.12.2006	31.12.2005
Subsidiaries			
Auxilium, a.s.	Czech Republic	100	100
Bankovní informační technologie, s.r.o.	Czech Republic	100	100
Business Center, s.r.o.	Slovak Republic	100	100
Centrum Radlická, a.s.	Czech Republic	-	-
ČSOB Asset Management, a.s.	Czech Republic	21	21
ČSOB Asset Management, správ. spol., a.s.	Slovak Republic	100	100
ČSOB distribution, a.s.	Slovak Republic	100	100
ČSOB d.s.s., a.s.	Slovak Republic	100	100
ČSOB Factoring, a.s.	Czech Republic	100	50
ČSOB Factoring a.s.	Slovak Republic	100	50
ČSOB Investiční společnost, a.s.	Czech Republic	91	91
ČSOB Investment Banking Services, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Czech Republic	100	100
ČSOB Leasing, a.s.	Slovak Republic	100	100
ČSOB Leasing poisťovací maklér, s.r.o.	Slovak Republic	100	100
ČSOB Leasing pojišťovací makléř, s.r.o.	Czech Republic	100	100
ČSOB Penzijní fond Progres, a.s.	Czech Republic	100	100
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100	100
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100	100
ČSOB výnosový, ČSOB Investiční společnost, a.s., otevřený podílový fond	Czech Republic	100	95
Hornický penzijní fond Ostrava, a.s.	Czech Republic	-	100
Hypoteční banka, a.s.	Czech Republic	100	100
Motokov a.s.	Czech Republic	69	69
Zemský penzijní fond, a.s.	Czech Republic	100	-
Joint venture			
Českomoravská stavební spořitelna, a.s.	Czech Republic	55	55
Associate			
ČSOB Pojišťovna, a.s.	Czech Republic	25	-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(CZKm)	31.12.2006	31.12.2005
Due from banks	3,800	6,393
Investment securities	34,995	34,380
Loans and leases	34,063	28,330
Due to banks and Subordinated liabilities	523	1,438
Due to customers	70,299	65,071
Net interest income	845	630
Net fee and commission income	463	435
General administrative expenses	611	610

41. events after the balance sheet date

Buy-out of minority shareholders of the Bank

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

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

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

Ernst & Young
Quality In Everything We Do

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Ernst & Young

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

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

14 March 2007
Prague, Czech Republic

separate statement of income for the year ended 31 december 2006

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

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

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

separate balance sheet as at 31 december 2006

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

(CZKm)	Note	31.12.2006	Reclassified 31.12.2005
ASSETS			
Cash and balances with central banks	10	17,850	14,838
Due from banks	11	41,818	75,369
Financial assets at fair value through profit or loss	12	181,481	193,527
Investment securities	13	133,270	132,133
Loans	14	176,024	139,753
Pledged assets	12, 13	4,863	4,209
Investments in subsidiaries, associates and joint ventures	37	27,753	26,985
Property and equipment	16	5,892	5,975
Goodwill and other intangible assets	17	3,289	3,234
Other assets, including tax assets	18	16,898	13,192
Prepayments and accrued income		4,039	3,956
Total assets		**613,177**	**613,171**
LIABILITIES			
Due to banks	19	13,911	10,677
Financial liabilities at fair value through profit or loss	20	99,380	123,224
Due to customers	21	413,353	391,865
Debt securities in issue	22	16,257	21,854
Other liabilities, including tax liabilities	23	24,139	21,066
Accruals and deferred income		247	239
Provisions	25	805	1,340
Subordinated liabilities	26	4,982	-
Total liabilities		**573,074**	**570,265**
EQUITY			
Share capital	27	5,105	5,105
Share premium account		1,423	1,423
Statutory reserve		18,687	18,687
Cumulative gains not recognised in the statement of income		1,366	1,419
Retained earnings		13,522	16,272
Total equity		**40,103**	**42,906**
Total liabilities and equity		**613,177**	**613,171**

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

These separate financial statements were approved for issue by the Board of Directors on 14 March 2007 and signed on its behalf by:

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

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

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

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

(CZKm)	Share capital (Note: 27)	Share premium account	Statutory reserve[1)]	Cumulative gains not recognised in the statement of income [2)]	Retained earnings	Total Equity
At 1 January 2005	**5,105**	**1,423**	**18,687**	**669**	**11,712**	**37,596**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	415	-	415
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	982	-	982
Foreign currency translation	-	-	-	(12)	-	(12)
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(148)	-	(148)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(487)	-	(487)
Net after-tax gains not recognised in the statement of income	-	-	-	750	-	750
Net profit	-	-	-	-	8,404	8,404
Total recognized income for 2005	-	-	-	750	8,404	9,154
Dividends paid	-	-	-	-	(3,844)	(3,844)
At 31 December 2005	**5,105**	**1,423**	**18,687**	**1,419**	**16,272**	**42,906**
Net after-tax unrealised (losses) on available-for-sale securities	-	-	-	(511)	-	(511)
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	860	-	860
Foreign currency translation	-	-	-	(5)	-	(5)
Net after-tax losses on available-for-sale securities transferred to net profit	-	-	-	39	-	39
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(436)	-	(436)
Net after-tax losses not recognised in the statement of income	-	-	-	(53)	-	(53)
Net profit	-	-	-	-	7,577	7,577
Total recognized income for 2006	-	-	-	(53)	7,577	7,524
Dividends paid (Note: 39)	-	-	-	-	(10,327)	(10,327)
At 31 December 2006	**5,105**	**1,423**	**18,687**	**1,366**	**13,522**	**40,103**

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

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

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

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

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

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

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

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

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

1. introduction

Československá obchodní banka, a.s. (the Bank or ČSOB) is a Czech joint-stock company and has its registered office at Na Příkopě 854/14 Praha 1, Corporate ID 00001350. It is a universal bank operating in the Czech Republic and the Slovak Republic providing a wide range of financial services and products in Czech Crowns, Slovak Crowns and foreign currencies to its domestic and foreign customers.

2. summary of significant accounting policies

a) basis of presentation

The separate financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS). They have been prepared under the historical cost convention, modified by the revaluation of available-for-sale securities, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. Preparation of the separate financial statements is required by the Act on Accounting. Simultaneously, the Bank prepares also consolidated financial statements of ČSOB Group in accordance with the EU IFRS.

The financial statements are expressed in millions of Czech Crowns (CZKm).

The preparation of financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include the classification of securities on held-to-maturity (Note: 13), assets held-for-sale (Note: 18), allowances and provisions for credit losses (Note: 15), provisions (Note: 25), the fair value of financial instruments (Notes: 12, 20), deferred income tax (Note: 24), other contingent assets and liabilities (Note: 29), the impairment of securities in the available-for-sale portfolio (Note: 13) and the impairment of goodwill (Note: 17) and are disclosed further.

b) segment reporting

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

c) foreign currency translation

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

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

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

- assets and liabilities at the year-end exchange rates;
- income and expenses at average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

– all resulting exchange differences are recognised as a separate component of equity in Cumulative gains not recognised in the statement of income.

d) investments in subsidiaries, associates and jointly controlled entities

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

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

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

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

e) interest income and expense

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

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

f) fees and commissions paid and received

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

g) financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in Net trading income in the period in which they arise.

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

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

h) fair valuation

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

i) recognition and derecognition of financial instruments

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

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

j) derivative financial instruments

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

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

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

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

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

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

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

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

k) securities repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as Pledged assets whereas the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in Due to banks, Financial liabilities at fair value through profit or loss or Due to customers, as appropriate. Securities reclassified as Pledged assets are further valued according to the rules for the portfolio in which they were originally held.

Securities purchased under agreements to resell ('reverse repos') are recorded as Due from banks, Financial assets at fair value through profit or loss or Loans, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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

l) leases

Bank is the lessee

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

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

m) impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. This assessment is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

– significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assets carried at fair value

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

n) property and equipment

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

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

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

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

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

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

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

o) goodwill and other intangible assets

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

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

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

Intangible assets include software, licences and other intangible assets.

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

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

Software	3 years
Other intangible assets	5 years

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

p) income taxes

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

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

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

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

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

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

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

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

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

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

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

s) financial guarantees

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

t) provisions

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

u) employee retirement benefits

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

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

v) offsetting of financial assets and liabilities

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

w) cash and cash equivalents

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

x) fiduciary activities

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

y) IFRS/IAS accounting and reporting developments

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

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

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

IAS 39 and IFRS 4 (Amendments) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

Other new standards, amendments or interpretations:

- IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006);
- IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006);
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards (effective from 1 January 2006);
- IFRS 6 (Amendment) – Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006).

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

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. IFRS 7 will have significant impact on the structure of the Bank's financial statements and it will have no impact on equity and profit for the year.

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

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives effective for periods beginning on or after 1 June 2006, that is from 1 January 2007).
- IFRIC 10, Interim Reporting and Impairment (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007).

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

z) comparatives

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

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

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

(CZKm)	31.12.2005 As reported	Reclassifications	31.12.2005 Reclassified
Contribution to the Deposit Insurance Fund			
Other operating expenses (Note: 8)	(969)	435	(534)
Net fee and commission income (Note: 4)	5,805	(435)	5,370
Interest expense from issued bonds and term deposits classified as financial instruments at fair value through profit or loss			
Interest paid from liabilities to banks (Note: 3)	2,186	(1,244)	942
Interest paid from debt securities in issue (Note: 3)	442	(43)	399
Interest paid from financial liabilities at fair value through profit or loss (Note: 3)	772	1,287	2,059

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

(CZKm)	31.12.2005 As reported	Reclassifications	31.12.2005 Reclassified
Intangible assets			
Property and equipment (Note: 16)	6,520	(545)	5,975
Goodwill and intangible assets (Note: 17)	2,689	545	3,234
Issued bonds classified as financial instruments at fair value through profit or loss			
Debt securities in issue (Note: 22)	22,354	(500)	21,854
Financial liabilities at fair value through profit or loss (Note: 20)	122,724	500	123,224

3. net interest income

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

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

4. net fee and commission income

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

5. net trading income

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

(CZKm)	2006	Reclassified 2005
Net trading income – as reported	2,511	2,697
Net interest income (Note: 3)	1,887	2,694
	4,398	**5,391**
Foreign exchange	3,322	2,395
Fixed-income securities and money market	1,629	3,268
Commodity contracts	13	-
Interest rate contracts	(566)	(272)
	4,398	**5,391**

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

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

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

6. other operating income

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

7. general administrative expenses

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

Personnel expenses

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

Management bonus scheme

Included within Salaries and other short-term benefits of senior management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Compensation Committee of the Supervisory Board. The key performance indicator of the Annual Performance Bonus is based on the growth of the net consolidated profit per share within the calendar year.

As a motivating tool, the members of the Board of Directors were participating in a Share Purchase Programme, which was launched for the years 2004 – 2006, that allowed them to purchase the Bank's shares in amounts commensurate to the Annual Performance Bonus. Following the cancellation of the Programme, the Board of Directors are expected to receive compensation of CZK 269 m as an equivalent to the cancelled Program. The compensation is subject to the ratification of the Annual General Meeting.

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

Retirement benefits

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

Other general administrative expenses

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

8. other operating expenses

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

9. income tax expense

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

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

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

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

10. cash and balances with central banks

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

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

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

11. due from banks

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

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

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

12. financial assets at fair value through profit or loss

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

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

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

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

13. investment securities

Investment securities by portfolio and issuer as at 31 December 2006

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

Investment securities by portfolio and issuer as at 31 December 2005

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

Schedule of Activity in Investment Securities

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

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

14. loans

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

15. impairment losses on loans and advances

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

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

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

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

16. property and equipment

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

17. goodwill and other intangible assets

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

Goodwill has been allocated to the Retail/SME segment, representing a cash-generating unit (Note: 32). The recoverable amount has been determined based on a value in use calculation. That calculation uses cash-flow projections based on the financial budgets approved by management covering a three-year period, and a discount rate based on the zero coupon rate. Cash flows beyond the three-year period have been extrapolated to five years using the expected average growth rate. The discount rate varies from 2.48 % to 3.26 % in the five-year period. Management believes that any potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

18. other assets, including tax assets

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

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

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

19. due to banks

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

20. financial liabilities at fair value through profit or loss

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

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

21. due to customers

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

22. debt securities in issue

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

23. other liabilities, including tax liabilities

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

24. deferred income taxes

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

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

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

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

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

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

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

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

25. provisions

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

Staff reduction charges

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

Onerous rent contract losses

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

26. subordinated liabilities

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

27. share capital and treasury shares

The total authorised share capital as at 31 December 2006 and 2005 was CZK 5,105 m and composed of 5,105,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

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

There were no Treasury shares held by the Bank at 31 December 2006 and 2005.

28. contingent liabilities and commitments

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

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

29. other contingent liabilities

a) litigation

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

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

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

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

b) taxation

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

c) assets under management and custody

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

d) operating lease commitments

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

(CZKm)	31. 12. 2006	31. 12. 2005
Not later than 1 year	84	95
Later than 1 year and not later than 5 years	181	174
Later than 5 years	123	141
	388	**410**

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

30. derivatives

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

Credit risk associated with derivative financial instruments

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

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

All derivatives are traded over-the-counter.

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

Trading derivatives

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

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2006 and 2005 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

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

Hedging derivatives

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

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

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

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

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

31. cash and cash equivalents

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

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

32. segment reporting

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

Segment reporting information by customer segments for 2006

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

Segment reporting information by customer segments for 2005

(CZKm)	Retail / SME	Corporate	Historic	Financial markets and ALM	Other	Total
Net interest income	7,496	1,681	110	2,039	523	11,849
Non-interest income	4,911	1,908	3,302	953	1,241	12,315
Segment expenses	(5,984)	(652)	(481)	(381)	(5,693)	(13,191)
Segment result	6,423	2,937	2,931	2,611	(3,929)	10,973
Impairment losses and provisions	(99)	27	474	-	(817)	(415)
Profit before taxation	6,324	2,964	3,405	2,611	(4,746)	10,558
Income tax (expense) / benefit	(1,644)	(771)	(100)	(679)	1,040	(2,154)
Net profit	**4,680**	**2,193**	**3,305**	**1,932**	**(3,706)**	**8,404**
Assets	**47,051**	**93,360**	**795**	**437,515**	**34,450**	**613,171**

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

Definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover less than CZK 300 m.
Corporate: Companies with a turnover greater than CZK 300 m and non-banking institutions in the financial sector.
Historic: Exceptional loans with Czech state coverage and certain other loans granted by the Bank to previously state-owned companies.
Financial markets and ALM: Asset Liability Management segment, Dealing segment.
Other: Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.2 m customer accounts with deposits amounting to approximately CZK 107 bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail/SME customer segment.

The Bank operates in the Czech Republic and the Slovak Republic. The Bank's secondary segment reporting by geographical segment for 2006 is as follows:

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

The geographical segment reporting for 2005 is as follows:

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

33. currency risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2006. Included in the table are the significant net on- and off-balance sheet assets and liabilities positions (trading and banking) of the Bank, categorised by currency.

(CZKm)	31.12.2006	31.12.2005
EUR	1,642	2,421
USD	(341)	(49)
SKK	(1,778)	(2,993)

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

34. interest rate risk

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

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

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

Set out below is management's estimate of the interest rate sensitivity gap positions for the Bank in the major currencies as at 31 December 2006:

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

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

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

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

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

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

35. liquidity risk

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

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

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

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	8,960	-	-	-	-	5,878	14,838
Due from banks	918	53,752	1,321	18,485	893	-	75,369
Financial assets at fair value through profit or loss (including pledged assets)	-	148,705	7,161	9,577	23,278	5,696	194,417
Investment securities (including pledged assets)	-	6,758	11,082	55,142	61,600	870	135,452
Loans	4,461	35,129	19,712	29,191	11,708	39,552	139,753
Other financial assets	-	1,836	5,507	-	-	7,753	15,096
Total assets	14,339	246,180	44,783	112,395	97,479	59,749	574,925
Liabilities							
Due to banks	2,906	4,026	98	291	3,356	-	10,677
Financial liabilities at fair value through profit or loss	-	95,163	20,964	611	50	6,436	123,224
Due to customers	226,066	126,596	15,613	9,215	14,221	154	391,865
Debt securities in issue	1	18,735	263	1,456	1,397	2	21,854
Other financial liabilities	-	128	463	-	-	19,192	19,783
Total liabilities	228,973	244,648	37,401	11,573	19,024	25,784	567,403
Net liquidity gap	**(214,634)**	**1,532**	**7,382**	**100,822**	**78,455**	**33,965**	**7,522**

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

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

The unspecified band includes assets and liabilities for which the remaining maturity could not be reliably estimated (e.g. mandatory minimum reserves, overdue loans, clearing accounts).

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

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

36. fair values of financial assets and liabilities

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

	31.12.2006		31.12.2005	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Due from banks	41,818	41,777	75,369	75,408
Investment securities	81,235	82,715	79,152	82,540
Loans	176,024	176,024	139,753	140,358
FINANCIAL LIABILITIES				
Due to banks and subordinated liabilities	18,893	18,901	10,677	10,839
Due to customers	413,353	413,364	391,865	391,865
Debt securities in issue	16,257	16,266	21,854	22,085

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

Due from banks

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

Investment securities

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

Loans

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

Due to banks and subordinated liabilities

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

Due to customers

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

Debt securities in issue

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

37. significant subsidiary, associate and joint venture companies

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

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

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

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

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

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

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

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

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

38. related parties

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

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

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

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

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

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

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

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

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

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

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

39. dividends

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

40. ČSOB's shareholders

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

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

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

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

41. events after the balance sheet date

Buy-out of minority shareholders of the Bank

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

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

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

a team acts as one body and one soul.
The success of our team is coordinated
and organized accordingly.
Only our strengths can be acknowledged.

related parties report

report of the board of directors of Československá obchodní banka, a. s. on relations between related parties

according to the provision of Section 66a of Act No. 513/1991 Coll., the Commercial Code, as amended (hereinafter referred to as the "ComC").

1. controlled entity

Československá obchodní banka, a. s.
Praha - Nové Město, Postcode 115 20, Na Příkopě 854/14
Company ID No.: 00001350
Incorporated in the Commercial Register, Section B XXXVI, File 46, maintained at the Municipal Court in Prague
(hereinafter referred to as "ČSOB"or the "Bank")

2. ultimate controlling entity

KBC Group NV
Belgium, 1080 Brussels, Havelaan 2

3. accounting period

This report describes relations between related parties in accordance with Section 66a of the Commercial Code for the accounting period from 1 January 2006 to 31 December 2006 (hereinafter referred to as the "accounting period").

4. relations between related parties

In the accounting period, ČSOB maintained relations with related parties in the following areas:

4.1 basic banking transactions

Note: The balances of these transaction arrangements are indicated in the Separate Financial Statements (Note: 38 Related Parties).

a. accounts, deposit products, cash payments, domestic and international cash management

In the accounting period, ČSOB concluded contracts with some of the related entities for the provision of services relating to the maintenance of various types of accounts, current and term accounts, accounts for payments of deposits intended to acquire or increase participation in a company, and for the provision of the products Cash Management NightLine, Fictive Cash Pooling and Real One-Way Cashpooling, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services according to the Price List. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. payment cards

In the accounting period, ČSOB concluded contracts with some of the related entities for the issue of payment cards, or they were issued in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services according to the Price List. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. electronic banking

In the accounting period, ČSOB concluded contracts with some of the related entities on the basis of which it provided the following electronic banking products: ČSOB Linka 24, ČSOB Internetbanking, ČSOB Businessbanking, ČSOB MultiCash 24 and ČSOB Edifact 24, or these products were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid fees for these services according to the Price List. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. cheques and bills of exchange

In the accounting period, ČSOB concluded with some of the related entities contracts for the procurement of bills of exchange and their custody and contracts for securing the bill-of-exchange programme, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration provided by the related entities consisted of contractual fees and commissions for placing the bills of exchange. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

e. credit products and guarantees

In the accounting period, ČSOB concluded contracts with some of the related entities on the basis of which it provided the following credit products: overdrafts, commercial loans, revolving loans, special purpose loans, subordinated loans and current account overdrafts, and accepted and issued guarantees, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual fees and interest for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. investment services

In the accounting period, ČSOB concluded contracts with some of the related entities for the purchase and sale of investment instruments, ISDA contracts, custody contracts, contracts for the settlement of transactions with investment instruments, contracts for the administration of securities, agreements on the authorisation of fax instructions regarding settlement and administration of securities, or these services were provided in the accounting period on the basis of contracts and agreements concluded in previous accounting periods. The consideration provided by the related entities consisted of commissions and contractual fees. Contracts and agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts and agreements.

g. mortgage bonds

In the accounting period, ČSOB concluded mandate contracts with some of the related entities for the procurement of an issue of mortgage bonds issued in the domestic market within the framework of a bond programme, contracts for subscription and purchase of mortgage bonds, contracts for the administration of the issue and arrangement of payments, or these services were provided in the accounting period on the basis of contracts concluded in previous accounting periods. The related entities paid contractual commissions for these services. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

4.2 other relations

4.2.1 contracts

a. leasing contracts

In the accounting period, ČSOB concluded leasing contracts with some of the related entities and, in certain cases, related entities perform activities performance in the accounting period on the basis of leasing contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of financial leasing. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

b. insurance contracts

In the accounting period, ČSOB concluded insurance contracts with some of the related entities and, in certain cases, related entities performed activities in the accounting period on the basis of insurance contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of insurance and insurance compensation. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

c. lease and rent contracts

In the accounting period, ČSOB concluded contracts with some of the related entities for the rent of non-residential areas, parking places and movable assets and, in certain cases, related entities preformed activities in the accounting period on the basis of rent contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the lease of certain items. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

d. co-operation agreements – employee benefits

In the accounting period, ČSOB concluded with some of the related entities co-operation agreements - employee benefits, and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of employee benefits. Agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these agreements.

e. co-operation agreements – selling products and services

In the accounting period, ČSOB concluded co-operation agreements with some of the related entities whose subject was, in particular, co-operation in the areas of product sales, products sales agency, sales support, consultancy, opportunity-hunting and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of co-operation, contractual commissions, contractual fees or selling products. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

Additionally, in the accounting period ČSOB concluded with some of the related entities agreements on personal data processing, confidentiality agreements, agreements on the transmission of information, agreements on mutual rights and duties in connection with the co-operation agreements, and, in certain cases, related entities performed activities in the accounting period on the basis of agreements relating to this area concluded in previous accounting periods. The consideration exchanged with the related entities consisted of the provision of information and confidentiality. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

f. agreements on providing services – IT

In the accounting period, ČSOB concluded agreements with some of the related entities for providing services in the area of information systems and technologies, involving, in particular, leasing or borrowing hardware or software, assignment of rights to software, provision of software licences and software maintenance, and, in certain cases, related entities performed activities in the accounting period on the basis of contracts concluded in previous accounting periods. The consideration exchanged with the related entities consisted of contractual prices or the provision of hardware, software or licences, or the assignment of rights to software or software maintenance. Contracts were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these contracts.

g. other contracts and agreements

Consideration recieved on the basis of contracts and agreements concluded in previous accounting periods:

Name of contract	Consideration	Party of the contract	Damage incurred
Mandate contract	acquisition services	Bankovní informační technologie	none
Framework contract for work (including amendments)	building's upgrade	Bankovní informační technologie	none
Agreement on co-operation	activities relating to ATM	Bankovní informační technologie	none
Agreement on payment of operating costs	contractual price	Business Center	none
Agreement on co-operation in the construction of the new CSOB headquarter and future purchase contracts (including amendments)	contractual price	Centrum Radlická	none
Contract for the provision of a cable route	contractual fee	ČMSS	none
Agreement on providing information to shareholders	provision of information	ČMSS	none
Agreement on co-operation and guarantor's declaration	co-operation	ČSOB AM ČR	none
Agreements on the provision of HR services and processing of personal data	contractual fee	ČSOB AM ČR	none
Agreement on co-operation in the area of public relations	contractual price	ČSOB AM ČR	none
Agreement on the exercise of voting rights	exercise of voting rights of ČSOB IS	ČSOB AM ČR	none
Agreement on providing services	contractual price	ČSOB d.s.s.	none
Agreement on co-operation – marketing	contractual price	ČSOB d.s.s.	none
Agreement on providing services	contractual price	ČSOB distribution	none
Agreement on co-operation – Call centre services	contractual fee	ČSOB IS	none

Name of contract	Consideration	Party of the contract	Damage incurred
Agreements on the provision of HR services (including amendments)	services	ČSOB IS	none
Agreement on accession to liability	contractual fee	ČSOB IS	none
Agreement on providing services	contractual fees	ČSOB IS	none
Agreement on co-operation in the area of public relations	contractual price	ČSOB IS	none
Agreement on providing services (including amendment)	contractual fees	ČSOB IBS	none
Agreement on co-operation in provision of information on the company at ČSOB Call Centre (including amendments)	contractual fees	ČSOB Leasing ČR	none
Framework agreement on purchasing of (used) cars	contractual commission	ČSOB Leasing ČR	none
Agreement on co-operation – Call Centre services	contractual fee	ČSOB PF Progres	none
Agreement on co-operation – Call Centre services	contractual fee	ČSOB PF Stabilita	none
Agreement on re-invoicing price for energy (including amendment)	re-invoicing	ČSOB Pojišťovna	none
Agreement on co-operation in the provision of information on the company at ČSOB Call Centre (including amendments)	contractual fee	Hypoteční banka	none
Contract for depositing an asset (including amendments)	contractual fee	Hypoteční banka	none
Framework agreement	contractual price	Hypoteční banka	none
Agreement on the exercise of voting rights	authorisation to exercise voting rights of ČSOB AM ČR	Patria Finance	none
Agreement on providing consulting services	contractual fee	Patria Finance CF	none

Contracts and agreements concluded in the accounting period:

Name of contract	Consideration	Party of the contract	Damage incurred
Mandate contracts	appreciation of assets	Bankovní informační technologie	none
Purchase contract	contractual price	Bankovní informační technologie	none
Agreement on re-invoicing fees for authorization		Bankovní informační technologie	none

Name of contract	Consideration	Party of the contract	Damage incurred
Purchase contract	sale of movable asset	Business Center	none
Agreement regarding the right to first refusal relating to an asset to be hold		Centrum Radlická	none
Agreement on execution of group audit and confidentiality	co-operation	ČMSS	none
Agreement on co-operation in the area of public relations	contractual price	ČSOB AM ČR	none
Agreement on providing back-office services	contractual fee	ČSOB AM SR	none
Agreement on providing back-office services	contractual fee	ČSOB d.s.s.	none
Agreement on providing back-office services	contractual fee	ČSOB distribution	none
Agreement on co-operation in the area of public relations	contractual price	ČSOB IS	none
Framework purchase agreement (including amendment)		ČSOB IBS	none
Agreement on co-operation – Brno trade fair	contractual price	ČSOB Leasing ČR	none
Agreement on outsourcing – car fleet services	contractual price	ČSOB Leasing ČR	none
Agreement on co-operation – telemarketing actions	contractual price	ČSOB Leasing ČR	none
Agreement on the transfer of advertising time	contractual price	ČSOB Leasing SR	none
Purchase contracts	contractual price	ČSOB Leasing SR	none
Contract for subscription of shares	new shares	IPB Leasing	none
Subordinated loan agreement	loan	KBC Bank, Dublin branch	none
Mandate contract on settlement of dividend payments	contractual price	MOTOKOV	none

4.2.2 other legal acts

The following overview contains legal acts other than contracts/agreements which were performed in the accounting period in the interest of related entities.

Name of legal act	Related entity performing the act	Related entity in the interest of which the act was performed
Decision of a sole shareholder on a share premium payout	ČSOB	Auxilium
Decision of a sole shareholder on a profit distribution	ČSOB	Auxilium
Decision of a sole shareholder on bonds subscription	ČSOB	Auxilium
Decision of a sole partner on a profit distribution	ČSOB	Bankovní informační technologie

Name of legal act	Related entity performing the act	Related entity in the interest of which the act was performed
Decision of a sole partner on the profit distribution	ČSOB	Business Center
Decision of a sole shareholder on the profit distribution	ČSOB	ČSOB AM SR
Decision of a sole shareholder on the loss settlement	ČSOB	ČSOB d.s.s.
Decision of a sole shareholder on the profit distribution	ČSOB	ČSOB Factoring ČR
Promise of indemnity	ČSOB	ČSOB Factoring ČR
Decision of a sole shareholder on the profit distribution	ČSOB	ČSOB IBS
Promise of indemnity	ČSOB	ČSOB IBS
Decision of a sole shareholder on the profit distribution	ČSOB	ČSOB Leasing ČR
Decision of a sole shareholder on profit distribution and establishment of stabilization fund	ČSOB	ČSOB PF Progres
Decision of a sole shareholder on remuneration of the members of the statutory bodies	ČSOB	ČSOB PF Progres
Decision of a sole shareholder on consent with the transfer of business assets of Hornický PF and approval of the merger agreement	ČSOB	ČSOB PF Progres
Decision of a sole shareholder on the profit distribution	ČSOB	ČSOB PF Stabilita
Decision of a sole shareholder on remuneration of the members of the statutory bodies	ČSOB	ČSOB PF Stabilita
Decision of a sole shareholder on approval of the pension plan	ČSOB	ČSOB PF Stabilita
Decision of a sole shareholder on the profit distribution	ČSOB	ČSOB SP
Decision of a sole shareholder on the profit distribution	ČSOB	Hyporeal Praha
Decision of a sole shareholder on the sale of a share in Hyporeal (decision on sale of assets of the company)	ČSOB	Hyporeal Praha
Share capital increase	ČSOB	Hypoteční banka
Decision of a sole shareholder on cancellation of the decision on a company's winding up and its going into liquidation and termination of the office of the liquidator, decision on share capital increase	ČSOB	IPB Leasing
Decision of a sole shareholder on approval of the report on the course of the liquidation, including a proposal on how to distribute the liquidation balance	ČSOB	IPB Group Holding
Decision of a sole shareholder on consent to the transfer of business assets of Hornický PF and approval of the merger agreement	ČSOB	Hornický PF
Decision of a sole shareholder on the profit distribution	ČSOB	Hornický PF

4.2.3 other measures

In the previous accounting period, due diligence was conducted by ČSOB in the company Centrum Radlická a.s. This process was carried out in the interests of ČSOB.

5. relations between related parties

The Board of Directors of ČSOB states that it has exercised due professional care in determining the range of related parties for the purposes of this report. In particular, entities controlling ČSOB were asked about the range of parties controlled by these entities.

The Board of Directors of ČSOB believes that the monetary benefits and, where aplicable, the considerations within the framework of relations between the related parties described in this report were carried out at prices determined on an arm’s length basis, similar to relations with other non-related entities, and that ČSOB incurred no damage from relations described above.

In Prague on 28 March 2007

Československá obchodní banka, a. s.

On behalf of the Board of Directors

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

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

additional information

information on ČSOB securities

shares

ISIN:	CZ0008000288
Class:	ordinary shares
Type:	registered shares with limited transferability
Form:	book-entered
Number of shares:	5,105,000
Nominal value:	CZK 1,000
Total issue volume:	CZK 5,105,000,000
Amount of share capital:	CZK 5,105,000,000
Paid up:	100 %

ČSOB has not issued any negotiable bonds or priority bonds exchangeable for shares es defined by Section 160 of the Commercial Code.

ČSOB shares are not listed securities, that is, they have not been admitted to trading on any official regulated market.

ČSOB shareholders have the following rights, in particular:

a) The right to obtain a share in the company's profit (dividend) which the General Meeting of Shareholders approved for distribution according to the company's economic results.
b) The right to ask the Board of Directors to convene an Extraordinary Meeting of Shareholders to discuss proposed matters. This right only pertains to a shareholder or shareholders who hold shares with a total nominal value exceeding 3 % of the share capital.
c) The right to attend the General Meeting of Shareholders.
d) The right to obtain a share in the liquidation balance when the company is dissolved trough liquidation.

bonds

bonds issued in the Czech Republic

As at 31 December 2005, ČSOB had one issue of outstanding bonds listed *on the free market* of the Prague Stock Exchange (trading in the bonds started on 2 August 2004), and one issue of unlisted mortgage bonds.

Issue name	Dluhopis ČSOB VAR1 / 2008 (Bond ČSOB VAR1 / 2008)	Hypoteční zástavní list ČSOB 4.60 % / 2015 (Mortgage bond ČSOB 4.60 % / 2015)
ISIN	CZ0003700775	CZ0002000706
Issue date	17 March 2004	15 November 2005

In 2006, ČSOB performed three new issues of unlisted bonds in the Czech Republic.

Issue name	Dluhopis ČSOB ZERO / 2007 (Bond ČSOB ZERO / 2007)	Dluhopis ČSOB ZERO / 2008 (Bond ČSOB ZERO / 2008)	Dluhopis ČSOB ZERO II / 2008 (Bond ČSOB ZERO II / 2008)
ISIN	CZ0003701104	CZ0003701179	CZ0003701229
Issue date	22 February 2006	1 September 2006	20 December 2006

All the bonds and mortgage bonds described above were issued under the 10-Year Bond Programme with a maximum amount of CZK 30 bn in outstanding bonds. The programme was approved by the Securities Commission in November 2003 (including joint issue terms for the previously non-determined number of bond issues).

An overview of bonds and mortgage bonds issued in the Czech Republic is available in Annex No. 1 to this part of the Annual Report.

bonds issued in the Slovak Republic

In 2003 and 2004, two issues of mortgage bonds were issued in the Slovak Republic. Both issues were admitted to trading on the parallel market of the Bratislava Stock Exchange.

The third and fourth issues of mortgage bonds were issued in the Slovak Republic in 2005 and in 2006. These issues have not been accepted for trading on any organised market.

Issue name	Hypotekárny záložný list ČSOB I. (Mortgage bond ČSOB I.)	Hypotekárny záložný list ČSOB II. (Mortgage bond ČSOB II.)	Hypotekárny záložný list ČSOB III. (Mortgage bond ČSOB III.)	Hypotekárny záložný list ČSOB IV. (Mortgage bond ČSOB IV.)
ISIN	SK4120004086 series 01	SK4120004441 series 01	SK4120004771 series 01	SK4120005232 series 01
Issue date	22 September 2003	14 October 2004	15 November 2005	19 December 2006

An overview of data on mortgage bonds issued in the Slovak Republic is available in Annex No. 2 to this part of the Annual Report.

main shareholders of ČSOB

(as at 31 December 2006) – proportion in share capital

KBC Bank NV	97.44 %
Other	2.56 %
Total	100.00 %

changes in the structure of main shareholders in 2006

In December 2006, KBC Bank exercised its call option and purchased 7.47 % of the EBRD shareholding in accordance with the call option agreement concluded in connection with the Bank's privatization in 1999. This operation was financed by the spare capital of KBC.

description of the structure of the concern of which ČSOB is a part

ČSOB is a controlled entity and a controlling entity.

ČSOB – controlled entity

ČSOB is a member of the KBC Group. The decisive influence on the control and operation of ČSOB's enterprise is exercised by KBC Bank directly and the KBC Group indirectly.

Information about the KBC Group as at 31 December is available in Annex No. 3 to this part of the Annual Report.

persons controlling ČSOB

(as at 31 December 2006)

Business name	Ident. number	Registered office	Portion of share capital (%)	Share of voting rights (%)	
				Total	Exercisable
KBC Bank NV	90029371	Havenlaan 2, 1080 Brussels, Belgium	Direct 97.44	Direct 97.44	Direct 97.44
			Indirect 0	Indirect 0	Indirect 0
KBC Group NV	90031317	Havenlaan 2, 1080 Brussels, Belgium	Indirect 97.44	Indirect 97.44	Indirect 97.44

description of the nature of this control and accepted measures which should prevent abuse of this control

KBC Bank and the KBC Group control ČSOB on the basis of the fact that KBC Bank has at its disposal a majority of votes derived from its business share in ČSOB.

ČSOB meticulously follows the legislation applicable to the territory of the Czech Republic, which prevents any abuse of this control.

ČSOB – controlling entity

Information on companies controlled by ČSOB as at 31 December 2006 as defined by Section 66a of the Commercial Code is available in Annex No. 4 and in Annex No. 5 to this part of the Annual Report.

changes in companies controlled by ČSOB in 2006

– available in Note 40 of the Notes to the Consolidated Financial Statements for 2006 according to EU IFRS.

number of ČSOB employees (full-time equivalent)

(as at 31 December 2006)

8,237 employees in total, of which 6,750 in the Czech Republic and 1,487 in the Slovak Republic.

managing and supervisory bodies

Information on managing and supervisory bodies is available in the part "Managing and Supervisory Bodies of ČSOB" in the ČSOB Annual Report 2006.

information in accordance with section 118, paragraph 3, letters c), d) and e) of act no. 256/2004 coll., act on business activities on the capital market (also known as the act on undertakings on the capital market)

To Section 118, paragraph 3, letter c)

Monetary income and income in kind received by the top management and the members of the Supervisory Board from ČSOB and persons controlled by ČSOB

	Monetary Income (CZKths) Received from		Income in Kind (CZKths) Received from	
	ČSOB	persons controlled by ČSOB	ČSOB	persons controlled by ČSOB
Members of the Board of Directors	61 514	0	7 561	0
Other members of top management	20 090	0	4 112	0
Members of the Supervisory Board	2 541	0	0	0

The Chairman of the Board of Directors, who is also the Chief Executive Officer, other members of the Board of Directors, who also act as Senior Executive Officers, and three other Senior Executive Officers constitute ČSOB's top management.

To Section 118, paragraph 3, letter d)

As at 31 December 2006, the members of the Board of Directors owned 11,893 **shares issued by ČSOB**. The members of the Board of Directors do not have any purchase option regarding ČSOB shares.

Persons close to the members of the Board of Directors, other members of top management and persons close to them, members of the Supervisory Board and persons close to them neither own shares nor have purchase options on regarding ČSOB shares.

To Section 118, paragraph 3, letter e)

principles of remuneration

members of the board of directors

The remuneration of the members of the Board of Directors of ČSOB consists of a fixed component in accordance with the Contract on the Performance of the Line Management Function and a variable (bonus) component based on the Contract on the Performance of the Function of the Member of the Board of Directors. The variable component is roughly half of the total income. The Remuneration Rules were set by the Compensation Committee of the Supervisory Board, whose members in 2006 were André Bergen, John Hollows and Anne Fossemalle. The basic KPI that determines the variable part is the relative change of EPS (earnings per share), resp. Net Consolidated Profit per Share, on 1 January of the year under review compared with the value on the same date of the consecutive year.

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

other members of top management

Other members of top management have their compensation based on the ČSOB Remuneration Rules. The variable component is calculated based on the achievement of the set KPIs. The remuneration of a KBC expatriate is based on the KBC Expatriation Remuneration Principles, which also include the achievement of KPIs.

Note: KBC expatriates are originally KBC employees who have been sent to ČSOB within the programme of expatriation of selected KBC managers, and who have become ČSOB regular employees and Tax Residents of the Czech Republic.

members of the supervisory board

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

conflict of interests

under Commission Regulation (EC) No 809/2004

ČSOB declares that it is not aware of any potential conflict of interests between the duties of the ČSOB top management and the members of the Supervisory Board to ČSOB and their private interests and/or other duties.

Note: ČSOB, based on the Czech law principles, does not regard entering into banking transactions with the ČSOB top management and members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties to ČSOB of these persons and their private interests and/or other duties.

activity of ČSOB

ČSOB is active in two national markets, in the Czech and Slovak Republics. In the Slovak Republic the Bank has an organizational unit, which is registered in the Commercial Register of the District Court in Bratislava I under the business name Československá obchodní banka, a.s., a branch of a foreign bank in the Slovak Republic.

legislation governing ČSOB

ČSOB, as a subject of Czech law, **follows the legislation applicable to the territory of the Czech Republic**. Its activities are regulated primarily by the Banking Act, the Act on Business Activities on the Capital Market (also known as the Act on Undertakings on the Capital Market) and the Commercial Code.

The single banking licence granted to ČSOB in accordance with the Banking Act by the decision of the CNB from 28 July 2003, reference number 2003/3350/520, is of fundamental importance for the entrepreneurial activity of ČSOB. In addition, ČSOB has a certification of entry in the register of insurance brokers and independent loss adjuster of insured accidents confirming that it was entered in the register as a tied insurance broker under number 038614VPZ on 20 March 2006. ČSOB also acts as an insurance broker in the Slovak Republic in accordance with this certificate.

In **the Slovak Republic** ČSOB follows the law applicable to the territory of the Slovak Republic, especially the Banking Act, the Securities Act and the Commercial Code.

The following permissions are the most important ones for the performance of ČSOB's activities in the Slovak Republic through its foreign branch:

decisions of **the National Bank of Slovakia**

- No. UBD-400/2005 of 14 March 2005 on the change of the banking permits to carry out banking activities to comply with legislative terms,
- No. UBD-657/2006-PLP of 15 June 2006 on the change (cancellation of the restriction of investment services provided) of permit No. GRUFT-002/2002/OCP of 19 September 2002 (permission to provide investment services).

decisions of **the Financial Market Office (SR)**

- No. GRUFT-002/2002/OCP of 19 September 2002 granting permission to provide investment services
- No. GRUFT-029/2004/SOCP of 20 February 2004 granting preliminary consent to carry out the activities of a member of the central depository of the company Centrálny depozitár cenných papierov SR, a.s. (Central Securities Depository SR).

main areas of activities

ČSOB's object of business is stated in the ČSOB Articles of Association (in the part "Corporate Activities and Organisation of the Company – III. Object of Business").

ČSOB, being a universal bank, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the activities of banks in this country and in relation to foreign countries. In particular, it **accepts deposits from the public and provides loans**. Beside these basic services, ČSOB is authorized to carry out the following activities according to Czech legal regulations:

- investment in securities on the Bank's own account
- financial leasing
- payments and clearance
- issuance and administration of payment instruments
- provision of guarantees
- issuance of letters of credit
- provision of collection services
- provision of all investment services according to a special law
- issuance of mortgage bonds
- financial brokerage
- provision of depository services
- exchange office services (purchase of foreign exchange)
- provision of banking information
- trading in foreign exchange values and gold on the Bank's own account or on the client's account
- rental of safe-deposit boxes
- activities directly related to the activities mentioned above, and
- activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company.

In the **Slovak Republic**, ČSOB is authorized to carry out all banking activities through its foreign branch pursuant to Act No. 483/2001 Coll. on Banks.

selected new products and services in 2006

The most important products and services introduced in 2006 include:

innovations in financing housing needs
- In February, ČSOB launched ČSOB Mortgage 2 in 1 as a combination of a mortgage with a non-specific loan.
- In March, ČSOB SR started to offer ČSOB Mortgage with the lowest installments available for people aged under 36.
- In April, PSB became the third distribution channel within the ČSOB Group for selling mortgages.
- From August, mortgages can be transferred to the new buyer of the property without adjustment of the parameters, including fixed interest rates.
- From November, clients can make new adjustments to mortgages, such as increasing the mortgage during the building of a house or flat.
- In November, ČSOB was the first to offer a 40-year mortgages.
- In November, ČSOB introduced an easier 'Pre-mortgage Loan and Express Appraisal of a Flat' free of charge.

e-innovations
- In May, ČSOB launched 'Payment button' to enable customers to pay for goods and services bought via internet shops quickly and easily.
- In September, ČSOB introduced the Toll Tool and the Fleet Card Centrum, enabling it to service the central highway e-toll system in the Czech republic
- Since September, ČSOB has been the first bank in the Czech Republic to provide on-line processing of export/import documentary transactions called ČSOB Flexims.
- In September, ČSOB launched ČSOB Go and Deal for electronic management of FX operations.
- In October, ČSOB was the first large Czech banks to introduce SMS authentication of e-banking access.
- In November, ČSOB started to offer CashBack in the Czech Republic. ČSOB and PSB card holders are allowed to withdraw cash from AHOLD super- and hypermarkets' cashiers.
- In December, ČSOB and PSB launched embossed chip cards that further enhance the security of their client's funds.

innovations in Slovakia

- In January, ČSOB launched a new product called the Agricultural Bridging Loan.
- In February, ČSOB brought out its Starter Loan for Municipalities. The aim of this loan is to cover short-term imbalances between income and expenditures in the public sectors.
- In April, ČSOB and Korean Exchange Bank signed a strategic partnership agreement in the area of corporate banking. The aim is to offer joint support for Korean companies in the Czech Republic and Slovakia.
- In May 2006, ČSOB SR started to sell Investment Life Insurance and two issues of the programme ČSOB Invest Garant (more than SKK 146 m).
- In June, the Bank started to offer ČSOB Loans for Doctors and Pharmacies.
- In June, ČSOB SR launched ČSOB Business Account Komplet for SMEs as the first all-inclusive package with comprehensive services.
- In September, ČSOB SR began to offer a ČSOB Children's Account. The product also includes the option to conclude accident insurance.

description of markets where ČSOB competes

The ČSOB Group operates on two national markets, in the Czech and Slovak Republics, where it provides a complete range of financial services. ČSOB as a bank itself offers a wide range of standard banking services focusing on four main customer segments – retail, SME, corporate plus financial institutions and private banking segment. In addition to this, the ČSOB Group is active in the field of providing other financial services, such as asset management services (including institutional and private portfolio management, investment in a wide range of KBC and ČSOB mutual and investment funds), pension funds, mortgage loans, building savings and loans, leasing, factoring, and insurance (both life and non-life). All these products and services are offered by the following ČSOB subsidiaries in the Czech Republic: Hypoteční banka, ČMSS, ČSOB PF Stabilita, ČSOB PF Progres, Zemský PF, ČSOB Leasing ČR, ČSOB Factoring ČR, ČSOB AM ČR, ČSOB IS, ČSOB Pojišťovna; and by the following subsidiaries in Slovakia: ČSOB SP, ČSOB Leasing SR, ČSOB Factoring SR, ČSOB d.s.s., ČSOB AM SR a ČSOB Poisťovňa.

Through increasing its market shares in both the Czech Republic and Slovakia, ČSOB has confirmed its leading positions (market shares according to outstanding volume as at 31 December):

ČSOB ČR	Market Share	Rank
Building Loans	45.4%	1
AM-Individual Discretionary	42.8%	1
Building Savings	35.4%	1
Housing Loans**	31.7%	1
Bank Deposits	22.1%	1
Leasing*	17.7%	1
Mutual Funds	26.7%	2
Mortgages	23.8%	3
Factoring*	18.6%	3
Corporate/SME Loans	14.5%	3
Bank Loans	13.5%	3
Life premiums*	9.4%	4
Non-life premiums*	4.5%	6

ČSOB SR	Market Share	Rank
Leasing*	16.7%	2
Building Savings	11.4%	3
Building Loans	5.0%	3
Mutual Funds	10.5%	4
Factoring*	9.5%	4
Bank Loans	8.2%	4
Total AUM	7.6%	4
Bank Deposits	6.9%	4
Non-life premiums*	3.1%	7
Life premiums*	4.5%	8

* Market share according to volume of new business.
** Housing loans include mortgages to individuals and building loans to individuals.

activities undertaken in the area of environmental protection

Information about ČSOB's activities in the area of environmental protection is available in the part "Corporate Social Responsibility" of the ČSOB Annual Report 2006.

information on investments

Information on investments is available in Notes 16, 17 and 32 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS.

investment costs were utilised in 2006 as follows:

In the category ***Buildings***, ČSOB prioritized investment into the expansion and modernisation of the existing branch network. The Bank used part of the investment to complete its new headquarters in Prague and move branches from the buildings sold in Prague.

In the category ***Information Technology***, ČSOB invested mainly into new projects. The Bank invested generously into renewing and developing current banking systems and into IT equipment for the new headquarters in Prague.

In the category ***Other***, ČSOB continued to develop its ATM network in the Czech Republic and renew its car fleet. The branch network expansion and modernisation led to investments into purchasing and renewing bank technical equipment and technology.

All investments were financed from the Bank's own resources.

main future investments
(excluding financial investments)

The planned volume of investment of ČSOB in 2007 will reach about CZK 1.5 bn. The Bank intends to invest the largest part of this into the development of its business activities. The other investments will be used to improve and optimise existing processes and technology.

In the category ***Buildings***, ČSOB will continue to modernize and develop its branch network, mainly in terms of small branch development and optimizing the current distribution of locations. In 2007, the Bank will move its head office employees to the new headquarters.

In the category ***Information Technology***, ČSOB will focus on new projects regarding card systems, electronic banking and payment systems. Besides replacing current IT equipment, part of the investment will be allocated to purchasing property in connection with moving offices to the new headquarters in Prague.

In the category ***Other***, the purchasing and modernisation of technical equipment and technology will continue and part of the investment will be used for equipment in the new headquarters.

material contracts out of the ordinary course of business

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any Group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

governmental, legal or arbitration proceedings in 2006

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB Group's financial position or profitability

Information on court disputes is available in Note 29a of the Notes to the Separate Financial Statements for 2006 according to EU IFRS and in Note 29a of the Notes to the Consolidated Financial Statements for 2006 according to EU IFRS.

In this respect, ČSOB emphasizes the existence of the Agreement and State Guarantee concluded with the Ministry of Finance of the Czech Republic and the Agreement and Indemnity concluded with the Czech National Bank in 2000. These guarantee agreements fully cover the risks of the Bank related to the take-over of ex-IPB enterprise. The possibility for the Ministry of Finance of the Czech Republic and the Czech National Bank to perform their obligations under these guarantee agreements was confirmed by the European Commission in 2004. Based on the above, the Bank is of the opinion that the disputes related to ex-IPB assets do not represent a significant negative impact on its financial position.

Court disputes where the value of receivables / liabilities exceeds 5 % of net business assets, or 5 % of ČSOB shareholders' equity, respectively, are shown in the following tables (information in accordance with Section 130 of Slovak Act No. 566/2001 Coll., on Securities):

I. litigation initiated by ČSOB (the plaintiff)

	Counterparty of the dispute	Receivable (CZKm)
1.	České pivo, a.s., Nomura International PLC and others	24,008
2.	Aladár Blaas, Libor Procházka	3,630
3.	Nomura Principal Investment PLC	2,000

II. litigation against ČSOB (the defendant)

	Counterparty of the dispute	Liability (CZKm)
1.	IP banka, a.s., (ICC), petition claiming surrender of enterprise	40,000
2.	Nomura Principal Investment PLC	31,500
3.	imAge Alpha, a.s.	17,647
4.	barra.cz, s.r.o. (formerly Autotrans,s.r.o.)	2,040

In the case of legal disputes indicated in list I and those with numbers 1, 2 and 4 in list II, the risk of any potential defeat in these cases is covered by a guarantee of the Ministry of Finance and by the CNB's indemnity in connection with the sale of the IPB enterprise. According to the Bank, dispute number 3 in list II does not appear to constitute any risk, given its absolute unreasonableness.

The total effective claim cannot be reliably estimated, since the claims are interdependent.

ČSOB's financial situation

information on ČSOB's revenues for the last two accounting periods
– available in the Separate Financial Statements for 2006 according to EU IFRS.

analysis and quantification of risks and the method of risk management
– available in Notes 33, 34 and 35 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS and in the part "Risk Management" of the ČSOB Annual Report 2006.

information on collateral provided to ČSOB
– available in Notes 11 and 12 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS.

analysis of accepted deposits and provided loans
– available in Notes 11, 12, 14, 19, 20, 21, 26 and 35 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS.
– the allowance for credit and losses and the provisions for guarantees are available in Note 15 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS.

Note: A list of financial assets and liabilities received by the Bank, listed by maturity, as at 31 December 2006 is available in Note 35 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS.

Remuneration paid to auditors for 2006
(CZKm)

Kind of service	ČSOB	Consolidated ČSOB unit
Audit services	18	31
Advisory	0	4

information according to section 130 of Slovak act no. 566/2001 coll., on securities

Information on entities included into the ČSOB consolidated financial statements as at 31 December 2006

The scope of consolidation includes 41 companies.

A list of entities belonging to the ČSOB consolidated group according to the EU IFRS, along with information on many of these comanies, available in Annex No. 4 to this part of the Annual Report.

Information about other companies included in the scope of ČSOB's consolidation can be found in the following table:

Business name (according to the Commercial Register)	Identification number	Headquarters
IP banka, a.s.	45316619	Praha 1, Senovážné náměstí 32/976
ČSOB Pojišťovna, a. s., a member of the ČSOB Holding	45534306	Pardubice, Zelené předměstí, Masarykovo náměstí 1458
ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB Holding	27479714	Pardubice, Zelené Předměstí, Masarykovo náměstí 1458
CBCB – Czech Banking Credit Bureau, a.s.	26199696	Praha 1, Na Příkopě 1096/21
První certifikační autorita, a.s.	26439395	Praha 9, Podvinný mlýn 2178/6
České sklo a.s. in liquidation	25055348	Praha 1, Havlíčkova 1682/15
Premiéra TV, a.s.	63078104	Praha 8, Pod Hájkem 1

important events and significant changes in 2006

– available in the parts "Managing and Supervisory Bodies of ČSOB", "Report of the Board of Directors" and "Corporate Governance" of this Annual Report and in Notes 26, 37, 38 and 40 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS.

For example:
1) change in the Board of Directors of ČSOB and in the Supervisory Board of ČSOB
2) new structure of KBC from 1 May 2006
3) acquisitions: O.B.HELLER (50 %) in April 2006, Zemský PF in June 2006
4) issuance of subordinated debt in September 2006
5) change of ČSOB shareholder structure in December 2006
6) merger of Hornický PF and ČSOB PF Progres in December 2006

subsequent events in first quarter 2007

– available in Note 41 of the Notes to the Separate Financial Statements for 2006 according to EU IFRS.

information on the expected economic and financial situation of ČSOB in 2007

Regarding its business goals, ČSOB will focus on maintaining and, in specific areas, increasing its market shares. The Bank is going to achieve this objective by maintaining current and acquiring new clients by offering them high quality services. The ČSOB Group's financial results account for more than two thirds of KBC's financial results in CEE. KBC's main target for 2007-2009 is to obtain ROAC of 30 % per year in CEE. The ČSOB Group's financial goals for 2007 are in line with this target. These goals are dependent on a 10 % growth in operating profit, continuing reductions of the C/I ratio and stable development in the area of providing loans. Regarding the growth of business activities, ČSOB expects that it will draw the remaining CZK 7 bn of subordinated debt (total CZK 12 bn) approved by the KBC Group in 2006. The squeeze-out of minority shareholders by the main shareholder KBC Bank is also expected in 2007. Thus, KBC Bank will become the owner of 100 % of the shares of ČSOB.

In 2007, ČSOB will continue in its strategies of distribution excellence, operational excellence and fostering a high-performance corporate culture. Within its business activities, ČSOB intends to focus on SME, housing loans, e-innovations for different types of clients, integration of bancassurance and asset management, and intensifying synergies within the Group, especially in distribution. Information on ČSOB's strategy focus is available in the part "Report of the Board of Directors" of the ČSOB Annual Report 2006.

information on the publication of the ČSOB annual report

ČSOB will publish its Annual Report 2006 on its Internet website at www.csob.cz (www.csob.sk).

The Czech National Bank will add the ČSOB Annual Report 2006 to the collection of deeds of the Commercial Register pursuant to Section 21a of the Accounting Act.

In the Slovak Republic, printed copies of the ČSOB Annual Report 2006 are available free of charge at the registered office Československá obchodní banka, a.s., branch of the foreign bank in the Slovak Republic, Michalská 18, Bratislava 815 63 from the department Integrated Marketing Communication SR.

an overview of bonds and mortgage bonds issued in the Czech Republic

Name of security	Dluhopis ČSOB VAR1/2008 (Bond ČSOB VAR1/2008)	Hypoteční zástavní list ČSOB 4.60%/2015 (Mortgage bond ČSOB 4.60%/2015)	Dluhopis ČSOB ZERO/2007 (Bond ČSOB ZERO/2007)
Class, type and form	Bond, bearer, book-entered	Mortgage bond, bearer, book-entered	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.
ISIN	CZ0003700775	CZ0002000706	CZ0003701104
Denomination of the bonds	CZK	CZK	CZK
Nominal value per bond (CZK)	10,000	1,000,000	100,000
Number of bonds	50,000	1,300	20,000
Total issue amount (CZK)	500,000,000	1,300,000,000	2,000,000,000
Issue date	17 March 2004	15 November 2005	22 February 2006
Maturity date	30 December 2008	15 November 2015	22 August 2007
Date of interest payment	30 December 2004, 30 December 2005, 29 December 2006, 28 December 2007 and 30 December 2008	15 November each year	–
Determination of the yield	Floating interest rate is calculated on the basis of development of the value of a stock indices basket. For details, see Terms and Conditions of the bonds.	The amount of the interest per bond for each period is determined as a multiple of the nominal value of the bond and the respective interest rate.	Difference between the issue price and the nominal value of the bond.
Date and place of exercising the right to the yield	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Na Příkopě 14, 115 20 Praha 1. Dates of interest payments and maturity date: see above.	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Na Příkopě 14, 115 20 Praha 1. Dates of interest payments and maturity date: see above.	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Na Příkopě 14, 115 20 Praha 1. Maturity date: see above.
Regulated markets to which the securities have been admitted	Prague Stock Exchange, Official free market	Unlisted security	Unlisted security
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.		
Rights attached to the securities	The right to receive payments pursuant to the terms and conditions of the bonds. No priority or convertible rights are attached to the bonds.		

The Bond Programme prospectus and the prospectuses and bond programme supplements of the respective issues are available at ČSOB's website, www.csob.cz.

an overview of bonds and mortgage bonds issued in the Czech Republic

Name of security	Dluhopis ČSOB ZERO/2008 (Bond ČSOB ZERO/2008)	Dluhopis ČSOB ZERO II/2008 (Bond ČSOB ZERO II/2008)
Class, type and form	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.	Bond, bearer, certificated The bonds are represented by a collective bond in paper form without coupons.
ISIN	CZ0003701179	CZ0003701229
Denomination of the bonds	CZK	CZK
Nominal value per bond (CZK)	100,000	100,000
Number of bonds	14,000	14,000
Total issue amount (CZK)	1,400,000,000	1,400,000,000
Issue date	1 September 2006	20 December 2006
Maturity date	1 March 2008	20 December 2008
Date of interest payment	–	–
Determination of the yield	Difference between the issue price and the nominal value of the bond.	Difference between the issue price and the nominal value of the bond.
Date and place of exercising the right to the yield	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Na Příkopě 14, 115 20 Praha 1. Maturity date: see above.	The Paying Agent of the issue is Československá obchodní banka, a. s., Mutual Funds and Payments Back Office, Na Příkopě 14, 115 20 Praha 1. Maturity date: see above.
Regulated markets to which the securities have been admitted	Unlisted security	Unlisted security
Guarantees for interest payments and redemption of the securities	No third party has assumed any guarantee for redemption of the bonds or payments of the interest.	
Rights attached to the securities	The right to receive payments is pursuant to the terms and conditions of the bonds. No priority or convertible rights are attached to the bonds.	

The Bond Programme prospectus and the prospectuses and bond programme supplements of the respective issues are available at ČSOB's website, www.csob.cz.

an overview of mortgage bonds issued in the Slovak Republic

Name of security	Hypotekárny záložný list ČSOB I. (Mortgage bond ČSOB I.)	Hypotekárny záložný list ČSOB II. (Mortgage bond ČSOB II.)	Hypotekárny záložný list ČSOB III. (Mortgage bond ČSOB III.)	Hypotekárny záložný list ČSOB IV. (Mortgage bond ČSOB IV.)
Class, type and form	Bond specified as mortgage bond, bearer, book-entered			
ISIN	SK4120004086 series 01	SK4120004441 series 01	SK4120004771 series 01	SK4120005232 series 01
Denomination of the bonds	SKK	SKK	SKK	SKK
Nominal value per bond (SKK)	100,000	100,000	1,000,000	1,000,000
Number of bonds	4,000	7,000	800	800
Total issue amount (SKK)	400,000,000	700,000,000	800,000,000	800,000,000
Issue date	22 September 2003	14 October 2004	15 November 2005	19 December 2006
Maturity date	22 September 2008	14 October 2009	15 November 2010	19 December 2011
Date of interest payment	22 September each year	14 October each year	15 November each year	19 December each year
Determination of the yield	Fixed interest rate 4.8 % p.a. 30E/360 basis for calculation of the yield.	Fixed interest rate 4.9 % p.a. 30E/360 basis for calculation of the yield.	Fixed interest rate 2.9 % p.a. 30E/360 basis for calculation of the yield.	Floating interest rate 12M BRIBOR + 1.25 % p.a. 30/360 basis for calculation of the yield.
Place for redemption of the nominal value and interest	Československá obchodní banka, a.s., branch of the foreign bank in the SR, Michalská 18, 815 63 Bratislava			
Trading on the secondary market	Listed parallel market of the Bratislava Stock Exchange; admitted to trading on 7 July 2004.	Listed parallel market of the Bratislava Stock Exchange; admitted to trading on 8 April 2005.	Unlisted security	Unlisted security
Persons guaranteeing the underwriting.	No person guaranteed the underwriting of the issue.			
Rights attached to the securities bonds.	The rights pursuant to the terms and conditions of the bonds are in accordance with Slovak law. No priority or convertible rights are attached to the			

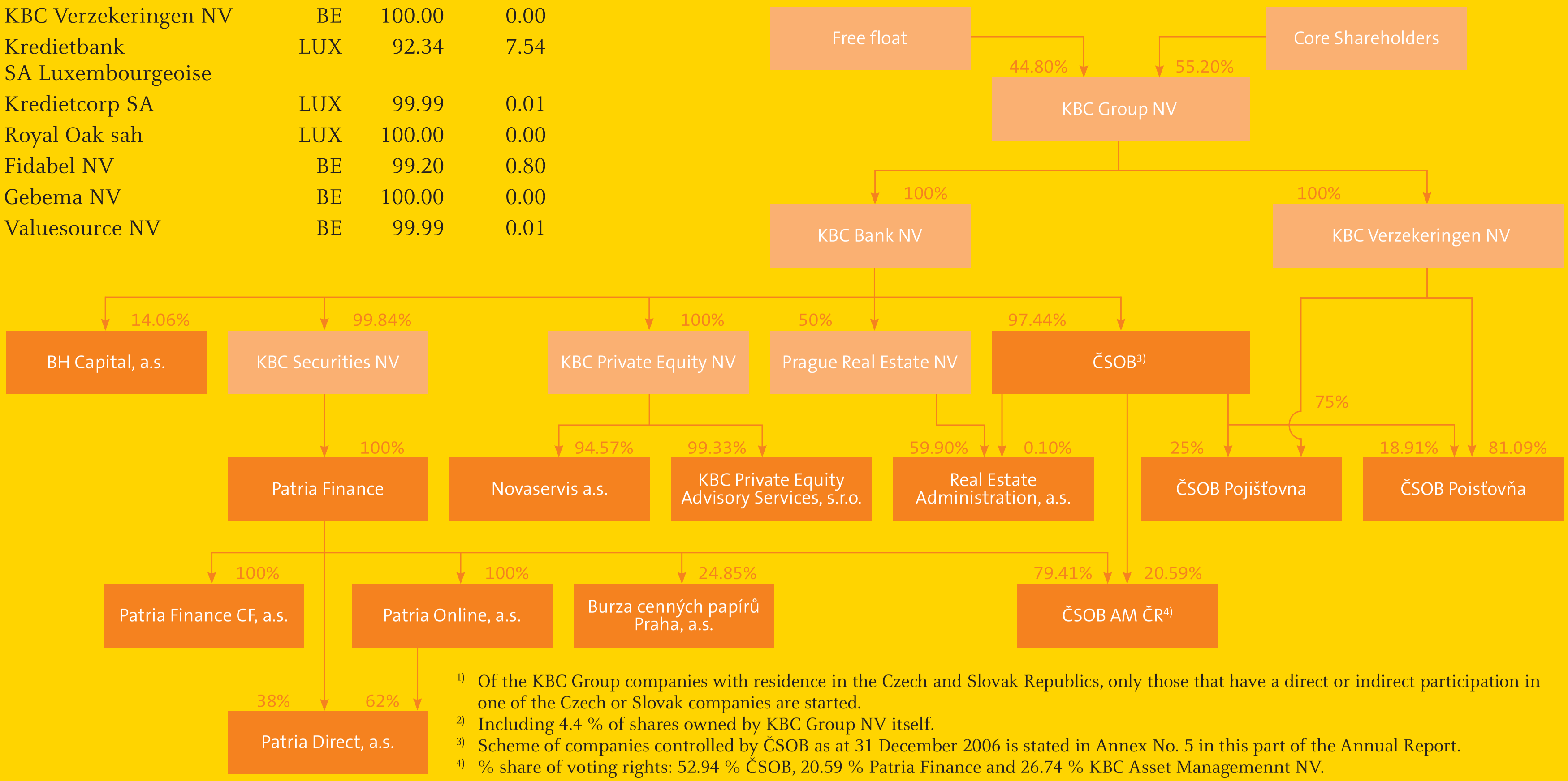
Printed copies of the prospectuses of Mortgage bond ČSOB I. and Mortgage bond ČSOB II. are available free of charge at the issuer's office, Československá obchodní banka, a.s., branch of the foreign bank in the Slovak Republic, Investment Banking SR department, Nám. SNP 29, 815 63 Bratislava.

information about KBC Group as at 31 december 2006

KBC Group NV

controlled entities	Country	% property share Direct	Indirect
Almafin NV	BE	100.00	0.00
Gevafin SA	LUX	100.00	0.00
KBC Asset Management NV	BE	48.14	51.86
KBC Bank NV	BE	100.00	0.00
KBC Exploitatie NV	BE	100.00	0.00
KBC Verzekeringen NV	BE	100.00	0.00
Kredietbank SA Luxembourgeoise	LUX	92.34	7.54
Kredietcorp SA	LUX	99.99	0.01
Royal Oak sah	LUX	100.00	0.00
Fidabel NV	BE	99.20	0.80
Gebema NV	BE	100.00	0.00
Valuesource NV	BE	99.99	0.01

the companies of KBC Group in the Czech and Slovak Republics as at 31 december 2006 [1]



1) Of the KBC Group companies with residence in the Czech and Slovak Republics, only those that have a direct or indirect participation in one of the Czech or Slovak companies are started.

2) Including 4.4 % of shares owned by KBC Group NV itself.

3) Scheme of companies controlled by ČSOB as at 31 December 2006 is stated in Annex No. 5 in this part of the Annual Report.

4) % share of voting rights: 52.94 % ČSOB, 20.59 % Patria Finance and 26.74 % KBC Asset Managemennt NV.

basic data on companies controlled by ČSOB as at 31 december 2006

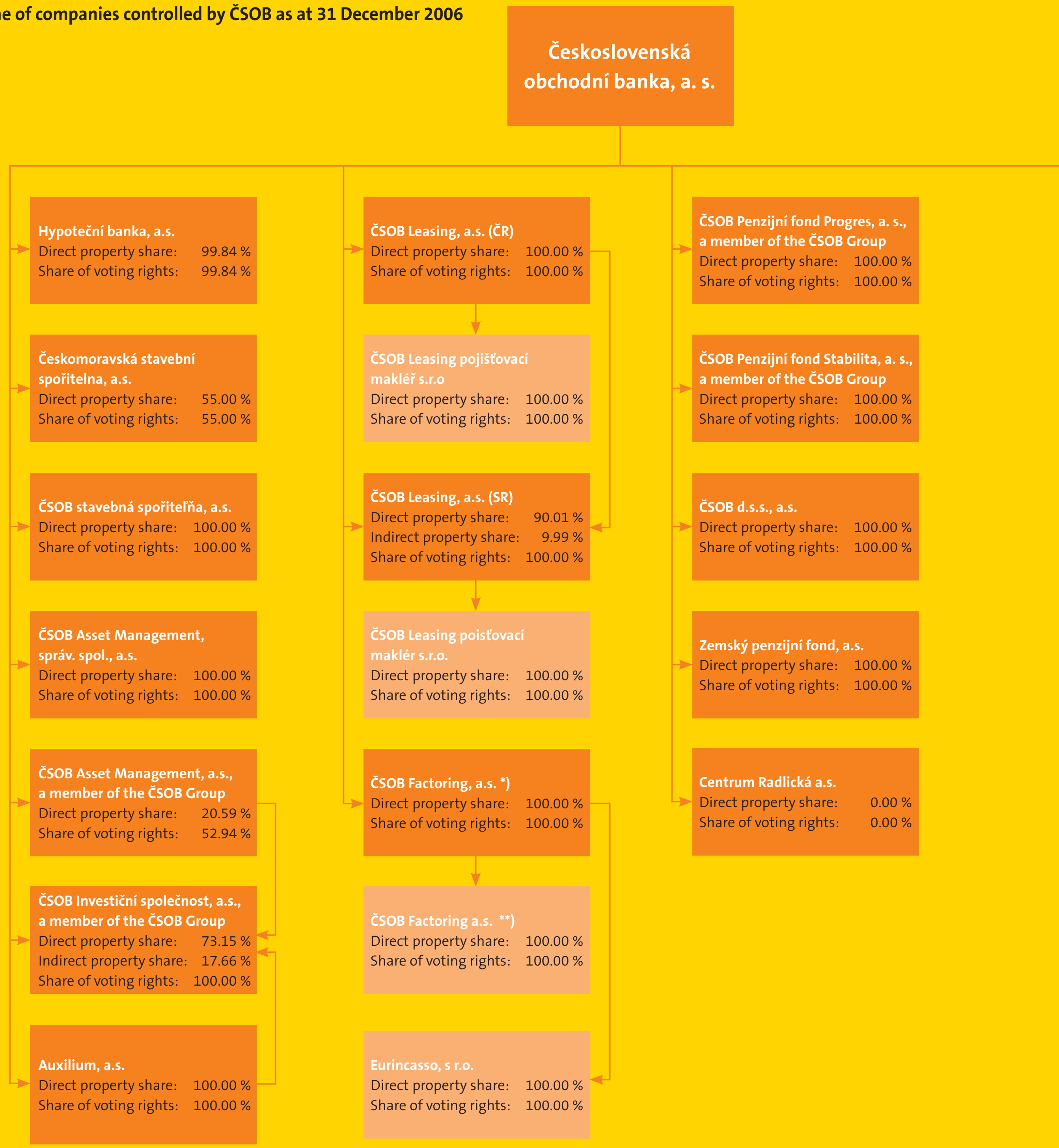
Identification number	Business name of the legal entity (Name according to the extract from the Commercial Register)	Registered office (Address according to the extract from the Commercial Register)	Business activities	Registered capital CZK	Direct or indirect share of ČSOB, total: in registered capital %	Direct or indirect share of ČSOB, total: in voting rights %
25636855	Auxilium, a.s.	Praha 1, Jindřišská 16/937	advisory services	1,000,000,000	100.00	100.00
63987686	Bankovní informační technologie, s.r.o.	Praha 1, Jungmannova čp.26	automated data processing and provision of software; creation of a network of payment card reading terminals	20,000,000	100.00	100.00
63080451	BESEDA a.s. Praha, in liquidation	Praha 1, Školská 3	intermediary activities in the area of investment, trade and industry; market research; publishing house	1,000,000	100.00	100.00
31324363	Business Center, s.r.o.	Bratislava, Nám. SNP 29	activity of a real estate agency	239,574,000	100.00	100.00
13584324	Hypoteční banka a.s. [3)]	Praha 4, Budějovická 409/1	mortgage banking	2,634,738,500	99.84	99.84
49241397	Českomoravská stavební spořitelna, a.s.	Praha 10, Vinohradská 3218/169	building savings bank	1,500,000,000	55.00	55.00
63999463	ČSOB Asset Management, a.s., a member of the ČSOB Group	Praha 1, Perlová 371/5	securities trader	34,000,000	20.59	52.94
35889446	ČSOB Asset Management, správ.spol., a.s.	Bratislava, Kolárska 6	collective investment, creation and management of mutual funds	47,914,800	100.00	100.00
35904305	ČSOB d.s.s., a.s.	Bratislava, Kolárska 6	management of pension funds	287,488,800	100.00	100.00
35899433	ČSOB distribution, a.s.	Bratislava, Kolárska 6	advisory and intermediary services	31,943,200	100.00	100.00
45794278	ČSOB Factoring, a.s.	Praha 10, Benešovská 2538/40	factoring	35,400,000	100.00	100.00
35710063	ČSOB Factoring a.s.	Bratislava, Gagarinova 7/B	factoring	23,957,000	100.00	100.00
25677888	ČSOB Investiční společnost, a.s., a member of the ČSOB Group	Praha 1, Perlová 371/5	management of investment and mutual funds	216,000,000	90.81	100.00
27081907	ČSOB Investment Banking Services, a.s., a member of the ČSOB Group	Praha 1, Jindřišská 937/16	activity of entrepreneurial, financial, economic and organisation advisors	2,000,000,000	100.00	100.00
35887222	ČSOB Leasing poisťovací maklér, s.r.o.	Bratislava, Panónska cesta 11	insurance broker	160,000	100.00	100.00
27151221	ČSOB Leasing pojišťovací makléř, s.r.o.	Praha 4, Na Pankráci 60/310	insurance broker	2,000,000	100.00	100.00
63998980	ČSOB Leasing, a.s.	Praha 4, Na Pankráci 310/60	leasing	2,900,000,000	100.00	100.00
35704713	ČSOB Leasing, a.s.	Bratislava, Panónska cesta 11	leasing	1,197,870,000	100.00	100.00
60917776	ČSOB Penzijní fond Progres, a. s., a member of the ČSOB Group	Praha 1, Perlová 371/5	pension insurance	50,000,000	100.00	100.00

61859265	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB Group	Praha 1, Perlová 371/5	pension insurance	97,167,000	100.00	100.00
35799200	ČSOB stavebná sporiteľňa, a.s.	Bratislava, Radlinského 10	building savings bank	574,977,600	100.00	100.00
25677888	ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group 3)	Praha 1, Jindřišská 937/16	management of investment and mutual funds	x	100.00	N/A
61251950	Eurincasso, s.r.o.	Praha 10, Benešovská 2538/40	activity of economic and organisation advisors; recovery of receivables	1,000,000	100.00	100.00
99999999	FAP invest S.A.	2 rue de l'Avenir, L-1147 Luxemburg, Lucembursko	holding of financial investment assets	852,000	94.91	100.00
25718461	Hyporeal Praha, a.s.	Praha 1, Na Příkopě 854/14	real estate activities	26,950,000	100.00	100.00
60192372	IPB Leasing, a.s.	Praha 4, Na Pankráci 310/60	leasing	356,000,000	100.00	100.00
00000949	MOTOKOV a.s.	Praha 8, Thámova 181/20	wholesale of machines and technical equipment	62,000,000	69.09	69.09
00548219	MOTOKOV International a.s.	Praha 8, Thámova 181/20	other financial intermediary activity	430,000,000	94.91	94.91
99999999	Motokov Ireland Ltd.	28 Cherry Orchard Industrial Estate, Dublin 10, Irsko	sale and purchase of goods, import and sale of tractors and farm machinery	29,557,000	94.91	100.00
99999999	Motokov France SA, in liquidation	28 rue des Cygnes, 67800 Hoenheim, Francie	no activity, in liquidation	20,621,000	94.91	100.00
99999999	Semex Metall und Maschinen GmbH	Dr. Georg Schäfer Strasse 17, 93437 Furth im Wald, SRN	sale and purchase of goods; import, distribution and sale of tractors, farm machinery and tyres	80,120,000	94.91	100.00
99999999	Tee Square Limited, Ltd.	British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986	advisory services for investment funds in the Caribbean area	8,561,331	100.00	100.00
99999999	VIPAP VIDEM Krško d.d.2)	Tovarniška 18, 8270 Krško, Slovinská republika	production of paper and cellulose	2,156,694,540	82.99	82.99
47677619	Zemský penzijní fond, a. s.	Most, Václava Řezáče 315	pension insurance	50,325,000	100.00	100.00
26760401	Centrum Radlická a.s.	Praha 10, Kubánské náměstí 11/1391	real estate activity; rent of flats and non-residential spaces	50,000,000	0.00	0.00

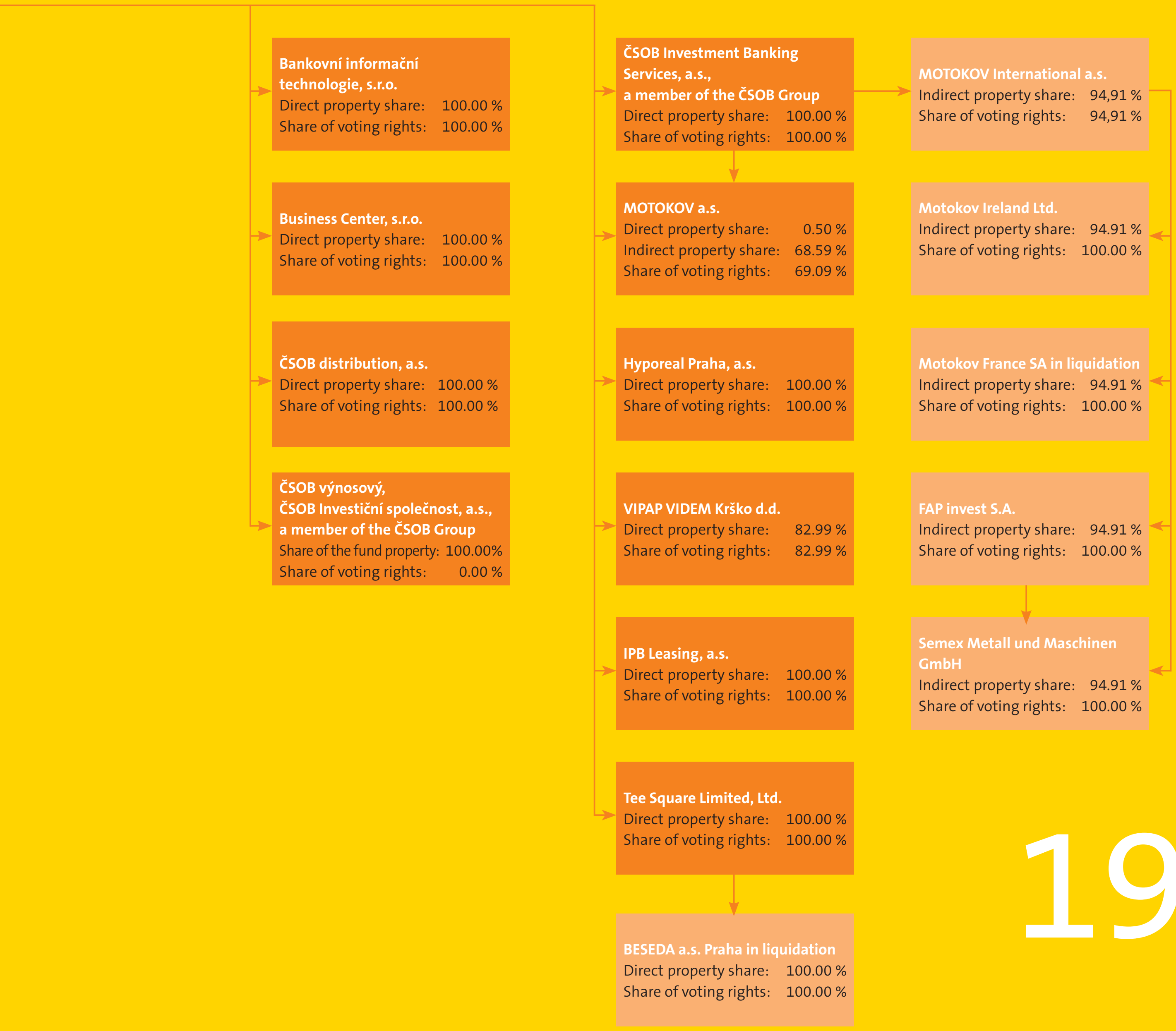
1) ID No. 99999999 – a foreign entity
2) VIPAP VIDEM Krško d.d. is not included into ČSOB consolidation.
3) Changes in 2007 – Hypoteční banka, a.s., ID No. 13584324, increase in share capital (subscription of new shares), registered in the Commercial Register on 25 January 2007, increase of ČSOB's share in share capital and voting rights from 99.84 % to 99.87 %.
– ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, Company ID No. 25677888, sold in January 2007.

annex no. 5 to additional information

Scheme of companies controlled by ČSOB as at 31 December 2006



*) ČR; change of business name from 14 August 2006 (formerly O.B.HELLER a.s.).
**) SR; change of business name from 8 August 2006 (formerly OB HELLER Factoring a.s.).


Bankovní informační technologie, s.r.o.
Direct property share: 100.00 %
Share of voting rights: 100.00 %
Business Center, s.r.o.
Direct property share: 100.00 %
Share of voting rights: 100.00 %
ČSOB distribution, a.s.
Direct property share: 100.00 %
Share of voting rights: 100.00 %
ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group
Share of the fund property: 100.00%
Share of voting rights: 0.00 %
ČSOB Investment Banking Services, a.s., a member of the ČSOB Group
Direct property share: 100.00 %
Share of voting rights: 100.00 %
MOTOKOV a.s.
Direct property share: 0.50 %
Indirect property share: 68.59 %
Share of voting rights: 69.09 %
Hyporeal Praha, a.s.
Direct property share: 100.00 %
Share of voting rights: 100.00 %
VIPAP VIDEM Krško d.d.
Direct property share: 82.99 %
Share of voting rights: 82.99 %
IPB Leasing, a.s.
Direct property share: 100.00 %
Share of voting rights: 100.00 %
Tee Square Limited, Ltd.
Direct property share: 100.00 %
Share of voting rights: 100.00 %
BESEDA a.s. Praha in liquidation
Direct property share: 100.00 %
Share of voting rights: 100.00 %
MOTOKOV International a.s.
Indirect property share: 94,91 %
Share of voting rights: 94,91 %
Motokov Ireland Ltd.
Indirect property share: 94.91 %
Share of voting rights: 100.00 %
Motokov France SA in liquidation
Indirect property share: 94.91 %
Share of voting rights: 100.00 %
FAP invest S.A.
Indirect property share: 94.91 %
Share of voting rights: 100.00 %
Semex Metall und Maschinen GmbH
Indirect property share: 94.91 %
Share of voting rights: 100.00 %

auditor's report

ERNST & YOUNG
Quality In Everything We Do

To the Shareholders of Československá obchodní banka, a. s.:

I. We have audited the consolidated financial statements of Československá obchodní banka, a. s. ("the Company") as at 31 December 2006, which are presented in the annual report of the Company on pages 71 – 119 on which we have issued an auditors' report dated 14 March 2007 which is presented in the annual report of the Company on page 70. We have also audited the separate financial statements of the Company as at 31 December 2006, which are presented in the annual report of the Company on pages 122 – 164 on which we have issued an auditor' report dated 14 March 2007 which is presented in the annual report of the Company on page 121 (both referred to further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of Československá obchodní banka, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1 – 70 and 175 – 204 is consistent with that contained in the audited financial statements as at 31 December 2006. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the above-mentioned financial statements.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2006 presented in the annual report of the Company on pages 167 – 174. The management of Československá obchodní banka, a. s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with applicable International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Československá obchodní banka, a. s. for the year ended 31 December 2006 is materially misstated.

Ernst & Young

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

D. Burnham

Douglas Burnham
Partner

Roman Hauptfleisch

Roman Hauptfleisch
Auditor, Licence No. 2009

20 April 2007
Prague, Czech Republic

sworn statement
to ČSOB annual report 2006

persons responsible for ČSOB Annual Report 2006

We declare that, having taken all reasonable care, all the information contained in the ČSOB Annual Report 2006 is, to the best of our knowledge, in accordance with the facts and the Annual Report contains no omission likely to affect its meaning.

In Prague, 20 April 2007

Československá obchodní banka, a. s.

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

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

We know our strengths. We know our true values. We bear in mind that we need to be responsible and we play fair with all players.

conclusions of the general meeting

The General Meeting of ČSOB, held on 20 April 2007, adopted a resolution on the transfer of shares owned by minority shareholders to the principal shareholder KBC Bank NV according to Section 183i of the Commercial Code. The amount of payment to be made to the minority shareholders, approved by the General Meeting, is CZK 36,298 per share of ČSOB.

The General Meeting further approved the Separate Financial Statements of the Bank and Consolidated Financial Statements of the Bank and its subsidiaries as at 31 December 2006 prepared in accordance with International Financial Reporting Standards as adopted by the European Union. It thus confirmed that, in 2006, the Bank and its subsidiary companies operated at a consolidated profit of CZK 9,543 m and the amount of total consolidated assets reached as at 31 December 2006 was CZK 762,301 m.

The financial statements were examined by the Supervisory Board of the Bank. The auditor's report by Ernst & Young Audit & Advisory, s.r.o., člen koncernu regarding the financial statements is without qualification.

The General Meeting changed the seat of the Bank in connection with the completion of the new headquarters of ČSOB.

The General Meeting further approved:
1. the remuneration to the members of the Board of Directors and of the Supervisory Board;
2. the reelection of Philippe Moreels as a member of the Board of Directors and the election of Hendrik Scheerlinck as a full member of the Board of Directors; and
3. the election of Hendrik Georges Adolphe Gerard Soete as a full member of the Supervisory Board.

According to the decision of the General Meeting the profit of CZK 7,577 m stated in the line 'profit for the year' in the Separate Financial Statements as at 31 December 2006 has been retained.

abbreviations

Business company	Abbreviation
Československá obchodní banka, a. s.	ČSOB the Bank
Československá obchodní banka, a.s., pobočka zahraničnej banky v SR	ČSOB SR ČSOB Bank SR
Poštovní spořitelna	PSB

Business company	Abbreviation
Auxilium, a.s.	Auxilium
Bankovní informační technologie, s.r.o.	Bankovní informační technologie
Business Center, s.r.o.	Business Center
Centrum Radlická a.s.	Centrum Radlická
Českomoravská stavební spořitelna, a.s.	ČMSS
ČSOB stavebná sporiteľňa, a.s.	ČSOB SP
ČSOB Asset Management, a.s., a member of the ČSOB Group	ČSOB AM ČR
ČSOB Asset Management, správ.spol., a.s.	ČSOB AM SR
ČSOB d.s.s., a.s.	ČSOB d.s.s.
ČSOB distribution, a.s.	ČSOB distribution
ČSOB Factoring, a.s. former O.B.HELLER a.s.	ČSOB Factoring ČR OB HELLER ČR
ČSOB Factoring a.s. former OB HELLER Factoring a.s.	ČSOB Factoring SR OB HELLER SR
ČSOB Investiční společnost, a.s., a member of the ČSOB Group	ČSOB IS
ČSOB Investment Banking Services, a.s., a member of the ČSOB Group	ČSOB IBS
ČSOB Leasing, a.s.	ČSOB Leasing ČR
ČSOB Leasing, a.s. SR	ČSOB Leasing SR
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř
ČSOB Leasing poisťovací maklér, s.r.o.	ČSOB Leasing poisťovací maklér
ČSOB Penzijní fond Progres, a. s., a member of the ČSOB Group	ČSOB PF Progres

Business company	Abbreviation
ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB Group	ČSOB PF Stabilita
ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group	ČSOB výnosový, ČSOB IS
ČSOB Pojišťovna, a. s., a member of the ČSOB Holding	ČSOB Pojišťovna
ČSOB Poisťovňa, a.s.	ČSOB Poisťovňa
European Bank for Reconstruction and Development	EBRD
Hornický penzijní fond Ostrava, a.s.	Hornický PF
Hyporeal Praha, a.s.	Hyporeal Praha
Hypoteční banka, a.s.	Hypoteční banka
IPB Group Holding, a.s. in liquidation	IPB Group Holding
IPB Leasing, a.s.	IPB Leasing
KBC Bank NV	KBC Bank
KBC Group NV	KBC Group
KBC Insurance NV	KBC Insurance
MOTOKOV a.s.	Motokov
Patria Finance, a.s.	Patria Finance
Patria Finance CF, a.s.	Patria Finance CF
Zemský penzijní fond, a. s.	Zemský PF

contact details

Old address	New address from June 2007
Investor relations Československá obchodní banka, a. s. Na Příkopě 854/14 115 20 Praha 1	Investor relations Československá obchodní banka, a. s. Radlická 333/150 150 57 Praha 5
Tel.: 261 354 244 Tel.: 261 354 246-8 Fax: 261 354 718	Tel.: 224 114 106 Tel.: 224 114 109 – 111 Fax: 224 119 608
e-mail: investor.relations@csob.cz	e-mail: investor.relations@csob.cz
External communication Československá obchodní banka, a. s. Na Příkopě 854/14 115 20 Praha 1	External communication Československá obchodní banka, a. s. Radlická 333/150 150 57 Praha 5
Tel.: 261 354 143 Fax: 261 354 767	Tel.: 224 114 117 Fax: 224 119 608

financial calendar for 2007

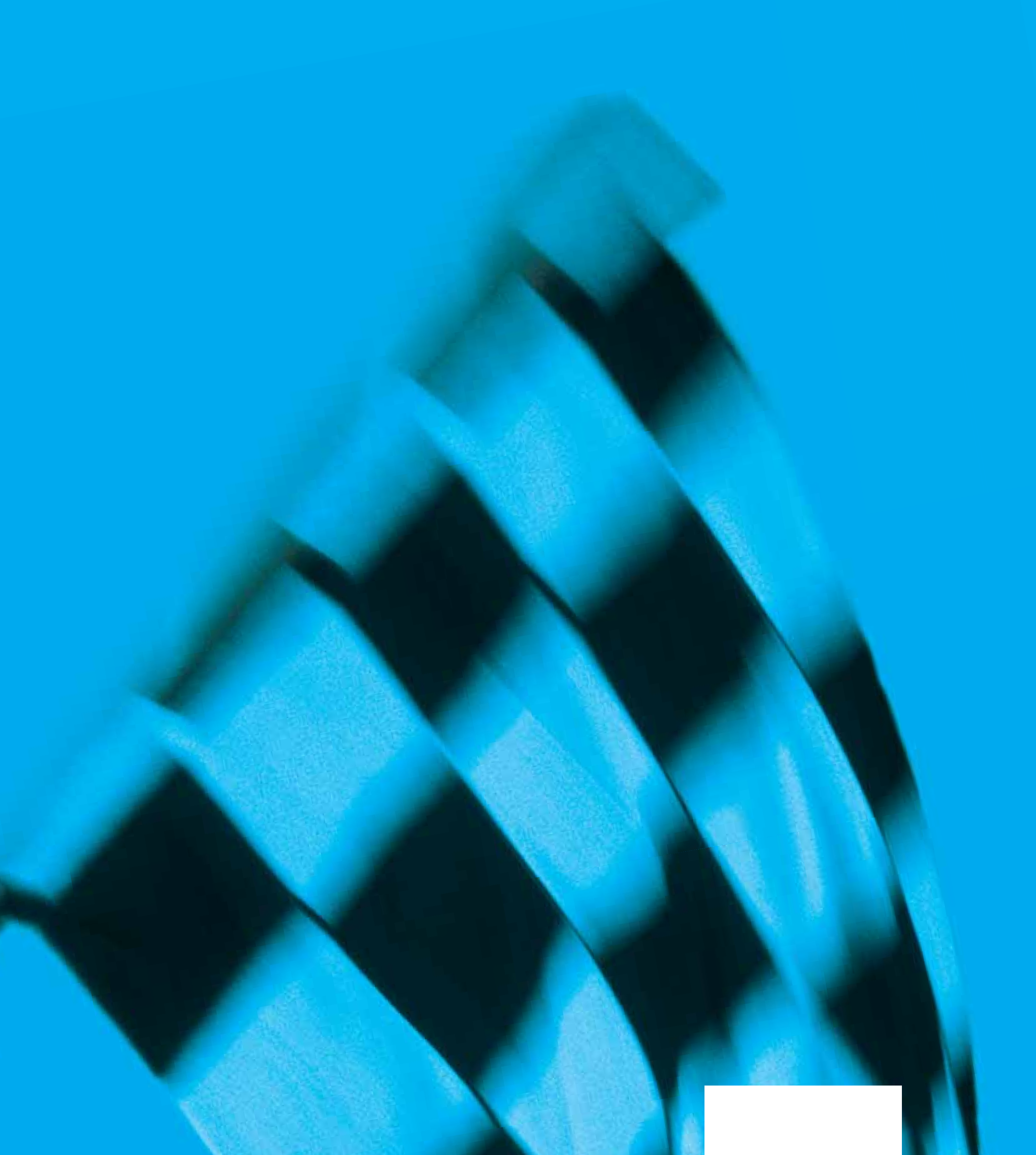
Release of ČSOB Group financial results releases (EU IFRS, consolidated)

Period	Date	Event
FY 2006	26 February 2007, 11 am	Presentation on the Internet and press conference
1Q 2007	16 May 2007, 2 pm	Presentation on the Internet
1H 2007	10 August 2007, 2 pm	Presentation on the Internet and press conference
3Q 2007	9 November 2007, 2 pm	Presentation on the Internet

Note: This schedule is for information only; dates might be subject to change during the year.

notes:

design, dtp | www.studiomotor.cz
print | www.integraf.cz



www.csob.cz