ČESKÁ SPOŘITELNA

Annual Report 2006

Consolidated Financial Highlights

under International Financial Reporting Standards (IFRS)

Balance Sheet Highlights

MCZK	2006	2005	2004	2003	2002
Total assets	728,393	654,064	581,780	555,417	519,691
Loans and advances to financial institutions	73,179	97,846	77,112	82,121	128,737
Loans and advances to customers	329,105	283,420	239,289	214,903	188,578
Securities	230,805	192,210	191,627	180,738	143,309
Amounts owed to financial institutions	46,361	34,898	32,905	29,641	31,858
Amounts owed to customers	537,487	481,556	444,771	428,572	402,728
Shareholders' equity	48,594	43,322	39,299	34,408	29,831

Profit and Loss Account Highlights

MCZK	2006	2005	2004	2003	2002
Net interest income	21,010	18,719	17,416	15,874	15,933
Net fee and commission income	8,997	8,384	8,238	7,915	6,848
Operating income	32,275	28,834	27,217	25,268	23,574
Operating expenses	(17,316)	(16,395)	(15,883)	(15,073)	(14,151)
Operating profit	14,959	12,439	11,334	10,195	9,423
Net profit net of minority interests	10,385	9,134	8,137	7,615	5,805

Basic Ratios

	2006	2005	2004	2003	2002
ROE	23.0%	22.3%	21.8%	23.7%	21.4%
ROA	1.5%	1.4%	1.4%	1.4%	1.1%
Cost/income	53.7%	56.9%	58.4%	59.7%	60.0%
Non-interest income/operating income	34.9%	35.1%	36.0%	37.2%	32.4%
Net interest margin	3.0%	3.0%	3.0%	2.9%	3.0%
Customer loans/customer deposits	61.2%	58.9%	53.8%	50.1%	46.8%
Capital adequacy (BIS)	11.1%	11.1%	13.3%	14.6%	16.5%

Key Operating Indicators

Number	2006	2005	2004	2003	2002
Staff (average headcount)	10,809	11,406	11,805	12,786	13,061
Česká spořitelna's branches	637	646	647	666	673
Clients	5,276,897	5,326,378	5,353,923	5,519,627	5,393,492
Sporogiro accounts	2,789,076	2,761,062	2,757,929	2,755,113	2,727,306
of which: product packages	1,274,994	1,089,748	685,053	371,341	9,277
Active bank cards	3,095,614	2,941,843	2,758,486	2,576,552	2,363,651
of which: credit cards	447,089	340,510	204,564	101,155	28,051
Servis 24 electronic banking users	1,093,918	993,892	828,826	677,926	373,889
ATMs	1,090	1,076	1,071	1,067	1,011

Rating

Rating agency	Long-term rating	Short-term rating	Outlook
Fitch	A-	F2	stable
Moody's	A2	Prime-1	stable
Standard & Poor's	A-	A2	positive

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Company Profile

The First Choice Year

2006 was another successful year for Česká spořitelna. We continued our dynamic growth as well as strengthened our position in the market. 2006 could be called a year of awards as our bank ranked first in four key categories of the 2006 MasterCard Bank competition. We were the first bank in the competition's history to win the Bank of the Year and the Most Credible Bank of the Year awards; the Banker of the Year went again to the Chief Executive Officer of Česká spořitelna, Jack Stack. Moreover, ČS hypotéka won in the Mortgage of the Year category. This evidence alone speaks of the high quality of our services and the confidence of our clients as well as the professional public.

Another attribute characterising 2006, perhaps even more tellingly, could be the 'First Choice' concept. It was in 2006 that we introduced a new and unique strategic programme called the First Choice Bank. The programme, which has been prepared for the period from 2006 to 2008, is intended to provide clients with services, products and advisory services so they will be attracted and automatically drawn to Česká spořitelna as their first choice in banking. The programme will provide for enhanced services and products in order to comply with clients' needs. The simplification and increased quality of the services will surely increase both our clients' loyalty and satisfaction. The First Choice Bank programme is composed of seven fundamental components: services and products; processes; service management; culture; branches; social responsibility; and, last but not least, clients, their rights and financial education.

As part of the programme described above, we plan to meet over 60 objectives and goals, which will further strengthen our leading position in retail banking and financial markets and in the area of services rendered to corporate clients. During 2006, we were successful in meeting the first 27 milestones, including new products and the introduction of the following services: the possibility to change one's PIN at an ATM, electronic statements from current and savings accounts, the possibility to apply for credit cards via the Internet, and a new Code of Ethics and Values for the bank's employees.

Our bank serves 5.3 million clients – such confidence speaks volumes and therefore pushes us to find unique solutions to meet all of our clients' financial needs. The First Choice Bank programme initiated in 2006 is the key tool for the performance of activities in this respect for the next few years.

We also witnessed substantial development in other areas: Česká spořitelna as the largest local mortgage provider introduced a new product, Instant Mortgage. Our financial group provided private mortgages and housing loans at a record volume of CZK 44.5 billion.

The tendency is still apparent when more and more clients use direct banking to manage their bank accounts. The number of clients using SERVIS 24 reached one million in January 2006, after four years in existence. At the same time, we enhanced internet banking security by implementing authorisation codes sent via SMS messages.

In 2006, we also devoted our time and efforts to the area of social responsibility, donating CZK 62,578,000 to support culture, education, sports and public and social affairs. Through the Česká spořitelna Foundation, we provided another CZK 29,467,000 to support public projects, which has made us the most generous donator of all Czech banks. Česká spořitelna's clients had the chance to get actively involved in the bank's charitable activities for the first time by donating their points from the Loyalty Bonus Programme to charitable projects or by participating in special events held during the year.

2006 was also a year of developments for our Erste Bank parent group and mention should also be made of the continuing foreign expansion of the Group, which is the strongest Central European financial group. At the turn of 2005/2006, the financial family was further expanded to include the major bank in Romania, Banca Commerciala Romana. In the summer, the ambitious Ukrainian Bank Prestige was included in the Group.

Our focus is exclusively on the local banking market as one of three major banks dominating the market in almost all areas of banking activities. Composed of a total of 37 banks, 28 of which are held by foreign investors, the Czech banking sector is characteristic of strong competition and significant consolidation. The three largest banks, Česká spořitelna, Československá obchodní banka and Komerční banka, in aggregate manage 54 percent of total bank assets, 58 percent of client deposits and 49 percent of net client loans.

The Year 2006 Review

January
- The volume of all client deposits for the ČS Financial Group exceeded CZK 500 billion.
- In United Interactive‘s study, which examined the approach of the banks’ client centres to email communication with current or prospective clients, Česká spořitelna was awarded the first place.
- The number of the direct banking – SERVIS 24 clients exceeded 1 million.

February
- Česká spořitelna’s clients collected the required number of points under the loyalty Bonus programme, and thus supported two projects pursued by the Civil Association for the Help to the Mentally Disabled (LADA) and the United Organisation of the Blind and Weak-Sighted (SONS). During 2006, the Bank’s clients additionally supported a total of 11 projects.
- To the small-sized firms and entrepreneurs, Česká spořitelna offered the new ‘5 Plus Operating Loan’ (Provozní úvěr 5 Plus), which follows up on the very successful ‘5 Plus Investment Loan’ (Investiční úvěr 5 Plus).
- Česká spořitelna won the public tender for financing the construction of a processing centre in Brno, called by Česká pošta.
- Česká spořitelna became the general partner of the ‘Charles IV. – Emperor by the Grace of God’ exhibition. Medieval Czech artefacts from the reign of Charles IV and his sons were made available through this unique exhibition.

March
- According to Gartner’s evaluation, Česká spořitelna has the best customer relationship management (CRM) of financial institutions in Europe and it is in the second place in the overall evaluation. Experts from 37 countries chose from hundreds of companies from the whole of Europe.

April
- The Fitch rating agency increased Česká spořitelna’s individual rating from C to B/C.

May
- In the Golden Crown financial products contest, Mortgage for Newlyweds ranked first among mortgage products, while the Silver Crown was awarded, in the relevant categories, to Servis 24 (the electronic banking category), Easy Loan (in the loans category) and Sporotrend, the open-ended mutual fund of Investiční společnost ČS (in the mutual funds category). The Bronze Crown went to the Student+ programme in the category of the universal bank products.
- Česká spořitelna was a general partner of the 61st Prague Spring International Music Festival. The Bank supported the festival for the sixth year in a row.

June
- Česká spořitelna received an award in the Corporate Bank of the Year 2006 contest organised by MasterCard. The decision was made based on the polling of over 150 CFOs of the most important firms in the Czech Republic, the Czech Top 100.

July
- Česká spořitelna announced the First Choice Bank strategic programme. This programme is primarily designed as an internal programme of the Bank with a view to revising Česká spořitelna’s corporate culture so that it can become the most respected and the most dynamic bank on the market. At the same time, the programme involves specific steps designed to enhance client services principally through the improvement of processes and the use of the Bank’s employees’ own initiative.
- The number of the issued active payment cards exceeded 3 million.
- Česká spořitelna won the tender called by the Housing Development State Fund for the management of the Fund’s subsidies and grants. Over the next 20 years, the Bank will be carrying out selected activities associated with the subsidies and grants and the provision of advantageous loans to housing associations.

August

- Česká spořitelna offers its clients the ČS Instant Mortgage; an interested client can learn the approved mortgage amount at the first meeting and sign the loan contract at the same time. The Bank thus simplifies and accelerates the mortgage provision process.
- The total volume of the mortgage loan portfolio exceeded CZK 100 billion.
- To the entrepreneurs, small and medium-sized firms, Česká spořitelna offers banking services for free for the period of three months, during which time they can verify the excellent quality of products and services offered by Česká spořitelna.

September

- Česká spořitelna commenced issuing chip cards and, as the only bank in the Czech Republic to do so, enables its clients to change the PIN of their cards at any of its ATMs.

October

- In the fifth year of the MasterCard Bank of the Year 2006 competition, Česká spořitelna won, as the first bank in the history of the competition, both the Bank of the Year award and the Most Credible Bank of the Year award. The CEO Jack Stack again received the title 'Banker of the Year', and the ČS Instant Mortgage product was awarded first place in the Mortgage of the Year category.
- Česká spořitelna enhanced the compulsory security of Servis 24 Internetbanking. Among other things, it introduced compulsory authorisation of all payments via authorisation SMSs.
- In order to strengthen the capital base within the context of the dynamic growth of the lending business, Česká spořitelna issued ten-year subordinated bonds in the total volume of CZK 3 billion.
- Stavební spořitelna České spořitelny introduced a new type of the bridging loan called Hypo Trend. The loan combines the benefits of the construction savings scheme and mortgages.

November

- Jiří Škorvaga became the new member of Česká spořitelna's Board of Directors responsible for the Bank's retail transactions, replacing Martin Škopek, who left to take a place on the Board of Directors of the Romanian fellow subsidiary, Banca Comerciala Romana.
- In terms of long-term mutual cooperation, Česká spořitelna opened a new branch office, with a full range of products and services, at the Prague School of Economics.
- In terms of the Top Firemní Filantrop 2006 ranking, Česká spořitelna took first place in the Outstanding Project category, for the cooperation with the SANANIM civic association.
- In the pre-Christmas period, Česká spořitelna offered clients the opportunity to obtain a mortgage loan with a 50-percent Christmas discount.
- Česká spořitelna became a pioneer in introducing initial public offerings (IPO) to the retail segment, when the consulting centre network took part in the IPO distribution in respect of ECM's shares. The branch network contributed to Česká spořitelna's unique capability to present new placements to all investment banking client segments.

December

- A new subsidiary was registered in the Register of Companies – Česká spořitelna's REICO Investiční společnost, which will administer the real estate funds for both the small and institutional investors.
- In the pre-Christmas period between 1 December to 23 December, clients withdrew almost a billion CZK every day from ATMs.
- The Bank experienced an unprecedented December in the area of consumer lending. In comparison with December 2005, the volume of newly granted consumer loans increased by 44 percent.
- For the first time in its history, Česká spořitelna's consolidated net profit exceeded CZK 10 billion.

Opening Statement by the Chairman of the Board of Directors and CEO

Dear Shareholders, Clients, and Colleagues:

2006 was an extraordinary year in the history of Česká spořitelna. We achieved record profits of CZK 10 bil., resulting from record growth in both loans and deposits. My colleagues at Česká spořitelna achieved these records by providing excellent services to our clients. An independent survey by an external agency shows that 90 percent of our clients are either satisfied or very satisfied.

We are obtaining this high level of client satisfaction due to our unique combination of very professional personnel, highly competitive products, value-based pricing, and the best distribution through our network of branches, ATMs, SERVIS 24, mobile sales force, and commercial banking centers. Building a competitive advantage in financial services lies in a successful combination of people, products, pricing, distribution, and positioning. All of us at Česká spořitelna are convinced – and our clients tell us – that we have succeeded at putting these pieces of the financial services puzzle together, thus winning the loyalty of our clients.

But we know what brought success in the past will not necessarily bring success in the future. Clients are more demanding; competition is improving; and economic development leads to shifts in the product portfolio. Because of this need for continuous improvement and change, Česká spořitelna launched the First Choice Bank Program in 2006. Česká spořitelna's first transformation of the 21st century was in 2000–2001 when the privatization of Česká spořitelna by the Czech government to Erste Bank led to turning around the bank from near financial failure to a healthy institution. Česká spořitelna's second transformation is meant to make us more customer focused (including achieving over 60 specific milestones/targets) and enabling each and every member of the Česká spořitelna team to be empowered and passionate about the customer and employee experience at the bank. See the Profile chapter for additional information.

This is an exciting time at Česká spořitelna. We are helping the economy grow through our many offerings of products and advisory services to business, governments, not-for-profits, and consumers. We are fulfilling our corporate social responsibility through transparent governance, support for the less fortunate in society, and human resource initiatives.

John James Stack, Chairman of the Board of Directors and CEO

We firmly believe the Czech Republic and Central Europe will be the engine of growth for the European Union over the next decade. 2006 is proof that the Česká spořitelna team is helping to return the Czech Republic to its rightful place at the center of Europe.

April 2007

Jack Stack

Jack Stack

Board of Directors as of 31 December 2006

JIŘÍ ŠKORVAGA
Member of the Board of Directors
and Deputy Chief Executive Officer

JOHN JAMES STACK
Chairman of the Board of Directors
and Chief Executive Officer

PAVEL KYSILKA
Member of the Board of Directors
and Deputy Chief Executive Officer

DUŠAN BARAN
Vice Chairman of the Board of Directors
and First Deputy Chief Executive Officer

HEINZ KNOTZER
Member of the Board of Directors
and Deputy Chief Executive Officer

DANIEL HELER
Member of the Board of Directors
and Deputy Chief Executive Officer

PETR HLAVÁČEK
Member of the Board of Directors
and Deputy CEO

MARTIN ŠKOPEK
Member of the Board of Directors
and Deputy CEO

JOHN JAMES STACK
Born on 4 August 1946
Chairman of the Board of Directors and CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Stack is an American citizen. He studied at Iona College majoring in mathematics and economics (BA, 1968) and the Harvard Graduate School of Business Administration specialising in finance and management (MBA, 1970).

From 1970 until 1976, Mr. Stack worked in municipal government in New York. From 1977 until 1999 he served at Chemical Bank, which merged into Chase Manhattan Bank, in a variety of increasingly important positions. Before joining Česká spořitelna he was an Executive Vice President at Chase Manhattan Bank.

On 1 March 2000, Mr. Stack became Deputy Chairman of the Board of Directors of Česká spořitelna. On 4 July 2000, he was elected Chairman of the Board of Directors and CEO of Česká spořitelna and re-elected into the function in 2004. Since 2005 Mr. Stack is a member of the Czech Banking Association.

DUŠAN BARAN
Born on 6 April 1965
Vice Chairman of the Board of Directors and First Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Baran is a graduate of the Mathematics and Physics Faculty of Charles University in Prague; an International Executive MBA program at Katz Graduate School of Business, the University of Pittsburgh together with the CMC Graduate School of Business in Čelákovice and a banking course at the Graduate School of Banking, University of Colorado, Colorado, USA. During 1991–1993 he worked for Agrobanka, a. s. in the treasury function. He joined Česká spořitelna in November 1993, where he held various managerial positions in Treasury and Risk Management division. He was appointed a member of the Board of Directors and Deputy CEO of Česká spořitelna in May 1998 and was promoted to Chairman of the Board of Directors and CEO in March 1999. On 4 July 2000 he was elected Vice Chairman of the Board of Directors of Česká spořitelna and appointed the First Deputy CEO. He is also the Chief Financial Officer of Česká spořitelna. Mr. Baran is a Vice Chairman of the Steering Committee of the Czech Institute of Directors and a Treasurer of the Board of Directors of the European Savings Banks Group (ESBG) in Brussels.

DANIEL HELER
Born on 12 December 1960
Member of the Board of Directors and Deputy CEO
Reference Address: Na Perstyne 1, Prague 1, Czech Republic

Mr. Heler is a graduate of the Prague University of Economics, Faculty of International Trade. He held internships with J. P. Morgan, Goldman Sachs, S. Montagu, UBS, N. M. Rothschild, Shearson and Bayerische Hypobank. He has also attended a number of courses focused on global banking, profitability in banking, retail banking strategy, treasury and risk management. He has worked in the banking sector since 1983. First he held various positions in the Department of Foreign Exchange and Money Markets and then, in 1990, he became the Director of the Financial Markets Division of Československá obchodní banka Praha. In 1992 he was appointed as Treasurer and member of the Board of Directors of Crédit Lyonnais Bank Praha. In 1998, he was appointed as a member of the Board of Directors of Erste Bank Sparkassen (CR) and assumed the responsibility for the Financial Markets. In 1999, he became the Vice Chairman of the Board of Directors of Erste Bank Sparkassen (CR) and since 1 July 2000 he has been the member of the Board of Directors of Česká spořitelna responsible for asset management and retail investment products, corporate finance and investment banking, treasury sales and trading, capital markets, balance sheet management, financial institutions and corresponding banking.

Mr. Heler is additionally a member of the bodies of the following companies: Nadace České spořitelny, brokerjet ČS, Erste Corporate Finance, a. s., the Stock Exchange Chamber and the Deposit Insurance Fund .

HEINZ KNOTZER
Born on 8 April 1960
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Heinz Knotzer is a graduate of the University of Vienna where, in 1987, he obtained the title of JUDr. (Doctor of Jurisprudence). He started his career in banking in 1988 after practicing as legal assistant at courts of both levels in Austria. He worked in the legal division of Österreichische Investitionkredit AG (Investkredit) and joined later Girozentrale und Bank der Österreichischen Sparkassen AG (which, after a merger in 1997, became a part of Erste Bank), where he worked in the Investment Banking Division. Beginning 1996 he was seconded to Creditanstalt, a. s., Prague, after successfully completing special professional training at Creditanstalt AG, Vienna, and assumed at first the position Manager of the Division for Corporate Customers at the bank's main office in Prague and later, he became the Assistant General Director for the Division for Corporate Customers. In 1998, within the framework of the merged Bank Austria Creditanstalt Czech Republic, a. s., he became the director of the Division for Corporate Customers II responsible for corporate banking at 9 branches, the International Business Division and the Loans Division. In June 1999 he joined Erste Bank Sparkassen (CR), a. s. and was appointed as a Member of the Board of Directors and Executive Director. After the successful privatization and acquisition of Česká spořitelna by Erste Bank der oesterreichischen Sparkassen AG and the consecutive transfer of their Czech operation into Česká spořitelna in 2000 he was named Director of the Commercial Centers Section of Česká spořitelna. Since July 2003 he is a member of the bank's Senior Management Team. In August 2004 he was appointed as member of the Board of Directors and a Deputy CEO of Česká spořitelna. He is responsible for corporate and commercial banking, mortgages and real estate finance and the municipalities section.

He is Member of the Supervisory Board of sAutoleasing, a. s., Leasing Česke spořitelny a. s., Factoring Česke spořitelny a. s., and Erste Corporate Finance, a. s.

PETR HLAVÁČEK
Born on 19 November 1955
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Petr Hlaváček graduated from the Prague University of Economics and the University of Toronto. He has been active in the banking sector since 1984. After nine years of work for the Canadian Imperial Bank of Commerce, he joined the Czech National Bank as an advisor to a member of the Banking Board in 1993. In 1994 he joined Česká spořitelna where he held the post of Director of the Capital Investment Division. In June 1999 he was appointed as the member of the Board of Directors of Česká spořitelna responsible for the preparation of privatisation and investment banking. In 2000 he joined the Senior Management Team and became Director of the Transformation Program 'Naše spořitelna.' In his capacity as a Board member, he is responsible for project management and IT area.

Mr. Hlaváček is additionally a member of the bodies of the following companies: Consulting České spořitelny, a. s. and Informatika České spořitelny, a. s.

MARTIN ŠKOPEK
Born on 24 April 1967
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

A graduate of the Prague University of Economics, during 1993–1995 Mr. Škopek studied at The Jack T. Conn Graduate School of Community Banking, Oklahoma City University. From 1990–1999 he worked in various positions at Komerční banka. In October 1999 he became a member of the Board of Directors and a Deputy CEO of Česká spořitelna. He was responsible for retail banking. Mr. Škopek was a member of the Supervisory Board of Stavební spořitelna České spořitelny, a. s. and Investiční společnost České spořitelny, a. s and brokerjet ČS, a. s. He was also a member of the Managing Board of Nadace České spořitelny and a member of the Academic Board of Vysoká škola finanční a správní.

Mr. Škopek resigned from his functions at Ceska Sporitelna as of October 31st, 2006 and accepted the position of a Member of the Board of Directors at Romanian bank BCR, member of the EBG.

JIŘÍ ŠKORVAGA
Born on 26 April 1963
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Jiří Škorvaga is a graduate from the Institute of Chemical Technology in Prague and from the post-gradual studies at Czechoslovak Academy of Sciences. He joined Ceska Sporitelna Financial Group in 1994, as a project manager. In 1998 he took over the position of Card Center Head and in 1999 he was appointed as a Head Manager of retail banking. Since 2000 he was responsible for business management of retail business and was a member of Senior Management Team. In November 2006 Mr. Škorvaga became a member of the Board of Directors and a Deputy CEO of Ceska Sporitelna. He is responsible for retail banking.

Mr. Škorvaga is a member of the Supervisory Board of Stavební spořitelna České spořitelny, a. s. and Investiční společnost České spořitelny, a. s and brokerjet ČS, a. s. and he is a member of the Managing Board of Prague Spring, o. p. s.

PAVEL KYSILKA
Born 5 September 1958
Member of the Board of Directors and Deputy CEO
Reference Address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Kysilka is a graduate of Faculty of Economics of the University of Economics in Prague; in 1986 he passed internal postgraduate research there. In 1986–1990 he worked at the Institute of Economics of the Czechoslovak Academy of Sciences.

In 1990–1991 Mr. Kysilka worked in the Ministry for Economic Policy as the Chief economic advisor to the Minister for economic policy. In the 1990s he held various positions up to the post of Executive Governor in the Czech National Bank, where he also managed the splitting of the Czechoslovak currency in 1993. At the same time in 1994–1997 he acted as an expert of International Monetary Fund and he participated in implementation of national currencies in several East European countries. In the 90's he was President of Česká ekonomická společnost. Before joining Česká spořitelna Mr. Kysilka worked in Erste Bank Sparkassen (CR) in Prague as Executive Director responsible for IT, Organization, Human Resources, and Services. He started to work for Česká spořitelna in 2000 as Chief Economist and Member of the Senior Management Team. On October 5, 2004, the Supervisory Board of Česká spořitelna appointed him a Member of the Board of Directors. Mr. Kysilka is responsible for payment systems, financial market analyses, security, EU Office and corporate cash management and pooling. Among others he is member of the Scientific Board and the Managing Board of University of Economics in Prague.

Česká spořitelna’s Supervisory Board as of 31 December, 2006

ANDREAS TREICHL
Born on 16 June 1952
Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Andreas Treichl studied economic sciences at Vienna University in 1971–1975. After completing a training program in New York, he began his career at Chase Manhattan Bank in 1977, which sent him to Brussels (1979–1981) and Athens (1981–1983). In 1983 he began to work at Die Erste for the first time. In 1986 he accepted a General Manager position with Chase Manhattan Bank Vienna, which was purchased by Credit Lyonnais in 1993. In 1994 Mr Treichl was appointed to the Management Board of Die Erste. In July 1997, he was appointed as CEO. In addition to being Chairman and CEO of Erste Bank der oesterreichischen Sparkassen, Andreas Treichl is responsible, among other areas, for Group Communications, Corporate Strategic Development, Group Marketing, Company Secretary, Internal Audit, Legal Services, Investors Relations and Česká spořitelna.

He became a member of the Supervisory Board of Česká spořitelna at the Extraordinary General Meeting in June 2000; subsequently he was elected its Chairman. The General Meeting in May 2003 re-elected Mr. Treichl in his function.

Mr. Treichl is additionally a member of the bodies of the following companies: Erste Bank der oesterreichischen Sparkassen AG, Banca Comerciala Romana SA, Donau Allgemeine Versicherungs-AG, Erste Bank Hungary Rt, Kaertner Sparkasse AG, Slovenská sporiteľňa, a. s., Sparkassen Versicherung AG, Sparkassebeteiligungs und Service AG fuer Oberoesterreich und Salzburg, Steiermaerkische Bank und Sparkassen AG, MAK – Oesterreischisches Museum fuer Angewandte Kunst, Die Erste oesterreischische Spar-Casse Privatstiftung, Oesterrichischen Sparakssenverband, Felima Privatstiftung, Ferdima Privatstiftung.

CHRISTIAN CORETH
Born on 31 March 1946
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Coreth graduated from the University of Vienna in 1972 with a Law Degree. In the period from 1972 to 1982, he worked for Creditanstalt-Bankverein, Vienna. From the Deputy Head of the International Loan Department, where he started in 1982, he moved to New York to European American Bank (EAB) as Senior Vice President.

In 1985, Mr. Coreth returned to Creditanstalt in Vienna to work as the Head of the Financial Institutions department. From 1987, he worked in the International Division where he managed the Corporate and Financial Institutions Department. From 1988 to 1998, he worked as Deputy Head of the International Division where he was primarily responsible for business activities in Asia and Latin America.

Since 1998, Mr. Coreth has worked as Head of the International Division of Erste Bank der oesterreichischen Sparkassen AG in Vienna. In July 2004 he was appointed to the Managing Board of Erste Bank der oesterreichischen Sparkassen AG with responsibility for Group Risk Management.

He was elected a member of Česká spořitelna’s Supervisory Board on 22 May 2002.

Mr. Coreth is additionally a member of the bodies of the following companies: Banca Comerciala Romana SA and Oesterreichische Kontrollbank AG.

MAXIMILIAN HARDEGG
Born on 26 February 1966
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Hardegg graduated from Agricultural Sciences in Weihenstephan, Germany. In the period 1991-1993, he worked at AWT Trade and Finance Corp, which is part of the Creditanstalt Group. At AWT he was responsible for the import of food products and the introduction of EU standards into the Czech Republic, Poland, Hungary and Ukraine. He also worked as an advisor to the Czech Ministry of Agriculture in respect of the privatisation of agriculture.

Since 1993, he has been engaged in agriculture management. He has participated in the Phare, Sapard and Leader+titles projects, which are designed to support the cooperation among agricultural systems within the EU. He is also a member of lobbyist groups in Austria and the EU, which are focused on supporting sustainable development in land use and agriculture. He was elected a member of Ceska sporitelna's Supervisory Board on 22 May 2002 and re-elected in April 2005.

Mr. Hardegg is member of the Supervisory Board of DIE ERSTE oesterreichische Spar-Casse Privatstiftung., Sparkassen Pruefungsverband.

MONIKA HOUŠTECKÁ
Born on 6 December 1963
Member of the Supervisory Board
Reference Address: Budějovická 1912, Prague 4, Czech Republic

Mrs. Houštecká graduated from the Economic University, Faculty of Domestic Trade. After completion of her studies, she worked in the area of trade and in 1994 she started to work in Česká spořitelna. First, as a trainee in OP Praha 2, later on as loan specialist. Since 1997 Mrs. Houštecká is working in the HQ in the area of Financing of Foreign Trade. In 1999 she became a manager of HQ and was asked to lead the team of Bank Guarantees, in 2000 was entrusted with deputizing of the Director of Trade Finance Department. And as of August 2000 Mrs. Houštecká was appointed into the function of Director of Trade Finance Department.

With effect from 28th November 2003 Mrs Houštecká has been elected by the ČS employees into the function of a Supervisory Board Member.

ZLATA GRÖNINGEROVÁ
Born on 4 July 1957
Member of the Supervisory Board
Reference Address: Vrážská 239, Prague 5, Czech Republic

Mrs Gröningerová graduated from the Production-Economics Faculty of the School of Economics in 1982 where she specialised in the economics of industry. From 1982, she worked at the School of Economics as an assistant professor. In the period from 1985 to 1990, she worked as an associate professor in the Finance and Lending Department, specialising in financial management of enterprises. In the period from 1990 to 1991, she was employed with Investiční banka, a. s. as a banking specialist with a focus on privatisation projects and marketing. Until 1993, she held the position of 'procura' for Suezinvestiční, a. s. She returned to the banking environment in 1994 when she joined Investiční a poštovní banka, a. s. as a banking specialist focused on financial transactions. In 1996 she joined Konsolidační banka Praha, s. p. ú. ('KOB') as a director of the Equity Investment Funding Department. Later she moved to the position of Senior Director of the Commercial and Commercial Specialists Departments and she sat on the Banking Board from 1998. In 2001–2004 was CEO and Member of the Managing Board of Konsolidační agentura. Since 2005 she is General Director of Technometra Radotín, a. s. Mrs Gröningerová was elected into the function of the Supervisory Board member as of 15th May 2003.

The term of office of Mrs. Groningerová expired as of 15th August 2006.

HERBERT JURANEK
Born on 13 November 1966
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Juranek graduated from the Commercial College in Austria – Bruck/Leitha. He began his career in Girozentrale der österreichischen Sparkassen in the area of securities. In Girocredit Bank, A. G. he was responsible for derivate clearing and technical support. During years 1996–1998 in Reuters Ges. m. b. H., he lead all sales and risk management activities of Reuters Austria. Since 1999 he performed various functions in Erste Bank der oesterreichischen Sparkassen AG – mainly leading operations activities with securities. As the CEO of "ecetra Central European e-Finance" and "ecetra Internet Services AG" he took overall responsibility for the online broker and internet bank of Erste Bank Group. In the meantime, Mr. Juranek as the General Manager Group IT is in charge of all IT, project management and bank-organization related activities within Erste Bank Group with a direct reporting hierarchy in Austrian and a matrix structure on a Group level.

Mr. Juranek was elected by the Supervisory Board into the function of a Supervisory Board Member as of 5th October 2004.

Additionally he is a member of the bodies of the following companies: Slovenská sporiteľna, a. s. s IT Solutions AT Spardat G.m. b. H., IT Austria Ges. m. b. H., ecetra Central European e-Finance, ecetra Internet Services AG , Erste Steiermärkische Banka Rijeka, a. d., Dezentrale IT – Infrastruktur Services GmbH, ; Banca Comerciala Romana SA; s IT Solutions SK, spol. s r. o.

MONIKA LAUŠMANOVÁ
Born on 30 October 1962
Member of the Supervisory Board
Reference Address: Na Perštýně 1, Prague 1, Czech Republic

Mrs. Laušmanová graduated from the Faculty of Mathematics and Physics. Her carrier started on the Faculty of Matheamtics where she worked as an assistant in the area of finance and insurance mathematics.

In 1997 she worked as a risk manager and analyst in Expandia Finance. In 1998 she joined Erste Bank (CR) in the position of Head of Risk Management. Since the merger of Česká spořitelna and Erste Bank Mrs. Laušmanová is responsible for the Central Risk Management in ČS. Mrs. Laušmanová is a member of Czech Banking Association, she is Head of Commission for the Bank regulation.

As of 12 August 2005 she was elected by the ČS employees as a Member of the Supervisory Board of Česká spořitelna, a. s.

REINHARD ORTNER,
Born on 6 January 1949
Vice Chairman of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Reinhard Ortner completed studies of social and economic sciences at Vienna University in 1971, where he specialised in monetary theory and policy. In 1971, he joined Erste oesterreichische Spar-Casse, where he has held various positions in the accounting and controlling functions since 1973. In 1977–1984, he was Director of the Accounting, Administration and Finance function. He has been a member of the Board of Directors of Erste Bank der oesterreichischen Sparkassen AG since 1984. Mr. Ortner is responsible for Group Accounting, Planning and Controlling, International Business, Management of Subsidiaries, Investments, Slovenská sporiteľna, a. s., Erste Bank Hungary and Erste Bank Croatia. He was elected as a member of the Supervisory Board of Česká spořitelna at the Extraordinary General Meeting that was held on 27 June 2000; the General Meeting in 2003 re-elected Mr. Ortner into the function of a Member of the Supervisory Board.

Mr. Ortner is additionally a member of the bodies of the following companies: Erste Bank der oesterreichischen Sparkasen AG, Erste Bank Hungary, Erste Steiermaerkische Banka d. d. Rijeka, Slovenská sporiteľna, a. s., Oesterreischische Kontrollbank AG, VBV Pensionkasse AG, Erste Bank a. s. Novi Sad,, VBV betriebliche Altersvorsorge AG.

MAREK POSPĚCH
Born on 1 October 1967
Member of the Supervisory Board
Reference Address: Nám. Dr. Beneše 6, Ostrava, Czech Republic

Following graduation from a secondary professional school of construction in Valašské Meziříčí, Mr. Pospěch worked with Tesla Rožnov in the control and quality assurance department for six years. In 1992, he joined Česká spořitelna's branch office in Ostrava where he worked in the operations security department. From 1995, he worked in the general administration department and is currently a head office manager of the property management department. With effect from 1994, he has sat on the Organisation-wide Committee of the CS Labour Union. Since 2006 he is a member of Czech Institute of Directors within certification of Corporate Governance Program.

With effect from 1 April 2002, he has been elected by the employees of Česká spořitelna as a member of the Supervisory Board, and re-elected in July 2005.

BERNHARD SPALT
Born on 25 June 1968
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria

Mr. Spalt graduated from the Law Faculty of Vienna University where he specialised in European law.

During his studies in 1991, he joined DIE ERSTE oesterreichische Spar-Casse Bank AG, where he started to work in the Legal Department. From September 1994 to June 1997, he performed various positions in the Work Out Department. In June 1997, he started to work in the Secretariat of the Management Board and in June 1998 he was appointed as Head of this unit. In September 1999, he was seconded to Erste Bank Sparkassen (CR), a. s. where he led the Work Out Department. Following the sale of Erste Bank Sparkassen (CR), a. s. to Česká spořitelna, a. s., Mr Spalt took over the responsibility of the Work Out Department in Česká spořitelna, a. s. In June 2002, he returned to Erste Bank, Vienna where he was responsible for Strategic Risk Management until Oct. 2006. In Nov. 2006 he was appointed to the Managing Board of Erste Bank der oesterreichischen Sparkassen AG with responsibility for Group Risk Management.

Mr. Spalt was co-opted to the Supervisory Board of Česká spořitelna, a. s. on 21 August 2002 and subsequently was elected into the function of a Supervisory Board member as of 15th May 2003 by the General Meeting.

Mr. Spalt is a member of the bodies of the following companies: Erste Bank Hungary Nyrt., Erste Reinsurance S. A., Joint Stock Bank Prestige and Erste Bank der oesterreichischen Sparkassen AG.

**JITKA ŠROTÝŘOVÁ
Born on 18 November 1948
Member of the Supervisory Board
Reference Address: Olbrachtova 62, Prague 4,
Czech Republic**

Mrs. Šrotýrová graduated from the secondary school of general education in Prague. In 1967, she joined Tesla Prague as a specialist. From 1970 to 1984 she worked as a supply manager for Tesla Eltos and the Project and Engineering Organisation. She has worked with Česká spořitelna since 1985, largely as a senior professional official of the recreation department where she is in charge of the operation of recreation facilities. Since 1986, she has been a member of the Organisation-wide Committee of the CS Labour Union. She is also chairwoman of the Sports Committee at Česká spořitelna. With effect from 1 April 2002, she has been elected by the employees of Česká spořitelna as a member of the Supervisory Board.

**MANFRED WIMMER
Born on 31 January 1956
Member of the Supervisory Board
Reference Address: Am Graben 21, Vienna, Austria**

Mr. Wimmer graduated from the Law Faculty of the University of Innsbruck where he was awarded the Doctor of Law degree. From 1978 to 1982, he worked as an academic assistant in private law. From 1982 to 1998, he worked in the International Division of Creditanstalt in Vienna where he held positions in international project financing, financial institutions and marketing. In 1998, he joined the International Division of Erste Bank der oesterreichischen Sparkassen AG, where he was in charge of the Česká spořitelna acquisition team since September 1999. Since February 2002 Mr. Wimmer was Head of the Strategic Group Development Division of Erste Bank responsible for Group Strategy, Co-ordination of CE activities and Investor relations. Since August 2005 Mr. Wimmer is Executive Director Group Architecture and Group Program Management.

He has been a member of the Supervisory Board of Česká spořitelna since 27 June 2000; the General Meeting in 2003 re-elected Mr. Wimmer into the function of a Member of the Supervisory Board.

Mr. Wimmer is additionally a member of the bodies of the following companies: Erste Bank Hungary Nyrt. and Banca Comerciala S. A.

Members of Managing and Supervisory Boards declares not to be aware of possible conflict of business, private and other interests or duties.

The Macroeconomic Framework for Česká spořitelna's Business

Economy grew at strong pace

The Czech economy grew in 2006 in the same rate as in 2005, it is 6.1%. With growth of 14.1% y/y, exports made the greatest contribution to the growth. For their part, imports started to accelerate (13.4% y/y), thereby lowering the contribution from net exports towards zero. The acceleration of imports is connected to the faster growth of consumption, which grew at close to 4%.

Investment (6.7% y/y) was aimed primarily at building up export-oriented capacities. Thanks to the favorable growth structure, the strong economic growth was not accompanied by significant demand inflation or import acceleration. The export growth improved the trade balance, which even strengthened the CZK. Thus, import prices declined, creating a low-inflation environment. Nevertheless, with the consumption acceleration, demand pressures started to rise, which was seen in import and demand inflation acceleration.

In comparison with the Eurozone (GDP growth of 2.7% y/y in 2006), the Czech economy still grew by a pace that ensured gradual real convergence to the Eurozone level (the level of the Czech economy has reached roughly 65% of the Eurozone level in terms of purchasing parity per capita).

The Czech economy is likely to slow down this year to 4–4.5%, but it should continue to grow at an above-average rate. The main driver will be household consumption, which is gradually accelerating. However, there are minor signs of overheating. The symptoms include faster imports and higher demand inflation. The trade balance surplus is likely to grow this year, thanks to lower oil prices and the still relatively strong growth in exports.

Consumption accelerated

With a 6.6% y/y growth pace, the average wage broke through the CZK 20,000 barrier. When stripped of inflation, wages grew by almost 3.5% y/y. The dynamism of wages remains below the productivity growth. Thus, businesses have reserves to cope with unfavorable developments (such as exchange rate strengthening or higher energy prices) and are not afraid to hire new workers. Therefore, the number of unemployed is lower and unemployment has fallen by 0.8pp to 8.1%. Moreover, individual income tax was reduced last year.

Disposable income growth, improved consumption confidence and the low interest rate environment supported consumption and investment in housing. Consumption accelerated to 4% y/y last year and housing loans rose 38% y/y, while consumer loans were up 23% y/y (outstanding volumes).

We expect disposable incomes to be supported this year by the positive labor market development and one-off state social spending increase. We anticipate consumption growing by 5.5% this year.

Trade balance showed improvement

Foreign demand, ongoing FDI inflow and decreasing import demand were behind the strong export growth. However, the higher domestic demand brought imports up. The trade balance surplus was higher last year. Nevertheless, the improvement was not as great as we saw in the previous two years.

Inflation gradually accelerating

Inflation accelerated to 2.5% y/y in 2006 (from 1.9% in 2005), but was still below the Czech national bank inflation target (3%). The biggest contribution came from the changes in regulated prices and indirect taxes. Faster growth was also seen in food prices and demand inflation. On the other hand, petrol price growth decelerated, primarily at the end of the year, in step with the drop in oil prices.

We expect average inflation to reach 2.5% y/y, with inflation at 3% by the end of the year. Demand inflation should accelerate, due to higher domestic demand and the slower strengthening of the CZK. Lower inflation expectations will work against the faster growth in prices. Among the cost factors, food prices are likely to grow, with petrol prices heading in the opposite direction. Regulated prices should grow similarly to last year.

CZK still attractive

The CZK gained another 4.8% against the euro, appreciating by CZK 1.40 to an average of 28.4 EUR/CZK (22.6 USD/CZK). The negative interest rate differential and dividend outflow worked in the opposite direction. However, the excellent growth and improvement of the trade balance surplus were stronger. The fast appreciation was reflected in the low inflation and, consequently, by low interest rates. On the other hand, the strong koruna does not decelerate the economy.

This year, the development of the balance of payment will be less positive for the CZK. Therefore, we expect the CZK appreciation this year (2.8% y/y) to be lower than in the previous two years. The expected average CZK exchange rate is 27.6 EUR/CZK (20.4 USD/EUR).

CNB to continue normalizing rates

The Czech national bank increased the rate twice (from 2% to 2.5%) last year, in reaction to expected inflation acceleration and fiscal expansion (hike in social spending). During the year, the high sensitivity of the rates and CNB rhetoric to FX moves was confirmed (CNB estimates show that appreciation of CZK 1 should increase inflation by approx. 1pp). The yield curve flattened, as the short end grew more quickly in reaction to the CNB than the long end, which was influenced by developments abroad.

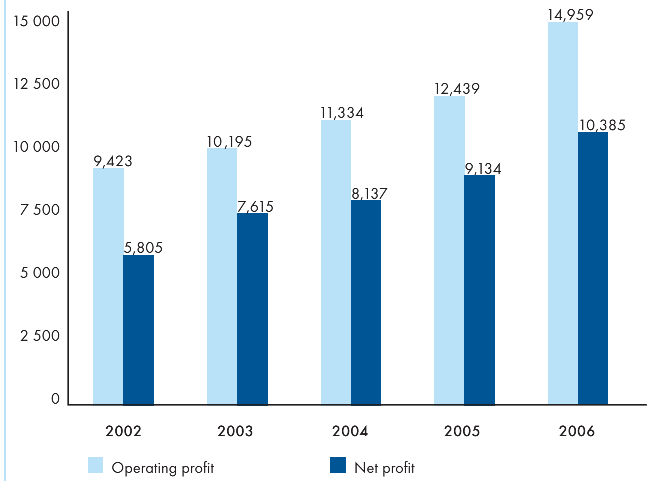
For this year, we expect a continuation of the rate normalization. We assume that the CNB will hike rates in two steps to 3%.

Report on Performance and Business Activities

CONSOLIDATED RESULTS OF OPERATIONS (INTERNATIONAL FINANCIAL REPORTING STANDARDS)

The Česká spořitelna Group exceeded the level of CZK 10 billion of its net profit for the first time in its history and increased its consolidated profits for the seventh year in a row. A number of indicators grew at a double-digit rate. Česká spořitelna is number one in many banking transactions. This successful performance is based on the continuing expansion of lending transactions, growing client deposits and assets under management. Clients increasingly use products and services of the Financial Group, performance of motivated employees is excellent, and the quality of provided services and client satisfaction are high.

Net profit and operating profit (CZK million)



PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006, Česká spořitelna reported, under International Financial Reporting Standards (IFRS), a consolidated **net profit**, net of minority interest, **of CZK 10,385 million, which represents an increase of 14 percent** relative to 2005 when the net profit amounted to CZK 9,134 million. The increase in net profit of CZK 1,251 million was reflected in the **improvement in return on equity (ROE) to 23 percent** and return on assets (ROA), which reached 1.5 percent. ROE and ROA were 22.3 percent and 1.4 percent, respectively, in 2005. Profit before taxes and minority interest (gross profit) decreased by 14 percent to CZK 14,057 million year-on-year.

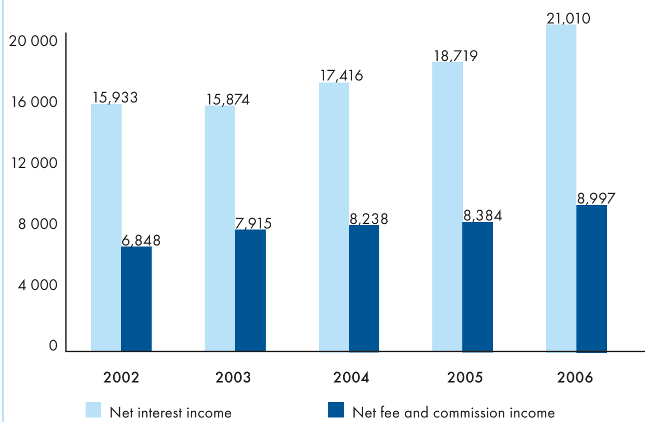
Operating profit, determined as the difference between operating income and expenses, reflects the results of the Bank's primary activities. On a year-on-year basis, **the Bank's operating profit rose by CZK 2,520 million** to CZK 14,959 million, representing **an increase of 20 percent. In addition, there was a favourable improvement in the cost/income ratio** of 32 basis points from 56.9 percent to 53.7 percent. The increase in the Bank's operating and net profit was driven by the increase in operating income.

Total operating income, comprising net interest income, net fee and commission income, net profit on financial operations and net insurance income, **rose by 12 percent to CZK 32,275 million**. Non-interest income accounts for 35 percent of the total operating income. **Operating expenses**, comprising staff costs, other administrative expenses and depreciation/amortisation charges on property and equipment and intangible assets, **increased by 6 percent to CZK 17,316 million.**

The successful operating results were predominantly driven by net interest income. Despite a moderate revival in interest rates in the latter half of 2006, the interest rates in the Czech Republic were below the level of interest rates in the eurozone (the two-week repo rate announced by the Czech National Bank in 2006 increased from 2.0 percent to 2.25 percent in July and to 2.5 percent at the end of September). **Net interest income for the year ended 31 December 2006 amounted to CZK 21,010 million, which represents a year-on-year increase of 12 percent.**

The successful result was primarily caused by increased lending (the total volume of loans and advances to customers, net of the ČKA's, grew year-on-year by 21 percent) **giving rise to a notable increase in interest income on client receivables** (of 16 percent). Interest income on loans and advances to financial institutions increased at the same rate, reflecting the above-mentioned growth in interest rates. Earnings per share more than doubled as a result of received dividends. Real estate rental income, especially income from real estate owned by real estate funds, increased by 50 percent. With respect to interest expenses, interest expenses on client deposits increased principally as a result of the growth in their volume; the growth of the costs of issued bonds, specifically especially mortgage bonds costs, was driven by their issues placed in 2005–2006. The Bank managed to maintain the net interest margin in relation to gross assets at 3.0 percent and the interest margin in relation to interest earning assets at 3.5 percent.

Net interest income and net fee and commission income (CZK million)



Net fee and commission income reached CZK 8,997 million, a year-on-year increase of 7 percent. The achieved year-on-year growth in net fee and commission income was primarily driven by the growing volume and number of financial transactions effected by the Group's clients as Česká spořitelna has made no increases in fees since the first quarter of 2004.

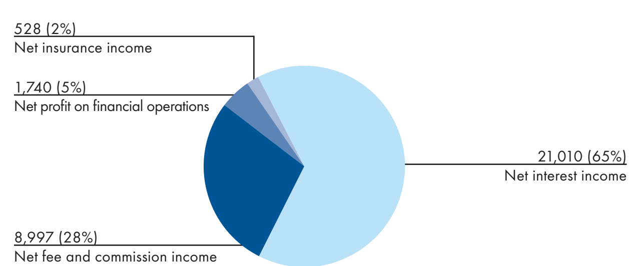
The favourable performance primarily resulted from lending activities which increased by 20 percent due to the continuing expansion of lending transactions. **Securities transaction fees and commissions increased by nearly a half** in connection with the increase of brokerage services provided by the parent bank and Brokerjet ČS, the increase in the volume of assets under management and investments primarily in mixed and equity mutual funds administered by Investiční společnost ČS. Income from transaction fees rose by 4 percent due to the increase in the volume and number of payment transactions (e.g. the volume of card transactions grew by 13 percent, the number of withdrawals through ATMs rose by 4 percent, and the number of giro account transactions grew by 4 percent).

The proportion of net income from fees and commissions in total operating income gradually decreased, from 31 percent in 2004 to 28 percent in 2006.

The net profit on financial operations for the year ended 31 December 2006 totalled CZK 1,740 million, growth of 28 percent year-on-year. The net profit on financial operations was specifically driven by income on foreign currency transactions. Income from the revaluation of derivatives in the banking book increased as well as interest derivative income due to the growth of interest rates in the latter half of 2006; on the other hand, this increase had an adverse effect on the revaluation of securities held for trading under 'realised and unrealised gains on securities held for trading'.

Net insurance income contributed to the profit figure by CZK 528 million, an increase of 41 percent compared to the previous period. The amount of the net insurance income was primarily attributable to financial profits on Pojišťovna České spořitelny's financial placements that grew by 35 percent in the year ended 31 December 2006 due to the successful performance of Pojišťovna ČS.

Structure of operating income in 2006 (CZK million)



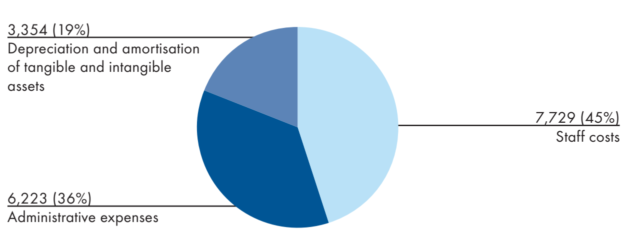
Compared to 2005, the general administrative expenses (operating expenses) grew by 6 percent to CZK 17,316 million.

Of total general administrative expenses, staff costs of CZK 7,729 million were the largest item. **In comparison with 2005, staff costs rose by 5 percent** owing to the growth in employee wages and the increase in the staff bonus fund relating to excellent performance, including compensation linked to the Erste Bank Group's results.

Other administrative expenses grew by 10 percent to CZK 6,233 million **due to the business expansion of the Group**, with the major growth items being trading transactions costs (12 percent), data processing costs (9 percent), and advertising and marketing expenses (13 percent). Costs associated with advisory services grew significantly (by 32 percent) as a result of the increase in real estate fund expenses and implementation of central procurement within the Erste Bank Group, whose synergistic effects arising from the purchase price reduction and implementation of group standards will be reflected in future performance. Data processing expenses are the most significant component (27 percent) of administrative expenses, followed by office space costs (21 percent), trading transaction costs (17 percent) and advertising and marketing expenses (15 percent).

Depreciation/amortisation of tangible and intangible assets **remained stable**, representing CZK 3,354 million in 2006. Compared to 2005, the depreciation/amortisation structure slightly changed: depreciation of tangible assets grew by 8 percent to CZK 1,641 million as a result of investments in information systems (software) and amortisation of intangible assets (primarily hardware) decreased by 7 percent to CZK 1,713 million.

Structure of operating expenses in 2006 (CZK million)



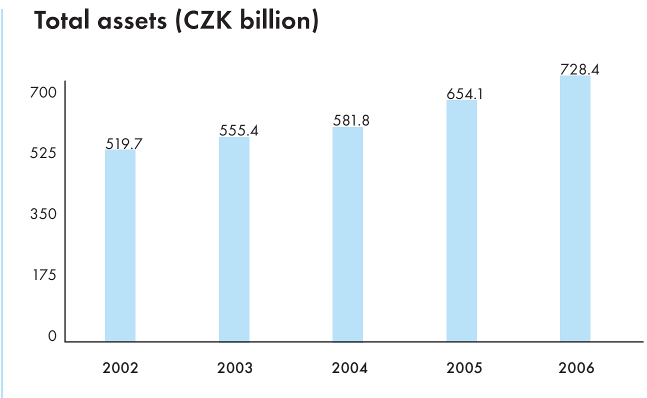
The net charge for provisions for credit risks was CZK (1,487) million which represents nearly a triple increase compared to the previous period. Of the total net charge for provisions for the year ended 31 December 2006, the parent bank represents 92 percent. The principle reason for the year-on-year increase in the net charge was the release of tax-deductible reserves for standard loans in 2005 and implementation of IFRS methodology. **The charge for provisions in 2006 was lower when compared to the previous period** and primarily related to retail receivables – consumer loans, mortgages, loans to small-sized companies and provisions for collectively impaired receivables.

The aggregate net balance of other operating income and expenses more than doubled year-on-year amounting to CZK 585 million at the end of 2006, primarily as a result of the amount of the revaluation of real estate owned by real estate funds (an increase of CZK 492 million compared to 2005) and one-off proceeds from real estate sales (an improvement of CZK 266 million). By contrast, income from trading with securities available for sale decreased by CZK 260 million in view of the lower volume of sales and income arising from the at-fair-value-through-profit-or-loss securities worsened by CZK 194 million, partially as a result of increasing market interest rates. The contribution to the Deposit Insurance Fund increased by 13 percent to CZK 432 million due to the growth of the client deposit volume.

Tax liability of the Česká spořitelna Group **for the year ended 31 December 2006 grew by 14 percent amounting to CZK 3,498 million**, which represents an effective tax rate of 24.9 percent. This amount comprises the current year tax charge of CZK 3,294 million and the aggregate impact of movements in deferred taxation of CZK 204 million.

BALANCE SHEET

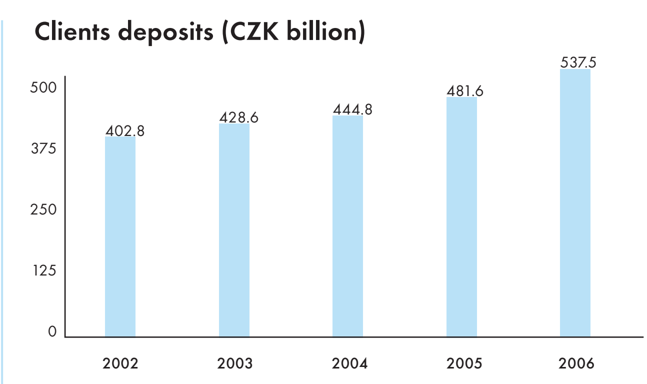
As of 31 December 2006, the **consolidated assets** of Česká spořitelna markedly **increased year-on-year by 11 percent** to CZK 728.4 billion, which, in absolute terms, represents an increase of CZK 74.3 billion, primarily due to amounts owed to customers and banks on the liabilities side of the balance sheet and the increase in customer loans and securities portfolios on the assets side.



Liabilities

Client (primary) deposits have traditionally formed the key resource of Česká spořitelna's funding in respect of active trading. During the year ended 31 December 2006, the balance of primary deposits exceeded the half-a-billion level amounting to CZK 537.5 billion, which represents a year-on-year increase of 12 percent (i.e. CZK 55.9 billion). Client deposits accounted for 74 percent of all liabilities.

All client segments contributed to the year-on-year increase in deposits. Deposits made by private individuals, which account for 77 percent of all client deposits, **increased by 9 percent to CZK 414 billion**. The largest increase in deposits was noted in respect of giro accounts, construction savings accounts and pension insurance deposits. By contrast, deposits in savings books suffered a slight decline. **Deposits made by corporate clients rose by 14 percent to CZK 78.2 billion**, particularly with respect to current accounts and foreign currency accounts. **Deposits made by the public sector reached CZK 45.4 billion, which represents a notable increase of 30 percent** due to new acquisitions. Deposits denominated in foreign currencies represent 4 percent of the total primary deposit volume.



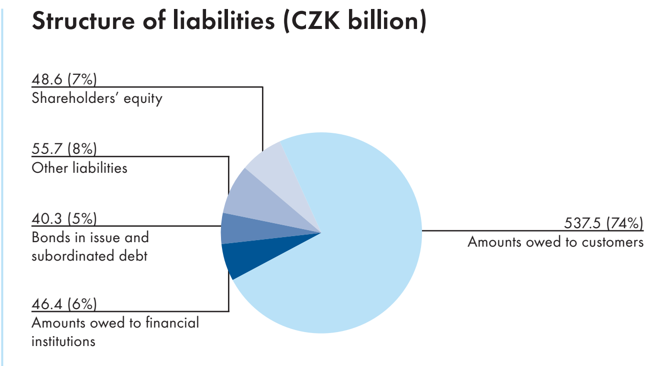
The volume of client funds under the Group's management (i.e. deposits made by clients and mutual funds of Investiční společnost ČS) increased year-on-year by 11 percent, **totalling CZK 611.6 billion**, of which 30 percent is managed by subsidiaries.

The balance of amounts owed to financial institutions, comprising loans, term placements and current account balances, **increased year-on-year by 33 percent** (CZK 11.5 billion) and was CZK 46.4 billion as of 31 December 2006, of which loans under repo transactions accounted for CZK 9.2 billion. Only nearly a half of the year-on-year increase (CZK 4.7 billion) resulted from Česká spořitelna's interbank market transactions, otherwise it was due to the increase in funds for business activities of some subsidiaries, primarily in leasing (growth of CZK 5 billion), real estate funds and factoring.

The year-on-year decrease in liabilities from debt securities of 12 percent to CZK 34.4 billion is attributable to a robust reduction of depository bills of 74 percent to CZK 3.9 billion. In contrast, **the volume of issued mortgage bonds**, a stable and long-term resource of mortgage loans funding, **once again saw an increase**. In 2006, the Bank placed four new issues of mortgage bonds; on the face of the balance sheet of the Group, issued mortgage bonds accounted for CZK 27.8 billion, an increase of 27 percent. The volume of structured bonds was CZK 2.8 billion.

In the context of dynamic lending growth, Česká spořitelna issued ten-year subordinated bonds totalling CZK 3.0 billion to strengthen its capital base. As of 31 December 2006, the subordinated debt totalled CZK 5.9 billion.

The balance of **shareholders' equity**, comprising share capital, share premium, capital funds arising from revaluation (especially securities carried within the available-for-sale portfolio), retained earnings and profit for the period, grew **by 12 percent to CZK 48.6 billion year-on-year**, which was primarily attributable to the generated profit. By contrast, the balance of equity decreased as a result of the payment of dividends for 2005 amounting to CZK 4.6 billion.

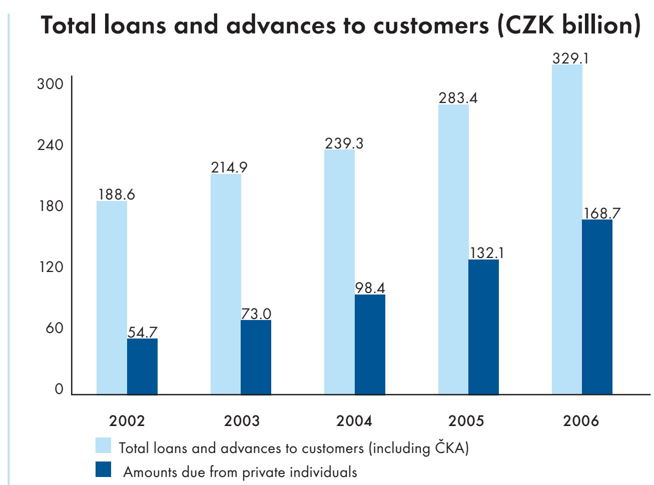


The capital ratio according to the BIS methodology was 11.1 percent as of 31 December 2006, remaining on the same level year-on-year. The total capital used to calculate the capital adequacy (Tier 1 a Tier 2 net of deductible items) under the BIS methodology was CZK 49.6 billion and risk weighted assets were CZK 421.2 billion; in 2005, the total capital was CZK 40.9 billion and risk weighted assets were CZK 349.5 billion.

Assets

Česká spořitelna's active transactions that generate the predominant portion of operating income are loans and advances to customers. **In 2006, massive lending growth continued**; the total volume of loans and advances to customers, including receivables from Česká konsolidační agentura, grew by 16 percent and reached CZK 329.1 billion. **Česká spořitelna was successful in boosting the proportion of client loans relative to client deposits by 23 basis points and achieving 61.2 percent.**

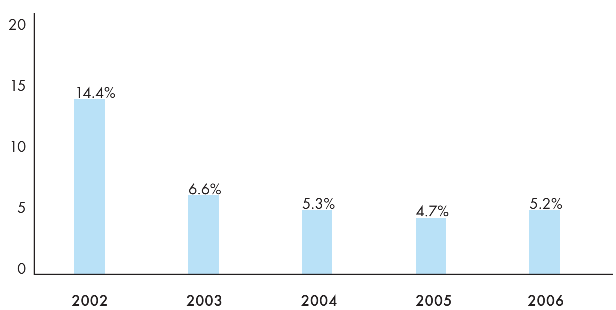
Compared to the year ended 31 December 2005, the volume of loans and advances to customers, excluding amounts due from ČKA, rose notably by 21 percent (CZK 56.3 billion) to CZK 324.1 billion, specifically in respect of mortgage loans, consumer loans and construction loans; loans and advances to clients excluding amounts due from ČKA reached 44 percent of all active transactions while at the end of 2003, their proportion represented 32 percent. **The aggregate portfolio of mortgage loans to private individuals and corporate clients markedly rose by 43 percent to CZK 115.4 billion** (by CZK 34.5 billion); mortgage loans represent over a third of the total loan portfolio and Česká spořitelna continues to be the largest mortgage bank in the Czech Republic.



The volume of loans to private individuals, including mortgage loans, reached CZK 168.7 billion, a notable increase of 28 percent over the previous period (an increase of CZK 36.6 billion). This exceptional achievement was **mainly attributable to housing loans**, i.e. mortgage loans and construction savings loans. The retail mortgage loan portfolio rose by 41 percent to CZK 83.3 billion. Bridging loans and construction savings loans grew by 24 percent to CZK 24.2 billion over the previous year. Significant growth was also noted in respect of consumer and cash loans to private individuals. The proportion of retail loans to private individuals to total loans and advances to customers, including ČKA, rose from 47 percent in 2005 to 51 percent in 2006.

Česká spořitelna also experienced **substantial growth in the volume of loans and advances, including mortgage loans, to customers in the business and corporate segment** where the aggregate loan portfolio increased by 15 percent to CZK 139.6 billion. The Group's offering includes both standard loan products and special projects focused on syndicated or investment loans, export support, factoring or leasing. Česká spořitelna provides its corporate clients with sound support in using guarantee funds or drawing subsidies from EU funds. Similarly, as in the private individual segment, the most significant increases were attributable to mortgage loans advanced to corporate clients primarily for development projects, the volume of which reached CZK 29.9 billion, a year-on-year increase of 53 percent.

Classified loans and advances to customers (%)*



* The proportion of client classified receivables to total client receivables for the parent bank, in accordance with the CNB classification.

The public sector is the long-term partner of Česká spořitelna. The aggregate balance of loans issued to this segment (net of the amounts due from ČKA) was CZK 15.8 billion, an increase of 14 percent over the previous period, of which mortgage loans rose by 3 percent to CZK 2.3 billion. The balance of amounts due from ČKA fell notably by 68 percent to CZK 5 billion year-on-year. The total volume of loans to the public sector was CZK 20.8 billion at the end of 2006.

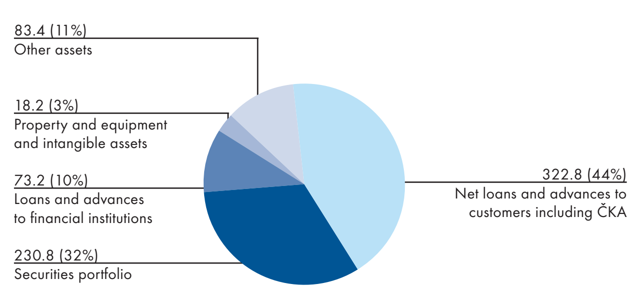
At the end of 2006, classified loans and advances to customers accounted for 5.2 percent of the total loans and advances to customers (in respect of the parent bank, in accordance with the CNB classification). The moderate worsening compared to 2005 is partly caused by loan restructuring and partly by default payments of some retail clients.

Loans and advances to financial institutions dropped, year-on-year, by 25 percent to CZK 73.2 billion; in particular, the volume of reverse repo transactions dropped by 43 percent to CZK 26.8 billion. Of the total balance, placements with financial institutions and loans provided to banks amounted to CZK 40.4 billion and CZK 32.2 billion, respectively.

The aggregate balance of the portfolio of securities at fair value through profit or loss, securities available for sale, and securities held to maturity was **CZK 230.8 billion**, an increase of 20 percent compared to 2005. The volume of all portfolios increased. Securities included in the at-fair-value-through-profit-or-loss portfolio showed the largest increase (of 36 percent) to CZK 49.5 billion. The available-for-sale portfolio rose by 28 percent to CZK 39.4 billion. In relative terms, securities held to maturity reported the smallest increase (14 percent); however, their absolute value increased by CZK 16.9 billion to CZK 141.9 billion. **The increase in the securities portfolios is attributable to the allocation of funds generated on the liabilities side of the balance sheet.**

Bonds accounted for 95 percent of the securities portfolios. In investing in securities, Česká spořitelna focused on acquiring debt securities issued by government institutions of the Czech Republic which accounted for 59 percent of the portfolio, bonds issued by foreign financial institutions comprised 26 percent of the portfolio, bonds issued by financial institutions in the Czech Republic accounted for 6 percent. Other bonds were issued by foreign government institutions, other entities in the Czech Republic with an implicit state guarantee and other foreign entities which carry the minimum rating of A.

Structure of assets (CZK billion)



Investments in real estate grew by CZK 2.4 billion (38 percent) compared to 2005, totalling CZK 8.8 billion. New acquisitions amounted to CZK 1.6 billion. Real estate financing is one of the key areas of interest to Česká spořitelna: the Bank also finances real estate investment funds, operating as part of the Group, for institutional investors focused on the Czech and Slovak markets. Real estate investments were aimed at achieving rental income or capital appreciation.

The aggregate **balance of property and equipment and intangible fixed assets**, of which land and structures accounted for 60 percent, decreased year-on-year by 3 percent to CZK 18.2 billion. The balance of intangible assets moderately grew to CZK 4.6 billion due to the acquisition of software. By contrast, the balance of property and equipment continues to gradually decline in the long-term as the Bank further optimises the structure of its own immovable assets, consequently decreasing its hardware volume. Hence, the total balance of property and equipment fell to CZK 13.6 billion. The aggregate proportion of property and equipment and intangible fixed assets to total assets was 3 percent.

Business Activities and Operations

In 2006, Česká spořitelna won, as the first bank in history, both the Bank of the Year and the Most Credible Bank of the Year awards in the fifth year of the MasterCard Bank competition. **The recognition of the Bank by clients, citizens and specialist juries provides evidence of the high standard of provided services and is an important motivation for future years, which is also reflected in the First Choice Bank strategic programme.**

PRIVATE CLIENTELE

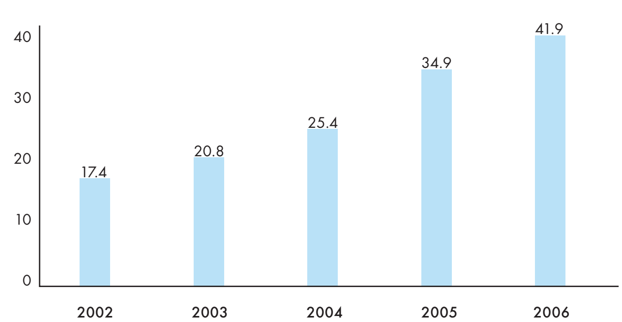
Private clientele – citizens of the Czech Republic as well as foreign clients who reside in the Czech Republic, students, entrepreneurs, sole traders and independent professionals – represent the Bank's key client segments.

Financing the Needs of Private Individuals

The Bank's positive growth trend in loans granted to private individuals has been reported for a number of years. This trend is markedly supported by loans to private clientele consisting of two categories: cash (non-purpose) loans and consumer loans. **The balance of these portfolio types grew year-on-year by over 20 percent to CZK 41.9 billion**; the volume of cash loans increased by 27 percent to CZK 32 billion.

The growth of the cash and consumer loan portfolio was substantially supported by process streamlining, such as the shortening of the loan processing time, central loan processing, extending action payment maturity, offer of loan insurance against loss due to death, permanent disability, inability to work or loss of employment.

Total portfolio of cash and consumer loans in CZK billion



Throughout 2006, 300 thousand new consumer and cash loans were concluded with a volume of CZK 21.8 billion, of which CZK 12 billion was advanced in the latter half of 2006; the growth culminated in December when new loans of CZK 2.4 billion were provided, an increase of 44 percent compared to December 2005. **Easy Loan was repeatedly the most attractive product** within the cash loan category. **The Bank succeeded in shortening the time required to approve Easy Loan to 10 minutes**. In the Golden Crown contest, Easy Loan was awarded the Silver Crown by a professional panel assessing financial products for private individuals and small and medium-sized enterprises in the Czech Republic.

Non-traditional innovation of loan products involves direct marketing providing clients with the opportunity to request a loan by mail. Easy Loan is a special form of loan that is pre-guaranteed and may be granted during one visit to the Bank's branch with an ID card.

Cash and consumer loans pledged by real estate, **American mortgages, continue the dynamic expansion** reporting over 11 thousand clients and year-on-year portfolio growth of 45 percent to CZK 5.5 billion. For American mortgages, the granting process was also streamlined and accelerated. Unlike traditional consumer and cash loans, American mortgages enjoy the advantage of carrying a significantly lower interest rate and repayments spread across a longer period of time.

The number of credit cards and the volume of loans advanced through credit cards enjoy continuous growth. As of 31 December 2006, the total balance of loans relating to nearly 450 thousand credit cards was approximately CZK 2.6 billion, a year-on-year increase of 27 percent. A credit card may newly be acquired together with a loan within one approval process.

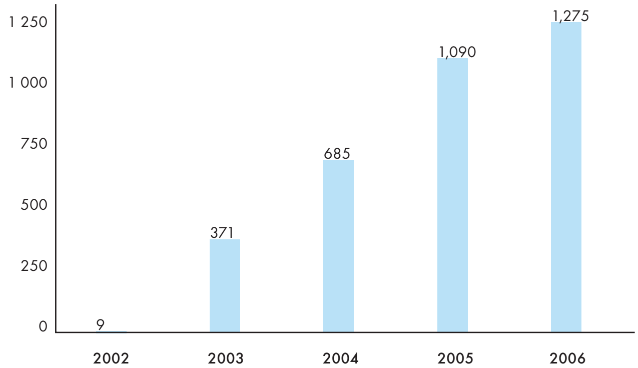
Overdraft loans on sporogiro accounts, that is, the substitute product of credit cards, maintained a stable position owing to the dynamic development in credit cards. An overdraft facility on a sporogiro account was provided to 891,000 clients, an increase of 7 percent; however, the aggregate drawing of overdraft loans was worth CZK 5.6 billion at the end of 2006, which is a moderate decline of 3 percent.

The balance of social loans that originated in the past continued to decrease, falling by 15 percent to CZK 4.2 billion. The slow reduction in the volume of social loans is due to their composition, because the residual portfolio of social loans is composed nearly exclusively of long-term loans used to finance investments in housing construction.

Product Packages for Private Clientele

Personal product packages designed for comprehensive administration of financial means represent a quick, well organised and comfortable solution for all financial requirements and are cheaper than stand-alone products and services. **Česká spořitelna's offering of product packages for private clientele is built upon the needs of all major client segments**, covering periods from childhood ('Xtra konto') and students' financial needs ('Student+'), the period of independent financial life and family life associated with complex banking requirements (the Advantageous Programme and the Comprehensive Programme) and/or with high financial requirements (the Exclusive programme) to mature adulthood (the Senior account).

Total number of clients using personal product packages, in thousand



The total number of personal product packages grew year-on-year by 17 percent to 1,275 thousand. Personal product packages represent nearly a half of the total sporogiro accounts.

The Extra Account ('Xtra konto') is a special account for youth between 10 and 15 years of age helping younger clients get their first experience with managing money. Since 2005 when the Extra Account was launched, it has been used by 8,000 youths. In 2006, this number grew by 59 percent and the balance volume more than doubled.

The very successful **Student+** programme, designed for all high school and university students between 15 and 30 years of age as well as foreign students. **The number of high school and university students using Student+ exceeded 170,000**. The number of accounts using this programme only grew by 3 percent year-on-year, while the volume of funds grew by 18 percent to CZK 2.4 billion. Account owners can receive a new payment card with an attractive design and a phosphorescent effect. In the Golden Crown contest, Student+ was awarded the Bronze Crown in the universal bank product category. Česká spořitelna offers students and young people a quality financial product for an attractive student price.

The Advantageous Programme is the most established and **widespread personal product package**. It includes a combined offering of products and services of the Česká spořitelna Group, accompanied by advantageous pricing. During 2006, the number of clients using the Advantageous Programme grew approximately by 150,000, which represents growth of 18 percent, thus increasing the number of Advantageous Programme holders to nearly 950,000. The volume of balances in the Advantageous Programme accounts grew by 46 percent to CZK 28.3 billion.

The Comprehensive Programme is designed for more demanding clients and includes a combined offering of standard and more complex products and services of the Česká spořitelna Group. Over 93,000 clients selected the Comprehensive Programme for their finance administration. Their number grew by 16 percent year-on-year, the balance volume increased by 14 percent exceeding CZK 14 billion.

The Exclusive Programme has become a dynamically growing and favourite product for the most affluent clientele owing to the flexibility and scope of its products and services, including an interesting capitalisation of liquid funds. Compared to 2005, the number of clients involved in this Programme more than tripled and the total volume of funds grew nearly five times to CZK 1.9 billion.

The Senior Account is intended for all clients over sixty-five years of age or for those who draw their retirement pension or permanent disability pension. The programme includes a sporogiro account carrying a favourable interest rate. Products used as part of the programme are provided for free over the entire period of its life; the transfer from/to the other programmes offered by Česká spořitelna is also free of charge. The Bank provided this account to more than 60,000 clients, a year-on-year increase of 42 percent. The Senior accounts' balance volume grew by 70 percent to CZK 3.5 billion.

Independent Profession Clients

For its clients from the independent profession segment, Česká spořitelna is gradually developing an individual approach based on **consulting services provided by a specialised independent profession advisor**. A professionally trained advisor serves his/her clients in terms of their private and business needs. A detailed knowledge of both types of needs provides for optimal adjustment of the Bank's offering to individual clients. **Česká spořitelna works closely with professional chambers** in order to be flexible in responding to the needs of independent profession clients.

The **Professional** Programme, designed for clients from independent professions, has become a product in demand because it is fully variable and allows the combination of products to meet the individual client's needs. The number of programmes grew by 18 percent year-on-year and the balance volume exceeded CZK 1 billion.

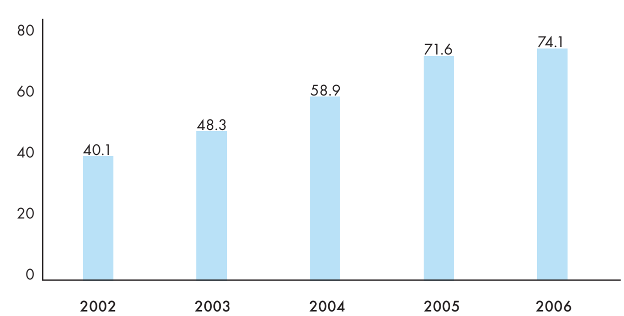
Investment and Savings

In addition to traditional deposit products where Česká spořitelna holds the leading position, customer demand has been increasingly driven by investment opportunities which provide a greater yield on deposited funds. In this segment, **Investiční společnost České spořitelny is number one**, winning, together with its parent company, Česká spořitelna, **more than a 50 percent market share.**

The optimal solution for clients, with regard to potential risk and yield to be generated is to spread or diversify the investment. **Česká spořitelna in close cooperation with Investiční společnost ČS, offers its clients a comprehensive investment solution, a well-qualified diversification to different types of securities** (bonds, shares, money market instruments) **aimed at reducing the potential risk and increase yield**, the designation of the type of investor through an investment questionnaire, participation in a number of investment opportunities at the same time, and liquidity as an opportunity to convert assets into cash.

Investiční společnost ČS administers a very broad range of mutual funds; their number was 16 at the end of 2006. During 2006, the volume of assets managed by Investiční společnost grew by 3 percent to CZK 74.1 billion. **The key topic of 2006 was the shift of investors' interest to funds with higher value added for clients**. Assets under the management of mixed funds grew by 64 percent with clients focusing primarily on profile funds. Assets administered by equity funds increased by 44 percent. Nevertheless, 60 percent of all invested funds is allocated to Sporoinvest, the largest money market fund.

Volume of funds administered by Investiční společnost ČS, CZK billion



Sporotrend, the largest Czech equity fund with CZK 6 billion in invested funds, appreciated funds by 8 percent compared to the previous period and was awarded the Silver Crown in the mutual fund category of the Golden Crown contest. In August 2006, Investiční společnost ČS launched a new product – the Top Stocks equity mutual fund whose strategy is based on the method of active selection of shares for long-term appreciation, so called stock picking.

Apart from the well-established open-ended mutual funds of Investiční společnost ČS, clients **increasingly sought guarantee funds** issued by Česká spořitelna in cooperation with Erste Sparinvest, Erste Bank's subsidiary. **During 2006, sales of 10 guarantee funds in distribution amounted to CZK 3.7 billion.** Guarantee funds were issued exclusively for five years and their strategy focused on growth or stagnation of regional or global equity markets. Česká spořitelna was the first player in the market initiating guarantee funds whose yield was linked to the performance of another fund – Sporotrend. For investors with shorter investment horizons, the Bank distributed currency and equity premium deposits – products with a guarantee of capital return for the wide investment public.

Investments in foreign mutual funds administered by Erste Sparinvest (including non-guarantee) and other companies grew by nearly 50 percent in 2006 amounting to CZK 13.3 billion.

The traditional savings book still ranks among extensively used deposit products. In the Czech Republic, almost CZK 100 billion was deposited through nearly two million registered savings books (CZK 99.5 billion at the end of 2006 with a year-on-year decline of 5 percent). Some types of savings books saw significant expansion. **The Children Savings Book carrying an advantageous interest rate**, that has been offered since 2005, **saw a year-on-year increase of 66 percent** to over 18,000 savings books. The volume of balances on these books is more than CZK 300 million, a more than double increase compared to 2005.

The conversion of former anonymous savings books of Česká spořitelna, which began in 2002 pursuant to the amended Banking Act, **continued**. In 2006, 55,000 anonymous savings books in the total volume of CZK 0.8 billion were converted. At the end of 2006, the Bank registered 2.7 million anonymous savings books with a balance of CZK 4.2 billion.

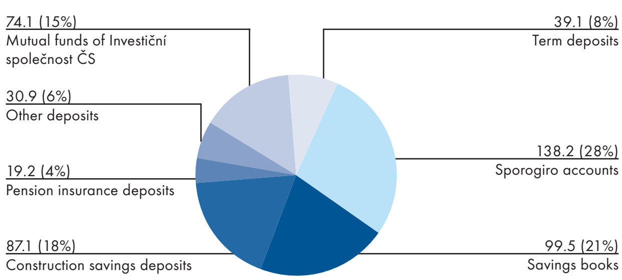
Although the interest of clients in sophisticated products with high added value grows, their interest in individuals' **term deposits denominated in Czech crowns** did not drop. Their number declined by 4 percent to 94,000; however, the balance grew by 8 percent to CZK 34.4 billion. Individuals showed continuous interest in **term deposit accounts denominated in foreign currencies**. During 2006, the number of such accounts grew by 9 percent to almost 23,000, the balances held on these accounts remained at CZK 4.7 billion.

In 2006, the increasing trend of new construction savings contracts concluded with Stavební spořitelna České spořitelny and contracting higher target amounts continued. **Stavební spořitelna ČS made nearly 219,000 new deposit contracts** (an increase of 16 percent) with the agreed target amount of CZK 37.6 billion, an increase of 20.6 percent. **Total client deposits in construction savings accounts** grew by 7 percent compared to 2005 **amounting to CZK 87.1 billion** with the total number of clients of 1.2 million.

One of the most popular long-term savings schemes is pension insurance. In 2006, **Penzijní fond České spořitelny saw another year of dynamic growth of deposited client funds**, the volume of which grew by 27 percent totalling CZK 19.2 billion. The number of clients grew by 15 percent to nearly 550,000 at the end of 2006. The results of Penzijní fond are mainly attributable to the further development of cooperation with employers. Under the corporate programme, Penzijní fond cooperated with 6,000 employers who make contributions to the complementary pension schemes of their employees.

The combination of insurance and long-term savings taking the form of capital or Flexi investment life insurance from Pojišťovna České spořitelny is an interesting investment opportunity. **Premiums written by Pojišťovna in 2006 amounted to CZK 4.4 billion, which is historically the highest volume** with an increase of 81 percent primarily attributable to the growth in the sale of lump sum premiums.

Individuals' savings and investments, CZK billion



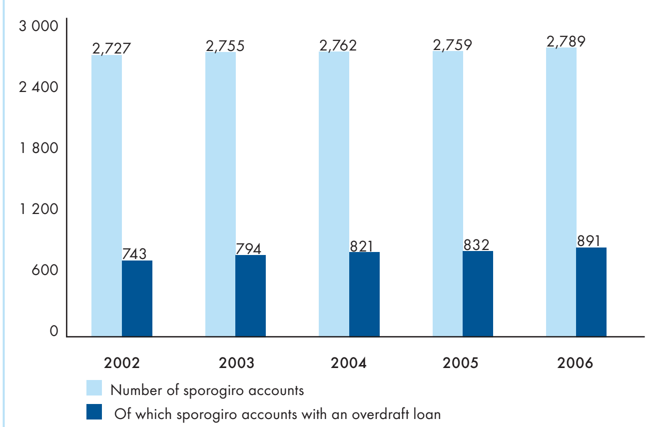
Transaction Accounts

Česká spořitelna is the strongest giro account player on the giro account market for private clientele, **whose characteristic product is the sporogiro account. At the end of 2006, the Bank maintained 2.79 million sporogiro accounts in its portfolio, with a balance of almost CZK 138.2 billion.** In a year-on-year comparison, the volume of deposits on sporogiro accounts rose by 21 percent. Sporogiro accounts are products with the highest volume of deposits within the Group.

The number of products linked to sporogiro accounts has been continuously growing. Sporogiro accounts with an overdraft loan represents 32 percent, the number of product packages represents 46 percent, and the number of payment and credit cards issued in respect of sporogiro accounts represents 92 percent. The number of transactions made on sporogiro accounts grew year-on-year by 4 percent to nearly 574 million. Provided services were primarily improved by the possibility to provide an electronic account statement; clients can print out the statements they want and need. They can also use new individual interest rates and new transactions of foreign payments (cross-border transfer in Euro). **A sporogiro account is the most widely used current account for citizens of the Czech Republic, ideal for administration and management of family finances.**

At the end of 2006, in addition to sporogiro accounts, Česká spořitelna managed another 14,000 current accounts of individuals administered in Czech crowns and 40,000 current accounts of individuals managed in various foreign currencies, primarily in Euros and American dollars. Česká spořitelna administered more than 131,000 current accounts of sole traders.

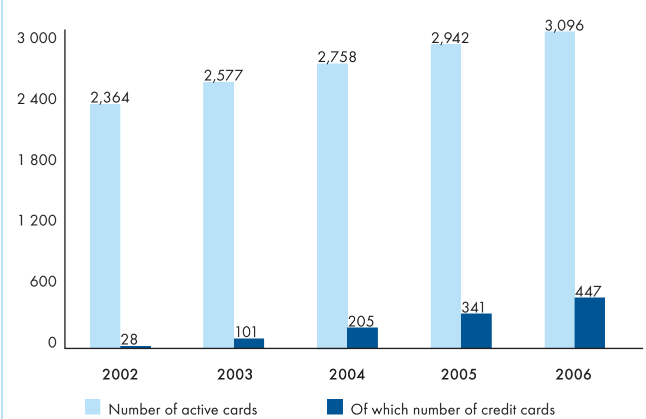
Number of sporogiro accounts, in thousand



Card Programme

Česká spořitelna is the leading bank in the card product market in the Czech Republic. As in previous years, **Česká spořitelna's Card Programme was very successful in 2006,**

Number of active cards in thousand



evidence of which was the exceeding of the three million level in the number of active cards, continuous expansion of credit cards, increase in the number of transactions and the great success of loyalty programmes.

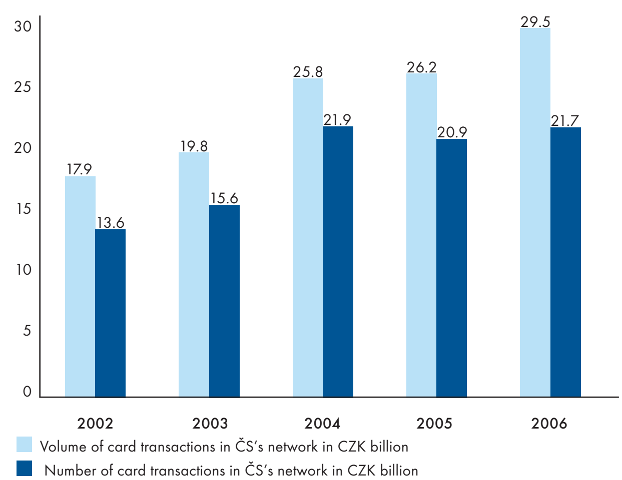
The total number of payment cards grew by 5 percent year-on-year to 3.1 million cards. **The overall increase in the number of all active cards is mainly driven by the expansion of the 'Kredit+' credit card.** During 2006, new credit cards continued to be issued for free in the first year; the Bank initiated the issuance of additional credit cards and extended its selling channels – a new credit card may be requested through a branch, external sales network, via the Internet or by phone. A credit card may be requested by clients who do not have an account with Česká spořitelna. **The number of issued 'Kredit+' cards increased year-on-year by 31 percent to 447,000.**

At present, Česká spořitelna's priority is to improve and enhance its services rather than increase the absolute number of payment cards. **Česká spořitelna started to issue the Maestro chip card in September 2006 and the Visa chip card in October 2006.** The largest benefit of chip cards is higher security in their use. All cards are hybrid, i.e. containing both a chip and a magnetic strip. The hybrid cards may be used where chip technology has not been installed. **Česká spořitelna is the only bank in the Czech Republic giving its client an opportunity to change the PIN of their card in any of its ATMs.** Since the end of 2006, the electronic debit card holders have been provided with the option to receive the card by mail to their address.

Česká spořitelna will launch another new product on 1 January 2007. **As the first bank in the Czech Republic, Česká spořitelna provides guarantees for transactions made with a lost or stolen card 48 hours before the card is blocked.** The insurance of a card abuse is extended to 96 hours before blocking and covers also PIN transactions.

The number of card transactions performed with contractual partners of Česká spořitelna slightly grew by 4 percent to nearly 21.7 million payments. **The volume of card transactions, being the most critical factor in terms of the Bank's income from fees and commissions, significantly grew by 13 percent to CZK 29.5 billion.** The number of acceptance places of Česka spořitelna's contractual partners grew to nearly 12,000.

Card transactions in ČS's network



For every card payment or for the recharging of mobile telephone credit using Česká spořitelna's cards, clients receive bonuses under the loyalty 'Bonus' programme which has been the only programme of its kind offered on the domestic banking market for three years. In 2006, the positive trend from previous years was confirmed as clients increasingly collected points and became more interested in bonuses. The client's interest was also driven by continuously changing and expanding the offer of bonuses. Apart from physical bonuses, the most attractive were charitable projects contributions and mobile telephone credit recharging. The Bank also offers the 'Partner' discount programme for embossed payment cards. A similar discount programme called Student+ is a feature of the cards for students, issued as part of the package of the same name. **Partner and Student+ cardholders receive discounts when making card payments** at a number of well-known shops operating throughout the Czech Republic.

Česká spořitelna operated 1,090 ATMs at the end of 2006, thus having the largest market share in the Czech Republic.

The Bank continuously extends ATM functionality and gradually renovates them. All ATMs are adjusted to accept chip cards. In addition to the standard functions, such as cash withdrawal and providing information on account balances of a client of Česká spořitelna, ATMs can be used by external VISA card holders to obtain information on account balances and the number of collected points within the Bonus programme for card payments. ATMs enable other financial transactions, such as one-off payment orders and mobile phone credit recharging. Since 2006, T-mobile customers may also recharge their phones through the Bank's ATMs. A completely new product is the above-mentioned option to change PIN through ATM; in 2006, this service was used on average by 3,000 clients a month. Since spring 2005, Česká spořitelna has operated ATMs for blind and weak-sighted citizens.

In 2006, **the volume of cash withdrawals in the network of Česká spořitelna's ATMs** totalled CZK 256.4 billion which represents **an increase of 9 percent** over the previous year; the number of withdrawals increased by 4 percent to 78.8 million. The number of mobile phone recharges amounted to 2.4 million and the recharge volume exceeded CZK 0.7 billion.

Internet and Telephone Banking SERVIS 24

SERVIS 24 is the basic pillar of Česká spořitelna's direct banking, which is proved by its success in the Golden Crown contest where SERVIS 24 was awarded the Silver Crown in the electronic banking category and, predominantly, by **the continuously increasing interest of users. During 2006, the number of clients exceeded the magic one-million level.** At the year-end, more than 1.09 million clients activated some of the SERVIS 24 channels. Clients executed 22.7 million electronic transactions throughout the year, an increase of 44 percent year-on-year.

Over 80 percent of transactions executed through the SERVIS 24 tools are attributable to the dynamically growing **SERVIS 24 Internetbanking** with the its number of users totalling 687,000. In 2006, Internetbanking became the target of several criminal attacks in the Czech Republic. **Security of internet banking is crucial for Česká spořitelna and thus, it is subject to significant attention.**

Since 1 October 2006, Česká spořitelna has expanded the compulsory security of SERVIS 24 Internetbanking to include new elements, primarily comprising compulsory authorisation of all payments by an authorisation SMS, a new security code for all SERVIS 24 IB clients not using high-grade security (a client certificate on a chip card and authentication calculator), and the monitoring of changes in mobile phone numbers.

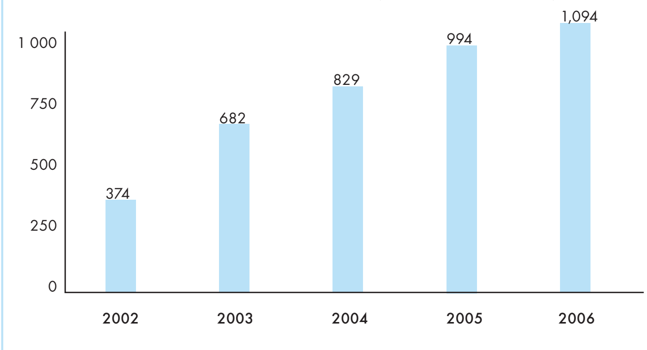
New products include the option to generate an account statement in the pdf format directly in the SERVIS 24 IB application; these statements may take the place of account statements sent by mail. Česká spořitelna became the first bank in the Czech Republic providing this service.

At the end of 2006, the total number of **SERVIS 24 Telebanking** users was 772,000; throughout the year, the users executed 2.7 million transactions. Clients can use telephone banking to access their mortgage loans, request a change in payment card distribution or change, using SERVIS 24 TB, the user's approval of sending business information through direct banking channels. In 2006, SERVIS 24 Telebanking ranked first in the Fitcentrum server's test focused on telebanking in the Czech Republic.

In integrating the channels of direct banking to citizens and small-sized businesses, clients were migrated from the old GSM banking SIM Toolkit service to a new **SERVIS 24 GSM banking** service in autumn 2005. At the end of 2006, S24 GSM banking served over 73,000 users who executed 1.3 million transactions during 2006. In 2006, the Bank focused on increasing comfort and reliability of SERVIS 24 GSM, which was reflected in client satisfaction – the number of client claims did not exceed 0.001 percent of all executed transactions.

The expansion of the number and volume of mobile payments continued in 2006. The total value of mobile payments through SERVIS 24 exceeded CZK 550 million in 2006, a year-on-year increase of 175 percent.

Number of SERVIS 24 clients (CZK thousand)*



* Clients using multiple SERVIS 24 channels are included only once.

HOUSING AND REAL ESTATE FINANCING

As in previous years, Česká spořitelna continued developing services in financing housing, real estate and mortgage transactions. In 2006, **the Bank again granted the largest number and amount of mortgage loans on the Czech mortgage market** thereby reconfirming its position as the largest mortgage bank in the Czech Republic, a position which it achieved in 2001.

Mortgage Loans to Citizens

Česká spořitelna easily defended its leading position on the market for retail mortgages. In 2006, the Bank provided this segment with more than 23,000 new mortgage loans in the aggregate amount of nearly CZK 35.7 billion, which represents year-on-year growth of 44 percent. The average amount of negotiated loans grew by 8 percent to CZK 1.5 million. The interest of clients was encouraged by continuous low interest rates, a wider offering of new housing by developers and the outstanding question of increasing value added tax on housing construction. In response to these developments the Bank expanded its offering of real estate and financial services provided by mortgage centres, introduced new products called Instant Mortgage, Lease Mortgage and Investor Mortgage and further streamlined the process of granting mortgages. **Česká spořitelna's mortgage products won all of the three most important awards in the market.** Mortgage for Newlyweds won the Golden Crown in 2006, Instant Mortgage became the Mastercard Mortgage of the Year 2006, and the Bank won the Best Mortgage award in the public vote on the Finexpert Internet portal. **In 2006, the aggregate balance of the mortgage loans portfolio increased by 41 percent to CZK 83.3 billion.**

Construction Savings Loans

Within the Česká spořitelna Group, clients extensively use the services of Stavební spořitelna České spořitelny for the financing of their housing. **In 2006, Stavební spořitelna**, with extensive assistance from the parent bank, **provided nearly 34,000 loans in a total volume of CZK 8.8 billion, which is the best result in Stavební spořitelna ČS's history.** Year-on-year, the volume of new loans grew by 26 percent. As of 31 December 2006, the bank maintained more than 167,000 loan accounts and the aggregate volume of loans provided to clients to improve their housing was CZK 24.2 billion, which is a year-on-year increase of 24 percent. Bridging loans form two-thirds of the overall portfolio of Stavební spořitelna's loans.

Corporate Mortgage Loans – Real Estate Project Financing

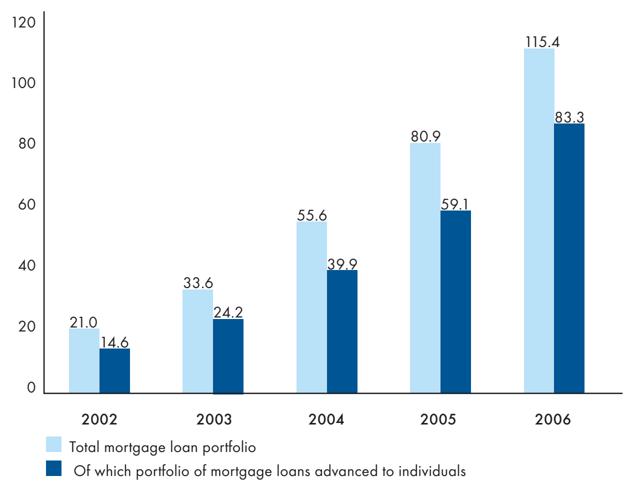
Services in real estate project financing are targeted at developers and investors, i.e. the financing of projects designed for the real estate market (offices, business centres, housing, hotels, etc.). **The Bank pays special attention to the comprehensive financing of housing projects including the private financing of home buyers and aligned services rendered by Realitní společnost** České spořitelny. The development in real estate financing was also driven by the rapid growth in loans for project financing at mortgage centres, which deal mainly with projects aimed at new regional housing construction. At the end of 2006, the volume of corporate real estate loans was CZK 32.1 billion, an increase of 48 percent year-on-year.

The aggregate balance of Česká spořitelna's mortgage loan portfolio advanced to all client segments after the year-on-year increase of 43 percent is CZK 115.4 billion.

Mortgage Centres

The unique concept of thirteen mortgage centres developed in full in 2006. In each centre, clients receive compre-

Mortgage loan portfolio (CZK bilion)



hensive services in one place, from a selection of suitable real estate and its funding to additional financial services related to mortgage loan and real estate insurance coverage. Mortgage centres closely work with Realitní společnost České spořitelny in providing real estate and financial services to developers and retail clients. The entire process of real estate selection and funding is accelerated to the maximum extent. **Since the end of 2005, 13 mortgage centres have been operated in the following cities across the Czech Republic:** Brno, České Budějovice, Kolín, Liberec, Olomouc, Ostrava, Plzeň, Pardubice, Zlín and four centres in Prague.

Česká spořitelna also operates a specialised portal **www.hypotecnicentrum.cz**. At this address, bank clients, as well as the public at large, may become acquainted with Česká spořitelna's housing and financing offering.

Other Bank Activities on the Real Estate Market

Real estate financing is one of the key areas of interest to Česká spořitelna which is manifested in its other activities. In 2006, **the Bank continued its financing of real estate investment funds for institutional investors**, CEE Property Development Portfolio B.V. and Czech & Slovak Property Fund B.V., where Česká spořitelna is a founder and one of the important investors. Both funds are focused on the Czech and Slovak markets and are organised as closed funds. Their managers are major real estate groups operating in the Central European region. The Bank also invested in The Endurance Fund, a real estate fund established and managed by Orco Property Group.

In 2003, Česká spořitelna's subsidiary – **Realitní společnost České spořitelny** was established to promote the sales of financial products and services together with real estate services, mainly in housing. In 2006, Realitní společnost ČS primarily focused on a new housing market in Prague and expanded in other regions. Realitní společnost confirmed its 15 percent share in the market for sales of new housing in Prague and its market share outside Prague grew to 5 percent.

The Bank also supports the development of the real estate market and housing in the form of sponsorship activities, for example, with general partnerships with the Association for Real Estate Market Development (a prestigious supra-national organisation), or with the largest Central European Conference on the real estate market, CEDEM. The Bank is also a long-term partner of the Czech Architecture (Česká architektura) yearbook. In 2006, the Bank, together with Realitní společnost ČS, became the general partner of a publication series called Czech Housing (České bydlení).

COMPANY AND CORPORATE CLIENTELE

Company clientele, whether retail clients with an annual turnover of up to CZK 30 million, small and medium-sized enterprises (SME) with an annual turnover from CZK 30 million to CZK 1.5 billion or large corporate clients with an annual turnover exceeding CZK 1.5 billion, **are among key client groups upon which the Česká spořitelna Group concentrates.** The Group's range of offerings includes classic products for administration of accounts and provision of loans, special projects focusing on investment loans, export, equity participation, leasing, factoring, syndicated loans, etc. The Bank provides company clientele with significant assistance in using guarantee funds or drawing subsidies from the funds of the European Union.

Corporate Clientele with a Turnover of up to CZK 30 Million

In 2006, the Bank came up with a new fundamental service for new corporate clients with turnover of up to CZK 30 million who are provided with an option to **try and cooperate with Česká spořitelna for free for a period of three month.** The fee holiday strategy covers the most frequently used products and services for this market segment, primarily all transactions on business current accounts (including foreign currency payments) and a selected service of direct banking, i.e. SERVIS 24 (internetbanking, telebanking and GSM banking) or BUSINESS 24.

Česká spořitelna has been providing the **5 Plus investment loan with a guarantee of the European Investment Fund (EIF)** since October 2004. At the end of 2006, 1,600 loans were provided within this guarantee line with the aggregate **volume of CZK 3.3 billion** and the guarantee line was increased and extended to the end of 2007. Since February 2006, the Bank has offered a **new 5 Plus Operating Loan** continuing the tradition of the successful 5 Plus Investment Loan in terms of the speed of granting a loan and minimum administrative demands. By the end of 2006, the Bank provided 717 such loans in the aggregate volume of nearly CZK 550 million.

The **'Profit Programme', a package of products and services for** entrepreneurs and small business ranks among popular programmes and was further innovated. **At the end of 2006, it was used by over 33,000 clients** (an increase of 15 percent). The portfolio of products for this client segment was extended by the new **Profit Light Programme**. While the original Profit Programme was based on a module approach when clients make their choice of services according to their individual needs, the Profit Light Programme is a package based on an aggressive price advantage for fixed products and services. Česká spořitelna has provided the programme since 1 December 2006. Deposits on current accounts managed in the Profit mode totalled CZK 8.1 billion while overdraft loans drawn represented CZK 2.3 billion.

In 2006, **the trend of significant growth of new purpose loans advanced to entrepreneurs and small-sized enterprises** with a turnover up to CZK 30 billion continued. In 2006, over 4,000 new purpose loans were granted in the aggregate volume of CZK 8.1 billion, an increase of over 30 percent year-on-year. As of 31 December 2006, the retail portfolio of loans provided to entrepreneurs and small-sized businesses comprised **24,000 loan accounts** including overdraft loan accounts with the **aggregate balance of CZK 13.6 billion**, an increase of 27 percent compared to 2005.

Corporate Clients with Turnover from CZK 30 million to CZK 1.5 billion

In addition to its network of branches, Česká spořitelna also operates a network of 15 commercial centres located in all regions of the Czech Republic which are mainly targeted at small and medium-sized enterprises (SME). **Commercial centres provide complex services to the entire Česká spořitelna Group.**

In terms of all products **in 2006, Česká spořitelna provided small and medium-sized enterprises** with a turnover from CZK 30 million to CZK 1.5 billion with **new loans of CZK 19.5 billion**, representing year-on-year growth of 16 percent. The **aggregate portfolio** of drawn loans went up by 18 percent compared to 2005, **totalling CZK 40.1 billion.**

The TOP Kapitál programme focuses on funding companies through venture capital. Česká spořitelna launched this programme in 2002 by establishing two venture capital funds – the Czech TOP Venture Fund and the Genesis Private Equity Fund "B". The funds are managed by consulting firms, Czech Venture Partners s.r.o. and Genesis Capital s.r.o. Česká spořitelna has investment commitments of EUR 10 million in each fund. The investments in the funds are concentrated on small and medium-sized Czech firms with prospective business plans and strong, fully involved management.

Since 2001, Česká spořitelna has offered the **TOP Podnik** programme designed for financing investment needs of SME clients. The programme is designed for companies operating in industry, commerce, services, and production and processing of agricultural products. Under the TOP Podnik programme, Česká spořitelna provided 124 loans in the total amount of nearly CZK 2.1 billion in 2006 in the form of investment medium-term and long-term loans provided under advantageous interest rate conditions. Since mid-2005, the programme has offered obtaining a loan in euros. Since the inception of the programme, the Bank has provided 566 loans totalling CZK 9.4 billion.

Following the accession of the Czech Republic to the European Union, Česká spořitelna began to offer programmes designed to support clients in the realisation of projects funded from the structural funds of the EU – **EU business programme** for entrepreneurs and companies and **EU Region programme** for towns, municipalities and non-profit organisations. Both programmes involve comprehensive services related to support in obtaining grants from structural funds including the **identification of a suitable grant programme, drafting applications for grants** from a subsidiary, **Consulting České spořitelny**, and of course the **financing of projects** applying for grants. The EU programme also includes various seminars and educational programmes for clients. In the spring and autumn of 2006, Česká spořitelna organised a total of 30 seminars for its clients.

In 2006, Česká spořitelna funded **approximately 70 projects** for entrepreneurs and businesses, in connection with which an aggregate amount of **more than CZK 1.3 billion** was requested from EU funds. The prevailing portion was generated through the network of commercial centres.

Česká spořitelna continues its successful **cooperation with the European Investment Bank (EIB).** The cooperation focuses on supporting small and medium-sized firms and funding the needs of the public and non-profit sectors. Involvement in the EIB projects was initiated in 2004 by obtaining a global loan of EUR 100 million and joining the follow-up programme of the European Commission, entitled the Municipal Infrastructure Facility. In 2006, Česká spořitelna successfully placed EUR 42 million of the obtained global loan and drew the total loan facility. At the end of 2006, a new contract was signed and the Bank drew another EUR 50 million, of which an additional CZK 6 million was placed. In total, Česká spořitelna received EUR 150 million from the European Investment Bank in 2006. As of the end of 2006, EIB confirmed the funding of 157 projects for small and medium-sized enterprises for which almost EUR 106 million was used from the aggregate global loan.

In 2006, the Bank continued in **fulfilling the Land (Půda) programme** in cooperation with the Support and Guarantee Fund for Farming and Forestry (PGRLF). In 2006, 44 loan contracts were entered into with micro, small and medium-sized enterprises in the aggregate amount of CZK 80 million. Further procedures were agreed with the management of PGRLF to reduce the administrative burden connected with the use of the programme.

The **FINESA Programme**, introduced in 2003, saw dynamic development in 2006. Since its inception, more than CZK 650 million has been provided for eighteen projects in the field of energy savings and renewable sources of energy under this programme, of which six new projects were financed in 2006 with the volume of provided loans of CZK 413 billion. Other projects worth several hundred million crowns are at an advanced stage of preparation or are close to contract signing. All projects have been supported by a partial banking guarantee issued by International Finance Corporation. In connection with the approval of Act No. 180/2005 Coll., on Support of Production of Electricity from Renewable Sources, and the commitment of the Czech Republic to increase the share of electricity generated from renewable sources of energy, the Bank anticipates a significant increase in the volume of loans for financing the production facilities.

The **German Desk** established in 2004 in the headquarters of Česká spořitelna serves as Česká spořitelna's contact and information centre for companies from Germany (or German-speaking representatives of companies from other countries), providing potential clients with German-speaking relationship managers in each of the 15 commercial centres and other bank units. In 2006, the German Desk **expanded its activities in terms of cooperation with German savings banks focused on the segment of small and medium-sized enterprises.** Within the scope of their cooperation, hundreds of requests were processed in 2006, such as providing contacts to new clients of Česká spořitelna and information on its products and offerings. The German Desk presents Česká spořitelna in common events of German savings banks and financial institutions and in client acquisitions. Since 2004, Česká spořitelna has been a member of the Czech-German Chamber of Commerce and Industry.

Throughout 2006, the Bank continued the segment analysis of clients, their profitability and penetration through Česká spořitelna in individual client segments. The analysis of the management segment was gradually followed by other activities, one of the initial ones being client acquisition management in Prague and the Central Bohemian Region. This project has been expanded to other regions.

Corporate Clients

In 2006, the Bank reported the historically best performance in the corporate client segment. **The key strategic goal was to increase the profitability of the client portfolio** and optimise ROE. Although the **loan portfolio volume was CZK 49.3 billion at the end of 2006**, which represents a decline of 8 percent year-on-year, the average annual volume of provided loans grew by 7 percent to CZK 51.7 billion. The decline at the year-end was caused by lower loan facility drawing. The average annual volume of term deposits and sight deposits went up by 9 percent year-on-year to CZK 8.9 billion.

Bank guarantees saw a very dynamic development with an increase of 18 percent to CZK 13.6 billion. The level of income from guarantee commissions exceeded CZK 100 million. The average risk rate of assets reported very good values compared to 2005. The high-quality client service and intensive use of a wide range of provided products and services of the Group drove an increase in fee and commission income of 15 percent in the segment.

The syndicated loan market experienced a moderate stagnation, or decline in 2006. Thus, **the Bank focused on small and medium club transactions.** Česká spořitelna continued to hold the leading position in the club and syndicated transactions in the Czech Republic. The drawn syndicated loans amounted to CZK 14.6 billion in 2006, a moderate decline of 3 percent year-on-year. For the first time, Česká spořitelna participated in a club loan for renewable resource production.

In line with the expansion of its service offerings, the Bank primarily concentrated on the **development of cash management products** including EDIFACT and won several prestigious tenders called by major Czech and foreign clients. In the latter half of 2006, Česká spořitelna reported a record growth in income from the sale of financial market products to the corporate client segment.

BUSINESS 24, Homebanking – Electronic Banking for Corporate Clients

BUSINESS 24 is one the two strategic products of Česká spořitelna‘s direct banking assigned to corporate clients. **In 2006, BUSINESS 24 underwent an essential development and gradually became a primary service for commercial clients.** BUSINESS 24 was upgraded by a number of new functionalities relating to the payment system, such as bulk export of data statements, bulk import of payments, permanent payment orders, permanent collection orders, permanent balance regulation order and collection approval. Clients can use secured electronic communication for documentation exchange between the Bank and a client, display a statement and details of loan accounts, bank guarantees and overdraft loans, or establish a deposit account, etc. As a new option, clients can generate account statements in the pdf format directly in the BUSINESS 24 application.

Česká spořitelna offered its commercial clients another service entitled **BUSINESS 24 Light.** This product is offered for free and enables using passive information, such as account balances, display of transaction history, statement downloading etc. BUSINESS 24 Light is primarily offered to commercial clients not using BUSINESS 24 for their payments but interested in passive information on loan account, guarantees etc.

The number of BUSINESS 24 clients grew almost ten fold compared to the end of 2005. As of 31 December 2006, Česká spořitelna registered over 3,400 clients using this service who executed 0.9 million transactions throughout the year.

In 2006, Česká spořitelna completed the interface of the Homebanking MultiCash application to the centralised Starbank system. Through this development, the Bank provided for the **establishment of the Homebanking MultiCash product for the Bank’s branch network clients.** Thanks to the attractive offer, the high stability of the system and high-quality client support, **486 new clients started using the service, which is an increase of 37 percent.** Česká spořitelna introduced a new additional service, **MultiCash WebSign,** providing clients with higher flexibility in approving transactions through a web application.

SERVICES FOR THE PUBLIC AND NON-PROFIT SECTORS

In 2006, Česká spořitelna defended its leading position in providing high-quality comprehensive financial services for traditional partners from municipalities, towns and regions, successfully developing the achievements of previous years. **The Bank cooperates with nearly three-quarters of municipalities and towns in the Czech Republic.** Česká spořitelna pays attention to business relations with the City of Prague, corporate towns and regions. At the end of 2006, **the municipality segment** reported deposits of **CZK 45.4 billion**, an increase of 30.1 percent year-on-year. In public sector financing, the **volume of loans,** net of the effect of receivables from ČKA, grew by 14 percent to **CZK 15.8 billion** compared to 2005.

In 2006, the **Bank developed a partnership with clients from the non-profit sector, particularly housing cooperatives and housing associations of apartment unit owners.** The volume of balances of loans advanced to housing cooperatives grew by nearly 50 percent year-on-year to CZK 2.5 billion and loans to housing associations of apartment unit owners by over 200 percent to almost CZK 1 billion. The Bank remains to be a partner for non-profit organisations, such as citizens' associations, foundations, foundation funds, subsidised organisations, professional chambers, public universities, health insurance companies, etc.

Česká spořitelna has a team of 33 specialised regional advisors for the public and non-profit sectors covering the entire territory of the Czech Republic. The main focus is on providing qualified consulting services, particularly relating to project funding from EU funds and assistance in the structuring and optimisation of funds.

In 2006, the placement of funds from the European Investment Bank, i.e. the global loan, was successfully completed. Cooperation of Česká spořitelna and EIB will continue in 2007.

Investment projects in the public sector may be implemented through the involvement of private sector funds and capabilities. This approach, known as a **Public Private Partnership**, has also started to be applied in the Czech Republic. Česká spořitelna is the founder of the PPP Association and promotes introducing PPP in the Czech Republic. Česká spořitelna is the only bank in the Czech market with teams specialised in PPP project preparation, consulting and funding. In 2006, **Česká spořitelna**, as a member of a consortium with Mott MacDonald and CMS Cameron McKenna, **won a mandate for the provision of advisory services for the benefit of the Ministry of Justice of the Czech Republic.** Its pilot project involves consulting in the preparation of a construction project relating to the court houses in Ústí nad Labem and Karlovy Vary. In 2006, a feasibility study was prepared as part of this project. In 2007, the project will continue by inviting a tender with respect to a private partner's undertaking to construct, operate, maintain and finance the court houses. A number of PPP projects are under preparation. Česká spořitelna and its subsidiaries have specialists focusing on strategic consulting, project management and structured funding. The Bank aims at assisting its clients in all stages of the life of the project.

FINANCIAL MARKETS

In 2006, Česká spořitelna reconfirmed its position as a major investment bank and a key player in the capital markets. In the capital market area, Česká spořitelna provides special and highly-functional consultations during acquisitions, and issuance of bonds and shares. In addition, it offers and provides tailored services and consulting to small and institutional investors interested in investing in securities, open-ended mutual funds, or other instruments of the capital market in Czech crowns or foreign currencies. The clients may also use information from the EU Office of Česká spořitelna, as well as reports and analyses of the Chief Economist Department of Česká spořitelna.

The Sale of Investments Products

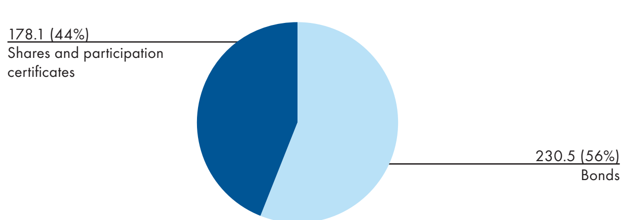
In 2006, the **successful trend in terms of the sale of financial market products continued.** Due to continuous innovation, **the portfolio of offered products** comprising the traditional foreign currency and interest rate hedging

was extended by commodity hedging products that quickly received a positive response in the market thanks to the highly-volatile environment. In spite of short-term variations, the Bank's forecasts relating to the long-term strengthening of Czech crown were confirmed, which placed greater demands on the hedging policy of a number of companies. The long-term strategy of Česká spořitelna providing a wide range of tailored products with acceptable prices was confirmed in this environment and increased not only transaction volumes but also clients' satisfaction with provided services.

Despite a substantial decline of markets at the beginning of summer 2006, **Česká spořitelna strengthened its unique position as one of the most significant players in the regional capital market.** Thanks to its strong position in all of the key market areas, such as transaction structuring and timing, distribution to institutional and retail customers and services relating to the period immediately following the introduction of a product on the market, Česká spořitelna became a partner of all of the major firms entering the Czech capital equity and bond market in 2006. The Bank was also one of the first institutions to trade, as a market maker, with derivatives in the Prague Stock Exchange.

Česká spořitelna is one of the three largest dealers in bonds, shares and participation certificates on the Prague Stock Exchange. In 2006, it effected trades worth CZK 408.6 billion. Compared to 2005, bond trading showed moderate growth.

Volume of implemented trades on the Prague Stock Exchange in 2006 (CZK billions)



Investment Products for Retail Clients

In 2006, Česká spořitelna focused on increasing the quality of services provided to the largest client segment. **Offers for clients served by private bankers and private advisors in branches is based on individual needs**, individually managed portfolios and additionally structured products according to specific client requirements. In 2006, Česká spořitelna primarily paid attention to customer relations; the number of private bankers doubled and, in addition to the increased number of private bankers in Prague, two new private banking offices will be established in Brno and Ostrava. The number of private banking clients in 2006 grew by 47 percent and t**he volume of managed assets increased by 59 percent to CZK 3.6 billion.**

The interest in investment services and products in the distribution network of Česká spořitelna was also high in other client segments. Due to the low interest rates of standard deposit products, client's demand for other investment opportunities providing higher appreciation of invested funds has grown. Česká spořitelna – together with its subsidiary, Investiční společnost České spořitelny, which has been a long-term leader in managing assets in the Czech market – offers its clients investments of free cash to open-ended mutual funds. **Česká spořitelna's offering is based on the open-ended mutual funds of Investiční společnost ČS. The volume of invested funds grew by 3 percent to CZK 74.1 billion.**

The Bank saw a rapid increase in client's interest in guarantee funds that amounted to CZK 3.7 billion in 2006, and **investments in foreign mutual funds**, worth CZK 13.3 billion.

For investors preferring a shorter investment period, Česká spořitelna distributed **currency and share premium deposits** and products with a guaranteed capital return suitable for the widest investment public. During 2006, the Bank introduced a commodity premium deposit with a yield linked to a commodity basket. For sophisticated clients of **private advisors, private offerings of structured premium deposits** were issued linked to a diverse spectrum of underlying assets. **The aggregate volume of all issued premium deposits grew to nearly CZK 4.0 billion** compared to CZK 1.8 billion in 2005.

The issue of mortgage certificates reported great success especially in the latter half of 2006, when investors used high interest rates to invest in these popular securities with fixed interest rates. The total sales grew to CZK 0.5 billion.

Česká spořitelna was a pioneer in introducing initial public offerings (IPO) to the retail segment. In November – December 2006, the consulting centre network was part of the distribution of the IPO in respect of ECM's shares. The branch network facilitates Česká spořitelna's unique capability of presenting new placements to all investment banking client segments.

In the area of information technology in 2006, Česká spořitelna substantially upgraded its information system used to provide services to its 450,000 clients. Thanks to the modernisation, branch advisors have more time to provide their clients with high-quality consulting. The operation of a separate part of the Securities Centre's register was discontinued and replaced by an independent investment instrument register. Česká spořitelna was the first financial institution in the Czech Republic to take this action.

Initial Offerings of Securities

Česká spořitelna has again confirmed its strong position in the market of bond initial offerings. **Included among the significant successes in 2006 is the position of the arranger of the bond programme of the Deposit Insurance Fund (Fond pojištění vkladů)**. Česká spořitelna was also the lead manager of the bonds of Home Credit B.V. and the lead co-manager of the bonds of Home Credit, a. s. The Bank established its own bond offering programme under which it introduced four of its own new issues of mortgage bonds worth CZK 1.95 billion. Apart from the bond programme, Česká spořitelna placed a standalone issue of mortgage bonds in the total volume of CZK 4.5 billion. Within the bond offering programme, Česká spořitelna also issued its subordinated bonds worth CZK 3.0 billion.

During 2006, two new share issues were placed on the Prague Stock Exchange: shares of ECM Real Estate Investments AG (the amount of the issue exceeded EUR 80 million) and dually listed shares of Pegas Nonwovens SA with the volume of the issue exceeding EUR 118 million listed in the Prague and Warsaw Stock Exchanges. **Česká spořitelna placed both issues on the Prague Stock Exchange as a co-manager of the transaction** and enabled a primary subscription to retail investors.

Financial Institutions

In 2006, Česká spořitelna continued strengthening its position of a bank providing value added services to financial institutions. Česká spořitelna considers cash management to be the 'anchor' for other, more specialised products required by banks, insurance companies, investment companies, pension funds and other financial institutions. **The number of clients from international banks using cash management services grew by nearly 10 percent**. In terms of the number of non-bank financial institutions, the Bank saw substantial growth compared to the previous year, partially resulting from the increase in the volume of funds managed and deposited by Česká spořitelna.

In 2006, Česká spořitelna continued improving the conditions of foreign banks with regard to standard currencies; the scope of more 'exotic' currencies was increased and custody services were strengthened in order to provide a wider range of investment opportunities to Česká spořitelna's clients.

Also in 2006, Česká spořitelna continued the trend of financing institutions with bank or government exposure. This involved the financing of domestic and foreign entities in the form of direct and indirect participation in credit transactions.

Asset Management for Institutional Clients

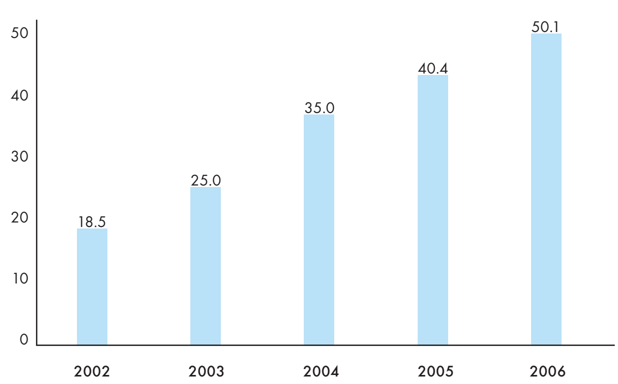
Česká spořitelna offers a comprehensive range of asset management products for both individual and institutional investors. **Asset management activities include assets of institutional clients, specifically pension funds and insurance companies, assets of non-profit organisations and municipalities** in the aggregate amount of CZK 50.1 billion, which constitutes a **24 percent increase in the volume of managed assets** when compared to the 2005 year-end. The year-on-year increase resulted from the combination of a well-planned growth and successful new acquisitions. The Bank proactively offers its clients asset management services as an integral component of its product offering.

In 2006, Česká spořitelna continued to operate as a mutual fund investment advisor for certain mutual funds managed by its fellow subsidiary Erste Sparinvest in Austria. The mutual funds are designed for investors in Czech crowns and therefore meet the requirements of domestic Czech investors.

By the year-end, the Bank completed the outsourcing process, thereby separating the sale of asset management services and private banking from portfolio management. Decisions on the allocation of managed assets in compliance with the agreed rules are now made by a professional team of portfolio managers of Investiční společnost České spořitelny. The new organisational structure improves the transparency of providing services and emphasises the independence of the investment process.

Česká spořitelna, in cooperation with Investiční společnost České spořitelny, was the first bank to introduce a special fund of qualified investors to the market in compliance with new legislation. The Bank expects further substantial growth of managed assets in the area of theses funds highly specialised on specific types of clients or assets.

Volume of actively managed institutional client's assets (CZK billions)



Depositary

In 2006, Česká spořitelna held a very strong position in the provision of depository services for investment companies and their mutual funds, investment and pension funds. At the end of 2006, the Bank provided these services to 19 mutual and pension funds, which largely comprised the open-ended mutual funds of Investiční společnost České spořitelny. **The assets managed by the Bank in a depositary capacity amounted to CZK 96.5 billion, representing a year-on-year increase of 7 percent** compared to 2005.

DISTRIBUTION CHANNELS

Branch Network

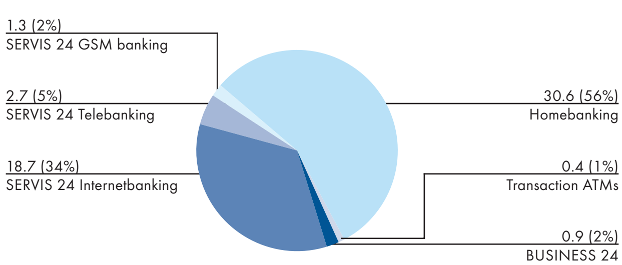
With its 637 branches Česká spořitelna represents one of the largest bank networks in the Czech Republic with good regional coverage and availability to all clients, thus confirming the Bank's slogan "We are closer to you". **The branch network continues to be the basic executive component of the Bank's multichannel selling model.** Long-term relationships with all clients are developed through advisors. The branch network provides a wide and comprehensive offering of services and products of the Česká spořitelna Group to its private clientele as well as SMEs and individual entrepreneurs; its specialised consulting responds to the needs of municipalities and offers solutions for both corporate and private financial needs of independent professional clients.

The opening hours of branches are adjusted and possibly extended on an individual basis with respect to the specific needs of clients in a given location. In 2006, the largest branches extended their opening hours by one hour per week on average. **Selected branches in every region provide their services within the extended opening hours to 6.30 p.m. and seven branches in business chains provide comprehensive services seven days a week**, which totals 70 opening hours per week. Focusing on improving comfort and confidentiality of client service, the Bank continues to renovate its branches. In 2006, 25 renovations were completed. Within the rational and effective change of the branch network management system, the number of regional branches declined from the original 30 to 25 with effect from 1 July 2006. The number of branches decreased from 646 to 637 year-on-year; ten branches were eliminated due to inefficiency, whereas one new branch focusing on student clients was established in the premises of the University of Economics in Prague. The branch distribution network also comprises 15 commercial centres and 13 mortgage centres.

Direct Banking

In direct banking, Česká spořitelna ranks among the best banks in the market. Its products, such as SERVIS 24, BUSINESS 24 or Homebanking MultiCash, represent high-quality and fast solutions to the financial needs of its more than one million clients. The direct banking of Česká spořitelna is based on two pillars: **SERVIS 24, the most extended direct banking product**, and the Client Centre in Prostějov, the executive direct banking centre. **Transaction ATMs** are also of substantial use. Following their introduction in 2005, Česká spořitelna focused on promoting transaction ATMs among clients, increasing the number of transactions and adjusting the application for a targeted bank product offer for debit payment card holders in 2006. At the end of 2006, the number of payments executed through ATMs came close to the number of payments administered by branch staff. In December 2006, the Bank started offering its first product, Easy Loan, to its selected clients through ATMs.

Number of electronic debit transactions (million)



Client Centre

Česká spořitelna's **Client Centre** in Prostějov **provides a wide range of services in Czech and English to clients of the Group via a non-stop 24/7 system.** 2006 saw the strengthening of the Client Centre's sales role, a decline of calls to automatic voice services and the repeated growth of the number of calls answered by phone bankers. In 2006, bankers responded to over 2.8 million calls, an increase of 9 percent compared to 2005. In spite of the rapid growth of the number of calls in the fourth quarter of 2006, the Client Centre succeeded in maintaining sufficient availability of its services; a total of 78.2 percent of all calls were received by telephone bankers, who provided high-quality responses, within 20 seconds.

In addition to telephone services, the Client Centre's task is to respond to the email inbox of Česká spořitelna **'Napište nám' (Write to Us) (csas@csas.cz)** and some other service mailboxes. During 2006, more than 52,000 email inquiries were answered, with 99 percent of them answered within one business day.

External Sales and Cooperation

Česká spořitelna executed segmentation of external partners in order to increase their management. The Bank now addresses every group of partners (individuals, legal entities, central partners) with special attention to their specific needs. Česká spořitelna is attractive for its partners thanks to its motivation scheme and the quality of sales support provided primarily through the newly-introduced Information Portal and Extranet that is assigned exclusively to external partners. These tools are used for a targeted organisation of selling campaigns and provide partners with up-to-date information on new offerings.

Relationships with external partners are based on long-term cooperation and preference of the exclusivity for the sale of the Group's products. **The best business results were achieved in housing financing (purpose and non-purposes mortgage loans, construction savings) and pension insurance.** In 2006, cooperation with Kooperativa pojišťovna, with which Česká spořitelna established a strategic alliance to develop mutual trading, continued.

The Bank and its external partners look for other selling opportunities offered by the Czech market through its external networks (new projects and combined products).

Web Portals

Česká spořitelna's web pages were once again recognised: they ranked third in the Finance category of the WebTop 100 contest and third in the same category of the contest arranged by the Dobrý Web server. The Bank highly appreciates its first place in the public vote organised by the Mesec.cz server for the best bank web pages.

In 2006, a number of changes were made to Česká spořitlena‘s web site that will be especially welcome by handicapped individuals. Text versions of web pages were launched in all portals. Individuals suffering from colour-perception disorders will appreciate the unique black-and-white version of the sites. Some new functionalities were also introduced, such as an index for easier information searches or dynamic navigation tools for easier orientation in products, providing alternative or additional information to every product so that the information searched for is complete.

System of Payment

The number of domestic payment transactions effected through the clearing centre of the Czech National Bank increased in 2006 compared to the previous period by nearly 10 percent to 194.4 million transactions; the number of swift reports for the same period rose by 21 percent. The growing amount of payment transactions is an important feature of higher income from fees and commission.

As was the case in previous years, foreign payments showed a continuing growth trend. The number of transactions increased year-on-year by 30 percent. The increasing trend of corporate client payment transactions and a high increase of transactions executed through the direct banking channels (by 50 percent) continued while the number of hard-copy payment orders decreased (by 17 percent).

NON-COMMERCIAL ACTIVITIES

Human Resources

Česká spořitelna paid special attention to the education and development of the individual potential of its staff for several years as it is absolutely crucial for human resources management. **Česká spořitelna considers education and development to be its competitive edge** – a method for staff motivation and an instrument to achieve its business targets.

In addition to the ongoing improvement of efficiency and quality of the internal and external training system in 2006, the Bank focused on sharing its basic values with staff members in the context of its ‘First Choice Bank‘ strategic programme, training in project and process management and the issues of service quality.

Internal training was improved thanks to the division of training courses relating to individual products, selling procedures and services by partial distribution channels. **Substantial changes were made to the fully electronic training of staff** specialising in corporate clientele, a strategy for an external sales network supported by a special information system was fully implemented and subsidiaries introduced compulsory certification of regional branch advisors’ knowledge of offered products and effective legislation.

Training events were centrally organised in the Bank‘s modernised classrooms and training centres, in individual sections according to specific requirements, and through e-learning, which has become more attractive in Česká spořitelna. The Bank‘s staff spent one day on average improving their soft skills in external training, and six days on average in internal training sessions.

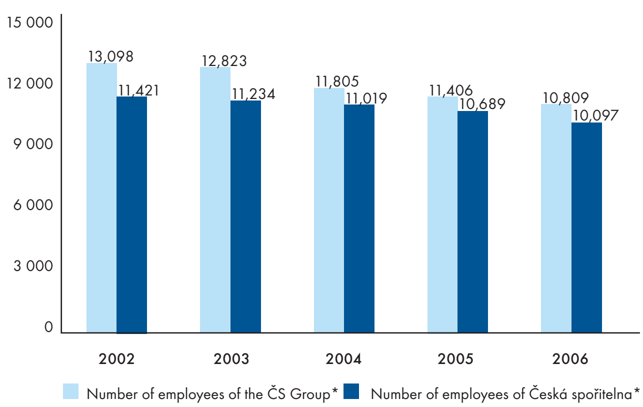
As required by management, the group of special development programmes focusing on specific target groups was extended. For the first time in its history, the Bank prepared a programme for the career management of key staff entitled ‘Talent Management’ with international support from the Erste Bank Group, and **a development initiative for university graduates called Professionals for Corporate Clientele.** In implementing this programme, Česká spořitelna concluded a key contract for future development with the **University of Economics in Prague.**

External training events tailored to individual units were primarily organised with the Bank’s contractual partners selected in extensive tenders.

The Bank’s system of staff development monitoring and evaluation, modified in 2006, was subject to a considerable development and was implemented at all staff levels. It simplified manager’s work with subordinates in the development area and provided data for identifying the overall and specific educational needs of groups and individual staff members and for planning education for 2007.

Compared to 2005, the average headcount of the Group decreased by 5 percent (by 597 people) to 10,809. In Česká

Number of employees



* average recalculated headcount

spořitelna, the headcount decreased by 592 people to 10,097. Qualification of staff once again reported moderate growth. Over 24 percent of staff has a master's or bachelor's degree, the number of men exceeded one fourth of all staff (26 percent), and the average age remained stable, i. e. 39.4 years. More than 55 percent of staff have been employed in Česká spořitelna for at least 10 years.

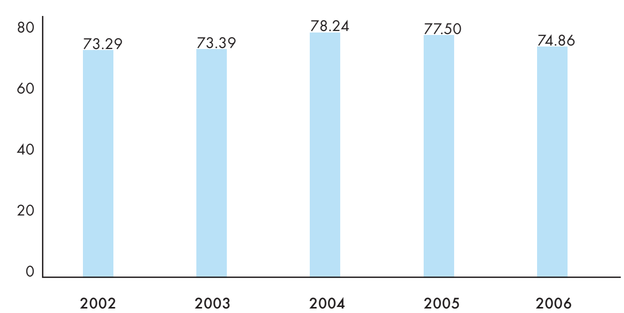
The aggregate average pay of the parent bank's staff member including bank performance bonuses **amounted to CZK 40,953** in 2006, an increase of 12 percent year-on-year.

Quality of Services

In 2006, Česká spořitelna introduced the First Choice Bank initiative comprising a number of activities leading to higher-quality and more favourable services for its clients. Česká spořitelna applied Six sigma and Kaizen methodologies to further improve client satisfaction.

As in previous years, the quality of services provided to clients was measured. **Major attention is paid to the survey regarding client's satisfaction with services.** Telephone surveys showed that bank clients appreciated the quality of services, expressed in terms of the Customer Satisfaction Index (CSI). Its value slightly decreased year-on-year by 2.64 point to 74.86 (the maximum being 100 points). The decrease was due to growing client expectations. The level of customer satisfaction has become part of the employee motivation system since 2004.

Client satisfaction (CSI in points, spring – autumn average)



Česká spořitelna also monitors the quality of services provided among individual bank units, which it regularly measures using the 'Service Level Index'. Internal clients' satisfaction is seen by the Bank as the key to providing quality services. The Bank continued improving the quality of internal services; the value of a new SLI index (the methodology was changed in 2005 due to the achievement of the maximum index level) rose year-on-year from 75.16 by one and a half points to 76.66.

For the sixth year, the service quality team, **the ombudsman team**, was involved in identifying and dealing with specific suggestions from clients that were not resolved at the counter. On the basis of these suggestions, the ombudsman team proposed a series of corrective measures and system changes. In 2006, the ombudsman team collected and addressed more than 4,300 customer complaints. They also continued analysing the substance of complaints obtained from the Client Centre, the branch network and subsidiaries. They help set the parameters for making refinements to an array of services so as to make them easier and more effective for clients to use. An increase in the total number of collected complaints is evidence of the continued interest of customers in the events in Česká spořitelna and in the quality of services, and also of the Bank's ability to address these issues. It is also the result of successfully implementing integrated software for resolving and registering complaints.

Economic and Strategic Analysis

In 2006, the responsibilities of the Economic and Strategic Analysis team of Česká spořitelna were extended in two areas. First, the strategic planning and banking sector analysis was strengthened. Second, wider coverage was provided to the equities analysis. The third area addressed by the team in providing its analytical and strategic recommendations covers macroeconomic analyses used to estimate foreign exchange and interest rates. Analyses are published on the Bank's website under the analytical reports section and online data service (**www.csas.cz/analyza**). The regular set of analytical reports issued at daily to quarterly intervals in Czech and English now comprises 14 different products. Analysts and strategists are available to a selected number of clients of the Česká spořitelna Group for personal and telephone consultations.

EU Office of Česká spořitelna

The purpose of the EU Office of Česká spořitelna is to monitor, analyse, and inform about current events in the European Union within the Bank's internal communication and inform the clients and the general public about these events in regular reports.

The EU Newsletter defended its position as one of the best local media informing about the European Union and once again received a grant from the Office of the Czech Government in 2006. The EU Office continued publishing Short Notes, which immediately respond to major impulses from the European Union. Within the First Choice Bank project, EU Office developed a new product, 'Monitoring of Public Consultations on Changes in EU Legislation', collecting consultations relating to adopting new or amended EU legislation.

During 2006, the EU Office presented itself on several seminars, conferences and discussion forums in the Czech Republic and abroad. EU Office staff were appointed external advisors and consultants in the preparation of key documents of the Czech Republic and individual regions for drawing EU funds in 2007-2013. They specifically participated in the preparation of several Operational Programmes, the National Development Plan and the National Strategic Reference Framework. At the same time, the European Commission, the General Directorate for Economic and Monetary Affairs, assigned some of the professionals to become members of the EuroTeam, which discusses at the community level the important aspects of operation regarding the single European currency – the euro. The consulting and advisory activities relating to regional entities continued – the EU Office's representatives continued working in the consortium representing the Zlín and Olomouc regions in EU institutions in Brussels. Consulting reported further development with respect to the Ústí nad Labem region, namely consulting within the €-NET and VISP projects focused on optimising the region's conditions for using the available EU funds.

Within the Erste Bank Group, the EU Office participates in a project implemented in the Romanian Banca Comercială Română focusing on the development of activities relating to EU issues, especially initiatives related to drawing EU funds.

Project Management

Česká spořitelna's projects are an important driver of changes in many areas of the Bank's life. In 2006, the projects were aimed at improving products and services for a wide range of clients and sharing synergies within the entire Erste Bank Group, as well as strengthening the Bank's infrastructure and internal efficiency and complying with applicable legislative requirements and international regulations. **The most significant development activity is the First Choice Bank strategic initiative consisting of over 60 activities to simplify bank services and make them easier for clients.**

In 2006, Česká spořitelna continued significant development of electronic banking through the CIC III Release 2 project that implemented a number of new functionalities of SERVIS 24 for retail clients and BUSINESS 24 for corporate clients. Changes were implemented in areas such as increasing security and functionality improvements. The Legacy Enhancement 3 project successfully prepared an entirely new service for clients – providing electronic account statements secured by a digital signature through SERVIS 24 and BUSINESS 24. A similar achievement is the operation of the first ATMs for the visually impaired. Česká spořitelna provides its clients with chip cards within the Chip Card project. The Symbols Corporate Treasury VI brought new interesting products for corporate clientele, e.g. real cash pooling or multipurpose credit lines. The WebDON project prepared an interactive tool for selling investment products to retail clients. In order to improve client services in financial markets, the Financial Market Product Processing project paved the way for the implementation of a new system that provides better support to brokers and a wider range of supported products, guaranteeing a required system throughput.

In 2006, Česká spořitelna participated in several major projects of the New Group Architecture (NGA) within the entire Erste Bank Group. These projects result in coordinated activities in many areas, such as consumer loans or group centralisation of IT procurement, operation and development. In 2006, the preparation of IT Operation and IT Development centralisation within the Erste Bank Group culminated, thus providing room for cost reduction and total efficiency increases. The NGA Core SAP project successfully continued centralising SAP within the Česká spořitelna Group and moved the system to a new location in Vienna where it is also centrally administered for other companies of the Erste Bank Group. The PARiS project prepared a transfer of central procurement from Česká spořitelna to Procurement Services CZ, which integrated group procurement of commodities and developed potential for synergies and lower purchase prices.

The Bridges project prepared comprehensive methodologies for continuous improvement of processes and introduced them to selected pilot units of the Bank, primarily in the area of payment systems. A new collections project started implementing a new information system for an improved and more effective recovery of outstanding loans. To simplify client services in the branch network and support selling processes, the Branch System Development project was launched implementing new functionalities and technological adjustments for faster client services in the branch network. The MSF Extranet project extended the Partner 24 application by new functionalities for more effective administration and management of the external selling network. In making changes in IT systems, further improvements were achieved thanks to the Bulk Release 2006 project. Further cost reduction was attributable to selected economies implemented within the Hulk and Leap projects, e.g. moving some back-office sites outside Prague. Projects relating to the system of payment resulted in savings arising from process automation and optimisation within the domestic and foreign payment systems.

The branch data network was optimised through the WAN III project. The network's capacity was doubled and high savings in operating expenses were achieved. The Bank continued developing its data warehouse to comply with all requirements of external and internal clients. The Group Performance Model, OFSA and Cognos projects developed the availability of information contained in the data warehouse through defined reports. The Enterprise Web Content Management project supported the transfer to a new version of a system for the Bank's internet and intranet content management. Among other things, the new version made changes in the graphic design and provided users with new functions, such as support for the blind and weak-sighted on the Internet site www.csas.cz.

In an effort to comply with legal requirements, the AML project was completed resolving the issues of taking actions against legalisation of proceeds from criminal activities. In 2006, the major section of the Basel II project was implemented in compliance with the Basel II Regulation and the requirements of regulators in Česká spořitelna and the Erste Bank Group. Other projects implemented changes relating to requirements of regulators from the financial and banking markets, card associations etc.

Information Technologies (IT)

The principal objectives of all IT areas involve supporting and taking an active part in the implementation of the Bank's key development activities with the objective of putting in place a flexible and stable IT environment facilitating the implementation of the Bank's set business strategy while optimising investment and operating expenses and supporting legislation and internal changes.

In the back-end applications (current and sporogiro accounts), statements in pdf format were introduced; sporogiro account holders can now use individual interest rates and cross-border transfers in euros. For clients of the centralised Starbank system, the functionality of charging transaction fees based on transaction origin was extended; the system of foreign currency payment and cheques was optimised; revolving loans for communities were introduced as well as an automatic transfer of debit balances from sporogiro accounts, new products for American mortgage loans were launched etc. Regarding card systems, clients can use chip cards and recharge their mobile phones for all providers through ATMs. The credit card project was successfully completed providing sufficient availability with respect to the expansion of the number of credit cards. In 2006, a charge back module was implemented and the loyalty programme of payment cards was interconnected with eCommerce.

Traditionally, major attention was paid to the enhancement and improvement of the functionality of alternative distribution channels in 2006. Other priorities included system robustness and security improvements. The Bank prepares an adjustment of the existing platform to accelerate development and increase flexibility in meeting client needs in the future. In customer relationship management, sales were further supported by using various distribution channels in preparing campaigns and several client recommendations addressed to the Bank's ombudsman team were implemented.

Česká spořitelna intensively develops its data warehouse, extracts for CCB can be made, integration with CRM and links to application scoring were improved, and construction of the Reporting Data Mart was completed, including the first set of reports processed by Cognos. In the centralisation of selected activities, the process of IT and other expenses optimisation continued by centralising selected activities within the Česká spořitelna Group; in SAP, centralisation within the Erste Bank Group was successfully completed.

In legislation, work on the Basel II project continued to implement risk management in the Česká spořitelna Group in compliance with the planned requirements of the Czech National Bank and standards approved by Erste Bank. An integrated rating of clients within the Sporožiro application was introduced. Multiple suspicious transactions were withheld in the payment system thanks to new AML tools and an amendment relating to the change of contractual documentation was implemented in the DON central system of financial markets.

To guarantee system parameters required by business units (accessibility, response time etc.), selected partial components of the infrastructure of alternative distribution channels were upgraded. The WAN III project increasing the WAN data network throughput was completed while reducing costs. The development of the web farm of Linux servers used for various types of services continued (SERVIS 24 presentation level, Application Scoring, Intranet, Internet, eCommerce, eFactoring etc.). The Bank started modernising HP UNIX servers TI – transfer to new Montecito processors and a new version of the HPUX operation system.

The integration of IT development units in the Group continued in order to optimise IT expenses in the Erste Bank Group.

Security Policy

The Bank attaches a great deal of importance to its security policy. The Bank operates an independent and stand-alone security department, which has been charged with overseeing financial security, investigating incidents of operational risks, maintaining IT security and physical security. **The Bank's operations are primarily focused on preventing all negative phenomena, which could jeopardise the security of staff, clients and assets of the Bank.**

Major attention has been given to the issues of preventing legalisation of proceeds from criminal activities, the financing of terrorism and execution of international sanctions. The system set in this area conforms to the applicable legislation, requirements of regulatory bodies and international standards. In 2006, a new monitoring and information system was completed and put into operation for an efficient and comprehensive monitoring of suspicious financial activities.

A security policy monitoring the mitigation of operational risk – in particular the potential criminal activity of clients or employees of the Bank and the impact thereof on the Bank's costs, is a priority reference point in evaluating and administering warnings in software applications, assessing methodological procedures, and evaluating new development projects in the Bank.

Throughout 2006, Česká spořitelna continued the security integration project initiated in 2005 for physical and technical security. The aim is to fully centralise physical security at the required level, ensure that it is financially stable with the primary goal being the protection of the life and health of the Bank's staff, clients, and assets. In IT security, the Bank primarily focused its attention on security monitoring in 2006.

Internal Audit

Internal audit at Česká spořitelna is an independent, objective, assurance and consulting activity designed to add value and improve the Bank's processes. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In all of the Bank's functions, Internal Audit monitors processes and activities, reviews the implementation of actions highlighted by internal and external audits and reviews. In 2006, Internal Audit provided the Bank's management, Audit Committee and Supervisory Board with objective information and assurance on the level of risks faced by the Bank.

Partnerships

Česká spořitelna continues fulfilling its long-term **strategy of being a responsible and socially conscious partner of cities, municipalities, communities and citizens** in various partnership programmes. The Bank implements this strategy by supporting social projects and activities and cultural, educational and sports events.

Key cultural initiatives supported by Česká spořitelna in 2006 included **an exceptional exhibition entitled "Charles IV – Emperor by the Grace of God"**, held at the Prague Castle. As part of its traditional support of music projects, the Bank acted as a partner to the Prague Spring International Music Festival, the 'Smetanova Litomyšl' International Opera Festival, the Český Krumlov International Music Festival and the EuroArt Prague Festival of chamber music. Contemporary music events supported by Česká spořitelna included the Colours of Ostrava festival, Colour of Music and Hrady.cz.

To promote the Czech film industry, Česká spořitelna became a partner of the Finále Plzeň Festival of Czech films, the Jihlava International Documentary Film Festival and the Famufest student film festival. In 2006, the Bank again supported the Vinohrady Theatre and other regional theatres as well as the Prague Theatre Festival of the German Language.

In the sphere of education, in 2006 **the Bank significantly expanded its cooperation with the University of Economics in Prague**, and supported the joint research centre of the Charles University and the Academy of Science of the Czech Republic (CERGE-EI), as well as a competition for students and pupils entitled High-School Expert Activity (SOČ) and the "Eurorebus or School as a Play with Česká spořitelna" initiative.

In sports, Česká spořitelna provides assistance to five major areas: for the sixth consecutive year, it has been the general partner of the Czech Athletics Federation and a general partner of the Czech junior tennis team and for two years now, it has been one of the partners of the Czech Golf Federation. The series of mountain bike competitions entitled "Wheels for Life", which has continued for the seventh year, was also supported by Česká spořitelna as a general partner, with Česká spořitelna MTB Team of professional bikers as its flagship. **The key sponsoring sports project for Česká spořitelna in 2006 was the official partnership with the Czech football team and its junior categories from 16 to 21 years.**

Through Česká spořitelna Foundation (Nadace České spořitelny), cooperating with non-profit organisations such as civil associations, foundations, foundation funds and public service organisations, the Bank supported charitable projects in 2006 strategically targeted at senior citizens, support to drug addicts and prevention of drug abuse, and support to physically and mentally disabled people. **Being one of the strongest foundations on the Czech market, Česká spořitelna Foundation** has set up the goal of primarily focusing on spheres usually remaining marginal for other donators and institutions, thereby pointing out to the general public, other sponsors, and the entire non-profit sector other initiatives and projects worth their attention and calling for assistance from strong partners in order to be brought to life. In some cases, this strategy was manifested in further continuation of long-standing cooperation while in others, new partnerships were concluded. The implemented projects included **support to senior citizens** (Association for Life 90, Czech Union of Retired Citizens, Life of Artists Foundation), **support to prevention and treatment of drug abus**e (the Sananim Association, Circle of Life, Helping Hands Association, a public grant program called "Against Drugs" in cooperation with Open Society Fund Prague), and **assistance to physically and mentally handicapped people** (Czech Catholic Charity, National Council for Persons with Physical Disabilities, VIDA, ASNEP, etc.). In addition, Česká spořitelna continued its cooperation with the Partnership Foundation and the VIA Foundation in the field of environmental protection, with the Institute of Finance and Administration in the area of education, and the Mamma Foundation Fund in the field of prevention and treatment of breast cancer.

Česká spořitelna has also involved its employees and clients in charitable activities. Within its six-week spring campaign entitled "Who says that nobody will thank you for paying with plastic?", it granted a portion of its income from card transactions to the Association for Life 90 to support free-of-charge non-stop telephone lines. Another group of projects with direct participation of the Bank's clients involved charity projects supported by bonus points received within the loyalty card bonus programme. The clients supported 11 projects in 2006 through this programme. The great interest on the part of the clients to donate their bonus points to charity proves that the Bank's long-term strategy has positively affected the responsible attitude of its customers.

Strategic Plans for 2007

STRATEGIC OBJECTIVES

Česká spořitelna's primary vision is to be the First Choice Bank for all client groups in the Czech Republic.

In order to achieve this vision, Česká spořitelna will predominantly focus on the following:
- Providing high quality financial products and services enabling all our clients to achieve their specific wishes and needs;
- Building client confidence and providing multiple products and services per household;
- Providing comprehensive services and distribution channels to retail clients while using competitive advantages developed through our professional staff and 24-hour availability;
- Building a competitive advantage in housing, wealth management, and marketing;
- Offering a full range of services to large corporations, small- and medium-sized enterprises (SMEs), public entities and not-for-profit organisations;
- Increasing employee satisfaction and professionalism;
- Fulfilling the bank's corporate social responsibility; and
- Expanding client financial education and awareness of opportunities offered by the Bank and the entire Financial Group.

MACROECONOMIC FORECAST

The Business Plans and Budget for 2007 are based upon the following macroeconomic forecasts:
- Continued strong economic growth rate in the Czech Republic;
- Moderate inflation;
- Declining rate of unemployment;
- Moderate growth of interest rates; and
- Strengthening of the CZK/EUR exchange rate.

BUSINESS PRIORITIES

In 2007, Česká spořitelna's Business Division will have the following priorities:

Retail Banking

The strategic goal of retail banking involves developing its current leading position in housing loans, consumer loans, daily transactions, asset management and distribution channels with an emphasis on electronic banking. The Bank's priorities will involve further growth of mortgage and consumer loans and investment product services. In daily transactions, the Bank will primarily continue to enhance the quality of provided services and increase transparency and understanding of its fee policy. In the segment micro-businesses and freelance professions, special attention will be paid to attracting new clients. In all client segments, alternative distribution channels will be supported in order to satisfy client demand outside of branch working hours. In the card business, chip cards will be introduced, and support will be given to achieve further growth in the number of credit cards and in the use of cards for cashless payments through improved marketing and further development of the Bonus Program.

Corporate Banking

The strategic goal of corporate banking involves maintaining and developing its leading position in the segments of real estate development, housing and public finance, and improving the Bank's position in small- and medium-sized enterprises and large corporations. Česká spořitelna aims at developing its image as a local, reliable, Czech corporate bank. In large corporations, the Bank's attention will focus on attracting large global companies doing business in the Czech Republic and maintaining the leading market position in providing services to the largest Czech companies. For SMEs, the Bank has a strategy of providing its clients with comprehensive services. In addition to regular banking products, the Bank will offer SME clients other financial services, such as factoring, leasing, insurance, and advisory support, including the use of EU funds. Further simplification and optimisation of internal processes will primarily accelerate the servicing and financing of small-sized enterprises. With respect of real estate activities, the Bank will continue its strategy as a provider of comprehensive financing and banking services for developers and investors, and it will increase its support of regional real estate transactions. A major priority will consist of developing real estate funds for the general public as well as institutional and qualified investors. Česká spořitelna plans to be the leading bank in financing housing cooperatives and home owners associations. In providing services to the public and not-for-profit sectors, Česká spořitelna's goal is to maintain its leading position on the market, to enhance its participation in infrastructure and environmental projects, and to become more involved in services provided to foundations. The Bank's participation in the Public Private Partnership projects as well as EU advisory services will continue to grow.

Financial Markets

The goal of financial markets trading is to maintain a leading position among domestic market makers. The Bank will continue to focus on the development of services for financial institutions and enhance its position as a significant regional financing partner through the placement of bonds and equities. Significant growth in retail and corporate lending restricts the room within which the Bank can make its own financial investments. As such, the potential areas for growth include mid-term structured products (premium debt-securities and deposits) and investment consulting. The Bank's attention will be given to providing a comprehensive offering of products and services. Transactions with foreign currencies of Eastern European countries are expected to grow as well as the services for securities portfolio administrators. Česká spořitelna will continue organising primary issues and developing new investment products for existing clients.

ANTICIPATED ECONOMIC AND FINANCIAL POSITION (Consolidated figures under IFRS)

In 2007 Česká spořitelna will focus on continuing to improve the quality of services and products across the Financial Group in line with implementing the First Choice Bank Program. Attention will also be given to further increasing the volume and number of loans in all client segments and to increasing efficiency through carefully managing operating costs and making value added investments within the constraints of the financial plan.

Česká spořitelna's financial targets for 2007 are very ambitious. In the year ending 31 December 2007, the Bank projects a year-on-year increase in net profit of 15 to 20 percent, Return on Equity (ROE) exceeding 20 percent, and the Cost/Income Ratio is anticipated to drop below 53 percent. The planned increase in net interest income is based on the assumption of a continuing moderate increase in interest rates throughout 2007. Fee and commission income should grow primarily due to the increasing number and volume of transactions both on the assets and liabilities side of the balance sheet. Staff costs are expected to grow at a rate above inflation reflecting both productivity gains and wage demands. Purchased deliverables will mirror the expected development in inflation, the increasing business demands and shareholder strategic plans relating to the implementation of Group projects. The expected decrease in depreciation/amortisation charges for tangible and intangible assets in 2007 is also linked to the implementation of Group projects which, in particular, deliver economies of scale.

Česká spořitelna expects its consolidated total assets to grow year-on-year by 10 percent in 2007. With respect to assets, the Bank plans an increase in client loans by 20 to 25 percent in 2007. For liabilities, the Bank expects an increase in client deposits of 5 to 7 percent in 2007. **The Loan/Deposit Ratio should be approximately 65 to 70 percent at the end of 2007.**

Risk Management in 2006

One of the key elements of the Bank's internal management and control system is its risk management processes. As a result of its business and other activities, the Bank is inevitably exposed to a variety of risks, such as credit, market, liquidity, and operational risks. Česká spořitelna gives great attention to risk management commensurate with its size, complexity and the number of products and business activities and other operations. The Bank has a risk management strategy in place, approved by the Board of Directors, consisting of risk management principles including risk identification, monitoring and measuring processes as well as sets of limits and restrictions. Through the adoption of these principles the Bank maintains its risk exposures at an acceptable level, thereby keeping its management processes effective.

The following departments at Česká spořitelna are involved in managing risk:
- The Central Risk Management Department which is primarily responsible for market and operational risks and for managing risks taken by the whole Česká spořitelna Group on a consolidated basis;
- The Credit Risk Management Department which assumes responsibility for credit risk within the Group; and
- The Balance Sheet Management Department which manages interest rate risk inherent in the banking book and liquidity risk based upon the decisions of the Assets and Liabilities Management Committee.

The activities of the risk management departments are additionally complemented by the activities of:
- The Security Department responsible for risk management in respect of physical security, IT security, anti-money laundering and early warning system management; and
- The Legal Services and Compliance Department responsible for compliance risk management.

In addition to the Board of Directors, approval authorities relating to risk management rest with the following committees:
- The Assets and Liabilities Management Committee;
- The Credit Committee of the Board of Directors of Česká spořitelna;
- The Financial Markets and Risk Management Committee;
- Compliance, Operational Risk and Security Committee (CORB) – a body of the Bank's Board of Directors that makes decisions regarding the management of operational risk, compliance risk and security.

CREDIT RISK

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. In managing credit risk, the Bank applies a unified methodology which is adopted on a Group-wide basis and sets out applicable procedures, roles and authorities. The lending policy includes:
- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities;
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan;
- Principal framework of the rating system and of setting up and revising borrower rating;
- Basic principles underlying the system of limits and the structure of approval authorities; and
- Rules of loan collateral management.

In 2006 the information collection efforts saw a further strengthening of the functionalities of the data warehouse with a focus on the ongoing improvement of the quality of data within the Česká spořitelna Group. This solution will maximise flexibility in preparing analyses and reports drawing on a unified, group-wide source of data. The collected data allows the Risk Management Department to have detailed control over the Bank's individual exposures to all its clients. The quality of data significantly improved, which provides a better basis for its utilisation during debt recovery procedures, valuation of receivables and calculation of losses.

Rating is perceived as one of the key risk management tools. Assessing the borrower is an obligatory part of every loan approval process or when making major changes to lending terms. As part of risk management, the Bank allocates its clients into clients ‘in default’ and clients ‘without default’. The Bank uses an 8-grade rating scale for clients ‘without default’ (with respect to retail clients – private individuals) and a 13-grade rating scale for other clients. The Bank uses one rating grade “R” for all clients in default.

All information essential for assessing clients is collected and stored centrally. The Bank performs regular revisions (at least annually) of internal ratings and identification of the approval level. The review and back-testing of statistical models are made regularly (at least annually).

The key milestones in 2006 involve the improvement of the functionalities of the rating tool for retail clients – private individuals which facilitated greater flexibility in determining client ratings through the implementation of a higher number of scorecards. In 2006, the Bank also implemented behavioural scoring for clients from the small and medium-sized business segment.

The Bank uses its own internal models in determining risk parameters such as probability of default (PD), loss given default (LGD) and credit conversion factors (CCF) (ie, coefficients used in transferring off-balance sheet items to on-balance sheet items). In 2006, the Bank expanded the set of models to include its own model for estimating CCF and all models were upgraded to include descriptive statistical characteristics and validation procedures. All the models are developed according to Basel II requirements and were subject to review by the Czech National Bank in respect of the Basel II readiness review. The monitoring of historical risk parameters and their prediction create an environment for quantitative portfolio management. The Bank currently uses risk parameters in monitoring portfolio risks, in-default portfolio management, portfolio protection measurement and risk valuation. The active use of the risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments on both internal and external changes.

Since 2005, the Bank has been using a provisioning policy that complies with International Financial Reporting Standards. Portfolio provisions are determined for portfolios of receivables where no individual impairment has been identified. The level of portfolio provisions is established using models based on the Bank’s historical experience. The risk parameters PD and LGD form a significant component of these models. Receivables where impairment has been identified are provided for individually. Impairment of non-retail receivables and retail receivables with a value exceeding CZK 5 million is measured using the discounted expected cash flow method. The degree of impairment of other retail receivables is determined statistically on the basis of experience with default and potential recovery of a similar type of receivables and the Bank again uses the derived risk parameters. Provisions against all receivables are reassessed on a monthly basis.

The Bank manages the loan portfolio concentration risk through a system of large exposure limits. Large exposure limits are established as the maximum exposure that the Bank may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Bank strives to protect its revenues and capital from risk concentration. Risk concentration is measured as the capital required for the given portfolio. The credit VaR technique is based on the simulation of a potential development of debtors using the Monte Carlo method which draws upon the Bank’s internal experience with debtor failures and the related correlations. The function of a loss affecting the impairment of a portfolio for the relevant scenario is based upon regulatory rules for the measurement and calculation of provisions against receivables in default.

With regard to the calculation of risk weighted assets and capital requirement, the functionalities of the implemented calculation tool were further expanded in 2006. Since mid-2006 the Bank has been generating full-fledged results which are updated on a monthly basis.

MARKET RISKS

Market risks undertaken by the Bank principally relate to transactions in financial markets which are traded in both the trading and banking books, and interest rate risk associated with assets and liabilities in the banking book.

Trading book transactions in the capital, money and derivative markets can be segmented as follows:
- Client quotations and client transactions, execution of client orders;
- Interbank market quotations;
- Active trading in the interbank market; and
- Distribution of financial market products to small clients.

Derivative transactions are also entered into to hedge against interest rate risk inherent in the banking book and to refinance the gap between foreign currency assets and liabilities.

Market risk inherent in the trading and banking books is monitored and measured by the Central Risk Management Department, which is independent and separate from the Financial Markets Division, to avoid a conflict of interest and to ensure that the reports on the risks taken by the Bank are correct and free from bias.

The Central Risk Management Department ensures an independent valuation of all financial market transactions for both the Group and client portfolios administered by the Group. Central Risk Management is also responsible for managing operational risks involved in trading on financial markets and managing market risks. It gives significant attention to control activities and reconciliations to ensure that complete and accurate records of instruments held in the Bank's portfolios are available.

All limits for market risks inherent in the trading book are proposed by the Central Risk Management Department and business departments, and approved by the Financial Markets and Risk Management Committee. The set of market limits needs to comply with the maximum risk exposure (measured via the VaR method) as approved by the Bank's Board of Directors and also need to be confirmed by the parent company, Erste Bank. The VaR method is used to quantify aggregate risk with respect to the banking book as well as the Bank's subsidiaries, following specific procedures modelling the behaviour of assets and liabilities in those portfolios.

In order to measure the interest rate risk exposure in respect of financial market transactions, the Bank uses the 'PVBP gap' defined as a matrix of interest rate sensitivity factors by currency for the individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product trading portfolio by currency. The limits are compared to the value that represents the greater of the sum of the positive PVBP values or the sum of the negative PVBP values in absolute terms for each period to maturity. By adopting this approach, the Bank manages not only the risk attached to a parallel shift of the yield curve, but also any possible 'flip' of the yield curve. A limit for the simple sum of PVBP values is set for major currencies such as CZK, EUR, USD. In addition, the Bank monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

The sensitivities of foreign currency derivative contracts to foreign exchange rate movements are measured in the form of delta equivalents and are reflected in the Bank's foreign currency position. The Bank monitors special limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract value sensitivity to exchange rate volatility in the form of the vega equivalent. In addition, the Bank monitors the sensitivity of the value to the period to maturity (theta) as well as interest rate sensitivity (rho) which is measured, together with other interest rate instruments, in the form of PVBP.

The equity risk of the trading book is monitored using the delta sensitivities of portfolio market values to equity price movements both by equity issue and in aggregate for each of the markets and the entire portfolio.

The commodity risk of the trading book is monitored using the delta sensitivities of portfolio market values to commodity price movements for individual commodities.

The Central Risk Management Department uses other sophisticated procedures to assess the value and risks inherent in structured products, including credit investment instruments, whose explicit valuation is not feasible. Monte

Carlo is the most frequent method used to simulate the probability distribution for the price and prospective development of complex transactions, including price sensitivities, to changes in market factors. In this respect, the Bank cooperates closely with the parent company, Erste Bank.

In order to measure market risk inherent in the trading and banking books on an aggregate basis, the Bank uses the Value at Risk concept. Value at Risk is calculated with a confidence level of 99 percent over the holding period of one trading day. The calculation is performed using the KvaR+ system and historical simulations based on historical data over the most recent 500 trading days. VaR limits are established for individual trading desks/portfolios. The VaR method is complemented with ‘back testing' which is designed to review the model for correctness. Back testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading date. Back testing results have, to date, confirmed the correctness of the setting of the VaR calculation model.

Following an approval by the Czech National Bank (ČNB), the Value at Risk concept is also used to calculate the capital requirement in respect of foreign currency risk, general interest rate risk, general and specific equity risk and risk associated with trading book option contracts. The review and approval of the model by the Czech National Bank and Internal Audit involved examining both the quantitative requirements and qualitative aspects of risk management. The Bank has been using its internal model to calculate the capital requirement in respect of market risks, as the only bank to do so in the Czech Republic, since 31 December 2003. Value at Risk calculations are also applied in assessing the risks inherent in the asset portfolios of the Bank's subsidiaries (for Penzijní fond ČS and Pojišťovna ČS) and in assessing market risks in the banking book of Stavební spořitelna ČS using special models for the mapping of the Bank's balance sheet.

The Bank's trading book undergoes regular monthly stress testing. The following scenarios are applied:

- Scenarios derived from 10-15 year historical data using maximum positive and negative changes (one-day and ten-day) for interest rates, equity prices, exchange rates and volatilities separately;
- Value at Risk with a confidence level of 99.8 percent (the worst historical scenario over the series of the most recent 500 scenarios); and
- Stress scenarios on the basis of monthly forecasts by the Economic Analysis Department.

Stress scenario results are compared with the Bank's capital allocated pursuant to the standard CNB methodology and the new internal model for calculating capital requirements from market risks.

In addition to sensitivity and VaR limits, the Bank has established and monitors, on a daily basis, stop-loss limits for individual trading desks. The monthly stop-loss limit is compared to the current monthly result of the relevant trading desk; the annual stop-loss limit is compared to the difference between the best result (realised and unrealised profit) in the relevant year and the current result of the trading desk.

The Risk Management Department also monitors market conformity of transactions entered into on financial markets with the objective of detecting market manipulations and preventing operational risks.

Guidance on sensitivity, VaR and stop-loss limits together with the method of determination of the limit and measures to be taken if the limit is transgressed, is given in the Bank's internal regulation, the Risk Management Manual, which forms part of the Risk Management Strategy in terms of the CNB Regulation 2/2004 on Internal Management and Control System at Banks.

INTEREST RATE RISK

The Bank manages interest rate risk inherent in the banking book by using the following techniques: simulation of net interest income, simulation of sensitivity of net interest income to changes in market interest rates (parallel/non-parallel discreet shift in market yield curves, stochastic simulation of the yield curve), simulation of changes in the theoretical market value of the banking book when a market yield curve shifts by +100/+200/-200 basis points (including key rate duration), duration, and gap analyses.

The most recent interest rate risk exposure undertaken by the Bank is assessed on a monthly basis by the Assets and Liabilities Management Committee within the context of the overall developments in financial markets, the Czech banking sector, and structural changes in the Bank's balance sheet.

The key parameter monitored in respect of the Bank's interest rate sensitivity involves the relative change in the Bank's projected net interest income should the market interest rates immediately show a parallel decrease/increase of +100/-100 basis points over the horizon of the following 36 months on the assumption of a stable balance sheet structure (ie, the product structure of assets and liabilities). At the end of 2006, the sensitivity of the Bank's net interest income from the banking book to a parallel increase in market interest rates of 100 basis points was 3.2 percent (in other words, if the market interest rate levels increased by 100 basis points, Česká spořitelna's net interest income over a period of three years would increase by 3.2 percent. If market interest rate levels decreased by 100 basis points, the sensitivity of net interest income was (4.2) percent. The sensitivity's asymmetry has been attributable to the low absolute level of market interest rates: should market interest rates fall further, the Bank is unable to decrease the client deposit interest rates any further (negative deposit interest rates cannot be applied).

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial commitments when they fall due, or in raising funds to finance its assets. The Bank's liquidity position is monitored and managed based on expected cash inflows and outflows and by adjusting the structure of liabilities accordingly.

In terms of liquidity management, the key trend for the year ended 31 December 2006 involved the continued growth of the volume of medium-term and long-term assets, particularly client loans (year-on-year increase of 14 percent – mainly mortgage loans and retail loans grew) and bonds held in the held-to-maturity portfolio (19 percent). On the liabilities side, the volume of client deposits rose by approximately 11 percent year-on-year. Both trends resulted in the declining current liquidity ratio (see the following table) throughout 2006. The internal limit set for the current liquidity ratio was met throughout 2006.

Current Liquidity Ratio in 2005 and 2006

	31 March	30 June	30 September	31 December
2005	21.94%	17.61%	19.73%	14.86%
2006	14.21%	15.93%	14.10%	12.17%

The current liquidity ratio is defined as the proportion of highly liquid assets and highly liquid liabilities. For illustrative purposes, the highly liquid assets as of 31 December 2006 amounted to CZK 55 billion, the denominator used in calculating current liquidity included CZK 469 billion in liabilities.

During 2006, the medium-term liquidity was strengthened by the issues of mortgage bonds (year-on-year increase of 26 percent) and the issue of subordinated debt (98 percent).

OPERATIONAL RISKS

In accordance with the Regulation of the Czech National Bank giving guidance on internal control and management systems of banks, the Bank defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human error, or system failure, or the risk of loss resulting from external events. The Bank's management is informed of developments in, and levels of, operational risks at regular intervals.

Česká spořitelna uses a 'Risk Book', developed by the Risk Management functions and Internal Audit, as a tool to unify risk identification for the purposes of the whole Česká spořitelna Financial Group and to standardise risk categorisation, the aim being to achieve consistency in risk monitoring and assessment.

In the context of implementing the new capital adequacy concept under Basel II, Česká spořitelna is preparing for the implementation of the most advanced technique for calculating the capital requirement from operational risks including qualitative requirements applicable to the management of such risk. The Bank has continued in developing a software application that is used not only to collect data on operational risk with a view to quantifying operational risks and calculating the capital requirement but it also serves as a database of valuable information for managing risk, preventing recurrences of operational risks, and streamlining the processes for harmful event record-keeping including insurance claims and payment. Information about operational risk incidents in the Česká spořitelna Financial Group is assessed at regular monthly intervals in terms of the frequency and level of financial losses for individual departments, products and types of operational risks. With regard to any negative trends, specialist groups are called to deal with the incidents and outline adequate measures to mitigate the impacts of operational risks. The collection and assessment of data regarding improper dealings on the part of the Bank's clients is of specific importance to prevention.

Česká spořitelna does not rely only on the data obtained from real operational risk events in assessing and managing operational risks. Another valuable source is the expert views of the management regarding risks in their areas of concern. The internal risk assessments are collected and expert risk scenarios are evaluated twice a year.

A tool of importance in mitigating losses arising from operational risks is the Bank's insurance programme which was put in place in 2002. This programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 1 March 2004, the Bank has joined the Erste Bank Group joint insurance programme which substantially expanded the Bank's insurance protection specifically with regard to damage that may materially impact its profit or loss.

Česká spořitelna is perceived as the leading Czech bank in the monitoring and management of operational risks. Drawing upon its experience in the management of operational risks, Česká spořitelna is actively involved in a joint project of the Czech National Bank, the Czech Banking Association, and the Czech Chamber of Auditors on the implementation of new regulatory rules ensuing from Basel II in respect of operational risks.

CAPITAL ADEQUACY

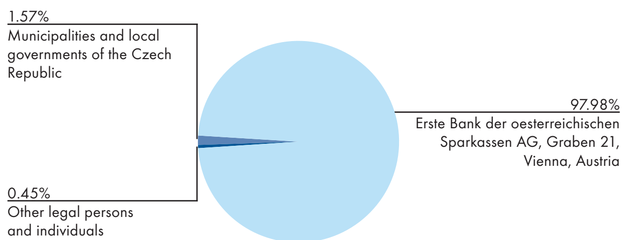
Česká spořitelna's capital adequacy exceeded 8 percent as required by the Czech National Bank in 2006. The increasing volume of client loans necessitated the strengthening of regulatory capital of the Bank through the issuance of subordinated debt. The Bank issued subordinated debt at an aggregate nominal value of CZK 3 billion in 2005. In 2006, the Bank issued additional subordinated debt at an aggregate nominal value of CZK 3 billion. The debt issued in 2006 will mature in ten years but the Bank has an option for premature repayment of the debt after the elapse of five years. On a year-on-year basis, capital adequacy increased from 8.70 percent at the 2005 year-end to 9.24 percent at the same date a year later (unconsolidated figures under Czech National Bank rules). The increasing capital adequacy requirements arising from increased client lending were additionally offset by the inclusion of retained earnings brought forward from 2005 in regulatory capital (CZK 5.2 billion).

CZK milion*	2006	2005	2004	2003	2002
Capital adequacy	9.26%	8.70%	8.97%	10.30%	12.85%
Tier 1	32,331	27,260	24,301	21,910	22,583
Tier 2 and Tier 3	5,886	2,998	1,047	1,258	7,693
Sum of deductible items	6,721	6,413	6,301	5,032	5,350
Total capital	35,956	28,176	23,297	22,115	24,926
Capital requirement A	28,952	24,489	19,055	15,664	14,035
Capital requirement B	2,121	1,426	1,713	1,506	1,481
Risk weighted assets	361,903	306,107	238,193	195,796	175,432

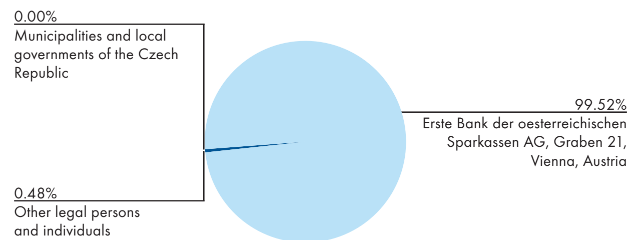
*Figures reported under Czech National Bank rules.

Other information for Shareholders

Structure of Shareholders of Česká spořitelna as of 31 December 2006 Ownership percentage



Structure of Shareholders of Česká spořitelna as of 31 December 2006 Share of voting power



The members of Česká spořitelna's Board of Directors and Supervisory Board held no shares in Česká spořitelna as of 31 December 2006.

Erste Bank der oesterreichischen Sparkassen AG is the controlling entity of Česká spořitelna, a. s. The measures to prevent the controlling entity from misusing its control are governed by the Commercial Code. The measures primarily include the following: a restriction on misusing the majority of votes in a company (Section 56(a)(1) of the Commercial Code); a restriction on abusing a controlling entity's influence through enforcing an approval of actions or conclusion of contracts that could cause damage to a controlled entity's property unless the damage is compensated at the latest by the end of the accounting period in which the damage was suffered, or a contract is signed stipulating a reasonable period and a method relating to the compensation to be paid by a controlling entity (Section 66(a)(8) of the Commercial Code); an obligation to prepare a Report on Related Party Transactions in compliance with Section 66(a)(9) and the following of the Commercial Code (refer to page 223 of the Annual Report); the obligation of a controlling entity to pay damages to a controlled entity in compliance with Section 66(a)(14) of the Commercial Code; and guarantees provided by members of statutory bodies of the controlling and controlled entities in compliance with Section 66(a)(15) of the Commercial Code.

INFORMATION ON THE ACQUISITION OF TREASURY SHARES AND SHARES OF ERSTE BANK

During the year ended 31 December 2006, Česká spořitelna did not hold or trade any treasury shares, and acted as the market maker in respect of the shares of its controlling entity, Erste Bank, on the Prague Stock Exchange. For this purpose, Česká spořitelna acquired, under normal market conditions, 4,492 thousand shares with an aggregate purchase price value of CZK 6,154 million and sold 4,542 thousand shares with an aggregate selling price value of CZK 6,224 million. The lowest and the highest purchase prices per share in 2006 were CZK 1,110 and CZK 1,631, respectively. At the start of 2006, Česká spořitelna held 50,000 shares; at the end of 2006, it held -567 shares, which represents a 0 percent share of Erste Bank's issued share capital. The average nominal value of one share of Erste Bank was EUR 2 at the end of 2006.

INFORMATION ON SECURITIES ISSUED

Shares of Česká spořitelna, a. s.

- **Class:** Ordinary and priority shares
- **Type:** 140,788,787 ordinary bearer shares, 11,211,213 priority registered shares
- **Form:** Book-entry
- **Number of shares:** 152,000,000
- **Total issue volume:** CZK 15.2 billion
- **Nominal value per shares:** CZK 100
- **Marketability of shares:** Shares are not traded on any public markets.

Mortgage Bonds Issuance Programme of Česká spořitelna, a. s.

- **Maximum volume of outstanding mortgage bonds:** CZK 10 billion
- **Term of the programme:** 15 years
- **Maximum maturity of any bonds issued under the Bond Programme:** 10 years

Under the Bond Programme, the Bank has issued mortgage bonds as follows:

5.80 percent mortgage bonds due in 2007

- **ISIN:** CZ0002000201
- **Issue date; type and form:** 8 November 2002; bearer; book-entry
- **Total issue volume:** CZK 3 billion
- **Nominal value; number of bonds:** CZK 100,000; 30,000
- **Coupons:** Fixed 5.80 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 8 November 2007

5.20 percent mortgage bonds due in 2008

- **ISIN:** CZ0002000235
- **Issue date; type and form:** 6 March 2003; bearer; book-entry
- **Total issue volume:** CZK 3 billion
- **Nominal value; number of bonds:** CZK 10,000; 300,000
- **Coupons:** Fixed 5.20 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 6 March 2008

4.50 percent mortgage bonds due in 2008

- **ISIN:** CZ0002000276
- **Issue date; type and form:** 21 August 2003; bearer; book-entry
- **Total issue volume:** CZK 3 billion
- **Nominal value; number of bonds:** CZK 10,000; 300,000
- **Coupons:** Fixed 4.50 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 21 August 2008

3.50 percent mortgage bonds due in 2009

- **ISIN:** CZ0002000342
- **Issue date; type and form:** 26 April 2004; bearer; certificate (mortgage bonds represented by a collective bond)
- **Total issue volume:** Up to CZK 1 billion
- **Volume issued until 31 December 2006:** CZK 300 million
- **Nominal value; number of bonds:** CZK 10,000; up to 100,000
- **Number of bonds issued at 31 December 2006:** 30,000
- **Issue period:** Until 30 April 2004
- **Coupons:** Fixed 3.50 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** ---
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 26 April 2009

3.60 percent mortgage bonds due in 2009

- **ISIN:** CZ0002000409
- **Issue date; type and form:** 23 August 2004; bearer; certificate (mortgage bonds represented by a collective bond)
- **Total issue volume:** CZK 700 million
- Nominal value; number of bonds: CZK 10,000; 70,000
- **Coupons:** Fixed 3.50 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** ---
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 23 August 2009

Stand-Alone Mortgage Bond Issues

4.50 percent mortgage bonds due in 2010

- **ISIN:** CZ0002000524
- **Issue date; type and form:** 5 May 2005; bearer; book-entry
- **Total issue volume:** CZK 2 billion
- **Nominal value; number of bonds:** CZK 1 million; 2,000
- **Coupons:** Fixed 4.50 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 5 May 2010

4.05 percent mortgage bonds due in 2010

- **ISIN:** CZ0002000573
- **Issue date; type and form:** 30 June 2005; bearer; book-entry

- **Total issue volume:** CZK 2 billion
- **Nominal value; number of bonds:** CZK 1 million; 2,000
- **Coupons:** Fixed 4.05 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 30 June 2010

4.75 percent mortgage bonds due in 2015

- **ISIN:** CZ0002000623
- **Issue date; type and form:** 7 October 2005; bearer; book-entry
- **Total issue volume:** CZK 5 billion
- **Nominal value; number of bonds:** CZK 10 million; 500
- **Coupons:** Fixed 4.75 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 7 October 2015

4.45 percent mortgage bonds due in 2008

- **ISIN:** CZ0002000771
- **Issue date; type and form:** 22 December 2005; bearer; book-entry
- **Total issue volume:** Up to CZK 5 billion[1]
- **Nominal value; number of bonds:** CZK 1 million; 5,000[1]
- **Coupons:** Fixed 4.45 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 22 December 2008

1) As of 31 December 2006, the Bank issued 2,560 mortgage bonds with a nominal value of CZK 2,560,000,000. The remaining mortgage bonds may be issued within 18 months after the issue date, that is, within the additional issue period.

4.80 percent mortgage bonds due in 2016

- **ISIN:** CZ0002000755
- **Issue date; type and form:** 24 February 2006; bearer; book-entry
- **Total issue volume:** Up to CZK 5 billion[1]
- **Nominal value; number of bonds:** CZK 1 million; 5,000[1]
- **Coupons:** Fixed 4.80 percent interest rate p. a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Mortgage bonds will be redeemed at their nominal value on 24 February 2016

1) As of 31 December 2006, the Bank issued 4,497 mortgage bonds with a nominal value of CZK 4,497,000,000. The remaining mortgage bonds may be issued within 5 years after the issue date, that is, within the additional issue period.

Bonds Issuance Programme of Česká spořitelna, a. s.

- **Maximum volume of outstanding bonds:** CZK 10 billion
- **Term of the programme:** 10 years
- **Maximum maturity of any bonds issued under the Bond Programme:** 10 years

Under the Bond Programme, the Bank has issued bonds as follows:

Bonds with fixed 1.00 percent interest income p. a. and an option to participate in the positive development of the DJ EUROSTOXX 50 share index

- **ISIN:** CZ0003700759
- **Issue date; type and form:** 2 February 2004; bearer; book-entry
- **Total issue volume:** Up to CZK 500 million
- **Volume issued until 31 December 2006:** CZK 400 million
- **Nominal value; number of bonds:** CZK 10,000; up to 50,000
- **Number of bonds issued at 31 December 2006:** 40,000
- **Issue period:** 6 weeks from the issue date
- **Coupons:** Fixed 1.00 percent interest rate p.a. paid annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bonds will be redeemed at their nominal value on 2 February 2008; at maturity, a bond holder is entitled to a bonus derived from the movement of the DJ EUROSTOXX 50 share index in accordance with the terms and conditions of the issue.

Bonds with floating interest income

- **ISIN:** CZ0003700767

- **Issue date; type and form:** 16 February 2004; bearer; book-entry
- **Total issue volume:** CZK 1.5 billion
- **Nominal value; number of bonds:** CZK 10 million; 150
- **Coupons:** Floating interest rate paid semi-annually in arrears
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bond maturity is optional and at the issuer's discretion, the bonds may be redeemed at their full nominal value on 16 February and 16 August starting from 16 February 2005; the final maturity date is 16 February 2014.

Premium bonds (with an option to participate in the positive development of the DJ EUROSTOXX 50 share index) due in 2008

- **ISIN:** CZ0003701013
- **Issue date; type and form:** 30 May 2005; bearer; certificate (bonds represented by a collective bond)
- **Total issue volume:** CZK 250 million
- **Nominal value; number of bonds:** CZK 10,000; 25,000
- **Coupons/yield:** The yield is derived from the movement of the DJ EUROSTOXX 50 share index in accordance with the terms and conditions of the issue.
- **Mortgage bonds traded on:** ---
- **Bond maturity:** Bonds will be redeemed at their nominal value on 30 June 2008

Bonds with optional maturity of 2009/2012

- **ISIN:** CZ0003701047
- **Issue date; type and form:** 14 July 2005; bearer; book-entry
- **Total issue volume:** CZK 1 billion
- **Nominal value; number of bonds:** CZK 1 million; 1,000
- **Premature redemption:** At the issuer's discretion, bonds can be prematurely redeemed at their nominal value on 14 July 2009.
- **Coupons/yield:** Bonds bear a fixed interest rate of varying amount: (i) 2.72 percent p.a. for the period from the issue date to 14 July 2009 (included); and (ii) 3.55 percent p.a. from 14 July 2009 (excluded) to the date of the final maturity of bonds, unless they are prematurely redeemed by the issuer. The interest rate is payable annually in arrears.
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bond maturity is optional and at the issuer's discretion, the bonds may be redeemed at their full nominal value on 14 July 2009; the final maturity date of the bonds is 14 July 2012 at their nominal value.

Bond with the yield derived from the stock basket due in 2013

- **ISIN:** CZ0003701062
- **Issue date; type and form:** 17 October 2005; bearer; book-entry
- **Total issue volume:** CZK 300 million
- **Nominal value; number of bonds:** CZK 1 million; 300
- **Coupons/yield:** Bond yield consists of (i) basic interest income and (ii) income derived from the stock basket in accordance with the terms and conditions of the issue.
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bonds will be redeemed at their nominal value on 17 October 2013

Stand-Alone Bond Issues and Issues of Subordinated Bonds

Bonds with a combined yield due in 2017

- **ISIN:** CZ0003701054
- **Issue date; type and form:** 15 September 2005; bearer; book-entry
- **Total issue volume:** CZK 300 million
- **Nominal value; number of bonds:** CZK 1 million; 300
- **Coupons/yield:** Bond yield consists of (i) a yield derived on the basis of a discount, (ii) basic interest income, (iii) additional interest income and (iv) yield derived from the stock basket in accordance with the terms and conditions of the issue.
- **Mortgage bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bonds will be redeemed at their nominal value on 15 September 2017

Subordinated bonds with a floating interest income due in 2015

- **ISIN:** CZ0003701005
- **Issue date; type and form:** 16 May 2005; bearer; book-entry

- **Total issue volume:** CZK 3 billion
- **Nominal value; number of bonds:** CZK 1 million; 3,000
- **Issuer's right to premature redemption (purchase option)[1]:** The issuer has a right to prematurely redeem the bonds as of 16 May 2010 at their nominal value
- **Coupons/yield:** Bonds bear a floating interest rate determined as the sum of the reference rate (6M PRIBOR) and a 0.46 percent margin p.a. (the "Margin")
- **Interest rate step-up[2]:** If the bonds are not redeemed prematurely by the issuer as of 16 May 2010, the interest rate valid for the period starting from that date to the date of final maturity of bonds will be determined as the sum (i) of the reference rate (6M PRIBOR) in accordance with issue terms and conditions and (ii) margin equal to the Margin +1.40 percent p.a. paid semi-annually in arrears
- **Bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** At the issuer's discretion, the bonds may be redeemed at their full nominal value on 16 May 2010, the final maturity date of the bonds is 16 May 2015 at their nominal value.

1) Under Section 12 (2) (b) (4) of Regulation of the Czech National Bank No. 333/2002 Coll., stipulating prudential undertaking rules for controlling entities on a consolidated basis.

2) Under Section 12 (4) of Regulation of the Czech National Bank No. 333/2002 Coll., stipulating prudential undertaking rules for controlling entities on a consolidated basis.

Bonds Offering Programme of Česká spořitelna, a. s. as Part of the Bonds Issuance Programme

- **Maximum volume of outstanding bonds:** CZK 75 billion
- **Term of the programme:** 10 years
- **Maximum maturity of any bonds issued under the Bond Programme:** 30 years

Under the Offering Programme, the Bank has issued bonds as follows:

Subordinated bonds with a floating interest income due in 2016

- **ISIN:** CZ0003701187
- **Issue date; type and form:** 2 October 2006; bearer; book-entry
- **Total issue volume:** CZK 3 billlion
- **Nominal value; number of bonds:** CZK 1 million; 3,000
- **Issuer's right to premature redemption (purchase option)[1]:** The issuer has a right to prematurely redeem the bonds as of 2 October 2011 at their nominal value
- **Coupons/Yield:** Bonds bear a floating interest rate determined as the sum of the reference rate (6M PRIBOR) and a 0.45 percent margin p. a. (the "Margin")
- **Interest rate step-up[2]:** If the bonds are not redeemed prematurely by the issuer as of 2 October 2011, the interest rate valid for the period starting from that date to the date of final maturity of bonds will be determined as the sum (i) of the reference rate (6M PRIBOR) in accordance with issue terms and conditions and (ii) margin equal to the Margin +1.40 percent p. a. paid semi-annually in arrears
- **Bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** At the issuer's discretion, the bonds may be redeemed at their full nominal value on 2 October 2011, the final maturity date is 2 October 2016 at their nominal value

1) Under Section 12 (2) (b) (4) of Regulation of the Czech National Bank No. 333/2002 Coll., stipulating prudential undertaking rules for controlling entities on a consolidated basis.

2) Under Section 12 (4) of Regulation of the Czech National Bank No. 333/2002 Coll., stipulating prudential undertaking rules for controlling entities on a consolidated basis.

Mortgage bonds (variable interest rate) due in 2011

- **ISIN:** CZ0002000896
- **Issue date; type and form:** 4 October 2006; bearer; book-entry
- **Total issue volume:** Up to CZK 1.1 billion
- **Nominal value; number of bonds:** CZK 10 million; 110
- **Issue period:** 4 February 2008
- **Coupons:** Bonds bear a floating interest rate determined as the sum of 6M PRIBOR and the Margin where the Margin is 1.5 percent p. a. paid semi-annually in arrears
- **Bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bonds will be redeemed at their nominal value on 4 October 2011

3.65 percent mortgage bonds due in 2014

- **ISIN:** CZ0002000904
- **Issue date; type and form:** 19 October 2006; bearer; book-entry
- **Total issue volume:** CZK 1.05 billion
- **Nominal value; number of bonds:** CZK 10 million; 105

- **Issue period:** 19 February 2008
- **Coupons:** Fixed 3.65 percent interest rate p. a. paid annually in arrears
- **Bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bonds will be redeemed at their nominal value on 19 October 2014

3.00 percent mortgage bonds due in 2011
- **ISIN:** CZ0002000920
- **Issue date; type and form:** 20 October 2006; bearer; certificate (bonds represented by a collective bond)
- **Total issue volume:** CZK 800 million
- **Nominal value; number of bonds:** CZK 10,000; 80,000
- **Coupons:** Fixed 3.00 percent interest rate p.a. paid annually in arrears
- **Bonds traded on:** Prague Stock Exchange, official free market
- **Bond maturity:** Bonds will be redeemed at their nominal value on 20 October 2011

FEES PAID TO DELOITTE AUDIT FOR THE YEAR ENDED 31 DECEMBER 2006

CZK mil.	Audit services	Tax services	Other	Total
Česká spořitelna	23	1	4	28
Consolidated group	17	0	0	17

REMUNERATION OF EXECUTIVE MANAGERS AND MEMBERS OF THE SUPERVISORY BOARD

Executive Managers of the Issuer
The executive managers of Česká spořitelna, a.s. include the Chairman of the Board of Directors, acting simultaneously as the CEO, and members of the Board of Directors, acting simultaneously as Deputy CEOs.

Pursuant to the law, the Board of Directors is a statutory body which manages the operations of the company and acts on its behalf. Members of the Board of Directors of Česká spořitelna exercise their powers with due professional care, in good faith, with due care and diligence and in the best interests of the company and its shareholders. They are experts in managing large corporations and have international experience and the ability to work as a team. Their position calls for ongoing perfection of their industry knowledge and corporate governance skills, proactive approach to the discharging of their duties, the ability to participate in developing corporate strategy and, last but not least, loyalty to the company. Members of the Board of Directors observe high ethical standards and are responsible for ensuring that the company complies with the applicable laws. They are also personally liable for damage arising from the breach of legal obligations, and are responsible in their capacity as Board members to the company as represented by shareholders.

Members of the Board of Directors are remunerated based on the "Contract for the Performance of Duties of a Member of the Board of Directors" concluded in accordance with the applicable provisions of Commercial Code 513/1991 Coll. This Contract was approved by the General Meeting of the company's shareholders. The amount of Board members' remuneration is subject to approval of the General Meeting.

The remuneration of the CEO and Deputy CEOs is paid in the form of a salary for performed work. In accordance with the company's Articles of Association, the amount of salary is approved by the Supervisory Board and is based, among others, on qualified benchmarking analyses of remuneration in the financial sector.

In addition, the CEO and Deputy CEOs are remunerated with regard to their performance evaluation undertaken based on the fulfilment of defined performance criteria. These criteria reflect the overall financial objectives of the Česká spořitelna and Erste Bank Financial Groups (financial indicators such as ROE). Performance criteria are set for each calendar year and are approved and subsequently assessed by the Supervisory Board.

Based on their management and professional expertise, experience and contribution to the company, the Board members received the following remuneration arising from the position of the CEO and Deputy CEO: monetary income in an aggregate amount of CZK 49.8 million, bonuses in an aggregate amount of CZK 62.1 million, income in kind in an aggregate amount of CZK 2 million, and 2,560 shares of Erste Bank and remuneration including income in kind in an aggregate amount of CZK 0.8 million. These amounts were paid out in connection with meeting financial, qualitative, development and effectiveness criteria. In 2006, the Board members subscribed for 14,000 shares of Erste Bank under the Employee Erste Bank Stock Ownership Programme, and received 9,500 options under the Management Erste Bank Stock Option Programme.

Members of the Board of Directors or persons closely related to them do not own shares or share purchase options of Česká spořitelna. Since August 2002, the shares of Česká spořitelna have not been publicly tradable.

Supervisory Board

The Supervisory Board is the company's control body, supervising the exercise of powers of the Board of Directors and the performance of business activities of the company. The Supervisory Board checks, in particular, whether the Board of Directors performs its duties in compliance with legislation and Articles of Association of the company and whether the members of the Board of Directors act in the interests of the company with due professional care. Members of the Supervisory Board perform their duties with professional care. Members on the Supervisory Board are required to have professional skills, be loyal to the company and maintain the confidentiality of confidential information and matters. Supervisory Board members are liable for damage arising from the breach of legal obligations, and are responsible in their capacity as members of the Supervisory Board to the company as represented by shareholders.

Members of the Supervisory Board are remunerated in accordance with the applicable provisions of Commercial Code 513/1991 Coll. The amount of remuneration of Supervisory Board members is subject to approval of the General Meeting of shareholders.

Members of the Supervisory Board or persons closely related to them do not own shares or share purchase options of Česká spořitelna. Since August 2002, the shares of Česká spořitelna have not been publicly tradable.

Members of the Supervisory Board are entitled to remuneration, including payments in kind, of CZK 4 million for their work in the Supervisory Board of Česká spořitelna during 2006.

AFFIDAVIT

The person's signing below do hereby declare that, with all reasonable care, the information stated in the Annual Report of Česká spořitelna, a.s. for the year ended 31 December 2006 reflects the true state of affairs and that no material circumstances that may impact the accurate and correct assessment of Česká spořitelna, a.s. have been omitted.

Dušan Baran Vice Chairman of the Board and First Deputy CEO	Jiří Škorvaga Member of the Board and Deputy CEO

Česká spořitelna's Declaration

Regarding the Compliance of its Governance with the Corporate Governance Code Based on OECD Principles

In compliance with Česká spořitelna, a. s.'s (henceforth the "Company") statement in its 2005 Annual Report, the members of the Company's Board of Directors continuously make every effort to generally improve the Company's corporate governance standards and ensure, to the extent set out hereunder, compliance with the Corporate Governance Code based on OECD principles (2005). The Company continues to develop and enhance the Company's governance practices at all times. No major changes adversely affecting the Company's corporate governance standards were effected in 2006. The principles of the Company's governance are indicated below.

A. ORGANISATION OF THE COMPANY

As of 31 December 2006, **the Company's Board of Directors** seated seven members. In accordance with the Banking Act, all members of the Board of Directors are also executive members. All members of the Board of Directors possess personal and professional qualifications as required to be a member of the Board of Directors.

John James Stack, Chairman of the Board of Directors and CEO of the Company, has over 28 years of banking experience. Mr Stack is an experienced banker and manager. Dušan Baran, Vice-chairman of the Board of Directors and First Deputy CEO, has long-standing experience in the financial sphere. In addition, the Board of Directors comprises the following members, all serving as Deputy CEOs:

Daniel Heler, who has worked in banking since 1983 and is hence a distinguished expert in financial markets in particular; **Heinz Knotzer,** who has wide ranging banking experience both in the Czech Republic and Austria where his professional career started; at the year end, **Martin Škopek** was replaced by **Jiří Škorvaga,** who has numerous years of experience in business management and retail banking and was previously a Senior Management Team member; **Petr Hlaváček,** who is an experienced banker whose professional career includes a Czech as well as Canadian banking background; and **Pavel Kysilka,** who is a recognised economist with deep insight into the private and public sector. Detailed biographical data of the members of the Board of Directors proving their capabilities, professional skills and experience is published in the Annual Report on page 6–9.

The Company's Board of Directors is a statutory body of the Company which manages and acts on the Company's behalf while being responsible for its long-term strategic direction and operational management. Its range of powers and duties is defined under the Company's Statutes and internal rules as well as the legal regulations of the Czech Republic. The Board of Directors exercises its powers and duties with due care and diligence; in discharging its activities, it is accountable to the extent set out by the legal regulations of the Czech Republic. All members of the Board of Directors are internationally experienced professionals who are skilled in managing large corporations and have the ability to work in a team. The members of the Board of Directors comply with legal rules and ethical standards.

Pursuant to the Company's Statutes, the Board of Directors must obtain prior opinion or approval from the Supervisory Board for a number of acts; in cases determined in a resolution adopted by the Supervisory Board, the Board of Directors must solicit the prior opinion of a committee established by the Supervisory Board. The Board of Directors regularly presents reports on the Company's activities to the Supervisory Board and its committees. In compliance with the Banking Act, the Board of Directors is responsible for the establishment, maintenance and evaluation of an efficient and effective internal management and control system of the Company.

The Board of Directors meets on a regular basis no less than twice a month in compliance with the Company's Statutes. However, regular weekly sessions have become common practice. Last year, the Board of Directors held, altogether, 38 meetings.

The Senior Management Team is an advisory body of the Board of Directors which decides on crucial strategic and business matters of the Company's top management. It comprises the members of the Board of Directors, the CEO, the First Deputy CEO, the Deputy CEOs, and employees appointed by the Board of Directors who, in 2006, were: Frank Michael Beitz, Credit Risk Management Section Director; Pavel Cetkovský and Jozef Síkela held this position until November 2006 when they moved abroad within the Erste Bank Group; and Jiří Škorvaga, Sales Management Section Director, who was appointed a member of the Board of Directors. The Senior

Management Team discusses various matters put forward for discussion to the Board of Directors as well as other matters which the members of the Board of Directors propose for discussion.

The Supervisory Board of the Company comprises twelve members. Seven members represent the principal shareholder which is Erste Bank der österreichischen Sparkassen AG; they are: **Andreas Treichl,** Chairman of the Supervisory Board; **Reinhard Ortner,** Vice-Chairman of the Supervisory Board; **Christian Coreth; Maximillian Hardegg; Herbert Juranek; Bernhard Spalt;** and **Manfred Wimmer.** In compliance with the law, the Supervisory Board includes representatives of the Company's employees; they are: **Monika Houštecká, Jitka Šrotýřová** and **Marek Pospěch**. Jitka Šrotýřová and Marek Pospěch were re-elected by the Company's employees upon the expiration of their term of office. **Monika Laušmanová,** elected by the Company's employees in August 2005, became a new member of the Supervisory Board, replacing Libuše Růžičková whose term of office had elapsed. **Zlata Gröningerová** was the twelfth member of the Supervisory Board and her term of office has expired this year. All members of the Supervisory Board are professionals guaranteeing and ensuring the high-quality functioning of the Supervisory Board; they have the personal and professional qualifications required to hold the position of a Supervisory Board member. A full list of all members of the Supervisory Board, including their professional biographical data, is published in the Annual Report on page 10–13.

The Supervisory Board overseas the execution of the Board of Directors' powers and duties as well as the performance of the Company's business activities. In addition to its duties and powers ensuing from law, the Supervisory Board has, pursuant to the Statutes, the right to give, in advance, its opinion on certain acts having an impact on the Company's assets (including, among other things, the making of construction investments and plans (projects) in acquiring tangible and intangible fixed assets of the Company beyond the designated limit, the transfer of an ownership title to the Company's assets, the Company's equity investments, etc). The Supervisory Board also gives, in advance, its opinion on the strategic concept of the Company's activities and development, planning tools and regular financial balances. Furthermore, the Supervisory Board gives, in advance, its opinion on the appointment and removal of the Internal Audit Section Director and gives its opinion in selecting an external auditor. To support its activities, the Supervisory Board may establish Supervisory Board committees. Last year, the Supervisory Board met four times altogether.

Pursuant to the Statutes, two thirds of the members of the Supervisory Board are elected by the General Meeting, and one third by the Company's employees. The term of office of a member of the Supervisory Board is three years. Members of the Board of Directors are elected and removed by the Supervisory Board. In compliance with the Banking Act, nominees for membership of the Board of Directors are consulted in advance with the Czech National Bank, which assesses the professional qualifications, credibility and experience of the nominees. The term of office of a member of the Board of Directors is four years; members of the Board of Directors may be re-elected.

As noted above, the position of **Chairman of the Board of Directors in the Company is combined with the position of CEO**, and the position of member of the Board of Directors is combined with the position of Deputy CEO. This combination is necessary for a bank because it is directly stated in the Banking Act.

The Company is consistent in **ensuring** that the members of the Board of Directors and the Supervisory Board are **kept up to date** at all times; the Company has a well-administered and well-developed system supporting the performance of corporate governance. The Company's supreme bodies, i.e. the Board of Directors and the Supervisory Board, have adopted binding Rules of Procedure for the bodies. These Rules of Procedure deal in great detail with organisational and process issues related to the activities of the relevant body. The Rules of Procedure of both bodies regulate the technical processes of the convening of meetings and the voting of the bodies, the preparation of meeting minutes, the activities of the body outside of meetings, and the procedures addressing the potential bias of a member of the body. In addition to the members of the Supervisory Board, the members of the Board of Directors take part in the Supervisory Board's meetings. All members of the Board of Directors participate in the meetings of the Board of Directors as well as the members of the Senior Management Team and the authors of presented materials introduced to the members of the Board of Directors. The members of the Board of Directors and the Supervisory Board may solicit a legal opinion on individual, discussed materials from the Company's Legal Services Section, or use the services of independent advisors. The Company's Secretary Office organises, on a regular basis, legal seminars for the members of the Boards of Directors and Supervisory Boards of the Company and other companies within the Česká spořitelna Group, where members of these bodies are introduced to new legislation applicable to the performance of the position of corporate body member.

The Company has had the position of **Secretary** in place for a long time. The Secretary of the bodies of the Company manages administrative and organisational matters for the Board of Directors and the Supervisory Board, including the organisation of General Meetings. The Secretary acquaints new members of administrative bodies with the activities of these bodies and with the Company's process of corporate governance.

The Company's Secretary ensures mutual co-operation among the Company's bodies. The Secretary is appointed by the Company's Board of Directors and reports directly to the CEO and Chairman of the Board of Directors. The Secretary is responsible for due and timely distribution of invitations and materials for the meetings of the Company's Board of Directors and the Supervisory Board. Materials are delivered in person to the members of the Company's Board of Directors and the Supervisory Board at least 5 days ahead of the meeting. The Company has binding regulations in place for the presentation of materials to be discussed at the meetings of the Supervisory Board and the Board of Directors, which stipulate basic rules for the preparation of materials, the presentation thereof, comment procedures prior to the presentation of materials, and conditions for the archiving of materials.

The Secretary takes the minutes of all meetings of the Board of Directors and Supervisory Board both in English and Czech. The Company maintains an electronic database of all minutes from the meetings of its bodies; these are available to authorised persons on the Intranet – the Company's internal Internet portal.

The Company's Secretary is, inter alia, a member of the Czech Institute of Corporate Secretaries (ČITOS) and the Steering Committee thereof. ČITOS's mission is to promote and support the professional development of due practices exercised by the secretaries of administrative bodies.

B. COMPANY'S RELATIONSHIPS WITH SHAREHOLDERS

The Company diligently observes compliance with all the legal rights of shareholders and with the principle of equitable treatment of all shareholders.

The Company's shares are held in book-entry form. A list of all shareholders is maintained by the Securities Centre. In addition to ordinary shares, the Company has also issued **registered priority shares.** The transferability of these shares is restricted to municipalities of the Czech Republic; transfers to other entities are subject to the approval of the Company's Board of Directors. A preference right to receive dividends is attached to priority shares. Decisions regarding share transfers are given by the Board of Directors following detailed information on the assignee.

The Company complies with all duties to inform with respect to its shareholders and other entities to the extent imposed by legal regulations; the Company keeps shareholders updated throughout the year, on a regular basis, through the press and the website of the Company. The website, created mainly for the purposes of shareholders and investors (www.csas.cz link – Investor Relations), provides information on the Company's current operational results to date, the structure of shareholders, planned events, etc. Press releases covering material facts about the Company are issued on a regular basis; the members of the Board of Directors organise regular road shows for investors and shareholders. All material information that the Company publishes on its website is available in both Czech and English.

The Company, in compliance with the law, convenes its **General Meetings** by making an announcement in the press; such notices are published in Hospodářské noviny and Obchodní věstník. The notice always includes basic information for shareholders about the conditions of participation at the General Meeting and the exercising of shareholders' rights. The Company sends notices of the General Meeting, including basic financial indicators, to all shareholders holding registered shares. The publication of notices of the General Meeting on the Company's website goes without saying. Shareholders may acquaint themselves in advance, within the statutory period, with the basic materials (such as financial statements, the Report on Relations or proposed changes to the Statutes) which will form the subject matter of the General Meeting. The Company always organises its General Meetings at venues which are within the reach of all shareholders; the recent practice is that General Meetings are held at the Company's registered office.

Before the General Meeting commences, at registration, shareholders receive all supporting documents for the General Meeting. Such supporting documents always include the Rules of Procedure of the General Meeting to be approved by the General Meeting. If members of the Supervisory Board are being elected, shareholders are provided with detailed biographical data of all nominees proving their professional and personal qualifications required to hold such an office. The bodies of the General Meeting are set up by the Board of Directors in such a way as to ensure that all the bodies are able to perform their functions with due and professional care. In most cases, a notary is present at the Company's General Meetings. In compliance with the Rules of Procedure, shareholders may, in person or by proxy, exercise their shareholder rights, i.e. vote on the proposed items on the agenda, solicit and receive explanations on such items, and put forward proposals and counter-proposals.

The members of the Board of Directors and the Supervisory Board take part in General Meetings (there must be at least as many members as required for a quorum) as well as the members of the committees of the Supervisory Board who answer shareholders' questions. The Company provides enough time for shareholders to raise their questions on agenda items prior to the vote being taken. All shareholders' questions and answers are recorded in the minutes of the General Meeting. Each item on the agenda of the General Meeting is subject to a separate vote taken after the debate is closed on the given item. All shareholders registered in the attendance list and present at the General Meeting when the vote is being taken are entitled to vote except for those shareholders who hold priority shares. A right to vote at General Meetings is not attached to the Company's priority shares. In addition, shares whose holders' voting rights for General Meetings were suspended by a decision of the Czech National Bank are not considered voting shares; the shareholder is informed of such a suspension on his/her registration in the attendance list and the Company indicates this fact in the attendance list, including the reasons for such suspension.

C. DISCLOSURE AND TRANSPARENCY OF INFORMATION

The Company is consistent in preventing the **misuse of insider information** of the Company which might allow persons who have special relations with the bank to gain unauthorised gains in dealing with the Company's securities (insider dealing). The members of the Board of Directors and their related parties are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Company or with investment instruments derived from such securities, which they perform on their own account.

To ensure identical terms and conditions for all members of the Boards of Directors of the companies within the Erste Bank Group, it is Erste Bank's rules for securities trading that apply – the members of the Company's Board of Directors are obliged to inform the Company's Compliance Section of dealings with Erste Bank's shares or derivatives and to comply with an imposed trading embargo during a designated period.

The Company has a Compliance Section in place whose principal activities include: the inspection of compliance of the Company's internal regulations with the legal regulations and regulations of regulatory bodies governing the provision of investment services and measures aimed at preventing legalisation of proceeds arising from criminal activities; introducing employees to legal regulations, internal regulations and procedures governing the provision of investment services; and checking the insider information handling system. The Compliance Section evaluates insider information included in the Watch List and the Restricted List of investment instruments as well as any dealings with investment instruments recorded in the above Lists. The Compliance Section informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis. A list of persons with access to inside information is available with the Company's Secretary; the list is regularly updated.

The Company diligently fulfils and complies with all applicable legal regulations under Czech law, the principles of the Corporate Governance Code based on OECD principles, the recommendations of the EU Commission regarding corporate governance and, on an ongoing basis, **provides shareholders and investors with all significant information** on its business activities as well as the Company's financial and operational results, the ownership structure, and other major events. All information is prepared and disclosed in compliance with high quality standards of accounting and financial and non-financial disclosure. In addition, the Company discloses a great deal of information beyond statutory requirements so as to allow shareholders and investors to make well-founded decisions on the ownership of the Company's securities and the voting at General Meetings. To publish such information the Company uses various distribution channels such as the press or the Company's website where information is published both in Czech and English to allow equal participation of foreign investors and shareholders in decisions regarding the Company's business and development.

The Company regularly publishes annual and semi-annual reports. The annual report mainly includes audited financial statements and gives a picture of the financial situation, business activities and operating results of the Company; in addition, in compliance with new legal regulations, the report gives information on **the remuneration policy of the members of the Board of Directors and the Supervisory Board.** The level of remuneration for the members of the Board of Directors and the Supervisory Board is approved on an annual basis by the General Meeting; the remuneration of the members of the Board of Directors, who are Company employees serving as Deputies, is determined by the Supervisory Board. The Company has no equity option scheme for remuneration either for the members of the Board of Directors or the Supervisory Board.

Based on the recommendation of the Audit Committee, the Supervisory Board approves an independent external auditor annually. In 2006, Deloitte Audit s. r. o. was appointed to carry out an external audit of the Company.

CS's majority shareholder, Erste Bank, as a company whose shares are publicly traded, stringently follows the principles of the Austrian Corporate Governance Code. CS adopted and follows a number of these principles.

D. COMMITTEES OF THE COMPANY'S ADMINISTRATIVE BODIES

To support the Company's activities and to ensure the internal management and accountability of the Board of Directors and the Supervisory Board, the Company has established committees under these bodies. The rules of procedure of the individual committees define the range of their powers and duties including a precise description of the applicable rules and tasks.

COMMITTEES OF THE SUPERVISORY BOARD

The powers of the Supervisory Board include the ability to establish committees and to define the content of their activities. In compliance with corporate governance rules the Company has established the following Supervisory Board Committees:

Audit Committee

The Audit Committee is an advisory body of the Company's Supervisory Board co-operating with the Company's Board of Directors and with the internal and external auditors. Its principal role is to participate in the direction, planning and evaluation of internal audit activities. The Committee discusses material findings resulting from internal audits, gives its opinion on the selection of an external auditor, monitors the procedures and processes pertaining to the audit of the annual financial statements, oversees accounting and financial reporting, risk management and control, compliance with legal regulations and regulator's measures (the compliance of procedures) and the functioning and effectiveness of the Company's internal management and control system.

Until 15 August 2006, the Audit Committee comprised the following members –Manfred Wimmer as Committee Chairman, and Zlata Gröningerová and Maximillian Hardegg as members. They all serve as members of the Supervisory Board. Since 15 August 2006, the Audit Committee has comprised the following members – Manfred Wimmer as

Committee Chairman, Maximillian Hardegg and Mario Catasta as members. In compliance with the rules of procedure, the Committee informs the Supervisory Board of its activities at least every 6 months; in 2006, the Committee met four times altogether.

Financial Markets Committee

The principal role of the Financial Markets Committee is to oversee the activities and risk management system of the Financial Markets Section. The Committee is regularly updated on business activities, results and risk exposure; it reassesses the management and control system, and key principles of the business strategy and the risk management strategy for the Financial Markets Section. The Committee may set out medium- and long-term objectives for the activities and risk management of the Financial Markets Section. As of October 2006, the Committee had the following composition –Reinhard Ortner, Chairman; Bernhard Spalt and Monika Houštecká, members; and Manfred Wimmer, substitute member. They all serve as members of the Supervisory Board. The Committee meets at least twice a year; at least once a year it reports its activities to the Supervisory Board. In 2006, the Committee met twice altogether.

Credit Committee

The Credit Committee is mainly an advisory and confirmation body for credit exposures beyond the limits of the approval powers of the Board of Directors' Credit Committee. The Committee meets at least twice a year; during the year the Committee in most cases makes its decisions based on per rollam voting. The Committee comprises the following members –Christian Coreth, Chairman; Bernhard Spalt and Reinhard Ortner, members; and Andreas Treichl, substitute member. They all serve as members of the Company's Supervisory Board.

COMMITTEES OF THE BOARD OF DIRECTORS

Committees of the Board of Directors are advisory bodies of the Board of Directors established by resolution of the Board of Directors. The purpose of the committees is to initiate and present to the Board of Directors recommendations for technical issues; the committees comprise the members of the Board of Directors and selected employees of the Company.

All committees are accountable to the Board of Directors and report on their activities at least once a year.

Credit Committee

The Credit Committee is the highest body assessing and approving credit transactions and products as well as assessing and approving the business policy process, the system of credit risk measurement and management, and the level of the Company's credit portfolio structure, aimed at achieving the designated financial objectives, i.e. achieving the designated level of profitability while maintaining the defined level of credit risk.

Assets and Liabilities Management Committee

The Assets and Liabilities Committee is the highest body assessing and approving the process of planning, managing and controlling financial flows and the structure of the Company's assets and liabilities, which is aimed at achieving the optimum combination of the bank's profitability and financial risks taken. The Committee sets out the Company's strategy in this respect and assigns tasks to the Company's organisational units to fulfil the strategy.

Financial Markets and Risk Management Committee

The Financial Markets and Risk Management Committee is a body dealing with decisions on the operational issues of risk management processes related to financial markets.

Investment Committee

The Investment Committee is a body assessing the effectiveness and efficiency of capital expenditure and purchased services.

ATM Committee

The ATM Committee is a body assessing and making decisions regarding ATM issues (strategies, investments, locations, services, income, etc) aimed at ensuring a standard and complex approach to the ATM network development.

IT Change Management Committee

The IT Change Management Committee deals with decisions on changes to 'legacy systems' (in the go-live phase), including changes resulting from projects.

Customer Services Committee

The Customer Services Committee is a body supporting the quality of services provided to both external and internal customers by means of regular monitoring of internal and external indicators.

Marketing Committee for the Česká spořitelna Group

The Marketing Committee of the Česká spořitelna Group is a body dealing mainly with the long-term marketing strategy of the Company and the Česká spořitelna Group, the assessment of the effectiveness and efficiency of marketing costs, and the discussing of strategic business objectives with respect to marketing support.

Asset Allocation Committee

The Asset Allocation Committee is an advisory body of a member of the Board of Directors who is in charge of financial markets management, which deals with recommendations of investment strategies for the allocation of different classes of clients' assets (bonds, currencies, shares) on financial markets.

Retail Committee

The Retail Committee is a body assessing and approving innovations and the launching or withdrawal of retail banking products and services.

Sponsoring Committee

The Committee is an advisory body of the Board of Directors on issues regarding the general sponsoring strategy.

E. THE COMPANY'S POLICY WITH RESPECT TO STAKEHOLDERS

In 2006, in compliance with its long-term strategy, Česká spořitelna, being a company with corporate social responsibility, continued to promote cultural, educational, sports, charitable and social projects; hence, contributing to community development. As part of its long-term sponsoring strategy referred to above Česká spořitelna supported, for example: music festivals (the International Music Festival Prague Spring, Smetana's Litomysl International Opera Festival, the International Music Festival Český Krumlov, the International Music Festival Colours of Ostrava, etc.); film festivals (Finále Plzeň, the festival of Czech films, Famufest); theatres (Divadlo na Vinohradech); secondary schools (secondary schools initiatives, Eurorebus) and universities (The Prague School of Economics); sports institutions and initiatives (the Czech Athletic Federation, the Czech Tennis Association, the Czech Golf Federation, Česká spořitelna MTB Team, the Czech national football team); and the enjoyment of sports activities by the public at large (mountain bike competitions called Bike for Life).

In 2006, Česká spořitelna ranked fourth in the TOP corporate philanthropist awards, thus becoming the most generous contributor from the banking sector; this achievement manifests the Bank's efforts to be a credible and reliable partner for its investors, business partners, employees and local community members.

Nadace České spořitelny (the Foundation of Česká spořitelna), established by Česká spořitelna in 2002, deals particularly with the sponsorship of social issues. In 2006, the Foundation continued to support efforts in struggles against drug addiction, improvement in the welfare of senior citizens, sponsorship of a number of projects to help people in need and also participation in environmental protection.

Organisational Chart

of ČS as of 31 December 2006

Chairman of the Board and C. E. O. John James Stack	**Deputy Chairman of the Board of Directors and 1st Deputy C. E. O. Dušan Baran**	**Member of the Board and Deputy C. E. O. Daniel Heler**	**Member of the Board and Deputy C. E. O. Heinz Knotzer**
Office of the Board and the Supervisory Board Section 1001	Accounting and Taxes Section 2100	CS Financial Group Balance Sheet Management Section 3100	Corporate Customers Section 4100
Credit Risk Management and Credit Services Section 1200	Controlling and Planning Section 2200	Investment Banking Section 3600	Commercial Banking Centres Section 4200
Internal Audit Section 1400	Property Management Section 2300	Financial Markets – Wholesale and Trading Section 3700	Real Estate and Mortgages Section 4300
Legal Services and Compliance Section 1500	Central Risk Management Section 2400	Financial Markets – Retail Distribution Section 3800	Municipalities Section 4400
Human Resources Section 1600	Procurement Section 2500	Business Support Sub-department 3001	Trade Finance Department 4010
Marketing Section 1700	Investors Relations Department 2010		Business Development Department 4040
Corporate Communication Department 1010	Financial Markets Back-office Department 2020		
Service Quality Management Department 1310	CS Financial Group and Capital Participations Development Department 2030		

Member of the Board of and Deputy C. E. O.
Jiří Škorvaga

- Business Development Section 5100
- Remote Delivery Section 5300
- Card Centre Section 5400
- West Region Section 5600
  - District Branches in Region
- East Region Section 5700
  - District Branches in Region
- External Sales Force and Co-operation Section 5800
- Consumer Financing Section 5900
- Support Sub-department 5001

Member of the Board and Deputy C. E. O.
Petr Hlaváček

- Projects Management Section 7200
- Org-IT Section 7300
- IT Operation Section 7400
- IT Development Section 7500
- IT Decentralized Systems Section 7600
- Chief Technology Officer Department 7010
- IT Governance and Processes Department 7020

Member of the Board and Deputy C. E. O.
Pavel Kysilka

- Payment System and Settlement Section 8100
- Security Section 8200
- Economic and Strategic Research Department 8010
- Corporate Cash Management Department 8020
- EU Office 8001

Report of the Supervisory Board

During 2006 the Supervisory Board of Česká spořitelna, a. s. regularly discharged its duties in accordance with the law and the company's Articles of Association. As the company's oversight body, the Supervisory Board monitored the Board of Directors' exercise of its powers as well as the Bank's operations, finances and the realization of its strategic plans. The Supervisory Board was kept up to date on the bank's operations, its financial situation, and other material and important Bank matters.

In accordance with the legal provision, the Supervisory Board at its meetings reviewed the non-consolidated and consolidated financial statements as of 31. 12. 2005 and came to the conclusion that the books and accounting records were kept in a transparent manner in accordance with accounting regulations and that the accounts and year-end non-consolidated and consolidated financial statements fairly and faithfully reflect the financial situation of Česká spořitelna, a. s. and consolidated unit as of 31. 12. 2006. The audit of the year-end financial statements was performed by Deloitte Audit s. r. o. who confirmed that according to their opinion the Bank's financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the Bank as of 31st December 2006 and of the expenses, income and results of its operations for the year ended 31st December 2006 in accordance with International Financial Reporting Standards as adopted by the EU. The Supervisory Board with agreement took account of the auditor's statement.

The Supervisory Board also reviewed the Report on Relations between connected persons and in accordance with the provision 66a para 10 of the Commercial Code states that it took account of this Report without comments.

In view of all above facts, the Supervisory Board recommends that the General Meeting approves the financial statements of Česká spořitelna, a. s. for the year ended 31. 12. 2006 and the proposed profit allocation as submitted by the Board of Directors.

Andreas Treichl
Chairman of the Supervisory Board

Consolidated Financial Statements

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union for the Years Ended 31 December 2006 and 2005

Deloitte.

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110 00 Prague 1
Czech Republic

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in Prague, Section C, File 24349
Id Nr.: 49620592
Tax Id. Nr.: CZ49620592

Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

Having its registered office at: Prague 4, Olbrachtova 1929/62, 140 00
Identification number: 45244782
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying consolidated financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 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.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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 the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 in 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 Česká spořitelna, a. s. as of 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 EU.
In Prague on 13 March 2007

Audit firm:
Deloitte Audit s.r.o., Certificate no. 79

Represented by:
Michal Petrman, statutory executive

Statutory auditor:
Michal Petrman, certificate no. 1105

Audit. Tax. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Consolidated Balance Sheets

as of 31 December 2006 and 2005

CZK mil	Note	31 December 2006	31 December 2005
ASSETS			
1. Cash and balances with the CNB	6	23,151	18,104
2. Loans and advances to financial institutions	7	73,179	97,846
3. Amounts due from Česká konsolidační agentura	8	5,000	15,653
4. Loans and advances to customers	9	324,105	267,767
5. Provisions for losses on loans and advances	10	(6,339)	(6,672)
6. Securities at fair value through profit or loss		49,540	36,542
(a) Securities held for trading	11	27,803	19,604
(b) Securities designated upon initial recognition as at fair value through profit or loss	12	21,737	16,938
7. Positive fair value of financial derivative transactions	13	18,433	17,848
8. Securities available for sale	14	39,385	30,673
9. Assets held for sale	15	320	326
10. Securities and other assets held to maturity	16	141,880	124,995
11. Financial placements of insurance companies	17	13,878	10,292
12. Investment property	18	8,772	6,379
13. Intangible fixed assets	19	4,579	4,462
14. Property and equipment	20	13,637	14,250
15. Other assets	21	18,873	15,599
Total assets		**728,393**	**654,064**
LIABILITIES AND SHAREHOLDERS' EQUITY			
1. Amounts owed to financial institutions	22	46,361	34,898
2. Amounts owed to customers	23	537,487	481,556
3. Liabilities at fair value	24	5,450	7,362
4. Negative fair value of financial derivative transactions	25	12,684	14,570
5. Bonds in issue	26	34,408	39,282
6. Technical insurance provisions	27	13,434	10,625
7. Provisions for liabilities and other reserves	28	2,675	2,626
8. Other liabilities	29	20,146	15,976
9. Subordinated debt	31	5,886	2,998
10. Shareholders' equity		49,862	44,171
(a) Minority interests	32	1,268	849
(b) Equity attributable to the Bank's shareholders		48,594	43,322
Total liabilities and shareholders' equity		**728,393**	**654,064**

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

These consolidated financial statements were prepared by the Bank and approved by the Board of Directors on 13 March 2007.

John James Stack
Chairman of the Board
Chief Executive Officer

Dušan Baran
Vice Chairman of the Board
1st Deputy Chief Executive Officer

Consolidated Profit and Loss Accounts

for the Years Ended 31 December 2006 and 2005

CZK mil	Note	Year ended 31 December 2006	Year ended 31 December 2005
1. Interest income and similar income	35	28,484	24,857
2. Interest expense and similar expense	36	(7,474)	(6,138)
Net interest income		**21,010**	**18,719**
3. Provisions for credit risks	37	(1,487)	(386)
Net interest income after provisions for credit risks		**19,523**	**18,333**
4. Fee and commission income	38	10,046	9,111
5. Fee and commission expense	39	(1,049)	(727)
Net fee and commission income		**8,997**	**8,384**
6. Net trading result	40	1,740	1,357
7. General administrative expenses	41	(17,316)	(16,395)
8. Net insurance income	42	528	374
9. Other operating income/(expenses), net	43	585	257
Profit before taxes		**14,057**	**12,310**
10. Income tax expense	44	(3,498)	(3,064)
Profit after taxes		**10,559**	**9,246**
11. Minority interests	32	(174)	(112)
Net profit for the year attributable to the Bank's shareholders		**10,385**	**9,134**

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

Consolidated Statements of Changes
in Shareholders' Equity for the Years Ended 31 December 2006 and 2005

CZK mil	Retained earnings	Valuation gains or losses	Statutory reserve fund	Share premium	Share capital	Total equity attributable to the Bank's shareholders	Minority interests	Total
At 1 January 2005 (restated)	21,067	1,259	1,772	1	15,200	39,299	1,702	**41,001**
Dividends	(4,560)	–	–	–	–	(4,560)	(969)	(5,529)
Transfer to reserve funds	(402)	–	402	–	–	–	–	–
Use of funds	–	–	(4)	–	–	(4)	–	(4)
Revaluation gains or losses	–	(563)	–	–	–	(563)	4	(559)
Foreign exchange differences	–	16	–	–	–	16	–	16
Net profit for the year	9,134	–	–	–	–	9,134	112	9,246
At 31 December 2005	**25,239**	**712**	**2,170**	**1**	**15,200**	**43,322**	**849**	**44,171**
At 1 January 2006								
Dividends	(4,560)	–	–	–	–	(4,560)	(98)	(4,658)
Minority interest in newly consolidated entities, capital increase	(52)	–	–	–	–	(52)	190	138
Sale of an equity investment to minority shareholders	–	–	–	–	–	–	152	152
Transfer to reserve funds	(592)	–	592	–	–	–	–	–
Use of funds	–	–	(8)	–	–	(8)	–	(8)
Revaluation gains or losses	–	(383)	–	–	–	(383)	(2)	(385)
Foreign exchange differences	–	(110)	–	–	–	(110)	3	(107)
Net profit for the year	10,385	–	–	–	–	10,385	174	10,559
At 31 December 2006	**30,420**	**219**	**2,754**	**1**	**15,200**	**48,594**	**1,268**	**49,862**

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

Consolidated Statements of Cash Flows

for the Years Ended 31 December 2006 and 2005

CZK mil	Note	2006	2005
Profit before taxes		14,057	12,310
Adjustments for non–cash transactions			
Creation of provisions for losses on loans, advances and other assets		1,519	510
Depreciation and amortisation of assets		3,354	3,368
Impairment of tangible and intangible fixed assets		72	–
Revaluation of investment property		(755)	(991)
Unrealised profit on securities at fair value through profit or loss and liabilities at fair value		46	(435)
Creation of provisions against equity investments		5	4
Net gain/(loss) on the sale/revaluation of equity investments		(91)	(91)
Creation of other reserves, including technical insurance provisions		2,988	1,518
Change in fair values of financial derivatives		(2,470)	(432)
Income from statute–barred savings books		(2)	(44)
Gain on the sale of tangible assets		(301)	(44)
Accrued interest, amortisation of discount and premium and fair value remeasurement of debt securities		(64)	575
Increase/(decrease) in minority interests		345	5
Operating profit before changes in operating assets and liabilities		**18,703**	**16,253**
Cash flows from operating activities			
(Increase)/decrease in operating assets			
Minimum reserve deposits with the CNB		(4,447)	(56)
Loans and advances to financial institutions		24,712	(21,058)
Loans and advances to customers, including Česká konsolidační agentura		(47,817)	(45,238)
Securities at fair value through profit or loss		(13,215)	(9,053)
Securities available for sale		(5,926)	1,471
Other assets		(3,058)	(478)
Increase/(decrease) in operating liabilities			
Amounts owed to financial institutions		11,616	1,786
Amounts owed to customers		56,193	36,829
Liabilities at fair value		(1,912)	1,825
Other liabilities		3,275	3,908
Net cash flow from operating activities before income tax		38,124	(13,811)
Income taxes paid		(2,914)	(4,716)
Net cash flow from operating activities		**35,210**	**(18,527)**
Cash flows from investing activities			
Net increase in securities and other assets held to maturity		(19,965)	5,400
Financial placements of insurance companies		(3,553)	1,971
Investment property		(1,638)	(5,388)
Net increase in investments in subsidiaries and associates		(81)	–
Net cash flow from the sale of an investment in a subsidiary		172	–
Purchase of tangible and intangible fixed assets		(3,825)	(5,146)
Proceeds from the sale of tangible and intangible fixed assets		1,202	2,343
Net cash flow from investing activities		**(27,688)**	**(820)**

CZK mil	Note	2006	2005
Cash flows from financing activities			
Dividends paid		(4,560)	(4,560)
Dividends paid to minority shareholders		(98)	(969)
Payments made from the reserve fund		–	(4)
Bonds in issue		(4,564)	19,897
Receipt of subordinated debt		2,888	2,998
Net cash flow from financing activities		**(6,334)**	**17,362**
Net increase/(decrease) in cash and cash equivalents		**1,188**	**(1,984)**
Cash and cash equivalents at beginning of year		**23,101**	**25,085**
Cash and cash equivalents at end of year	**45**	**24,289**	**23,101**

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

Notes to the Consolidated Financial Statements

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

1. INTRODUCTION

Česká spořitelna, a. s. (henceforth the "Bank"), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services on the territory of the Czech Republic.

The principal activities of the Bank are as follows:
- Acceptance of deposits from the general public;
- Extension of credit;
- Investing in securities on its own account;
- Payments and clearing;
- Issuance of payment facilities, e.g. payment cards, traveller's cheques;
- Issuance of guarantees;
- Opening of letters of credit;
- Collection services;
- Proprietary or client-oriented trading with foreign currency assets, forward and option contracts, including foreign currency and interest rate transactions, and transferable securities;
- Management of clients' securities on clients' accounts and provision of advisory services;
- Participation in the issuance of shares and provision of related services;
- Safe-keeping and administration of securities or other assets;
- Rental of safe-deposit boxes;
- Provision of business advisory services;
- Issuance of mortgage bonds under special legislation;
- Financial brokerage;
- Depositary activities;
- Foreign exchange services (foreign currency purchases);
- Provision of banking information; and
- Maintenance of a separate part of the Securities Centre's records.

The Bank provides the following additional services through its subsidiaries (together the "Group"):
- Funds management;
- Building society savings and loans;
- Pension insurance;
- Insurance;
- Finance leasing;
- Factoring;
- Consulting services;
- Provision of investment services;
- Real estate activities;
- Lease of information technology, installation and repair of electronic equipment;
- Provision of software and advisory services in relation to hardware and software; and
- Corporate management and finance.

The Bank is subject to the regulatory requirements of the Czech National Bank (henceforth the "CNB"). These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk and foreign currency position.

Similarly, the Group companies are subject to regulatory requirements, specifically in relation to insurance and collective investment.

2. BASIS OF PREPARATION

These consolidated financial statements comprise the accounts of the Bank and its subsidiaries and have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations approved by the International Accounting Standards Board (IASB) as adopted by the European Union. These standards and interpretations were previously called International Accounting Standards (IAS). As of the date of issuance of these consolidated financial statements, IFRS as adopted by the European Union do not differ from IFRS as issued by the IASB.

All figures are in millions of Czech crowns (CZK mil), unless stated otherwise.

These consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement to fair value of available for sale securities, financial assets and liabilities at fair value through profit or loss, all financial derivatives, investment property, assets held for sale and issued debt securities which are hedged against interest rate risk.

The accounting policies have been consistently applied by the entities in the Group.

The presentation of consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period (refer to Note 4). Actual results could differ from those estimates.

Comparative information has been restated, where necessary, on a basis consistent with the current year presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(a) Principles of Consolidation

The consolidated financial statements present the accounts and results of the Bank and, to the extent that they are material to the Group as a whole, of its controlled and associated companies.

The Group accounts for all business combinations using the purchase method. The Group, as the acquirer, measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given in exchange for control of the acquiree and any costs directly attributable to the business combination.

At the acquisition date, the Group allocates the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at the fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is accounted for as goodwill or badwill (gain on a business combination).

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values.

The Group recognises any adjustments to those provisional values within twelve months of the acquisition date, with effect from the acquisition date, ie, retrospectively.

Subsidiary Undertakings

An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50 percent of its share capital or in which the Bank can exercise more than 50 percent of the voting rights or where the Bank can appoint or dismiss a majority of the Board of Directors or Supervisory Board members. An investment in a subsidiary is also one in which the Bank holds, directly or indirectly, less than 50 percent of its share capital but has the power to govern the financial and operating policies of the company.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

All intercompany balances and transactions, including intercompany profits are eliminated on consolidation. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Minority interests in the equity and results of companies that are controlled by the Bank are shown as a separate item in the consolidated financial statements.

Associate Undertakings

Associates are accounted for under the equity method of accounting. An investment in an associate is one in which the

Bank holds, directly or indirectly, 20 percent to 50 percent of its share capital and over which the Bank exercises significant influence, but which it does not control.

Unconsolidated Subsidiaries and Associated Companies

Subsidiaries and associates whose results, equity and financial position are, in aggregate, not material to the financial statements are not consolidated. These unconsolidated equity investments in subsidiary and associated undertakings are recorded at acquisition cost including transaction costs less provisions for their impairment. These investments in unconsolidated subsidiaries and associated companies are presented in the balance sheet in "Securities and other assets held to maturity". Impairment of equity investments in subsidiaries and associates is recognised in "Other operating income/(expenses), net".

(b) Loans and Advances, Other Off Balance Sheet Credit Exposures and Provisions for Losses on Loans and Advances

Loans and advances are stated at the amount of outstanding principal and overdue interest and fees. All loans and advances are recognised when cash is advanced to borrowers.

Provisions for losses on loans and advances are recorded when there are indications of incurred loss in relation to the recoverability of the loan balance. Provisions for losses on loans and advances represent management's assessment of potential losses in relation to the Group's on and off balance sheet activities. Amounts are set aside to cover losses on loans and advances that have been specifically identified and for potential losses which may be present based on portfolio performance. The level of provisions is established by comparing the carrying amount of the loan and the present value of future expected cash flows using the effective interest rate. The amount necessary to adjust the provisions to their assessed levels, after write-offs, is charged to the profit and loss account line "Provisions for credit risks."

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for credit risks" in the profit and loss account. If the reason for provisioning is no longer deemed appropriate, the release of the provision is recognised in the profit and loss account, similarly as for recoveries of loans and advances previously written off, in the line item "Provisions for credit risks."

(c) Debt and Equity Securities (including Participating Interests Excluded from the Consolidation)

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of the securities and pursuant to the Group's security investment strategy. In accordance with IAS 39 the Group categorises its securities into the "Securities at fair value through profit or loss" portfolio, the "Securities available for sale" portfolio and the "Securities held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and the recognition of their fair values in the financial statements.

All securities held by the Group are recognised using trade date accounting and initially recorded at their cost including transaction costs (acquisition cost), the only exception being securities at fair value through profit or loss which are recognised at cost net of transaction costs.

Securities at Fair Value through Profit or Loss

The portfolio includes debt and equity securities held for trading, that is, securities held by the Group with the intention of reselling them, thereby generating profits on price fluctuations in the short-term, and debt and equity securities that were designated, upon initial recognition, as at fair value through profit or loss. Securities at fair value through profit or loss are recognised at cost at the acquisition date and subsequently remeasured at fair value. Changes in the fair values of assets held for trading are recognised in the profit and loss account as "Net trading result". Changes in the fair values of securities not held for trading are reported as "Other operating income/(expenses), net" in the profit and loss account.

For debt and equity securities traded on the Prague Stock Exchange ('PSE') or other stock exchanges, fair values are derived from quoted prices. The fair values of those securities not traded on the PSE are estimated by the management of the Group as the best estimation of the cash flow projection reflecting the set of economic conditions that will exist over the period remaining to the maturity of the securities.

Securities Available for Sale

Securities available for sale are securities held by the Group for an indefinite period of time that are available for sale as liquidity requirements arise or market conditions change.

Securities available for sale are carried at acquisition cost and subsequently remeasured at fair value. Changes in the fair values of available for sale securities are recognised in equity as "Revaluation gains or losses", with the exception of their impairment and interest income and foreign exchange differences on debt securities. When realised, the relevant revaluation gains or losses are taken to the profit and loss account as "Other operating income/(expenses), net". Interest income on coupons, amortisation of discounts or premiums, and dividends are included in "Interest income and similar income". Foreign exchange differences are reported within "Net trading result".

Securities Held to Maturity

Securities held to maturity are financial assets with fixed maturity and determinable payments that the Group has the positive intent and ability to hold to maturity.

Securities held to maturity are initially measured at acquisition cost. Securities held to maturity are subsequently reported at amortised cost using the effective interest rate, less any provision for impairment. The amortisation of premiums and discounts is included in "Interest income and similar income".

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Group recognises provisions through the profit and loss account line "Other operating income/(expenses), net."

(d) Sale and Repurchase Agreements

Where debt or equity securities are sold under a concurrent commitment to repurchase them at

a pre-determined price, they remain at fair value or amortised cost (refer to Note 3c) within the relevant portfolio on the balance sheet and the consideration received is recorded in "Amounts owed to financial institutions" or "Amounts owed to customers." Conversely, debt or equity securities purchased under a concurrent commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in "Loans and advances to financial institutions" or "Loans and advances to customers." Interest is accrued evenly over the life of the agreement.

(e) Liabilities at Fair Value

Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the Group records an obligation to return them which is recognised at fair value as a trading liability and is presented in the balance sheet line "Liabilities at fair value". Until 2005, these balances were recognised within "Other liabilities" and, therefore, comparative information has been restated on a basis consistent with the current year presentation. Upon the repurchase of securities, the difference between the carrying amount of the obligation and the contracted purchase price is recognised in "Net trading result".

(f) Investment Property

Investment property is property (land or a building – or part of a building – or both) held to earn rentals and/or for capital appreciation or both. Property used by the lessees from within the Group are not treated and presented as investment property. The Group states investment property at fair value and gains or losses arising from changes in the fair value are included in the profit and loss account line "Other operating income/(expenses), net".

The fair value is the estimated amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction at the remeasurement date.

The valuation is based upon the calculation of expected yearly net income by using a permanent (expected) yield method. The expected yield is determined using the comparison method (similar realised transactions on the same market). Given that the valuation was performed on a post tax basis, the fair value was increased by the effect of the tax.

The Group also invests in real estate under construction (investment property under construction). This real estate is classified as real estate held for sale in the ordinary course of business and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.

The cost of acquiring (acquisition cost) assets under construction not only includes the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised only to the extent to which they directly relate to the acquisition of real estate.

Such assets under construction are presented as "Other assets" until their completion. Until 2005, these assets under construction were presented as "Property and equipment" and, therefore, comparative information has been restated on a basis consistent with the current year presentation.

In determining the net realisable value of assets under construction the Group refers to the most recent budget and the current state of completion which is compared to the future value of flats and/or office and commercial premises. In circumstances where the anticipated effect of the sale of these assets under construction falls below their cost, the Group writes down the assets under construction to their net realisable value.

Sales of these assets/flats are recognised as revenues through "Other operating income/(expenses), net" when a statement is received from the Cadastral Office regarding the registration of the flats in the name of a new owner. The same profit and loss account line reflects the costs incurred in selling the flats, that is, the value of the asset and other expenses associated with the sale of the flats (which are not capitalised).

(g) Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as a component of "Intangible fixed assets". Goodwill is not amortised and is tested for impairment at least on an annual basis.

Goodwill is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is defined as the estimated future economic benefits arising from the acquisition of an equity investment. When an impairment of assets is identified, the Group recognises the impairment through the profit and loss account line "Other operating income/(expenses), net."

(h) Intangible Fixed Assets

Intangible fixed assets include identifiable assets without physical substance with an estimated useful life exceeding one year and a cost greater than CZK 60,000. Costs associated with acquiring software are treated as intangible fixed assets and are amortised on a straight line basis through "General administrative expenses – amortisation of intangible assets" over an estimated useful life not exceeding four years. Research and development, valuable rights and other intangible assets with the exception of goodwill disclosed above are also amortised over an estimated useful life not exceeding four years. Costs associated with the maintenance of intangible assets (software) are expensed through "General administrative expenses – other administrative expenses" as incurred whilst costs of technical improvements, if they exceed CZK 60,000 per one asset for the period and are completed, are capitalised and increase the acquisition cost of the intangible fixed asset (software). Intangible fixed assets are carried at cost less accumulated amortisation and impairment provisions and are amortised on a straight line basis over their estimated useful lives.

(i) Property and Equipment

Property and equipment includes identifiable tangible assets with physical substance and with an estimated useful life exceeding one year and a cost greater than CZK 13,000. Property and equipment also includes selected low value tangible assets with a cost between CZK 1,000 and CZK 12,999. Property and equipment is stated at historical cost less accumulated depreciation and impairment provisions and is depreciated when ready for use through the profit and loss account line "General administrative expenses – depreciation of property and equipment” on a straight line basis over their estimated useful lives. Depreciation periods for individual categories of assets are as follows:

Buildings and structures	20–50 years
Electronic machines and equipment	6–12 years
Tools and other equipment	4–12 years
Equipment, fixtures and fittings	4–6 years
Selected low value machines and equipment	2 years
Leasehold improvements	Period of the lease

Land and works of art (irrespective of their cost) and assets under construction are not depreciated. The gain and loss arising on the disposal of property and equipment is determined based on its carrying value and is recognised in the profit and loss account line “Other operating income/(expenses), net” in the year of disposal. Property and equipment costing less than CZK 13,000 that are not the selected low value fixed assets, technical improvements costing less than CZK 40,000 and intangible fixed assets costing less than CZK 60,000 are charged to the profit and loss account line “General administrative expenses” in the period of acquisition.

Repairs and maintenance are charged to the profit and loss account line “General administrative expenses – other administrative expenses” in the year in which the expenditure is incurred.

(j) Assets Held for Sale

The category of ‘assets held for sale’ includes non-current assets that are taken out of active use at the date on which criteria for sale are met, that is, the sale is approved by an authorised person, steps to locate a buyer have been initiated, and a draft of a purchase contract and other documentation is being prepared. At the same date, the assets held for sale are remeasured at fair value based on an expert appraisal and depreciation on such assets ceases. Changes arising from the fair value remeasurement of the assets are accounted for through the recognition of an extraordinary write-off in the profit and loss account line “Other operating income/(expenses), net.”

(k) Impairment of Assets

Where the carrying amount of an asset stated at net book value or amortised cost is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs, or the estimated future economic benefits arising from the use of the asset.

The largest components of the Group’s assets are periodically tested for impairment and impairment is provisioned through the profit and loss account line “Other operating income/(expenses), net”. An increased carrying amount arising from the reversal of an impairment must not exceed the carrying amount that would have been determined (net of amortisation or accumulated amortisation) had no impairment loss been recognised for the asset in prior years.

The Group determines the fair value of investment property under construction on the basis of its estimate of discounted future cash inflows to be derived from the future sale of the property and outflows associated with the sale and construction of the property. The Group uses budgeted future cash inflows and outflows which are regularly assessed for reliability by comparing the budget and the actual condition. The budgeted inflows arising from the sale and outflows associated with construction and sale are also regularly reviewed by reference to estimated real estate market developments.

(l) Provisions for Guarantees and Other Off Balance Sheet Credit Related Commitments

In the normal course of business, the Group enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, loan commitments, undrawn loan facilities and letters of credit. Provisions are made for estimated losses on these commitments on the same basis as set out at Note 3 (b) in respect of on balance sheet loan exposures. In estimating the losses, the Group refers to the historical data regarding risk parameters (credit conversion factors, probability of default and loss-given default).

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and 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.

(n) Shareholders' Equity

The statutory reserve fund comprises funds that the Group is required to retain according to current legislation. Use of the statutory reserve fund is limited by legislation and the articles of the Bank. The fund is not available for distribution to the shareholders.

On acquisition of a business when the acquirer and the acquiree are under common control, the difference between the purchase price and net assets of the enterprise on the date of acquisition is recognised as a reduction in equity in "Retained earnings."

Where the Bank or its subsidiaries purchase the Bank's treasury shares or obtain rights to purchase its treasury shares, the consideration paid including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. In selling treasury shares, the Bank recognises the difference between their selling price and cost as share premium.

Dividends reduce retained earnings in the period in which they are declared by the Annual General Meeting.

(o) Accrued Interest

Interest receivable and payable accrued on outstanding loan balances, debt securities, deposit products and bonds in issue and subordinated debt is reported within "Other assets" and "Other liabilities," respectively.

(p) Foreign Currency

Transactions denominated in foreign currencies are recorded in the local currency at official exchange rates as announced by the CNB on the date of transaction. Assets and liabilities denominated in foreign currencies are translated into the local currency at the CNB exchange rate prevailing at the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the profit and loss account in "Net trading result", foreign exchange rate differences on equity securities included in the available-for-sale portfolio which are reported as a component of a change in the fair value and foreign exchange rate differences on derivatives entered into with a view to hedging currency risk associated with assets or liabilities whose foreign exchange rate differences are not reported in the profit and loss account.

Upon consolidation, the balance sheet items of entities that report in other than the Group's currency are translated into the local currency at the official exchange rate announced by the CNB at the balance sheet date, with the exception of foreign exchange rate differences which are reported at the historical exchange rate. Profit and loss account items are translated using an average annual exchange rate announced by the CNB. Differences arising from the use of the balance sheet and average exchange rates are recognised in equity as "Foreign exchange differences". The same line is used to account for differences arising from the consolidation of equity and the recognition of equity investments at the historical exchange rate.

(q) Interest Income and Interest Expense

Interest income and expense are recognised, on an accruals basis, in the profit and loss account lines "Interest income and similar income" and "Interest expense and similar expense" when earned or incurred, the only exception being securities held for trading which recognised in "Net trading result". The Group accounts for the accruals of interest using the effective interest rate method. Outstanding penalties, contractual sanctions and interest on non-performing loans, which are those loans that have overdue interest and/or principal, or for which management of the Group otherwise believes the contractual interest or principal due may not be received, are only recognised on collection.

(r) Fees and Commissions

Fees and commissions are recognised in the profit and loss account lines "Fee and commission income" and "Fee and commission expense" on an accruals basis, with certain loan origination fees and other related fees included in the effective interest rate of the associated loan.

The effective interest rate includes the fees directly associated with the provision of the loan, such as loan origination fees, loan application processing fees, etc. These fees are reduced to reflect the Group's direct transaction costs involved in issuing loans.

(s) Finance Lease Income

A Group Company as the Lessee

Leases of property and equipment under which the Group assumes substantially all the rewards incidental to ownership (finance leases) are recognised in the balance sheet by recording an asset and liability equal to the present value of all future lease payments. Leasehold improvements on leased assets are depreciated in accordance with the depreciation policy noted above. The depreciation period is the estimated useful life of the asset, or the lease term if shorter. Lease liabilities are reduced by repayments of principal, whilst the finance charge component of the lease payment is charged directly to the profit and loss account.

A Group Company as the Lessor

Finance lease income is calculated under an effective interest method to provide a constant rate of return on the net investment in the leases.

(t) Insurance Business

Insurance premiums are recognised in the accounting period in which they incept and are recorded in "Net insurance income." Provisions are established for unearned premiums which relate to periods after the balance sheet date. Amounts in respect of insurance business include reinsurance costs.

Financial placements representing assets of an insurance company which it uses to guarantee its payables arising from insurance and reinsurance activities are reported in a separate line "Financial placements of insurance companies" and other assets, including tangible and intangible assets, are presented in "Other assets". All other liabilities, except for provisions, are included in "Other liabilities". The pre-tax profit generated by Pojišťovna České spořitelny, a. s. is included in a separate profit and loss account line "Net insurance income".

Technical Insurance Provisions

Life Insurance Provision

The life insurance provision is created as a sum of provisions calculated under individual life insurance policies. The life insurance provision represents the amount of payables, calculated by actuarial methods including the awarded and declared profit shares (shares of premium surpluses) and provisions for costs connected with policy management, net of the value of future premiums.

Provision for insurance claims

Provisions for insurance claims under life and non-life insurance policies are as follows:

- Provisions for insurance claims reported but not settled during the year ('RBNS reserves');
- Provisions for insurance claims incurred but not reported during the year ('IBNR reserves').

The RBNS provision is calculated as equal to the sum of provisions established in respect of individual insured events. The provisions are also recorded for all estimated costs involved in processing claims. The RBNS reserve also comprises provisions established in respect of legal disputes where the company acts as a defendant.

Provisions for all claims that were incurred prior to the year-end but were not reported are determined using the chain-ladder method.

Provision for the Fulfilment of Liabilities from the Used Technical Interest Rate

A provision for the fulfilment of liabilities from the used technical interest rate pursuant to Section 13 (2) (f) as set out in Section 18 (a) of the Insurance Act, is created when it is noted that the current or anticipated yield on the assets will not be sufficient to settle liabilities arising from the used technical interest rate in respect of insurance policies sold in the past.

(u) Pension Business

Contributions of participants, together with their appreciation and State contribution claims in pension funds are included in "Amounts owed to customers." Pension policy costs are amortised over four years, the average duration of the pension policies.

Technical Provision for Retirement Pension Schemes

The level of the charged provision is determined on the basis of the present actuarial value of committed retirement benefits to be paid decreased to reflect the amount of funds recorded on behalf of pension recipients.

Up to 10 percent of the profits from the pension fund can be distributed to the shareholders and no less than 5 percent of the profits is allocated to the reserve fund. Reflecting this fact the Bank accounts for the profit attributable to participants of the retirement pension schemes as amounts owed to customers.

(v) Taxation

Tax on the profit or loss for the year comprises the current year tax charge, adjusted for deferred taxation. Current tax comprises the tax payable calculated on the basis of the taxable income for the year, using the tax rate enacted by the balance sheet date, and any adjustment of the tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. The principal temporary differences arise from certain non-tax deductible reserves and provisions, tax and accounting depreciation on tangible and intangible fixed assets and revaluation of other assets.

The estimated value of tax losses expected to be available for utilisation against future taxable income and tax deductible temporary differences are offset against the deferred tax liability within the same legal tax unit to the extent that the legal unit has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be available to allow the asset to be recovered.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the profit and loss account, except to the extent that it relates to items previously charged or credited directly to equity.

(w) Financial Derivative Instruments

Financial derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency and interest rate options (both purchased and sold), futures and other derivative financial instruments. The Group uses various types of derivative instruments in both its trading and hedging activities.

Financial derivative instruments entered into for trading or hedging purposes are recognised at fair value as “Positive fair value of financial derivative transactions” and “Negative fair value of financial derivative transactions.” Realised and unrealised gains and losses are recognised in the profit and loss account line “Net trading result”, the only exception being unrealised gains and losses on cash flow hedges which are recognised in equity. Fair values of derivatives are based upon quoted market prices or pricing models which take into account current market and contractual prices of the underlying instruments, as well as the time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with gains and losses reported in the profit and loss account.

Hedging derivatives are defined as derivatives that comply with the Group’s risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent.

If the Group uses a fair value hedge, the hedged item is remeasured at fair value and the gain or loss from the remeasurement is recognised to expense or income as appropriate. The same accounts of expense and income that reflect the gain or loss from remeasuring the hedged item at fair value are also used in accounting for changes in fair values of hedging derivatives that are attributable to the hedged risk.

If the Group uses a cash flow hedge, the gains or losses from changes in fair values of hedging derivatives that are attributable to the hedged risk are retained in equity on the balance sheet and are recognised to expense or income in the periods in which the expense or income associated with the hedged items are recognised.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value remeasurement gains and losses reported in income or expenses within "Net trading result".

(x) Transactions with Securities Undertaken on behalf of Clients

Securities received by the Group into custody, administration, management or safe-keeping are typically recorded at market or nominal values if the market value is not available and maintained off balance sheet. "Other liabilities" include the Group's payables to clients arising from cash received to purchase securities or cash to be refunded to the client.

(y) Segment Reporting

Segment information is based on two segment formats. The primary format represents business segments – retail banking (including building savings products), corporate banking, investment banking and other operations. The secondary format represents the Group's geographical markets – the Czech Republic, EU countries, other European countries and other regions.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy. Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Group's consolidated balance sheet. Segment assets and liabilities do not include income tax items.

(z) Cash and Cash Equivalents

The Group considers cash and deposits with the CNB, treasury bills with a residual maturity of three months or less, nostro accounts with financial institutions and loro accounts with financial institutions to be cash equivalents. For the purposes of determining cash and cash equivalents, the minimum reserve deposit with the CNB is not included as a cash equivalent due to restrictions on its availability.

(aa) Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2006

The following amended standards were applied in 2006:

- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' (effective 1 January 2006)
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective 1 January 2006)
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective 1 January 2006)

At the date of authorisation of these financial statements, the following standards were in issue and endorsed by the EU but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (effective 1 January 2007); and
- Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective 1 January 2007).

The adoption of these standards in the future periods is not expected to have a material impact on the unconsolidated profit or equity. Provisioning for off-balance sheet risks (commitments to extend loans) has an impact on the profit and loss account in the amount of CZK 100 million.

The following standards or interpretations issued by IASB have not yet been endorsed by the EU:

- IFRS 8 Operating segments
- IFRIC 10 Interim financial reporting and impairment
- IFRIC 11: IFRS 2 on Group and treasury shares transactions
- IFRIC 12 Service concession arrangements

- IAS 39 Financial instruments: Recognition and Measurement in the area of certain hedge accounting requirements

These standards are not yet effective as of the reporting date. Endorsement by the EU is expected by the time the standards and interpretations become effective.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

(a) Impairment of Loans and Advances

The Group regularly assesses its loan portfolio for possible impairment. In determining impairment losses the Group assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio although the decrease cannot yet be identified with individual loans. Management of the Group uses estimates based on historical experience of losses on loans that have similar risk characteristics. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data.

(b) Debt Securities Held to Maturity

Based upon the model of the development of future cash flows and its balance sheet structure, the Group invests in securities and categorises a portion of purchased securities in the held-to-maturity portfolio. The key criterion driving this decision is the Group's ability to hold the security to maturity assuming sufficient financial coverage throughout the whole term of the investment. Should the sale of a significant volume of the held-to-maturity debt securities before their maturity take place, pursuant to IAS 39 the Group would be required to reallocate the held-to-maturity securities into one of the remaining portfolios. In terms of the Group's asset management policy, the purchase of a debt security into the portfolio of the held-to-maturity debt securities is primarily considered as a tool of the banking book interest rate risk management, the ability to hold such a debt security to maturity is a pre-condition for using the debt security as a banking book interest rate risk management tool.

(c) Impairment of Securities

Securities held by the Group, the only exception being debt securities in the held-to-maturity portfolio, are regularly marked to market and the marked-to-market revaluation is recognised in the profit and loss account (the trading portfolio and the at-fair-value-through-profit-or-loss portfolio) or in equity (the available-for-sale portfolio). The revaluation also reflects impairment, if any, of the securities (for instance, as a result of the bankruptcy of their issuer).

If the Group concludes that some of its securities held to maturity suffered impairment (for instance, a full redemption of the nominal value of a debt security cannot be anticipated with a sufficient degree of certainty), the carrying amount of the security is written down and the incurred loss is taken to the profit and loss account. The same treatment applies to securities available for sale, impairment is reflected in the profit and loss account instead of equity where current fluctuations in the market value of the security are recognised.

(d) Valuation of Instruments without Direct Quotations

Financial instruments without direct quotations in an active market are valued using the mark-to-model technique. The models are regularly reviewed by a skilled employee of the Risk Management Department that is different from the preparer of the model. Each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (eg, for correlations, volatilities, etc). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

(e) Provisions

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

(f) Investment Property

The fair value of investment property is determined by an independent real estate appraiser and is based upon expected yearly net income by using a permanent (expected) yield method. The expected yield is determined using the comparison method (similar realised transactions on the same market).

(g) Fair Value of Assets

Assets held for sale are valued based on expert appraisals prepared by independent real estate appraisers and the valuation reflects anticipated prices on the real estate market.

(h) Impairment of Assets

The Group tests its assets for impairment at least on an annual basis to determine whether there is any indication that those assets have suffered impairment. If any such indication exists, the Group compares the carrying amount of the assets with their recoverable amount defined as the higher of fair value less costs to sell and value in use.

With regard to equity investments that are within the scope of IAS 27 Consolidated and Separate Financial Statements and IFRS 3 Business Combinations, the Group determines value in use which is established as equal to the discounted value of the projected cash flows from individual investments. The discount rate used by the Group matches the zero-risk rate increased by a credit mark-up reflecting the Group's external rating.

The Group determines the fair value of investment property under construction on the basis of its estimate of discounted future cash inflows to be derived from the sale of the property net of the outflows associated with the sale and construction of the property.

With regard to tangible assets within the scope of IAS 16 Property, Plant and Equipment, the Group determines the fair value less costs to sell. The fair value is arrived at on the basis of expert appraisals prepared by certified appraisers.

The Group determines the value in use of intangible assets by estimating discounted future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal.

The fair value of securities held to maturity and securities available for sale that fall within the scope of IAS 39 Financial instruments: Recognition and Measurement is determined on the basis of standard market parameters or valuation models as appropriate.

5. COMPANIES INCLUDED IN CONSOLIDATION

The consolidated financial statements include the following subsidiaries:

Name of the company	Registered office	Principal activities	Group interest	
			2006	2005
Atrium Center s. r. o.	Slovakia	Investing in real estate	66.7%	100.0%
BGA Czech, s. r. o.	Prague	Investing in real estate	66.7%	100.0%
brokerjet České spořitelny, a. s.	Prague	Investment services	51.0%	51.0%
CEE Property Development Portfolio B. V. ("CPDP B. V.")	Netherlands	Investing in real estate	100.0%	100.0%
CF Danube Leasing, s. r. o.	Slovakia	Leasing	–	100.0%
CSPF Residential B. V.	Netherlands	Investing and investment holding	66.7%	–
CPDP 2003 s. r. o.	Prague	Investing in real estate	99.3%	99.3%
CPDP Polygon, s. r. o.	Prague	Investing in real estate	100.0%	–
CPDP Čierna Voda, a. s.	Slovakia	Investing in real estate	100.0%	–
CS Investment Limited	Guernsey	Investing and investment holding	100.0%	100.0%
CS Property Investment Limited	Cyprus	Investing and investment holding	100.0%	100.0%
Czech TOP Venture Fund B. V.	Netherlands	Management and corporate finance	84.3%	84.3%
Czech and Slovak Property Fund B. V. ("CSPF B. V.")	Netherlands	Investing and investment holding	66.7%	100.0%
Factoring České spořitelny, a. s.	Prague	Factoring	100.0%	100.0%
Gallery MYŠÁK a. s.	Prague	Investing in real estate	100.0%	100.0%
Informatika České Spořitelny, a. s.	Prague	IT services	100.0%	100.0%
Investiční společnost České spořitelny, a. s.	Prague	Investment management	100.0%	100.0%
Jegeho Residential s. r. o.	Slovakia	Investing in real estate	66.7%	100.0%
Leasing České spořitelny, a. s.	Prague	Leasing	100.0%	100.0%
P.B.E., a. s.	Prague	Investing in real estate	66.7%	–
Penzijní fond České spořitelny, a. s.	Prague	Pension fund	100.0%	100,0%
Pojišťovna České spořitelny, a.s	Pardubice	Insurance	55.3%	55,3%
REICO investiční společnost České spořitelny, a. s.	Prague	Investment management	100.0%	–
Satpo Sacre Coeur s. r. o.	Prague	Investing in real estate	33.3%	–
Satpo Jeseniova s. r. o. (PRK Epsilon 05 s. r. o. and RUR s. r. o.)	Prague	Investing in real estate	33.3%	–
S Autoleasing, a. s.	Prague	Leasing	100.0%	100.0%
s Autoúvěr, a. s.	Prague	Lending	100.0%	–
Smíchov Real Estate a. s.	Prague	Investing in real estate	66.7%	100.0%
Solitaire Real Estate a. s.	Prague	Investing in real estate	66.7%	100.0%
Stodůlky Real Estate s. r. o.	Prague	Investing in real estate	66.7%	100.0%
Stavební spořitelna České spořitelny, a. s.	Prague	Building savings bank	95.0%	95.0%
TAVARESA a. s.	Prague	Investing in real estate	100.0%	–
Trenčín Retail Park a. s.	Slovakia	Investing in real estate	60.0%	–
Trenčín Property a. s.	Slovakia	Investing in real estate	66.7%	–
Zahradní čtvrť, a. s.	Prague	Investing in real estate	33.7%	–

The Group owns less than 50 percent of the share capital of Satpo Sacre Coeur s. r. o., Satpo Jeseniova s. r. o. and Zahradní čtvrť, a. s. but has the power to govern the financial and operating policies of these entities. As such, these entities are treated as subsidiaries and are consolidated in full.

(a) Penzijní fond České spořitelny, a. s.

Up to 10 percent of the profits from the pension fund can be distributed to the shareholders and no less than 5 percent of the profits is allocated to the reserve fund. The shareholders incur the entire loss, if any. All other profit is available for distribution to participants (customers).

(b) Czech and Slovak Property Fund B. V.

In 2006, the Bank sold 33.3 percent of the issued share capital of Czech and Slovak Property Fund B. V. The selling price was determined on the basis of an expert appraisal using the discounted future cash flows method. The expert appraisal covered not only completed projects that are measured at fair value on the balance sheet but also assets under construction that are stated at cost on the balance sheet (refer to Note 3f). This valuation difference resulted in an aggregate gain on the sale of CZK 91 million.

The structure of the sold assets and liabilities at the acquisition date is as follows:

CZK mil	
Cash and cash equivalents	1
Other assets	382
Liabilities	(301)
Subtotal	**82**
Gain on the sale	91
Selling price	173
Less: cash and cash equivalents	(1)
Net cash flow from the sale of the 33.3 percent investment	**172**

The sale of the investment in CSPF B. V. was accompanied by the appropriate decrease in the Group's holdings in its subsidiaries.

(c) Companies Consolidated since 2006

For the year ended 31 December 2006, the consolidated financial statements have included, for the first time, REICO investiční společnost České spořitelny, a. s. and s Autoúvěr, a. s., and the following entities acquired by real estate funds during 2006:

CZK milion Name of the entity	Acquisition date	Owner	Voting power in %	Costs of acquisition	Profit/(loss) since the acquisition date	Profit/(loss) for year 2006
CPDP Polygon, s. r. o.	12 June 2006	CPDP B. V.	100.0%	93	35	40
CPDP Čierna Voda, a. s.	11 May 2006	CPDP B. V.	100.0%	86	17	34
TAVARESA a. s.	3 August 2006	CPDP B. V.	100.0%	58	(1)	(3)
CSPF Residential B. V.	2 October 2006	CSPF B. V.	66.7%	1	–	–
P.B.E., a. s.	15 December 2006	Smíchov Real Estate, a. s.	66.7%	109	–	–
Satpo Sacre Coeur s. r. o.	12 July 2006	CSPF Residential B. V.	33.3%	0.1	(5)	(6)
Satpo Jeseniova s. r. o.	20 December 2006	CSPF Residential B. V.	33.3%	0.1	–	(11)
Trenčín Retail Park a. s.	12 July 2006	Trenčín Property a. s.	60.0%	–	–	–
Trenčín Property a. s.	20 June 2006	CSPF B. V.	66.7%	2	(8)	(8)
Zahradní čtvrť, a. s.	14 February 2006	CSPF Residential B. V.	33.7%	7	(23)	(23)

The Bank fully consolidates the investments in the real-estate funds in its consolidated financial statements. While the Bank holds 20 percent and 10 percent of the issued share capital of the funds, respectively, and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank receiving substantially all of the returns and bearing substantially all of the risks of the investment. The second shareholder bears minimal risks and receives minimal returns from its investment in the funds.

The acquisition cost of the above stated companies was equal to the fair value of net assets at the acquisition date.

CZK milion	Zahradní čtvrť, a. s.	Satpo Jeseniova (PRK Epsilon 05 s. r. o. and RUR s. r. o.)	TAVARESA a. s.	Total
Cost	7	48	39	95
Net assets at the acquisition date (at historical cost)	(18)	(17)	2	(34)
The Group's interest in net assets	(9)	(17)	2	(24)
Difference on a business combination	17	65	37	119
Fair value remeasurement of net assets at the acquisition date	41	86	46	173
Deferred tax on revaluation	8	21	9	37
Total impact on equity	33	65	37	135
Fair value of net assets under construction at the acquisition date	15	49	39	173
The Group's interest in net assets at fair value	7	49	39	96

(d) Unconsolidated Investments

The following subsidiary undertakings: Genesis Private Equity Fund B L.P., Consulting ČS, a. s., Realitní společnost ČS, a. s., Erste Corporate Finance, a. s., CF Danube Leasing, s. r. o., Corfina Trade, s. r. o., CPDP IT Centrum s. r. o., CPDP Jungmannova s. r. o., DJA Czech s. r. o., HLC Czech s. r. o., are excluded from consolidation due to immateriality. The aggregate value of the assets of these unconsolidated investments was CZK 638 million as of 31 December 2006 (31 December 2005: CZK 409 million).

The following associate undertakings: FNE B. V., I2S, a. s., České nemovitosti, a. s., CBCB-Czech Banking Credit Bureau, a. s., První certifikační autorita, a. s., s IT Solutions SK, spol. s r. o. (formely Spordat s. r. o.), are excluded from consolidation due to immateriality. The aggregate value of the Group's share of the equity of these unconsolidated investments was CZK 79 million as of 31 December 2006 (31 December 2005: CZK 44 million).

During the year ended 31 December 2006, Erste Factoring d.o.o. was formed in Croatia in which Factoring České spořitelny, a. s. holds a 51 percent equity investment. At the end of the year, 48.5 percent of the entity's share capital was sold and the Group held a 2.5 percent investment as of 31 December 2006.

6. CASH AND BALANCES WITH THE CNB

CZK mil	2006	2005
Cash	14,076	13,201
Nostro accounts with the CNB	445	720
Minimum reserve deposit with the CNB	8,630	4,183
Total	**23,151**	**18,104**

Minimum reserve deposits represent mandatory deposits calculated in accordance with regulations promulgated by the CNB, and whose withdrawal is restricted. Minimum reserve deposits bear interest at the two week repo rate of the CNB. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulation. The nostro balances represent balances with the CNB relating to settlement activities and were available for withdrawal at the year-end.

7. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

CZK mil	2006	2005
Nostro accounts	556	511
Loans and advances to financial institutions	32,207	48,211
Placements with financial institutions	40,416	49,124
Total	**73,179**	**97,846**

As of 31 December 2006, the Group provided certain financial institutions with loans of CZK 26,814 million (2005: CZK 47,270 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 26,339 million (2005: CZK 47,136 million).

8. AMOUNTS DUE FROM ČESKÁ KONSOLIDAČNÍ AGENTURA

With effect from 1 September 2001, Konsolidační banka Praha, s.p.ú. was transformed into Česká konsolidační agentura ('ČKA') pursuant to Act 239/2001 Coll. This entity's receivables have been included in the government sector and are guaranteed by the State pursuant to the Act referred to above.

CZK mil	2006	2005
Amounts due from Česká konsolidační agentura	5,000	15,653

As of 31 December 2006, the Group had loans of CZK 5,000 million related to the loan portfolio restructuring effected by the State with ČKA's assistance (2005: CZK 14,900 million). These loans will fall due for repayment in the period from 2007 through 2008.

9. LOANS AND ADVANCES TO CUSTOMERS

The following table shows a breakdown of the loan balance by type of loan:

CZK mil	2006	2005
Corporate loans	101,863	95,444
Mortgage loans	115,411	80,874
Retail loans	85,464	72,980
Public sector loans	13,545	11,693
Finance leases	7,822	6,776
Total	**324,105**	**267,767**

The principal loans and advances to customers are held by the Bank. The following table summarises information about the Bank's credit portfolio.

Industry Sector Analysis

The table below details the breakdown of loans and advances to customers by industry sector:

CZK mil	2006	2005
Non–financial institutions	109,921	92,032
Financial institutions	18,578	23,992
Government sector	15,754	13,884
Not-for-profit organisations	2,423	1,163
Households (self employed)	10,259	8,677
Resident individuals	134,563	104,841
Other	–	18
Total (only for the Bank)	**291,498**	**244,607**
Intra–group loans and advances	(4,057)	(6,450)
Loans and advances of other Group companies	36,664	29,610
Total	**324,105**	**267,767**

As of 31 December 2006, the Bank provided certain customers with loans of CZK nil (2005: CZK 1,014 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK nil (2005: CZK 1,362 million).

The gross exposures shown above include loans in the aggregate amount of CZK 3,853 million (2005: CZK 3,653 million) on which interest is no longer accrued.

Analysis of Loans and Advances to Customers according to Credit Risk Assessment Policies

31 December 2006 CZK mil	Bank	Group companies, net of eliminations	Total
Individually impaired	15,314	1,701	17,015
Collectively impaired	28,442	–	28,442
Unimpaired	247,742	30,906	278,648
Total	**291,498**	**32,607**	**324,105**

31 December 2005 CZK mil	Bank	Group companies, net of eliminations	Total
Individually impaired	12,285	2,180	14,465
Collectively impaired	1,861	–	1,861
Unimpaired	230,461	20,980	251,441
Total	**244,607**	**23,160**	**267,767**

The Group uses various types of collateral in order to mitigate credit risk exposure. The list of collateral instruments is set out in an internal regulation which also outlines the guidance to be followed in determining the values of individual types of collateral. The Group establishes the nominal value of collateral based upon a market valuation which is subsequently used as a basis for arriving at the realisable value by applying a discount factor set for each type of collateral. Collateral that is valued at realisable value is taken into account in provisioning (refer to Note 3b). Collateral valuation rules also set out when and how often the valuations of individual collateral instruments are updated.

Finance Leases

Loans and advances to customers also include net investments in finance leases.

CZK mil	2006	2005
Gross investment in finance leases	**8,128**	**7,307**
Of which:		
– Less than 1 year	4,344	4,240
– From 1 year to 5 years	3,701	2,972
– Over 5 years	83	95
Unearned income	(306)	(531)
Subtotal	**7,822**	**6,776**
Provision	(931)	(1,403)
Net investment in finance leases	**6,891**	**5,373**
Of which:		
– Less than 1 year	3,482	2,951
– From 1 year to 5 years	3,350	2,358
– Over 5 years	59	64

The principal assets held under lease arrangements include cars and other technical equipment.

10. PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

(a) Creation and use of provisions for losses on loans and advances

CZK mil	2006	2005
At 1 January	6,672	7,166
Charge for provisions	3,656	3,841
Release of provisions	(2,078)	(3,280)
Net charge for provisions	1,578	561
Use of provisions for loans written off and assigned	(1,833)	(1,045)
Reclassifications and FX differences from provisions in foreign currency	(78)	(10)
At 31 December	**6,339**	**6,672**

(b) Provisions for losses on loans and advances by category

31 December 2006 CZK mil	Bank	Group companies	Total
Individually impaired	4,967	1,164	6,131
Collectively impaired	208	–	208
Total	**5,175**	**1,164**	**6,339**

31 December 2005 CZK mil	Bank	Group companies	Total
Individually impaired	4,846	1,626	6,472
Collectively impaired	200	–	200
Total	**5,046**	**1,626**	**6,672**

11. SECURITIES HELD FOR TRADING

CZK mil	2006	2005
Listed debt securities	25,639	17,823
Listed equity securities and other variable yield securities	2,164	1,781
Total	**27,803**	**19,604**

Listed debt securities include Government treasury bills and treasury bills of the CNB in the aggregate amount of CZK 297 million (2005: CZK 4 million) and Government bonds in the aggregate amount of CZK 20,782 million (2005: CZK 9,858 million) which may be used for refinancing with the CNB (the amounts shown above do not reflect securities that were transferred to collateralise loans received under repurchase transactions).

Debt securities comprise:

CZK mil	2006	2005
Variable yield debt securities		
Issued in CZK	210	–
Issued in other currencies	–	246
Total	**210**	**246**
Fixed income debt securities		
Issued in CZK	22,670	10,965
Issued in other currencies	2,759	6,612
Total	**25,429**	**17,577**
Total debt securities	**25,639**	**17,823**

Equity securities and other variable yield securities comprise:

CZK mil	2006	2005
Shares and share certificates		
Issued in CZK	1,513	1,383
Issued in other currencies	651	398
Total	**2,164**	**1,781**

Debt securities were issued by:

CZK mil	2006	2005
Debt securities issued by		
State institutions in the Czech Republic	21,810	10,912
Foreign state institutions	363	1,793
Financial institutions in the Czech Republic	1,052	1,131
Foreign financial institutions	1,820	3,197
Other entities in the Czech Republic	84	20
Other foreign entities	510	770
Total	**25,639**	**17,823**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil	2006	2005
Shares and share certificates issued by		
Foreign financial institutions	2,070	1,706
Other entities in the Czech Republic	10	69
Other foreign entities	84	6
Total	**2,164**	**1,781**

12. SECURITIES DESIGNATED UPON INITIAL RECOGNITION AS AT FAIR VALUE THROUGH PROFIT OR LOSS

CZK mil	2006	2005
Debt securities		
Listed	14,868	11,144
Unlisted	–	17
Equity securities and other variable yield securities		
Listed	6,009	5,097
Unlisted	860	680
Total	**21,737**	**16,938**

Debt securities do not include Government treasury bills, treasury bills of the CNB and Government bonds which may be used for refinancing with the CNB. In 2006, debt securities additionally include securitised securities of CZK 1,565 million (2005: CZK 2,052 million).

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence in the aggregate amount of CZK 860 million (2005: CZK 680 million).

Debt securities comprise:

CZK mil	2006	2005
Variable yield debt securities		
Issued in CZK	10	669
Issued in other currencies	3,658	2,892
Total	**3,668**	**3,561**
Fixed income debt securities		
Issued in CZK	226	21
Issued in other currencies	10,974	7,579
Total	**11,200**	**7,600**
Total debt securities	**14,868**	**11,161**

Equity securities and other variable yield securities comprise:

CZK mil	2006	2005
Shares and share certificates		
Issued in CZK	1,064	967
Issued in other currencies	5,805	4,810
Total	**6,869**	**5,777**

Debt securities were issued by the following issuers:

CZK mil	2006	2005
Debt securities issued by		
State institutions in the Czech Republic	88	213
Foreign state institutions	2,632	2,231
Financial institutions in the Czech Republic	255	287
Foreign financial institutions	11,120	8,025
Other entities in the Czech Republic	134	-
Other foreign entities	639	405
Total	**14,868**	**11,161**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil	2006	2005
Shares and share certificates issued by		
Financial institutions in the Czech Republic	3,950	2,936
Foreign financial institutions	2,919	2,841
Total	**6,869**	**5,777**

13. POSITIVE FAIR VALUE OF FINANCIAL DERIVATIVE TRANSACTIONS

CZK mil	2006	2005
Hedging		
– Foreign currency	25	7
– Interest rate	383	328
Total hedging	408	335
Non–hedging		
– Foreign currency	8,163	4,997
– Interest rate	9,698	12,398
– Other	164	118
Total non–hedging	18,025	17,513
Total positive fair value of financial derivative transactions	**18,433**	**17,848**

14. SECURITIES AVAILABLE FOR SALE

CZK mil	2006	2005
Debt securities		
Listed	37,525	28,778
Equity securities and other variable yield securities		
Listed	1,817	1,852
Unlisted	43	40
Total	**39,385**	**30,673**

Debt securities include Government treasury bills and treasury bills of the CNB in the aggregate amount of CZK 5,521 million (2005: CZK 3,282 million) and Government bonds of CZK 9,303 million (2005: CZK 14,285 million) which may be used for refinancing with the CNB (the amounts shown above do not reflect securities that were transferred to collateralise loans received under repurchase transactions).

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence in the aggregate amount of CZK 43 million (2005: CZK 40 million).

Debt securities comprise:

CZK mil	2006	2005
Variable yield debt securities		
Issued in CZK	6,701	2,369
Issued in other currencies	4,544	3,675
Total	**11,245**	**6,044**
Fixed income debt securities		
Issued in CZK	23,422	18,015
Issued in other currencies	2,858	4,719
Total	**26,280**	**22,734**
Total debt securities	**37,525**	**28,778**

Equity securities and other variable yield securities comprise:

CZK mil	2006	2005
Shares and share certificates		
Issued in CZK	566	340
Issued in other currencies	1,294	1,555
Total	**1,860**	**1,895**

Debt securities were issued by the following issuers:

CZK mil	2006	2005
Debt securities issued by		
State institutions in the Czech Republic	27,383	17,567
Foreign state institutions	3,249	3,536
Financial institutions in the Czech Republic	2,355	2,435
Foreign financial institutions	3,689	4,452
Other entities in the Czech Republic	160	61
Other foreign entities	689	727
Total	**37,525**	**28,778**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil	2006	2005
Shares and share certificates issued by		
Financial institutions in the Czech Republic	116	63
Other entities in the Czech Republic	1,077	67
Foreign financial institutions	96	1,213
Other foreign entities	571	552
Total	**1,860**	**1,895**

15. ASSETS HELD FOR SALE

CZK mil	2006	2005
Cost		
At 1 January	578	146
Additions	199	589
Disposals	(160)	(157)
At 31 December	617	578
Accumulated depreciation including impairment		
At 1 January	(252)	(68)
Additions	(115)	(258)
Disposals	70	74
At 31 December	(297)	(252)
Net book value at 31 December	**320**	**326**

Assets are reported as held for sale due to their redundancy. When transferring assets to this category, the Group recorded impairment of CZK 28 million.

A portion of the assets held for sale as of 1 January 2006 at an aggregate carrying amount of CZK 227 million was not sold in 2006 for reasons that were beyond the Group's control. However, the Group's commitment to sell these assets remains unchanged and the Group is taking active steps to complete the sale in 2007. As such, these assets were not reclassified at the balance sheet date.

All assets held for sale are presented in the 'Other activities' segment.

16. SECURITIES AND OTHER ASSETS HELD TO MATURITY

CZK mil	2006	2005
Debt securities		
Listed	141,119	123,982
Unlisted	310	628
Equity investments		
Subsidiaries and associates excluded from consolidation	451	385
Total	**141,880**	**124,995**

Listed debt securities include Government treasury bills and treasury bills of the CNB of CZK 15,323 million (2005: CZK 15,952 million) and Government bonds of CZK 64,938 million (2005: CZK 55,680 million) which may be used for refinancing with the CNB (the amounts shown above do not reflect securities that were transferred to collateralise loans received under repurchase transactions).

The portfolio additionally comprises credit linked notes issued by the parent company, Erste Bank at a cost of CZK 310 million (2005: CZK 628 million).

Unconsolidated subsidiaries and associated companies are described in Note 5c.

Debt securities comprise:

CZK mil	2006	2005
Variable yield debt securities		
Issued in CZK	20,413	19,127
Issued in other currencies	2,830	–
Total	**23,243**	**19,127**
Fixed income debt securities		
Issued in CZK	117,636	105,483
Issued in other currencies	550	–
Total	**118,186**	**105,483**
Total debt securities	**141,429**	**124,610**

Debt securities were issued by the following issuers:

CZK mil	2006	2005
Debt securities issued by		
State institutions in the Czech Republic	87,517	82,287
Financial institutions in the Czech Republic	9,801	8,352
Foreign financial institutions	42,499	32,855
Other entities in the Czech Republic	1,113	1,116
Other foreign entities	499	–
Total	**141,429**	**124,610**

17. FINANCIAL PLACEMENTS OF INSURANCE COMPANIES

Financial placements of insurance companies comprise the following types of assets:

CZK mil	2006	2005
Loans and advances to financial institutions	**31**	**32**
Securities at fair value through profit or loss		
Listed debt securities	4,413	2,905
Shares and share certificates	2,125	985
– Listed	972	731
– Unlisted	1,153	254
Total	**6,538**	**3,890**
Securities held to maturity		
Listed debt securities	7,266	6,321
Real estate	43	49
Total	**13,878**	**10,292**

18. INVESTMENT PROPERTY

CZK mil	2006	2005
At 1 January	6,379	–
Additions (fair value at the date of acquisition under business combinations)	1,569	6,175
Purchases	69	–
Net gains from fair value revaluations	531	125
Deferred tax movement (refer to Note 30)	224	79
At 31 December	**8,772**	**6,379**

Rental income arising from investment property amounted to CZK 451 million (2005: CZK 259 million). Operating expenses on this investment property amounted to CZK 57 million (2005: CZK 33 million).

19. INTANGIBLE FIXED ASSETS

	Goodwill	Software	Other	Total
Cost				
1 January 2005	28	2,622	5,988	8,638
Additions	–	530	1,492	2,022
Disposals	–	(409)	(473)	(882)
31 December 2005	28	2,743	7,007	9,778
1 January 2006	28	2,743	7,007	9,778
Additions	–	1,058	736	1,794
Disposals	–	(40)	(153)	(193)
31 December 2006	**28**	**3,761**	**7,590**	**11,379**
Accumulated amortisation including impairment and provisions				
1 January 2005	(17)	(1,749)	(2,495)	(4,261)
Additions (refer to Note 41)	–	(441)	(1,082)	(1,523)
Provision for impairment	–	–	96	96
Disposals	–	367	5	372
31 December 2005	(17)	(1,823)	(3,476)	(5,316)
1 January 2006	(17)	(1,823)	(3,476)	(5,316)
Additions (refer to Note 41)	–	(556)	(1,095)	(1,651)
Disposals	–	29	138	167
31 December 2006	**(17)**	**(2,350)**	**(4,433)**	**(6,800)**
Net book value				
31 December 2006	**11**	**1,411**	**3,157**	**4,579**
31 December 2005	11	921	3,531	4,462

The balances as of 31 December 2006 shown above include CZK 1,967 million (2005: CZK 2,094 million) in assets under construction.

In 2005, the Group released a part of the provision recognised in the past in respect of an impairment of assets under construction relating to the purchase of licences to operate an information system due to redundancy. In 2006, the Group recorded asset impairment of CZK 11 million (2005: CZK nil).

20. PROPERTY AND EQUIPMENT

CZK mil	Land and buildings	Equipment, fixtures and fittings	Total
Cost			
1 January 2005	16,894	11,310	28,204
Application of IFRS 5	(145)	(1)	(146)
Additions	540	1,458	1,998
Disposals	(1,216)	(1,035)	(2,251)
31 December 2005	**16,073**	**11,732**	**27,805**
1 January 2006	16,073	11,732	27,805
Additions	526	1,510	2,036
Disposals	(593)	(1,740)	(2,333)
31 December 2006	**16,006**	**11,502**	**27,508**
Accumulated depreciation including impairment and provisions			
1 January 2005	(4,800)	(7,684)	(12,484)
Application of IFRS 5	67	1	68
Additions (refer to Note 41)	(187)	(1,400)	(1,587)
Provision for impairment	(95)	(1)	(96)
Disposals	54	490	544
31 December 2005	**(4,961)**	**(8,594)**	**(13,555)**
1 January 2006			
Additions (refer to Note 41)	(4,961)	(8,594)	(13,555)
Provision for impairment	(454)	(1,298)	(1,752)
Disposals	316	1,120	1,436
31 December 2006	**(5,099)**	**(8,772)**	**(13,871)**
Net book value			
31 December 2006	**10,907**	**2,730**	**13,637**
31 December 2005	11,112	3,138	14,250

The balances as of 31 December 2005 shown above include CZK 783 million (2005: CZK 642 million) in assets under construction.

In 2006, the Group recognised asset impairment of CZK 35 million relating largely to real estate that is insufficiently used by the Group for its activities (2005: CZK 96 million).

21. OTHER ASSETS

CZK mil	2006	2005
Accrued income	8,274	8,059
Of which:		
– Interest on loans and advances to financial institutions	349	230
– Interest on loans and advances to customers, including ČKA	776	698
– Coupons on bonds	3,886	3,703
– State support	3,219	3,411
– Other	44	17
Deferred expenses	1,006	724
Deferred tax asset (refer to Note 30)	62	44
Receivables arising from due income taxes	125	37
Inventory, assets under construction	2,377	541
Various receivables	532	547
Estimated receivables	543	401
Other assets	816	737
Receivables from factoring transactions	4,545	3,330
Receivables from securities trading	508	1,110
Other assets from insurance services	85	69
Total	**18,873**	**15,599**

The receivable from state subsidy totalling CZK 3,219 million (2005: CZK 3,411 million) involves claims in respect of the participants of the building savings scheme offered by the Bank's subsidiary, Stavební spořitelna České spořitelny, a. s. The state subsidy is provided to the participants from the Finance Ministry of the Czech Republic (MF CR) based on the amount of customer deposits at the year-end with a limit of CZK 4,500/CZK 3,000 (for contracts entered into subsequent to 1 January 2005) per participant (refer to Note 23.).

22. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

CZK mil	2006	2005
Loro accounts	267	389
Other	46,094	34,509
Total	**46,361**	**34,898**

As of 31 December 2006, the Bank received from other financial institutions loans of CZK 9,206 million (2005: CZK 15,171 million) under repurchase transactions which were collateralised by securities amounting to CZK 8,959 million (2005: CZK 14,917 million).

23. AMOUNTS OWED TO CUSTOMERS

CZK mil	2006	2005
Repayable on demand	326,171	275,625
Other deposits	211,316	205,931
Total	**537,487**	**481,556**

As of 31 December 2006, the Bank received from customers loans of CZK 516 million (2005: CZK 727 million) under repurchase transactions which were collateralised by securities amounting to CZK 515 million (2005: CZK 720 million).

Other deposits include a payable of CZK 3,219 million (2005: CZK 3,411 million) arising from state subsidy claims in respect of building savings programme participants (refer to Note 21).

Analysis of amounts owed to customers:

CZK mil	2006	2005
Savings deposits	183,385	182,199
Other amounts owed to customers		
– Public sector	45,357	34,869
– Corporate clients	78,171	68,303
– Retail clients	230,572	196,156
– Other	2	29
Total	**537,487**	**481,556**

The "Retail clients" line includes amounts of CZK 19,226 million (2005: CZK 15,656 million) owed to customers as a result of retirement benefit scheme contributions. These amounts were originally presented in the "Other" line in 2005.

24. LIABILITIES AT FAIR VALUE

CZK mil	2006	2005
Payables arising from short sales – debt securities	5,435	7,360
Payables arising from short sales – shares	15	2
Total	**5,450**	**7,362**

25. NEGATIVE FAIR VALUE OF FINANCIAL DERIVATIVE TRANSACTIONS

CZK mil	2006	2005
Hedging		
– Foreign currency	–	3
– Interest rate	254	305
Total hedging	254	308
Non–hedging		
– Foreign currency	2,792	962
– Interest rate	9,257	13,046
– Other	381	254
Total non–hedging	12,430	14,262
Total negative fair value of financial derivative transactions	**12,684**	**14,570**

26. BONDS IN ISSUE

	ISIN	Date of issue	Maturity	Interest rate	2006 CZK mil	2005 CZK mil
Mortgage bonds	CZ0002000201	November 2002	November 2007	5.80%	2,442	2,585
Mortgage bonds	CZ0002000235	March 2003	March 2008	5.20%	3,028	3,121
Mortgage bonds	CZ0002000276	August 2003	August 2008	4.50%	2,636	2,604
Mortgage bonds	CZ0002000342	April 2004	April 2009	3.50%	298	278
Mortgage bonds	CZ0002000409	August 2004	August 2009	3.60%	695	476
Mortgage bonds	CZ0002000516	May 2005	August 2006	1.85%	–	600
Mortgage bonds	CZ0002000524	May 2005	May 2010	4.50%	1,861	1,893
Mortgage bonds	CZ0002000573	June 2005	June 2010	4.05%	1,872	1,924
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	5,441	5,560
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,863	
Mortgage bonds	CZ0002000763	December 2005	December 2012	3M Pribor -0.2%	–	1,999
Mortgage bonds	CZ0002000771	December 2005	December 2008	4.45%	2,275	783
Mortgage bonds	CZ0002000896	October 2006	October 2011	Floating	1,075	–
Mortgage bonds	CZ0002000904	October 2006	October 2014	3.65%	1,064	–
Mortgage bonds	CZ0002000920	October 2006	October 2011	3.00%	201	–
Bonds	CZ0003700759	February 2004	February 2008	1.00% x)	116	114
Bonds	CZ0003700767	February 2004	February 2014	3.51% x)	1,499	1,499
Bonds	CZ0003701013	May 2005	June 2008	– x)	243	242
Bonds	CZ0003701047	July 2005	July 2012	2.72% xx)	696	714
Bonds	CZ0003701054	September 2005	September 2017	4.75% x)	204	196
Depository bills of exchange					3,899	14,694
Total					**34,408**	**39,282**

x) Bonds were issued with a combined yield.
xx) If the early repayments option is not exercised, the interest rate is increased by 3.55 percent.

Of the aggregate carrying value of the mortgage bonds, CZK 16,952 million (2005: CZK 16,568 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with applicable accounting policies, these mortgage bonds are remeasured at fair value.

Bonds issues were placed with an embedded derivative. The ISIN CZ0003700767 and CZ0003701047 issues of bonds are remeasured at fair value because they are hedged against interest rate risk and early repayment options are attached to the bonds. The ISIN CZ0003701013 and CZ0003701054 issues were placed with a share index option which is recorded separately and is remeasured at fair value.

As part of stand-alone issues of mortgage bonds, the Bank issued mortgage bonds ISIN CZ0002000755 with a nominal value of CZK 4,497 million in 2006. As part of its bond placement programme, the Bank issued mortgage bonds ISIN CZ0002000896, HZL ISIN CZ0002000904 and HZL ISIN CZ0002000920 in the aggregate nominal value of CZK 2,950 million in 2006. The difference between the nominal values of the issued mortgage bonds and the carrying amounts of the relevant issues in the above table arises from the difference in valuation and from the elimination of bonds held by Group companies.

27. TECHNICAL INSURANCE PROVISIONS

Charge for and use of provisions

CZK mil	2006	2005
Balance at 1 January	10,625	9,288
Charge for provisions	5,414	3,163
Use of provisions	(2,605)	(1,826)
Balance at 31 December	**13,434**	**10,625**

28. PROVISIONS FOR LIABILITIES AND OTHER RESERVES

(a) Structure of provisions

CZK mil	2006	2005
Provision for legal disputes relating to credit transactions	1,997	2,089
Provision for off balance sheet credit risks	102	1
Other reserves	576	536
Total	**2,675**	**2,626**

Other reserves include reserves for the Bonus programme, legal disputes, onerous contracts and other risks. The most significant reserve for the Bonus programme is maintained to cover the cost of providing clients with awards for the use of payment cards in making cash-free payments. The level of the reserve is determined by reference to the current developments in the drawing of the awards where the average value of the point is CZK 0.095 and clients utilise 80 percent of the allocated points, on average.

(b) Charge for and use of provisions

CZK mil	2006	2005
Balance at 1 January	2,626	2,570
Charge for provisions	464	716
Use of provisions	(143)	(65)
Release of provisions	(272)	(595)
Balance at 31 December	**2,675**	**2,626**

(c) Provisions for other credit risks and off balance sheet credit exposures

Provisions for other credit risks and off balance sheet credit exposures are recorded to cover specific risks arising from pending legal disputes relating to loan transactions and to cover losses that result from off balance sheet and other exposures.

CZK mil	2006	2005
Balance at 1 January	2,090	2,211
Charge for provisions	284	441
Use of provisions	(3)	(62)
Release of provisions	(272)	(500)
Balance at 31 December	**2,099**	**2,090**

29. OTHER LIABILITIES

CZK mil	2006	2005
Accrued expenses	912	560
Of which:		
– Interest on amounts owed to financial institutions	86	36
– Interest on amounts owed customers	148	66
– Interest on bonds in issue	635	432
– Other	43	26
Deferred income	919	579
Various creditors	2,093	1,704
Payables from factoring transactions	4,176	3,004
Payables from securities trading	466	1,433
Estimated payables	8,259	3,239
Other payables	1,446	3,563
Income tax liability	346	782
Deferred income tax liability (refer to Note 30)	1,529	1,112
Total	**20,146**	**15,976**

Estimated payables largely comprise estimated payables for staff and management bonuses, unbilled supplies and contributions to the Deposit Insurance Fund.

30. DEFERRED INCOME TAXES

Deferred income tax is calculated from all temporary differences under the liability method using a principal tax rate of 24 percent (2005: 24 percent), 5 percent for Penzijní fond České spořitelny, a. s. (2005: 5 percent) and 19 percent for companies based in Slovakia (2005: 19 percent).

Deferred income tax assets (liabilities) are as follows:

CZK mil	2006	2005
Balance at the beginning of the year	(1,068)	(578)
Movements arising from acquisitions and change in minority shareholders' holding	(306)	(803)
Movement for the year – equity	111	154
Movement for the year – income/(expense)	(204)	159
Net balance at the end of the year	**(1,467)**	**(1,068)**

The impact of deferred tax liabilities on equity arises from changes in the fair value of securities available for sale and hedging derivatives. The deferred tax (charge)/credit in the profit and loss account comprises the following temporary differences:

CZK mil	2006	2005
Tax losses carried forward	29	4
Provisions and reserves	52	(66)
Accelerated depreciation	79	48
Fair value of investment property (refer to Note 18)	(224)	(79)
Other temporary differences	(140)	252
Total (refer to Note 44)	**(204)**	**159**
Of which: impact of the change of rate	**–**	**(1)**

Deferred income tax assets and liabilities are attributable to the following items:

CZK mil	2006	2005
Deferred tax assets		
Tax losses carried forward	47	17
Non-tax deductible reserves and provisions	301	248
Other temporary differences	135	236
	483	501
Deferred tax asset adjustment (net of liabilities)	(421)	(457)
Total deferred tax asset (refer to Note 21)	**62**	**44**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(250)	(329)
Changes in fair value of securities available for sale and hedging derivatives (refer to Note 34)	(95)	(206)
Fair value of investment property	(1,326)	(866)
Other temporary differences	(279)	(168)
	(1,950)	(1,569)
Deferred tax liability adjustment (net of assets)	421	457
Total deferred tax liability (refer to Note 29)	**(1,529)**	**(1,112)**
Net deferred tax asset (liability)	**(1,467)**	**(1,068)**

31. SUBORDINATED DEBT

Date of issue	Maturity of the issue	Interest rate	Nominal value CZK mil	Carrying amount at 31 December 2006 CZK mil	Carrying amount at 31 December 2005 CZK mil
16 May 2005	16 May 2015	6M PRIBOR +0.46%	3,000	2,948	2,998
2 October 2006	2 October 2016	6M PRIBOR +0.45%	3,000	2,938	–
Total				**5,886**	**2,998**

Both issues of subordinated debt were made in certificate form and placed on the free market of the Prague Stock Exchange. If the Bank does not exercise its option for premature repayment of the debt after the lapse of five years, the interest rates attached to each issue shall increase to 6M PRIBOR plus 1.4 percent p.a. Interest is payable semi-annually in arrears. The debt is unsecured and unconditional. On 5 May 2005 and 13 September 2006, the Czech National Bank issued certificates confirming that these issues of subordinated debt are compliant with all regulatory requirements and may be included in the additional capital of the Bank for the purposes of calculating the capital adequacy ratio.

32. MINORITY INTERESTS

CZK mil	2006	2005
Balance at 1 January	849	1,702
Minority interest in the current year's profit	174	112
Sale of interest to minority shareholders	152	–
Dividends paid to minority shareholders	(98)	(969)
Valuation gains or losses	(2)	4
Minority interests in the companies newly included in consolidation, increase in capital and foreign exchange differences	193	–
Balance at 31 December	**1,268**	**849**

33. SHARE CAPITAL

Authorised, called-up and fully paid share capital was as follows:

	Number of shares	2006 CZK mil	Number of shares	2005 CZK mil
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Priority shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Priority shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, priority shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Priority shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Priority registered shares can be issued only to municipalities and local governments in the Czech Republic. The priority registered shares can be transferred to entities other than municipalities and local governments of the Czech Republic only subject to the approval of the Board of Directors.

34. REVALUATION GAINS OR LOSSES

	Securities available for sale		Hedging derivatives		FX differences		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
At 1 January								
Gain on fair value changes	929	1,628	–	–	–	–	929	1,628
Deferred tax liability	(209)	(360)	3	–	–	–	(206)	(360)
FX differences	–	–	–	–	7	(9)	7	(9)
Cash flow hedge	–	–	(18)		–		(18)	
Total at 1 January	720	1,268	(15)	–	7	(9)	712	1,259
Changes during the year								
Gain/(loss) on fair value changes	(521)	(699)	–	–	–	–	(521)	(699)
Deferred tax (liability)/asset	115	151	(4)	3	–	–	111	154
FX differences	–	–	–	–	(110)	16	(110)	16
Cash flow hedge	–	–	27	(18)	–	–	27	(18)
At 31 December								
Gain on fair value changes	408	929	–	–	–	–	408	929
Deferred tax (liability)/asset	(94)	(209)	(1)	3	–	–	(95)	(206)
FX differences	–	–	–	–	(103)	7	(103)	7
Cash flow hedge	–	–	9	(18)	–	–	9	(18)
Total at 31 December	314	720	8	(15)	(103)	7	219	712

35. INTEREST INCOME AND SIMILAR INCOME

CZK mil	**2006**	2005
Loans and advances to financial institutions	2,933	2,508
Loans and advances to customers	17,562	15,093
Debt securities and other fixed income securities	7,047	6,731
Proceeds from shares and other variable yield securities	402	165
Rental income	540	360
Total	**28,484**	**24,857**

Rental income for the year ended 31 December 2006 includes rental proceeds of CZK 451 million (2005: CZK 259 million) arising from investment property.

36. INTEREST EXPENSE AND SIMILAR EXPENSE

CZK mil	2006	2005
Amounts owed to financial institutions	969	869
Amounts owed to customers	5,489	4,883
Bonds in issue	1,106	468
Subordinated debt	108	49
Fair value of hedging derivatives	(198)	(132)
Other	–	1
Total	**7,474**	**6,138**

37. PROVISIONS FOR CREDIT RISKS

CZK mil	2006	2005
Charge for reserves for the year (refer to Note 28)	(284)	(441)
Release of reserves for the year (refer to Note 28)	272	500
Net (charge)/release of reserves for the year	(12)	59
Charge for provisions for the year (refer to Note 10)	(3,656)	(3,841)
Release of provisions for the year (refer to Note 10)	2,078	3,280
Reversal of the charge for provisions for outstanding interest	11	65
Net charge for provisions for the year	(1,567)	(496)
Write-offs of loans not covered by provisions	(13)	(13)
Recoveries	105	64
Total	**(1,487)**	**(386)**

38. FEE AND COMMISSION INCOME

CZK mil	2006	2005
Lending activities	1,787	1,495
System of payment	5,885	5,664
Securities transactions	1,178	808
Building savings activities	859	760
Foreign exchange transactions	40	42
Other financial activities	297	342
Total	**10,046**	**9,111**

39. FEE AND COMMISSION EXPENSE

CZK mil	2006	2005
Lending activities	90	9
System of payment	489	299
Securities transactions	51	30
Building savings activities	201	36
Foreign exchange transactions	4	5
Other financial activities	214	348
Total	**1,049**	**727**

40. NET TRADING RESULT

CZK mil	2006	2005
Realised and unrealised profit/(loss) on securities held for trading	(372)	192
Derivative instruments	527	(279)
Foreign exchange trading	1,371	1,307
Other	214	137
Total	**1,740**	**1,357**

41. GENERAL ADMINISTRATIVE EXPENSES

(a) Composition of general administrative expenses

CZK mil	2006	2005
Staff costs		
Wages and salaries	5,526	5,247
Social security costs	2,099	2,007
Other staff costs	104	89
Total staff costs	**7,729**	**7,343**
Other administrative expenses		
Data processing expenses	1,702	1,566
Building maintenance and rent	1,319	1,300
Costs of business transactions	1,079	963
Advertising and marketing	906	802
Advisory and legal services	613	465
Other administrative expenses	614	588
Total other administrative expenses	**6,233**	**5,684**
Depreciation		
Amortisation of intangible assets (refer to Note 19)	1,641	1,523
Depreciation of property and equipment (refer to Notes 15 and 20)	1,713	1,845
Total depreciation	**3,354**	**3,368**
Total	**17,316**	**16,395**

(b) Board of Directors and Supervisory Board emoluments

CZK mil	2006	2005
Short-term employee benefits	187	180
Benefits payable at premature termination of employment	1	–
Total	**188**	**180**

(c) Average number of employees and Board members

	2006	2005
Board of Directors	7	8
Supervisory Board	12	12
Staff	10,809	11,406

With a view to fostering loyalty of the Bank's key employees and attracting new key managers, the Supervisory Board of Erste Bank, resolved, based upon authorisation given by the General Meeting of Shareholders dated 8 May 2001, to implement an Employee Erste Bank Stock Ownership Programme ('ESOP') and a Management Erste Bank Stock Option Programme ('MSOP') within the Group.

All employees of the Bank and its subsidiary companies were entitled to subscribe for shares under the Employee Stock Ownership Programme. Each employee was entitled to subscribe for a maximum of 200 shares (2005: 200 shares). The price of one share was established on the basis of the average rate in April 2006 decreased by a 20 percent discount. The 20 percent discount is conditional upon the shares being held for a period of one year. A total of 562 employees (2005: 395) participated in the programme and subscribed for 74,537 shares (2005: 50,291).

Management of the Bank and its subsidiary companies and selected key employees were granted the second tranche of options for subscription of shares under the Management Erste Bank Stock Option Plan 2005. In the year ended 31 December 2006, approximately 89,500 options (2005: 143,500) were granted to these employees. The following tranche of the programme in 2007 will be approximately of the same size. These options entitle the holders to acquire Erste Bank's shares for the price of EUR 43 which was determined as the average price of shares ruling in April 2005 plus a 10 percent mark-up, rounded to EUR 0.5 For the options subscribed until 2004 under the Management Erste Bank Stock Option Plan 2002, the price of the share was EUR 16.50, within five years from the issuance of each tranche of options. In 2006, 73,360 options granted under the Management Erste Bank Stock Option Plan 2002 were exercised (2005: 5,850). 11,200 options granted under the Management Erste Bank Stock Option Plan 2005 were exercised during the first exercise period in 2006 (2005: 10,540), 0 options in the second exercise period (2005: 26,922) and 4,700 options during the third exercise period.

The aggregate amount of the discount in respect of both programmes was CZK 12 million (2005: CZK 12 million) and was reported within "General administrative expenses – other staff costs".

42. NET INSURANCE INCOME

CZK mil	2006	2005
Net earned premium	4,428	2,406
Costs of insurance claims	(1,310)	(914)
Change in technical provisions	(2,682)	(1,138)
Operating expenses	(450)	(432)
Other gains/(losses) on insurance transactions	(21)	(71)
Technical account result	**(35)**	**(149)**
Financial gains	564	523
Other income of the non-technical account	(1)	–
Total net insurance income	**528**	**374**

43. OTHER OPERATING INCOME/(EXPENSES), NET

CZK mil	2006	2005
Release of other reserves	4	94
Gain on the sale and revaluation of real estate	1,098	248
Income from other services	72	117
Received compensation for deficits and damage	266	58
Release of provisions against non-credit receivables	10	61
Income from statute-barred deposits	2	44
Income from the sale of goods	380	34
Other operating income	173	210
Total other operating income	**2,005**	**866**
Charges for other reserves	(156)	(275)
Contribution to the Deposit Insurance Fund	(432)	(382)
Write-off of assets under construction	(3)	(69)
Profit share of customers of Penzijní fond České spořitelny, a. s.	(451)	(535)
Loss on the sale and impairment of real estate	(161)	(104)
Deficits and damage, fines and penalties	(337)	(83)
Charge for provisions against non-credit receivables	(36)	(76)
Sponsorship contributions	(30)	(50)
Costs of goods sold	(398)	(36)
Other operating charges	(130)	(193)
Other taxes	(36)	(37)
Total other operating expense	**(2,170)**	**(1,840)**
Losses on the sale of securities held to maturity	(23)	–
Income from the revaluation/sale of securities at fair value through profit or loss	(14)	180
Income from the sale of securities available for sale	693	953
Income from revaluation hedging derivatives	8	12
Gains/(losses) on the revaluation/sale of equity investments	86	86
Total other operating income/(expenses), net	**585**	**257**

The year-on-year increase in “Deficits and damage, fines and penalties” and “Received compensation for deficits and damage” is attributable to a greater occurrence of insurance and natural disaster events in 2006 and related compensation.

The line “Gains on the sale of equity investments” for the year ended 31 December 2006 includes the gains on the sale of Czech and Slovak Property Fund B. V. amounting to CZK 91 million and impairment of the investment in CF Danube Leasing.

44. INCOME TAX EXPENSE

CZK mil	2006	2005
Current tax expense	3,294	3,223
Deferred tax income/(expense) (refer to Note 30)	204	(159)
Total	**3,498**	**3,064**

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

CZK mil	2006	2005
Profit before tax	14,057	12,310
Tax calculated at a tax rate of 24 percent (2005: 28 percent)	**3,374**	**3,201**
Income not subject to tax	(290)	(430)
Expenses not deductible for tax purposes	325	605
Tax allowances and credits, including the utilisation of tax losses	(164)	(32)
Income tax as per the final tax returns for prior period	49	(121)
Subtotal	**3,294**	**3,223**
Movement in deferred taxation (refer to Note 30)	204	(159)
Income tax expense	**3,498**	**3,064**
Effective tax rate	**24.89%**	**27.47%**

Further information about deferred income tax is presented in Note 30.

45. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the year as shown in the consolidated statements of cash flows are composed of the following balances:

CZK mil	2006	2005
Cash (refer to Note 6)	14,076	13,201
Nostro accounts with the CNB (refer to Note 6)	445	720
Government treasury bills with maturity of less than three months	9,479	9,058
Nostro accounts with financial institutions (refer to Note 7)	556	511
Loro accounts with financial institutions (refer to Note 22)	(267)	(389)
Total cash and cash equivalents	**24,289**	**23,101**

46. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Group. The most significant risks include:

(a) Credit Risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Credit Risk Management Methodology

In managing credit risk, the Group applies a unified methodology which sets out applicable procedures, roles and authorities. The Group credit risk management follows the strategic objectives arising from the parent company's lending policy. The lending policy includes:

- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities;
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan;
- Principal methods for arriving at an internal rating of a borrower and its periodical reviews;
- Basic principles underlying the determination of the system of limits and the structure of approval authorities;
- Risk parameters calculation methodology;
- Rules of loan collateral management;
- Structure of basic product categories; and
- Provision calculation methodology.

In managing credit risk, the Group differentiates between individually significant and individually insignificant exposures. The credit risk attached to individually significant exposures is managed on an individual basis with a minor use of portfolio models. The Group aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis. The Group's category of individually significant exposures includes corporate loans and private sector loans. Individually insignificant exposures include retails loans to households, individuals, individuals – entrepreneurs and small municipalities.

Collection of Key Risk Management Information

In 2006 the information collection efforts saw a further strengthening of the functionalities of the data warehouse with a focus on the ongoing improvement of the quality of data within the Česká spořitelna Group. In managing credit risk, the Group members refers not only to its own portfolio information but also the portfolio information of other members of the Česká spořitelna Group. The Group additionally uses information obtained from external sources such as the Credit Bureau or ratings provided by reputable rating agencies. The quality of credit risk related data improved, which provides a better basis for its utilisation during debt recovery procedures, valuation of receivables and calculation of losses.

Internal Rating Tools

Rating is perceived as one of the key risk management tools. Assessing the borrower is an obligatory part of every loan approval process or when making major changes to lending terms. The assessment takes into account both the borrower's financial position and non-financial characteristics. The assessment of corporate borrowers predominantly involves analysis of both strengths and weaknesses such as management quality or competitiveness. With regard to retail clients, the assessment principally focuses on demographic and behavioural indicators.

As part of risk management, the Group allocates its clients into clients 'in default' and clients 'without default'. The Group uses an 8-grade rating scale for clients 'without default' (with respect to retail clients – private individuals) and a 13-grade rating scale for other clients. The Group uses one rating grade "R" for all clients in default.

All information essential for assessing clients is collected and stored centrally. The Group performs regular revisions (at least annually) of internal ratings. Internal rating is determined on the basis of statistical models of the probability of default for groups of clients with certain characteristics. The review, back-testing and calibration of these statistical models are made regularly (at least annually). These models are additionally validated by independent specialists.

The key milestones in 2006 involved the improvement of the functionalities of the rating tool for calculating application scoring for retail clients – private individuals. In 2006, the Group also implemented behavioural scoring for clients from the small and medium-sized business segment.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Group may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Group strives to protect its revenues and capital from risk concentration. Risk concentration is measured as the capital required for the given portfolio.

Risk Parameters

The Group uses its own internal models in determining risk parameters such as probability of default (PD), loss given default (LGD) and credit conversion factors (CCF). In 2006, the Group expanded the set of models to include its own model for estimating CCF. All the models are developed according to Basel II requirements and were subject to review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for quantitative management of the portfolio credit risk. The Group currently uses risk parameters in monitoring portfolio risks, in-default portfolio management, portfolio protection measurement and risk valuation. The active use of the risk parameters in managing the Group makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments on both internal and external changes.

All models are back-tested at least annually and validated by independent specialists.

Provisions against Loan Losses

Since 2005, the Bank has been using a provisioning policy in accordance with IAS 39 (Revised) Financial Instruments: Recognition and Measurement. The policy is based on two components of incurred losses, namely individual and collective losses.

Individual Losses Component

The individual losses component is applied to clients in default.

The individual losses component covers losses arising from receivables impaired on an individual basis. Impairment of a receivable is identified based on loss making events that can be ascertained individually. Impairment of corporate receivables and retail receivables with a value exceeding CZK 5 million (individually significant exposures) is measured on an individual basis. The impairment represents the difference between the net present value of expected future cash flows arising from the receivable using the original effective interest rate and the carrying amount of the receivable.

The level of impairment of retail receivables (individually insignificant) is determined using the provisioning coefficients matrix. Provisioning coefficients are derived from the historical values of probability of defaults (PD) and loss given default

(LGD) in respect of individual portfolios of individually insignificant exposures. The coefficients additionally reflect durability of default.

All receivables are assessed by the Group on a monthly basis to determine whether a loss making event or other changes occurred.

The estimated loss on the impairment of individually significant exposures is reviewed at least on a quarterly basis for each exposure.

Collective Losses Component

The collective losses component represents the loss on collective impairment of individually non-impaired exposures. Collective impairment covers losses arising from internal or external loss making events that cannot be allocated to individual exposures. Past loss making events are measurable and identifiable in respect of the current portfolio. Collective impairment losses represent the Group's reasonable estimate made on the basis of a non-standard development in risk parameters in respect of individual sub-portfolios of individually non-impaired exposures.

The breakdown on credit risk by industries is shown in Note 49.

(b) Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, equity and commodity financial instruments, the value of which changes subject to general and specific financial market movements. For market risk management purposes the Group categorises all open positions according to the intent of holding into the banking and trading portfolios (books). The Group is primarily exposed to the market risk arising from open positions in the trading book. A significant component of the market risk is also the interest rate risk associated with assets and liabilities included in the banking book.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Proprietary trading in the interbank, derivative and capital markets.

The Group enters into short-term transactions on its own account in the trading book, that is, the Group opens positions with a view to benefiting from short-term fluctuations in financial markets, purchases higher-interest bearing assets funded by the sale of lower-interest bearing assets with the objective of using the interest spread to generate profit, creates strategic positions, that is, positions opened to benefit from significant movements in the prices of financial assets.

The Group trades with the following derivative financial instruments through the over-the-counter (OTC) market:

- Foreign currency forwards (including non delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives (for gold and oil); and
- Credit derivatives.

In the area of exchange-traded derivatives, the Group trades the following instruments:
- Bond futures;
- Interest rate futures;
- Commodity derivatives (gold and oil futures); and
- Options in respect of bond futures.

The Group also trades, on behalf of its clients, with other less common currency options, such as digital, barrier or windowed options. Certain option contracts or options on various underlying stock baskets or stock indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the banking book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (FX swaps and cross currency swaps).

In addition to the calculation of sensitivities to individual risk factors, the Group applies the 'value at risk' methodology ('VaR') to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The Board of Directors establishes a VaR limit as the Bank's maximum exposure to market risk that may be accepted. Sub-limits placed on sensitivity values and VaR in respect of individual trading desks enable the managing of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The VaR method is complemented with 'back testing' which is designed to review the model for correctness. Back testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading day. Back testing results have, to date, confirmed the correctness of the setting of the VaR calculation model.

(c) Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition to monitoring limits, the Group uses the 'value at risk' concept for measuring its open positions taken in respect of all currency instruments. The Group monitors special limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract fair value sensitivity to the exchange rate volatility in the form of the vega equivalent. In addition, the Group monitors fair value sensitivity of options to the period to maturity (theta) and interest rate sensitivity (rho, phi) which is measured, together with other interest rate instruments, in the form of the PVBP. The Group's net open foreign exchange rate position as of 31 December 2006 and 2005 is shown in Note 48.

(d) Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group manages its interest rate risk through the monitoring of the repricing dates of the Group's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Bank's net interest income. Refer to Note 48.

In order to measure the interest rate risk exposure within financial markets transactions the Bank uses the 'PVBP gap' (Present Value of a Basis Point) defined as a matrix of sensitivity factors to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency. The limits are compared to the value that represents the greater of the sum of positive PVBP values or the sum of negative

PVBP values in absolute terms for each period to maturity. By adopting this approach, the Group manages not only the risk attached to a parallel shift of the yield curve, but also any possible ‘flip’ of the yield curve. With regard to foreign currency options, the PVBP limits also include the Rho and Phi equivalents. In addition, the Group monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

For monitoring and managing the banking book interest rate exposures, the Group uses a simulation model focused on monitoring potential impacts of market interest rate movements on the Group’s net interest income. Simulations are performed over the period of 36 months. A basic analysis focuses on the sensitivity of the Group’s net interest income to a one-off change(s) of market interest rates (rate shock). In addition, the Group undertakes probability modelling of its net interest income (stochastic simulation) and the traditional gap analysis. The analyses noted above are undertaken on a monthly basis and the results are discussed by the Assets and Liabilities Committee (ALCO) which decides whether it is necessary to take measures in response to the Bank’s interest rate risk exposures.

(e) Capital Requirement in Respect of Market Risks

Since December 2003, the Bank has used its internal model approved by the Czech National Bank in November 2003 to calculate its B capital requirements. The capital requirement in respect of market risks (foreign currency risk, general interest rate risk, general and specific equity risk and risk associated with trading book option contracts) is determined using the Value at Risk method. The model is based upon the calculation of Value at Risk with a 99 percent confidence level and a 10-day holding period using the historical simulation method.

(f) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Group’s liquidity position is monitored and managed based on expected cash flows and adjusting the structure of interbank deposits and placements accordingly and/or implementing other decisions aimed at adjusting the liquidity position of the Group, for example, a decision to issue bonds. Refer to Note 51 for an analysis of the Group’s balance sheet by maturity as of 31 December 2006 and 2005.

(g) Operational Risk

In accordance with Regulation of the Czech National Bank No. 2 dated 3 February 2004, which sets out requirements in respect of the review of banks’ internal control and management systems including the risk management system, the Group defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events, including loss due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Bank Vienna, the Group put in place a standardised categorisation of operational risks, the objective being to utilise this classification within the entire financial group. This categorisation served as a basis for preparing the CS Book of Risks which was developed in cooperation between risk management departments and the Internal Audit department. The Book of Risks serves as a tool in harmonising the identification of risks for the purposes of the entire Česká spořitelna Financial Group and as a tool of unified risk categorisation with a view to maintaining consistency in risk monitoring and assessment.

The Group has cooperated with an external supplier in developing a specialised software application to collect data about operational risk which conforms to the data collection requirements set out in Basel II. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks.

A tool of importance in mitigating losses arising from operational risks is the Group’s insurance programme put in place in 2002. This insurance programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank and its subsidiaries have joined the Erste Bank Group insurance programme which expands insurance protection specifically with regard to damage that may materially impact the Group’s profit or loss.

47. OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off balance sheet financial instruments. The following represent notional amounts of these off balance sheet financial instruments, unless stated otherwise.

(a) Contingent Liabilities

Legal Disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Group is named are resolved.

The Group is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Group believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

Pursuant to the ruling of the Antimonopoly Office regarding a potential violation of the Economic Competition Protection Act 143/2001 Coll., whereby, inter alia, a penalty of CZK 94 million was imposed on Stavební spořitelna České spořitelny, a. s. ('SSČS'), SSČS recognised a provision for legal disputes to the same value. The above ruling of the Antimonopoly Office was revoked in 2005 and the case was returned for reconsideration and for a new ruling to be issued. On 2 December 2005, the Antimonopoly Office issued a new ruling under which the imposed penalty was reduced to CZK 38.5 million. SSČS appealed the ruling within the statutory deadline. On 19 December 2006, the Antimonopoly Office issued a new ruling (a third one) whereby it reduced the penalty to CZK 11.7 million. SSČS appealed this ruling to the Chairman of the Antimonopoly Office. However, the appeal does not result in the grounds for maintaining the provision ceasing to exist. The balance of the provision was reduced to CZK 11.7 million taking into account the right of the Chairman of the Antimonopoly Office to confirm the imposed level of the fine.

As of 31 December 2006, Brokerjet České spořitelny, a. s. ('Brokerjet') has been named as the defendant in a number of legal disputes at the Arbitration Court in Prague. All the legal disputes have the same substance. Brokerjet retained a reputable law firm, which also acts as its legal counsel in these disputes, to prepare an analysis of the likely outcome of these disputes. Pursuant to this analysis and its own assessment, Brokerjet believes that the resolution of these disputes will be favourable. This belief is also supported by the result of the arbitration proceedings that dealt with the same matter which Brokerjet won. For these reasons, no provision to cover potential losses has been recognised even though the aggregate claims raised by the plaintiffs are material.

Assets Pledged

Assets are pledged as collateral under repurchase agreements with other banks and customers in the amount of CZK 10,977 million (2005: CZK 13,915 million). Mandatory reserve deposits are also held with the local central bank in accordance with statutory requirements (refer to Note 6). These deposits are not available to finance the Group's day to day operations.

The Group has received loans to finance investment property for which it has pledged real estate of CZK 1,272 million (2005: CZK 1,303 million) as collateral.

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached the commitments to extend credit represents a potential loss for the Group. The Group estimates the potential loss on the basis of historical developments of credit conversion factors, probability of default and loss given default. Credit conversion factors indicate the likelihood of the Group paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Group believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments is minimal.

The Group recorded provisions for off balance sheet risks to cover potential losses that may be incurred in connection with these off balance sheet transactions. As of 31 December 2006, the aggregate balance of these provisions was CZK 101 million (2005: CZK 1 million). Refer to Note 28.

CZK mil	2006	2005
Guarantees and letters of credit	26,238	17,791
Undrawn loan commitments	91,013	79,606

(b) Derivatives

The Group maintains strict control limits on net open derivative positions, ie, the difference between the fair values of purchase and sale contracts. At any one time the amount subject to credit risk is limited to the positive fair value of derivative financial instruments, which is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers. Limits are established reflecting the risk of fair value fluctuations arising from market movements. Collateral or other security is not usually obtained for credit risk exposures on the derivative financial instruments, except where the Group requires deposits from counterparties.

All derivatives are stated at fair value on the balance sheet as of 31 December 2006 and 2005 (refer to Notes 13 and 25).

(c) Foreign Currency Contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes.

CZK mil	2006	2005
Notional amounts		
Trading instruments		
Commitments to purchase	69,997	47,285
Commitments to sell	70,518	47,321

(d) Interest rate swaps

Interest rate swap contracts obligate two parties to exchange one or more payments calculated by reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Group's interest rate swaps were principally transacted for propriety trading purposes, to hedge customer-oriented transactions or to hedge against interest rate risk.

The Group has applied hedge accounting in respect of the interest rate exposure arising from its own issue of mortgage bonds. The mortgage bonds issued with a fixed interest rate were linked to a floating market rate through interest rate swaps.

At 31 December 2006	CZK mil	Weighted average interest rate	
Notional amounts		Receive	Pay
Hedging instruments			
Residual maturity:			
– less than 1 year	90	2.55%	4.45%
– 1 to 5 years	9,360	3.30%	2.58%
– over 5 years	6,750	3.65%	2.71%
Total	**16,200**	**3.44%**	**2.64%**
Trading instruments			
Residual maturity:			
– less than 1 year	138,987	3.06%	2.97%
– 1 to 5 years	279,624	3.20%	3.62%
– over 5 years	136,009	3.47%	3.43%
Total	**554,620**	**3.23%**	**3.41%**

At 31 December 2005	CZK mil	Weighted average interest rate	
Notional amounts		Receive	Pay
Hedging instruments			
Residual maturity:			
- less than 1 year	74	2.14%	4.45%
- 1 to 5 years	11,560	3.37%	2.04%
- over 5 years	4,000	3.21%	1.93%
Total	**15,634**	**3.32%**	**2.02%**
Trading instruments			
Residual maturity:			
- less than 1 year	160,320	2.63%	3.17%
- 1 to 5 years	233,751	2.67%	2.91%
- over 5 years	137,198	3.19%	3.41%
Total	**531,269**	**2.79%**	**3.12%**

(e) Option Contracts

Option contracts represent the formal reservation of the right to buy or sell an asset at the specified quantity, within a given time in the future and at a certain price. The buyer of the option has the right, but not the obligation, to exercise the right to buy or sell an asset and the seller has the obligation to sell or purchase the asset at the specified quantity and at the price defined in the option contract.

CZK mil	2006	2005
Notional amounts		
Option contracts sold		
interest rate	24,624	10,344
foreign currency	48,671	30,653
equity	1,828	869
Option contracts purchased		
interest rate	24,624	10,344
foreign currency	48,756	30,288
equity	1,828	869

(f) Forward Rate Agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in market interest rates. In principle, the Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. All of the Group's forward rate agreements were entered into for trading purposes.

Notional amounts	CZK mil	2006 Weighted average rate	CZK mil	2005 Weighted average rate
Residual maturity:				
Purchase				
– less thank 1 year	187,700	3.20%	187,923	2.57%
– 1 to 5 years	15,000	3.65%	23,000	2.87%
Total	**202,700**	**3.23%**	**210,923**	**2.60%**
Sale				
– less than 1 year	187,700	3.11%	187,923	2.53%
– 1 to 5 years	15,000	3.73%	23,000	2.88%
Total	**202,700**	**3.16%**	**210,923**	**2.57%**

(g) Forward Contracts with Securities

Forward contracts with securities are agreements to purchase or sell the securities for a specific amount at a future date. The forward contracts with securities are used by the Group for trading purposes.

CZK mil Notional amounts	2006	2005
Contracts with equities		
Commitments to purchase	117	2
Commitments to sell	115	3

(h) Cross Currency Swaps

Cross currency swaps are combinations of interest rate swaps and foreign currency contracts. As with interest rate swaps, the Group agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, and are settled on a gross basis. Unlike interest rate swaps, the notional balances of the different currencies are typically exchanged at the beginning and re-exchanged at the end of the contract period.

CZK mil Notional amounts	2006	2005
Trading instruments		
Commitments to purchase	119,607	94,514
Commitments to sell	113,623	90,572

(i) Other Derivatives

The Group entered into transactions resulting in the Group assuming risk on certain underlying debt securities denominated in a foreign currency. As of 31 December 2006, the total notional amount of equity return swaps and credit derivatives was CZK nil. (2005: CZK 1,570 million) and CZK 310 million (2005: CZK 638 million), respectively.

(j) Futures

Futures contracts represent the obligation to sell or purchase a financial instrument in the organised market at a certain price at a certain agreed date in the future. The Group entered into futures contracts in respect of debt securities and equities for trading purposes. As of 31 December 2006, the total notional amount of the futures transactions was CZK 15,564 million (2005: CZK 4,083 million).

48. NET FOREIGN EXCHANGE POSITIONS

The net foreign exchange positions of the Group as of 31 December 2006 and 2005 were as follows:

At 31 December 2006 CZK mil	CZK	EUR	USD	GBP	SKK	Other	Total
Assets							
Cash and balances with the CNB	21,413	1,014	202	131	138	253	23,151
Loans and advances to financial institutions	56,566	8,357	5,458	30	1,503	1,265	73,179
Loans and advances to customers	304,941	15,103	2,012	181	147	382	322,766
Securities at fair value through profit or loss	25,692	16,075	3,643	–	113	4,017	49,540
Positive fair value of financial derivative transactions	17,478	668	162	–	79	46	18,433
Securities available for sale	30,689	6,934	1,011	35	–	716	39,385
Securities and other assets held to maturity	138,108	3,670	–	–	102	–	141,880
Financial placements of insurance companies	12,768	490	490	29	–	101	13,878
Other assets	41,287	2,905	1,150	18	774	47	46,181
	648,942	**55,216**	**14,128**	**424**	**2,856**	**6,827**	**728,393**
Liabilities							
Amounts owed to financial institutions	35,899	3,736	4,573	75	–	2,078	46,361
Amounts owed to customers	517,559	13,181	3,633	404	227	2,483	537,487
Negative fair value of financial derivative transactions	11,934	573	124	–	10	43	12,684
Bonds in issue	34,261	147	–	–	–	–	34,408
Other liabilities	44,427	1,745	1,212	31	159	17	47,591
	644,080	**19,382**	**9,542**	**510**	**396**	**4,621**	**678,531**
Net foreign exchange position – on balance sheet	**4,862**	**35,834**	**4,586**	**(86)**	**2,460**	**2,206**	**49,862**
Net foreign exchange position – off balance sheet	**(112,308)**	**11,428**	**(809)**	**(517)**	**115**	**(4,587)**	**(106,678)**

The line 'Loans and advances to customers' includes amounts due from ČKA and provisions against loans and advances. The line 'Other assets' includes other assets, property and equipment and intangible fixed assets, assets held for sale and investment property. The line 'Other liabilities' includes other liabilities, provisions, technical insurance provisions, liabilities at fair value and subordinated debt.

At 31 December 2005 CZK mil	CZK	EUR	USD	GBP	SKK	Other	Total
Assets							
Cash and balances with the CNB	16,593	795	227	126	114	249	18,104
Loans and advances to financial institutions	75,610	16,700	2,214	10	2,616	696	97,846
Loans and advances to customers	258,117	15,600	2,364	211	115	341	276,748
Securities at fair value through profit or loss	14,006	15,572	3,133	–	199	3,632	36,542
Positive fair value of financial derivative transactions	16,640	875	229	–	–	104	17,848
Securities available for sale	20,724	7,020	2,075	–	–	854	30,673
Securities and other assets held to maturity	124,659	218	–	–	118	–	124,995
Financial placements of insurance companies	9,702	167	348	16	–	59	10,292
Other assets	38,913	1,063	648	11	342	39	41,016
	574,964	**58,010**	**11,238**	**374**	**3,504**	**5,974**	**654,064**
Liabilities							
Amounts owed to financial institutions	25,558	1,391	6,077	1	107	1,764	34,898
Amounts owed to customers	461,917	12,447	3,578	365	1,068	2,181	481,556
Negative fair value of financial derivative transactions	13,160	1,132	175	–	–	103	14,570
Bonds in issue	38,193	556	523	–	10	–	39,282
Other liabilities	37,554	1,209	709	13	50	52	39,587
	576,382	**16,735**	**11,062**	**379**	**1,235**	**4,100**	**609,893**
Net foreign exchange position – on balance sheet	**(1,418)**	**41,275**	**176**	**(5)**	**2,269**	**1,874**	**44,171**
Net foreign exchange position – off balance sheet	**(69,741)**	**(21,073)**	**(287)**	**(41)**	**1,412**	**1,561**	**(88,169)**

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment and intangible fixed assets. The line ‘Other liabilities’ includes other liabilities, provisions, technical insurance provisions and liabilities at fair value.

49. INTEREST RATE RISK

(a) Interest rate repricing analysis

The following tables present the distribution of assets and liabilities according to the interest rate repricing dates. They include significant financial assets and liabilities in CZK, EUR and USD as of 31 December 2006 and 2005. Variable yield assets and liabilities have been reported according to their next rate repricing date. Fixed income assets and liabilities have been reported according to their remaining maturity.

At 31 December 2006 CZK mil	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	9,075	–	–	–	–	9,075
Loans and advances to financial institutions	54,707	6,118	9,336	200	–	70,361
Loans and advances to customers	87,514	38,503	61,660	114,781	19,598	322,056
Securities at fair value through profit or loss	27,251	1,008	535	8,236	2,396	39,426
Securities available for sale	1,884	9,092	4,317	17,738	4,187	37,218
Securities and other assets held to maturity	7,439	24,247	19,037	63,125	27,581	141,429
Financial placements of insurance companies	121	642	491	5,528	4,854	11,636
	187,991	**79,610**	**95,376**	**209,608**	**58,616**	**631,201**
Selected liabilities						
Amounts owed to financial institutions	27,063	5,086	4,321	7,593	123	44,186
Amounts owed to customers	82,124	122,769	115,420	206,052	1,837	528,202
Bonds in issue	3,890	901	4,063	14,027	11,527	34,408
Subordinated debt	–	–	5,886	–	–	5,886
	113,077	**128,756**	**129,690**	**227,672**	**13,487**	**612,682**
Current gap	**74,914**	**(49,146)**	**(34,314)**	**(18,064)**	**45,129**	**18,519**
Cumulative gap	**74,914**	**25,768**	**(8,546)**	**(26,610)**	**18,519**	

At 31 December 2005 CZK mil	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	4,933	–	–	–	–	4,933
Loans and advances to financial institutions	65,464	8,640	20,325	400	–	94,829
Loans and advances to customers	75,126	36,563	52,009	97,850	14,450	275,998
Securities at fair value through profit or loss	18,633	624	490	3,617	3,828	27,192
Securities available for sale	2,473	3,610	2,783	14,531	5,381	28,778
Securities and other assets held to maturity	9,792	16,909	16,514	43,914	37,481	124,610
Financial placements of insurance companies	322	939	599	1,870	5,527	9,257
	176,743	**67,285**	**92,720**	**162,182**	**66,667**	**565,597**
Selected liabilities						
Amounts owed to financial institutions	24,506	3,912	1,939	2,643	133	33,133
Amounts owed to customers	82,786	111,068	106,987	176,619	331	477,791
Bonds in issue	14,696	3,385	600	14,906	5,684	39,271
Subordinated debt	–	–	2,998	–	–	2,998
	121,988	**118,365**	**112,524**	**194,168**	**6,148**	**553,193**
Current gap	**54,755**	**(51,080)**	**(19,804)**	**(31,986)**	**60,519**	**12,404**
Cumulative gap	**54,755**	**3,675**	**(16,129)**	**(48,115)**	**12,404**	

The line ‘Loans and advances to customers’ includes amounts due from ČKA.

In addition, the Bank enters into interest rate swaps to manage its interest rate risk exposure.

(b) Effective yield information

The effective yields of significant financial assets and liabilities by major currencies of the banking segment as of 31 December 2006 and 2005 are as follows:

At 31 December 2006	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	2.50%	3.36%	–	2.51%
Loans and advances to financial institutions	2.46%	3.82%	5.40%	2.82%
Loans and advances to customers	5.83%	4.85%	6.02%	5.78%
Securities at fair value through profit or loss	2.48%	4.13%	5.16%	3.25%
Securities available for sale	3.43%	3.50%	4.00%	3.50%
Securities and other assets held to maturity	3.97%	4.51%	–	3.98%
Financial placements of insurance companies	4.48%	3.98%	4.58%	4.51%
Selected liabilities	2.56%	3.76%	4.86%	2.92%
Amounts owed to financial institutions	1.04%	1.53%	2.78%	1.07%
Amounts owed to customers	2.97%	3.16%	–	2.97%
Bonds in issue	3.25%	–	–	3.24%

At 31 December 2005	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	2.00%	–	–	1.99%
Loans and advances to financial institutions	2.12%	2.45%	4.63%	2.24%
Loans and advances to customers	5.93%	4.35%	5.31%	5.84%
Securities at fair value through profit or loss	2.00%	3.55%	4.71%	3.00%
Securities available for sale	3.53%	2.83%	3.61%	3.36%
Securities and other assets held to maturity	3.96%	–	–	3.96%
Financial placements of insurance companies	4.56%	2.98%		4.52%
Selected liabilities				
Amounts owed to financial institutions	2.20%	3.19%	4.29%	2.61%
Amounts owed to customers	1.01%	0.83%	1.66%	1.01%
Bonds in issue	2.41%	2.19%	4.02%	2.43%
Subordinated debt	2.89%	–	–	2.89%

The line ‘Loans and advances to customers’ includes amounts due from ČKA.

50. CONCENTRATIONS OF CREDIT RISK

The following table presents the distribution of the Group's credit exposure by industry sector for loans and advances to customers and financial institutions and debt securities:

CZK mil	2006		2005	
Financial institutions	168,460	27%	181,553	32%
Individuals	160,397	25%	125,417	22%
Trading	26,431	4%	22,417	4%
Energy sector	4,220	1%	4,324	1%
State institutions including ČKA	148,778	23%	139,594	24%
Public sector	15,670	2%	13,113	2%
Construction	5,912	1%	4,442	1%
Hotels, public catering	2,459	0%	2,128	0%
Real estate activities and other business activities	30,799	5%	15,975	3%
Processing industry	33,333	5%	30,260	5%
Other	36,996	6%	33,673	6%
Total	**633,455**		**572,896**	

For an analysis of the Group's assets and liabilities by geographical concentration refer to Note 53b.

51. MATURITY ANALYSIS

The table below analyses assets and liabilities of the Group into relevant maturity groupings as of 31 December 2006, based on the remaining period at the balance sheet date to the contractual maturity date.

CZK mil	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	**Total**
Assets							
Cash and balances with the CNB	14,521	–	–	–	–	8,630	23,151
Loans and advances to financial institutions	55,074	4,014	9,313	4,767	11	–	73,179
Loans and advances to customers	23,970	11,156	78,020	113,406	102,553	–6,339	322,766
Securities at fair value through profit or loss	–	220	3,721	26,401	10,165	9,033	49,540
Positive fair value of financial derivative transactions	976	350	657	2,406	4,690	9,354	18,433
Securities available for sale	1,000	6,137	3,520	20,029	6,839	1,860	39,385
Securities and other assets held to maturity	6,022	6,185	15,626	84,225	29,371	451	141,880
Financial placements of insurance companies	41	302	180	6,142	5,044	2,169	13,878
Other assets	5,219	3,095	6,672	208	–	30,987	46,181
Total	106,823	31,459	117,709	257,584	158,673	56,145	728,393
Liabilities							
Amounts owed to financial institutions	29,128	803	3,532	7,683	5,215	–	46,361
Amounts owed to customers	347,084	72,446	39,177	76,596	2,184	–	537,487
Negative fair value of financial derivative transactions	268	312	1,049	1,669	185	9,201	12,684
Bonds in issue	1,280	2,540	2,437	14,448	13,703	–	34,408
Subordinated debt	–	–	–	–	5,886	–	5,886
Other liabilities	8,733	5,305	822	5,297	1,615	19,933	41,705
Total	**386,493**	**81,406**	**47,017**	**105,693**	**28,788**	**29,134**	**678,531**
Current gap	**(279,670)**	**(49,947)**	**70,692**	**151,891**	**129,885**	**27,011**	**49,862**
Cumulative gap	**(279,670)**	**(329,617)**	**(258,925)**	**(107,034)**	**22,851**	**49,862**	

The line 'Loans and advances to customers' includes amounts due from ČKA and provisions against loans and advances. The line 'Other assets' includes other assets, property and equipment and intangible fixed assets, assets held for sale and investment property. The line 'Other liabilities' includes other liabilities, provisions, technical insurance provisions and liabilities at fair value.

The table below analyses assets and liabilities of the Group into relevant maturity groupings as of 31 December 2005, based on the remaining period at the balance sheet date to the contractual maturity date.

CZK mil	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	13,921	–	–	–	–	4,183	18,104
Loans and advances to financial institutions	66,530	5,735	20,482	5,099	–	–	97,846
Loans and advances to customers	17,639	14,160	77,214	116,065	58,342	(6,672)	276,748
Securities at fair value through profit or loss	78	662	1,269	14,831	12,145	7,558	36,542
Positive fair value of financial derivative transactions	–	–	–	–	–	17,848	17,848
Securities available for sale	900	970	2,862	15,693	8,353	1,895	30,673
Securities and other assets held to maturity	5,424	5,062	15,425	61,218	37,481	385	124,995
Financial placements of insurance companies	242	299	343	2,131	6,243	1,034	10,292
Other assets	4,427	2,696	6,480	50	147	27,216	41,016
Total	**109,161**	**29,584**	**123,748**	**215,087**	**122,711**	**53,773**	**654,064**
Liabilities							
Amounts owed to financial institutions	24,023	2,227	2,461	2,384	3,803	–	34,898
Amounts owed to customers	308,413	60,283	42,953	69,574	332	–	481,556
Negative fair value of financial derivative transactions	–	–	–	–	–	14,570	14,570
Bonds in issue	14,425	251	600	14,110	9,897	–	39,282
Subordinated debt	–	–	–	–	2,998	–	2,998
Other liabilities	5,590	1,688	3,582	2,804	2,392	20,533	36,589
Total	**353,854**	**63,046**	**49,596**	**88,872**	**19,422**	**35,103**	**609,893**
Current gap	**(244,693)**	**(33,462)**	**74,152**	**126,215**	**103,289**	**18,670**	**44,171**
Cumulative gap	**(244,693)**	**(278,155)**	**(204,003)**	**(77,788)**	**25,501**	**44,171**	

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment and intangible fixed assets, assets held for sale and investment property. The line ‘Other liabilities’ includes other liabilities, provisions, technical insurance provisions and liabilities at fair value.

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made based on relevant market data and information about the financial instruments. Because no readily available market prices exist for a significant portion of the Group's financial instruments, fair value estimates for these instruments are based on judgements regarding current economic conditions, currency and interest rate characteristics and other factors.

Many of these estimates involve uncertainties and matters of significant judgement and cannot be determined with precision. Therefore, the calculated fair value estimates cannot always be substantiated by comparison to market values and, in many cases, may not be realised in the current sale of the financial instrument. Changes in underlying assumptions could significantly affect the estimates.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value.

CZK mil	Carrying value 2006	Estimated fair value 2006	Carrying value 2005	Estimated fair value 2005
Financial assets				
Loans and advances to financial institutions	73,179	73,179	97,846	97,793
Loans and advances to customers including ČKA	322,766	324,476	276,748	278,521
Securities and other assets held to maturity	141,880	145,406	124,995	130,312
Financial placements of insurance companies	13,878	14,221	10,292	10,717
Financial liabilities				
Amounts owed to financial institutions	46,361	46,353	34,898	34,984
Amounts owed to customers	537,487	536,819	481,556	481,464
Bonds in issue	34,408	34,446	39,282	39,792
Subordinated debt	**5,886**	**5,889**	**2,988**	**3,018**

Loans and Advances to Financial Institutions

The fair value of current accounts is deemed to approximate their carrying amount. Given that term receivables generally reprice at relatively short time periods, it is justifiable to regard their carrying amount as the estimated fair value.

Loans and Advances to Customers

Loans and advances to customers are carried net of provisions. The fair value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by the Bank.

Securities and Other Assets Held to Maturity

The fair value of securities held to maturity is based on market prices or price quotations obtained from brokers or dealers. If this information is not available, the fair value is estimated using quoted market values for securities with similar credit risk characteristics, maturity or yield rate or, as and when appropriate, according to the recoverability of the net asset value of these securities.

Amounts Owed to Financial Institutions and Customers

The estimated fair value of amounts owed to financial institutions and customers with no stated maturity which include no-interest earning deposits, is equal to the amount payable on demand. The fair value of fixed income deposits and other liabilities with no stated market value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar maturities. The fair value of products with no contractually stated maturity (such as sight deposits, passbooks, overdraft facilities, building savings deposits) is considered equal to their carrying value.

Bonds in Issue

The aggregated fair value is based on quoted market prices. The fair value of securities where no market price is available is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar remaining maturities.

Subordinated Debt

Issued subordinated debt is traded on the free market of the Prague Stock Exchange. Its aggregated fair value is based on quoted market prices.

53. SEGMENT REPORTING

(a) Industry segments

For management purposes, the Group is organised into the following major operating divisions:

- Retail banking (accepting deposits from the public, providing loans to retail clients, services related to credit and debit cards);
- Corporate banking (providing loans to corporate clients and municipalities, issuance of guarantees, opening of letters of credit);
- Investment banking (securities investments, proprietary trading and trading on behalf of the client with securities, foreign exchange assets, entering into futures and options including foreign currency and interest rate transactions, financial brokerage, custodian services, participation in issuance of stock, management, safe-keeping and administration of securities or other assets); and
- Other operations (leasing, insurance, management of investment and mutual funds, investment construction and advisory services).

2006 CZK mil	Retail	Corporate	Banking Investment	Other activities	Eliminations	Total
Revenue						
External revenue	22,219	3,403	2,620	6,666	(1,087)	33,821
Inter-segment revenue	687	289	189	44		1,209
Total segment revenue	**22,906**	**3,692**	**2,809**	**6,710**	**(1,087)**	**35,030**
Profit						
Segment profit	**9,367**	**1,973**	**2,028**	**4,566**	**(1,132)**	**16,802**
Unallocated costs						(2,745)
Profit before tax						14,057
Income tax						(3,498)
Minority interest						(174)
Total profit						**10,385**
Other information						
Asset acquisition	1,754	59	169	1,848	–	3,830
Write-offs and depreciation	1,229	–	59	2,066	–	3,354
Balance sheet						
Assets						
Segment assets	273,841	116,782	265,469	82,258	(10,902)	727,448
Unallocated assets						945
Total consolidated assets						**728,393**
Liabilities						
Segment liabilities	443,500	52,013	118,114	62,127	(10,289)	665,465
Unallocated liabilities						13,066
Total consolidated liabilities						**678,531**

CZK mil 2005	Retail	Corporate	Banking Investment	Other activities	Eliminations	Total
Revenue						
External revenue	20,587	3,021	2,741	5,612	(2,066)	29,895
Inter–segment revenue	568	200	197	72		1,037
Total segment revenue	**21,155**	**3,221**	**2,938**	**5,684**	**(2,066)**	**30,932**
Profit						
Segment profit	**7,980**	**2,196**	**2,262**	**4,940**	**(2,249)**	**15,129**
Unallocated costs						(2,819)
Profit before tax						12,310
Income tax						(3,064)
Minority interest						(112)
Total profit						**9,134**
Other information						
Asset acquisition	1,153	167	82	3,155	–	4,557
Write–offs and depreciation	1,931	40	72	1,324	–	3,367
Balance sheet						
Assets						
Segment assets	238,008	107,100	260,852	60,568	(12,713)	653,815
Unallocated assets						249
Total consolidated assets						**654,064**
Liabilities						
Segment liabilities	411,792	37,449	119,820	45,523	(11,827)	602,757
Unallocated liabilities						7,136
Total consolidated liabilities						**609,893**

Total income is composed of ‘Net interest income’, ‘Net fee and commission income’, ‘Net trading result’, ‘Net insurance income’, ‘Total other operating income’ and ‘Income from the revaluation/sale of securities, derivatives and equity investments’ (refer to Note 43).

(b) Geographical segments
The Group operates predominantly within the Czech Republic and has no significant cross border operations.

The geographical concentration of assets and liabilities as of 31 December 2006 was as follows:

CZK mil	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	21,434	1,327	151	239	23,151
Loans and advances to financial institutions	47,582	21,777	2,829	991	73,179
Loans and advances to customers	318,669	2,954	487	656	322,766
Securities at fair value through profit or loss	27,372	18,782	969	2,417	49,540
Positive fair value of financial derivative transactions	2,714	15,615	28	76	18,433
Securities available for sale	30,110	8,902	138	235	39,385
Securities and other assets held to maturity	98,489	34,833	3,799	4,759	141,880
Financial placements of insurance companies	10,404	2,340	0	1,134	13,878
Other assets	43,587	2,374	67	153	46,181
Total assets	**600,361**	**108,904**	**8,468**	**10,660**	**728,393**
Liabilities					
Amounts owed to financial institutions	36,793	9,420	147	1	46,361
Amounts owed to customers	529,049	7,290	588	560	537,487
Negative fair value of financial derivative transactions	3,219	9,246	27	192	12,684
Bonds in issue	34,222	182	4	0	34,408
Subordinated debt	4,002	1,834	50	0	5,886
Other liabilities	41,476	192	2	35	41,705
Total liabilities of the Bank	**648,761**	**28,164**	**818**	**788**	**678,531**
Net position	**(48,400)**	**80,740**	**7,650**	**9,872**	**49,862**

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment and intangible fixed assets, assets held for sale and investment property. The line ‘Other liabilities’ includes other liabilities, provisions, technical insurance provisions and liabilities at fair value.

The geographical concentration of assets and liabilities as of 31 December 2005 was as follows:

CZK mil	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	16,595	1,084	163	262	18,104
Loans and advances to financial institutions	70,297	22,802	3,784	963	97,846
Loans and advances to customers	271,268	3,096	1,495	889	276,748
Securities at fair value through profit or loss	15,567	17,677	733	2,565	36,542
Positive fair value of financial derivative transactions	2,627	15,029	2	190	17,848
Securities available for sale	20,193	8,547	689	1,244	30,673
Securities and other assets held to maturity	91,776	27,419	3,801	1,999	124,995
Financial placements of insurance companies	7,938	1,815	7	532	10,292
Other assets	39,454	1,393	99	70	41,016
Total assets	**535,715**	**98,862**	**10,773**	**8,714**	**654,064**
Liabilities					
Amounts owed to financial institutions	27,079	7,758	56	5	34,898
Amounts owed to customers	481,124	373	16	43	481,556
Negative fair value of financial derivative transactions	2,443	11,694	15	418	14,570
Bonds in issue	39,027	33	3	219	39,282
Subordinated debt	2,699	299	0	0	2,998
Other liabilities	35,912	647	0	30	36,589
Total liabilities of the Bank	**588,284**	**20,804**	**90**	**715**	**609,893**
Net position	**(52,569)**	**78,058**	**10,683**	**7,999**	**44,171**

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment and intangible fixed assets. The line ‘Other liabilities’ includes other liabilities, provisions, technical insurance provisions and liabilities at fair value.

54. ASSETS UNDER ADMINISTRATION

The Group provides custody, trustee, investment management and advisory services to third parties which involve the Group making purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Group administered CZK 173,949 million (2005: CZK 124,056 million) of assets as of 31 December 2006 representing certificate securities and other assets received from customers into its custody for administration and safe-keeping split as follows:

CZK mil	2006	2005
Customer securities in custody	8,760	16,342
Customer securities under administration	137,476	85,757
Customer securities for safe-keeping	4	2
Assets received for management	27,709	21,955
Total	**173,949**	**124,056**

The Bank also acts as a depositary for several mutual, investment and pension funds, whose assets amounted to CZK 96,519 million as of 31 December 2006 (2005: CZK 90,376 million).

55. RELATED PARTY TRANSACTIONS

Related parties involve connected entities or parties that have a special relation to the Bank.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Erste Bank der österreichischen Sparkassen AG.

The parties that have a special relation to the Bank are considered to be members of the Bank's statutory and supervisory bodies and management, legal entities exercising control over the Bank (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Bank's statutory and supervisory bodies, management, and entities exercising control over the Bank, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Bank and any other legal entity under their control, members of the Czech National Bank's Banking Board, and legal entities which the Bank controls.

Pursuant to the definitions outlined above, the category of the Group's related parties principally comprises its unconsolidated subsidiary and associated undertakings, members of its Board of Directors and Supervisory Board, and other entities, namely Erste Bank and its subsidiary and associated undertakings.

The Group has the following amounts due from/to Erste Bank and other related parties as of 31 December 2006 and 2005:

CZK mil	2006		2005	
	Erste Bank	Others	Erste Bank	Others
Assets				
Loans and advances to financial institutions	2,912	765	2,589	2,742
Loans and advances to customers	–	2,422	–	1,058
Positive fair value of financial derivative transactions	8,553	118	7,607	30
Securities held to maturity	310	–	628	–
Other assets	32	88	21	43
Total assets of the Bank	**11,807**	**3,393**	**10,845**	**3,873**
Liabilities				
Amounts owed to financial institutions	2,266	741	2,313	693
Amounts owed to customers	–	984	–	468
Negative fair value of financial derivative transactions	3,574	226	4,909	10
Bonds in issue	30	–	–	–
Subordinated debt	1,069	–	–	–
Other liabilities	50	372	13	213
Total liabilities of the Bank	**6,989**	**2,323**	**7,235**	**1,384**
Off balance sheet				
Undrawn loans	111	1,866	200	1,243
Issued guarantees	20	2	194	–
Notional value of the underlying assets of derivatives	207,782	6,252	190,830	4,908
Income				
Interest income	111	132	463	115
Fee and commission income	9	206	8	52
Net trading result	**1,099**	**29**	**1,603**	**29**
Other operating income	**13**	**1**	**1**	**–**
Total income	1,232	368	2,075	196
Expenses				
Interest expense	85	64	357	87
Fee and commission expense	1	65	1	22
General administrative expenses	57	518	12	254
Other operating expenses	2	–	118	–
Total expenses	**145**	**647**	**488**	**363**

(a) Members of the Board of Directors and Supervisory Board

Loans and advances granted to members of the Board of Directors and Supervisory Board amounted to CZK 26 million (in nominal values) as of 31 December 2006 (2005: CZK 16 million).

Members of the Board of Directors and Supervisory Board held no shares of the Bank. Under the Employee Stock Option Plan (refer to Note 40), members of the Board of Directors subscribed for 14,000 shares (2005: 4,200 shares) of the parent company, Erste Bank. Under the Management Stock Option Plan (refer to Note 40), members of the Board of Directors hold 9,500 options (2005: 152,000 options) for subscription of shares of the parent company, Erste Bank.

(b) Related parties

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis.

56. DIVIDENDS

Management of the Bank has proposed that total dividends of CZK 4,560 million be declared in respect of the profit for the year ended 31 December 2006, which represents CZK 30 per both ordinary and priority share (2005: CZK 4,560 million, that is, CZK 30 per both ordinary and priority share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15 percent or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an EU member country and whose interest in a subsidiary's share capital is no less than 25 percent and that hold the entity's shares for at least two years are not subject to a withholding tax.

57. POST BALANCE SHEET EVENTS

In February 2007, the Bank acquired majority shareholdings in Becon s. r. o. and Office Park C s. r. o. via Czech and Slovak Property Fund B. V. and a majority shareholding in Mrázovka II, a. s. via CEE Property Development Portfolio B. V. These entities are primarily engaged in real estate activities, and leases, administration and maintenance of real estate.

The aggregate value of the assets as of 31 December 2006 was CZK 1,449 million. The fair value of these assets was determined to be CZK 1,718 million on the basis of an appraisal prepared by an expert appraiser. The acquisition price equalled the fair value of the net assets in the total amount of CZK 2,043 milion.

Unconsolidated Financial Statements

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union for the Years Ended 31 December 2006 and 2005

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Tax Id. Nr.: CZ49620592

Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

Having its registered office at: Prague 4, Olbrachtova 1929/62, 140 00
Identification number: 45244782
Principal activities: Retail, corporate and investment banking services

We have audited the accompanying unconsolidated financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 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.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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 unconsolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the enity`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 unconsolidated financial statements give a true and fair view of the financial position of Česká spořitelna, a. s. as of 31 December 2006, and of its financial performance and its cash flows for the year then then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 2 March 2007

Audit firm:
Deloitte Audit s. r. o., Certificate no. 79

Represented by:
Michal Petrman, statutory executive

Statutory auditor:
Michal Petrman, certificate no. 1105

Audit. Tax. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Unconsolidated Balance Sheets

as of 31 December 2006 and 2005

CZK mil.	Note	31 December 2006	31 December 2005
ASSETS			
1. Cash and balances with the CNB	5	22 515	17 792
2. Loans and advances to financial institutions	6	61 085	80 049
3. Amounts due from Česká konsolidační agentura	7	5 000	15 653
4. Loans and advances to customers	8	291 498	244 607
5. Provisions for losses on loans and advances	9	(5 175)	(5 046)
6. Securities at fair value through profit or loss		48 896	36 195
(a) Securities held for trading	10	27 803	19 604
(b) Securities designated upon initial recognition as at fair value through profit or loss	11	21 093	16 591
7. Positive fair value of financial derivative transactions	12	18 341	17 759
8. Securities available for sale	13	11 581	14 366
9. Assets held for sale	14	320	326
10. Securities held to maturity	15	100 260	84 441
11. Equity investments in subsidiary and associated undertakings	16	6 955	6 751
12. Intangible fixed assets	17	4 460	4 332
13. Property and equipment	18	13 131	13 697
14. Other assets	19	6 295	5 858
Total assets		**585 162**	**536 780**
LIABILITIES AND SHAREHOLDERS' EQUITY			
1. Amounts owed to financial institutions	20	33 259	28 547
2. Amounts owed to customers	21	430 658	387 269
3. Liabilities at fair value	22	5 450	7 362
4. Negative fair value of financial derivative transactions	23	12 683	14 558
5. Bonds in issue	24	36 463	41 270
6. Provisions for liabilities and other reserves	25	2 650	2 580
7. Other liabilities	26	12 086	10 254
8. Subordinated debt	28	5 886	2 998
9. Shareholders' equity	29, 30	46 027	41 942
Total liabilities and shareholders' equity		**585 162**	**536 780**

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

These financial statements were prepared by the Bank and approved by the Board of Directors on 27 February 2007.

Jack Stack

John James Stack
Chairman of the Board
Chief Executive Officer

Dušan Baran
Vice Chairman of the Board
1st Deputy Chief Executive Officer

Unconsolidated Profit and Loss Accounts
for the Years Ended 31 December 2006 and 2005

CZK mil.	Note	Year ended 31 December 2006	Year ended 31 December 2005
1. Interest income and similar income	31	24,371	22,543
2. Interest expense and similar expense	32	(5,161)	(4,050)
Net interest income		**19,210**	**18,493**
3. Provisions for credit risks	33	(1,371)	(358)
Net interest income after provisions for credit risks		**17,839**	**18,135**
4. Fee and commission income	34	9,453	8,657
5. Fee and commission expense	35	(852)	(616)
Net fee and commission income		**8,601**	**8,041**
6. Net trading result	36	1,615	1,263
7. General administrative expenses	37	(16,142)	(15,405)
8. Other operating income/(expenses), net	38	(178)	335
Profit before taxes		**11,735**	**12,369**
9. Income tax expense	39	(2,795)	(2,609)
Net profit for the year attributable to the Bank's shareholders		**8,940**	**9,760**

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

Unconsolidated Statements of Changes
in Shareholders' Equity for the Years Ended 31 December 2006 and 2005

CZK mil.	Retained earnings	Valuation gains or losses	Statutory reserve fund	Share premium	Share capital	Total
At 1 January 2005	**19,621**	**897**	**1,328**	**2**	**15,200**	**37,048**
Dividends	(4,560)	–	–	–	–	(4,560)
Transfer to reserve funds	(376)	–	376	–	–	–
Revaluation gains or losses	–	(348)	–	–	–	(348)
Foreign exchange differences	–	42	–	–	–	42
Net profit for the year	9,760	–	–	–	–	9,760
At 31 December 2005	**24,445**	**591**	**1,704**	**2**	**15,200**	**41,942**
At 1 January 2006						
Dividends	(4,560)	–	–	–	–	(4,560)
Transfer to reserve funds	(488)	–	488	–	–	–
Revaluation gains or losses	–	(295)	–	–	–	(295)
Net profit for the year	8,940	–	–	–	–	8,940
At 31 December 2006	**28,337**	**296**	**2,192**	**2**	**15,200**	**46,027**

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

Unconsolidated Statements of Cash Flows

for the Years Ended 31 December 2006 and 2005

CZK mil.	Note	2006	2005
Profit before taxes		11,735	12,369
Adjustments for non-cash transactions			
Creation/(release) of provisions for losses on loans, advances and other assets		1,456	423
Depreciation and amortisation of assets		3,233	3,250
Impairment of tangible and intangible fixed assets		74	(24)
Unrealised loss/(profit) on securities at fair value through profit or loss		106	(337)
Creation/(release) of provisions against equity investments		(2)	(71)
Net loss/(gain) on the sale of equity investments		(93)	(91)
Creation/(release) of other reserves		175	234
Change in fair values of financial derivatives		(2,456)	(358)
Income from statute-barred savings books		(2)	(44)
Gain on the sale of tangible assets		(113)	(44)
Accrued interest, amortisation of discount and premium		(188)	621
Operating profit before changes in operating assets and liabilities		**13,925**	**15,928**
Cash flows from operating activities			
(Increase)/decrease in operating assets			
Minimum reserve deposits with the CNB		(4,197)	78
Loans and advances to financial institutions		19,009	(19,721)
Loans and advances to customers, including Česká konsolidační agentura		(37,550)	(46,781)
Securities at fair value through profit or loss		(12,890)	(9,580)
Securities available for sale		2,302	701
Other assets		(67)	(512)
Increase/(decrease) in operating liabilities			
Amounts owed to financial institutions		4,834	3,192
Amounts owed to customers		43,390	24,446
Liabilities at fair value		(1,912)	1,825
Other liabilities		2,236	3,377
Net cash flow from operating activities before income tax		29,080	(27,047)
Income taxes paid		(3,410)	(3,786)
Net cash flow from operating activities		**25,670**	**(30,833)**
Cash flows from investing activities			
Net (increase)/decrease in securities held to maturity		(15,924)	11,931
Net costs related to equity investments		(109)	(1,983)
Purchase of tangible and intangible fixed assets		(3,700)	(4,510)
Proceeds from the sale of tangible and intangible fixed assets		950	1,874
Net cash flow from investing activities		**(18,783)**	**7,312**

CZK mil.	Note	2006	2005
Cash flows from financing activities			
Dividends paid		(4,560)	(4,560)
Bonds in issue		(4,497)	20,835
Receipt of subordinated debt		2,888	2,998
Net cash flow from financing activities		**(6,169)**	**19,273**
Net decrease in cash and cash equivalents		**718**	**(4,248)**
Cash and cash equivalents at beginning of year		**14,034**	**18,282**
Cash and cash equivalents at end of year	**40**	**14,752**	**14,034**

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

Notes to the Unconsolidated Financial Statements

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

1. INTRODUCTION

Česká spořitelna, a. s. (henceforth the "Bank"), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services on the territory of the Czech Republic.

The principal activities of the Bank are as follows:
- Acceptance of deposits from the general public;
- Extension of credit;
- Investing in securities on its own account;
- Payments and clearing;
- Issuance of payment facilities, e.g. payment cards, traveller's cheques;
- Issuance of guarantees;
- Opening of letters of credit;
- Collection services;
- Proprietary or client-oriented trading with foreign currency assets, forward and option contracts, including foreign currency and interest rate transactions, and transferable securities;
- Management of clients' securities on clients' accounts and provision of advisory services;
- Participation in the issuance of shares and provision of related services;
- Safe-keeping and administration of securities or other assets;
- Rental of safe-deposit boxes;
- Provision of business advisory services;
- Issuance of mortgage bonds under special legislation;
- Financial brokerage;
- Depositary activities;
- Foreign exchange services (foreign currency purchases);
- Provision of banking information; and
- Maintenance of a separate part of the Securities Centre's records.

The Bank is subject to the regulatory requirements of the Czech National Bank (henceforth the "CNB"). These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk and foreign currency position.

2. BASIS OF PREPARATION

These statutory financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations approved by the International Accounting Standards Board (IASB) as adopted by the European Union. These standards and interpretations were previously called International Accounting Standards (IAS). As of the date of issuance of these unconsolidated financial statements, IFRS as adopted by the European Union do not differ from IFRS.

All figures are in millions of Czech crowns (CZK mil.), unless stated otherwise.

These financial statements have been prepared under the historical cost convention as modified by the remeasurement to fair value of available for sale securities, financial assets and liabilities at fair value through profit or loss, all financial derivatives, issued debt securities which are hedged against interest rate risk and assets held for sale.

The presentation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period (refer to Note 4). Actual results could differ from those estimates.

Comparative information has been restated, where necessary, on a basis consistent with the current year presentation.

These financial statements and notes thereto are unconsolidated and do not include the accounts and results of those companies over which the Bank has control or significant influence. The policies of accounting for equity investments are disclosed in Note 3b.

The Bank also prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and interpretations approved by the International Accounting Standards Board (IASB) as adopted by the European Union which present the results of the Bank's financial group.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Loans and Advances, Other Off Balance Sheet Credit Exposures and Provisions for Losses on Loans and Advances

Loans and advances are stated at the amount of outstanding principal and overdue interest and fees. All loans and advances are recognised when cash is advanced to borrowers.

Provisions for losses on loans and advances are recorded when there are reasonable doubts over the recoverability of the loan balance. Provisions for losses on loans and advances represent management's assessment of potential losses in relation to the Bank's on and off balance sheet activities. Amounts are set aside to cover losses on loans and advances that have been specifically identified and for potential losses which may be present based on portfolio performance. The level of provisions is established by comparing the carrying amount of the loan and the present value of future expected cash flows using the effective interest rate. The amount necessary to adjust the provisions to their assessed levels, after write-offs, is charged to the profit and loss account line "Provisions for credit risks." Additional details can be found in Note 41.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for credit risks" in the profit and loss account. If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. The relevant amount and recoveries of loans and advances previously written off are reflected in the profit and loss account through "Provisions for credit risks."

(b) Debt and Equity Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. In accordance with IAS 39 the Bank categorises its securities into the "Securities at fair value through profit or loss" portfolio, the "Securities available for sale" portfolio and the "Securities held to maturity" portfolio. The principal difference among the portfolios relates to the approach to the measurement of securities and the recognition of their fair values in the financial statements.

All securities held by the Bank are recognised using trade date accounting and initially recorded at their cost including transaction costs (acquisition cost), the only exception being securities at fair value through profit or loss which are recognised at cost net of transaction costs.

Securities at Fair Value through Profit or Loss

The portfolio includes debt and equity securities held for trading, that is, securities held by the Bank with the intention of reselling them, thereby generating profits on price fluctuations in the short-term, and debt and equity securities that were designated, upon initial recognition, as at fair value through profit or loss. Securities at fair value through profit or loss are recognised at cost at the acquisition date and subsequently remeasured at fair value. Changes in the fair values of assets held for trading are recognised in the profit and loss account as "Net trading result". Changes in the fair values of securities not held for trading are reported as "Other operating income/(expenses), net" in the profit and loss account.

For debt and equity securities traded on the Prague Stock Exchange ('PSE') and other stock exchanges, fair values are derived from quoted prices. The fair values of those securities not traded on the PSE are estimated by the management of the Bank as the best estimation of the cash flow projection reflecting the set of economic conditions that will exist over the remaining maturity of the securities.

Securities Available for Sale

Securities available for sale are securities held by the Bank for an indefinite period of time that are available for sale as liquidity requirements arise or market conditions change.

Securities available for sale are carried at acquisition cost and subsequently remeasured at fair value. Changes in the fair values of available for sale securities are recognised in equity as "Revaluation gains or losses", with the exception of their impairment and interest income and foreign exchange differences on debt securities. When realised, the relevant revaluation gains or losses are taken to the profit and loss account as "Other operating income/(expenses), net". Interest income on coupons, amortisation of discounts or premiums, and dividends are included in "Interest income and similar income". Foreign exchange differences are reported within "Net trading result".

Securities Held to Maturity

Securities held to maturity are financial assets with fixed maturity and determinable payments that the Bank has the positive intent and ability to hold to maturity.

Securities held to maturity are initially measured at acquisition cost. Securities held to maturity are subsequently reported at amortised cost using the effective interest rate, less any provision for impairment. The amortisation of premiums and discounts is included in "Interest income and similar income".

A financial asset (as defined in IAS 39) is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank recognises provisions through the profit and loss account line "Other operating income/(expenses), net."

Equity Investments

Equity investments in subsidiary and associated undertakings are recorded at acquisition cost including transaction costs less provisions for any temporary diminution in value or write-offs for any permanent diminution in value.

An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50 percent of its share capital or in which the Bank can exercise more than 50 percent of the voting rights based on an agreement with another shareholder/owner, or where the Bank can appoint or dismiss a majority of the Board of Directors or Supervisory Board members.

An investment in an associate is one in which the Bank holds, directly or indirectly, 20 percent to 50 percent of its share capital or over which the Bank exercises significant influence through representation on the entity's statutory board, participation in the development of the entity's policy, significant transactions between the entity and the Bank, replacement of the entity's management by the Bank, and access to significant technical information of the entity.

At the financial statement date or interim financial statement date, the Bank assesses equity investments in subsidiary or associated undertakings for impairment. An equity investment is impaired if its carrying amount is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value and its value in use determined as a sum of discounted expected cash flows. Impairment of equity investments in subsidiaries and associates is recognised in "Other operating income/(expenses), net". Impairment of equity investments in subsidiary or associated undertakings is accounted for through the recognition of provisions.

Dividends from equity investments are recognised in the profit and loss account within "Interest income and similar income" in the period in which they are declared.

(c) Sale and Repurchase Agreements

Where debt or equity securities are sold under a concurrent commitment to repurchase them at a pre-determined price, they remain at fair value or amortised cost (refer to Note 3b) within the relevant portfolio on the balance sheet and the consideration received is recorded in "Amounts owed to financial institutions" or "Amounts owed to customers." Conversely, debt or equity securities purchased under a concurrent commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in "Loans and advances to financial institutions" or "Loans and advances to customers." Interest is accrued evenly over the life of the agreement.

(d) Liabilities at Fair Value

Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the Bank records an obligation to return them which is recognised at fair value as a trading liability and is presented in the balance sheet line “Liabilities at fair value”. Until 2005, these balances were recognised within “Other liabilities” and, therefore, comparative information has been restated on a basis consistent with the current year presentation. Upon the repurchase of securities, the difference between the carrying amount of the obligation and the contracted purchase price is recognised in “Net trading result”.

(e) Intangible Fixed Assets

Intangible fixed assets include identifiable assets without physical substance with an estimated useful life exceeding one year and a cost greater than CZK 60,000. Costs associated with acquiring software are treated as intangible fixed assets and are amortised on a straight line basis through “General administrative expenses – amortisation of intangible assets” over an estimated useful life not exceeding four years. Research and development, valuable rights and other intangible assets with the exception of goodwill disclosed above are also amortised over an estimated useful life not exceeding four years. Costs associated with the maintenance of intangible assets (software) are expensed through “General administrative expenses – other administrative expenses” as incurred whilst costs of technical improvements, if they exceed CZK 60,000 per one asset for the period and are completed, are capitalised and increase the acquisition cost of the intangible fixed asset (software). Intangible fixed assets are carried at cost less accumulated amortisation and provisions and are amortised on a straight line basis over their estimated useful lives.

(f) Property and Equipment

Property and equipment includes identifiable tangible assets with physical substance and with an estimated useful life exceeding one year and a cost greater than CZK 13,000. Property and equipment also includes selected low value tangible assets with a cost between CZK 1,000 and CZK 12,999. Property and equipment is stated at historical cost less accumulated depreciation and provisions and is depreciated when ready for use through the profit and loss account line “General administrative expenses – depreciation of property and equipment” on a straight line basis over their estimated useful lives. Depreciation periods for individual categories of assets are as follows:

Buildings and structures	20–50 years
Electronic machines and equipment	6–12 years
Tools and other equipment	4–12 years
Equipment, fixtures and fittings	4–6 years
Selected low value machines and equipment	2 years
Leasehold improvements	Period of the lease

Land and works of art (irrespective of their cost) and assets under construction are not depreciated. The gain and loss arising on the disposal of property and equipment is determined based on its carrying value and is recognised in the profit and loss account line “Other operating income/(expenses), net” in the year of disposal.

Property and equipment costing less than CZK 13,000 that are not the selected low value fixed assets, technical improvements costing less than CZK 40,000 and intangible fixed assets costing less than CZK 60,000 are charged to the profit and loss account line “General administrative expenses” in the period of acquisition. The depreciation period of selected buildings and structures was extended from 30 years to 50 years to better reflect their estimated useful lives.

Repairs and maintenance of property and equipment are charged to the profit and loss account line “General administrative expenses – other administrative expenses” in the year in which the expenditure is incurred.

(g) Assets Held for Sale

The category of ‘assets held for sale’ includes non-current assets that are taken out of active use at the date on which criteria for sale are met, that is, the sale is approved by an authorised person, steps to locate a buyer have been initiated, and a draft of a purchase contract and other documentation is being prepared. At the same date, the assets held for sale are remeasured at fair value based on an expert appraisal and depreciation on such assets ceases. Changes arising from the fair value remeasurement of the assets are accounted for through the recognition of an extraordinary write-off in the profit and loss account line “Other operating income/(expenses), net.”

(h) Impairment of Assets

Where the carrying amount of an asset stated at net book value or amortised cost is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs, or the estimated future economic benefits arising from the use of the asset.

The largest components of the Bank's assets are periodically tested for impairment and temporary impairments are provisioned through the profit and loss account line "Other operating income/(expenses), net". An increased carrying amount arising from the reversal of a temporary impairment must not exceed the carrying amount that would have been determined (net of amortisation or accumulated amortisation) had no impairment loss been recognised for the asset in prior years.

(i) Provisions for Guarantees and Other Off Balance Sheet Credit Related Commitments

In the normal course of business, the Bank enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, loan commitments, undrawn loan facilities and letters of credit. Provisions are made for estimated losses on these commitments on the same basis as set out at Note 3 (a) in respect of on balance sheet loan exposures. In estimating the losses, the Bank refers to the historical data regarding risk parameters (credit conversion factors, probability of default and loss-given default).

(j) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and 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.

(k) Shareholders' Equity

The statutory reserve fund comprises funds that the Bank is required to retain according to current legislation. The use of the statutory reserve fund is limited by legislation and the articles of the Bank. The fund is not available for distribution to the shareholders.

Where the Bank purchases its treasury shares or obtains rights to purchase its treasury shares, the consideration paid including any attributable transaction costs net of income taxes, is shown as a deduction from total shareholders' equity. In selling treasury shares, the Bank recognises the difference between their selling price and cost as share premium.

Dividends reduce retained earnings in the period in which they are declared by the Annual General Meeting.

(l) Accrued Interest

Interest receivable and payable accrued on outstanding loan balances, debt securities, deposit products and bonds in issue and subordinated debt is reported within "Other assets" and "Other liabilities," respectively.

(m) Foreign Currency

Transactions denominated in foreign currencies are recorded in the local currency at official exchange rates as announced by the CNB on the date of transaction. Assets and liabilities denominated in foreign currencies are translated into the local currency at the CNB exchange rate prevailing at the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the profit and loss account in "Net trading result", with the exception of foreign exchange rate differences on equity investments denominated in foreign currencies which are reported at the historical exchange rate, foreign exchange rate differences on equity securities included in the available-for-sale portfolio which are reported as a component of a change in the fair value and foreign exchange rate differences on derivatives entered into with a view to hedging currency risk associated with assets or liabilities whose foreign exchange rate differences are not reported in the profit and loss account.

(n) Interest Income and Interest Expense

Interest income and expense are recognised, on an accruals basis, in the profit and loss account lines "Interest income and similar income" and "Interest expense and similar expense" when earned or incurred, the only exception being securities held for trading which recognised in "Net trading result". The Bank accounts for the accruals of interest using the effective interest rate method. Outstanding penalties, contractual sanctions and interest on non-performing loans, which are those loans that have overdue interest and/or principal, or for which management of the Bank otherwise believes the contractual interest or principal due may not be received, are only recognised on collection.

(o) Fees and Commissions

Fees and commissions are recognised in the profit and loss account lines "Fee and commission income" and "Fee and commission expense" on an accruals basis, with the exception of fees that are included in the effective interest rate.

The effective interest rate includes the fees directly associated with the provision of the loan, such as loan origination fees, loan application processing fees, etc. These fees are reduced to reflect the Bank's direct transaction costs involved in issuing loans.

(p) Taxation

Tax on the profit or loss for the year comprises the current year tax charge, adjusted for deferred taxation. Current tax comprises the tax payable calculated on the basis of the taxable income for the year, using the tax rate enacted by the balance sheet date, and any adjustment of the tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. The principal temporary differences arise from certain non-tax deductible reserves and provisions, tax and accounting depreciation on tangible and intangible fixed assets and revaluation of other assets.

The estimated value of tax losses expected to be available for utilisation against future taxable income and tax deductible temporary differences are offset against the deferred tax liability within the same legal tax unit to the extent that the legal unit has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be available to allow the asset to be recovered.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the profit and loss account, except to the extent that it relates to items previously charged or credited directly to equity.

(q) Financial Derivative Instruments

Financial derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency and interest rate options (both purchased and sold), futures and other derivative financial instruments. The Bank uses various types of derivative instruments in both its trading and hedging activities.

Financial derivative instruments entered into for trading or hedging purposes are recognised at fair value as "Positive fair value of financial derivative transactions" and "Negative fair value of financial derivative transactions." Realised and unrealised gains and losses are recognised in the profit and loss account line "Net trading result", the only exception being unrealised gains and losses on cash flow hedges which are recognised in equity. Fair values of derivatives are based upon quoted market prices or pricing models which take into account current market and contractual prices of the underlying instruments, as well as the time value and yield curve or volatility factors underlying the positions.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with gains and losses reported in the profit and loss account.

Hedging derivatives are defined as derivatives that comply with the Bank's risk management strategy, the hedging relationship is formally documented and the hedge is effective, that is, at inception and throughout the period, changes in the fair value or cash flows of the hedged and hedging items are almost fully offset and the results are within a range of 80 percent to 125 percent.

If the Bank uses a fair value hedge, the hedged item is remeasured at fair value and the gain or loss from the remeasurement (in respect of an interest rate risk exposure hedge) is recognised as an expense or income in "Interest income and similar income" or "Interest expense and similar expense" as appropriate. The same accounts of expense and income that reflect the gain or loss from remeasuring the hedged item at fair value are also used in accounting for changes in fair values of hedging derivatives that are attributable to the hedged risk.

If the Bank uses a cash flow hedge, the gains or losses from changes in fair values of hedging derivatives that are attributable to the hedged risk are retained in equity on the balance sheet and are recognised as an expense or income in the periods in which the expense or income associated with the hedged items are recognised.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value remeasurement gains and losses reported in income or expenses within "Net trading result".

(r) Transactions with Securities Undertaken on behalf of Clients

Securities received by the Bank into custody, administration, management or safe-keeping are typically recorded at market or nominal values if the market value is not available and maintained off balance sheet. "Other liabilities" include the Bank's payables to clients arising from cash received to purchase securities or cash to be refunded to the client.

(s) Segment Reporting

Segment information is based on two segment formats. The primary format represents business segments – retail banking, corporate banking, investment banking and other operations. The secondary format represents the Bank's geographical markets – the Czech Republic, EU countries, other European countries and other regions.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Bank. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Bank's policy. Unallocated items mainly comprise administrative expenses.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Bank's balance sheet. Segment assets and liabilities do not include income tax items.

(t) Cash and Cash Equivalents

The Bank considers cash and deposits with the CNB, treasury bills with a residual maturity of three months or less, nostro accounts with financial institutions and loro accounts with financial institutions to be cash equivalents. For the purposes of determining cash and cash equivalents, the minimum reserve deposit with the CNB is not included as a cash equivalent due to restrictions on its availability.

(u) Changes in Accounting Policies arising from the Adoption of New IFRSs and Amendments to IASs effective 1 January 2006

- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' (effective 1 January 2006)
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting (effective 1 January 2006)
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 4 'Insurance Contracts' for financial guarantee contracts (effective 1 January 2006)

At the date of authorisation of these financial statements, the following standards were in issue, and endorsed by the EU but not yet effective:
- IFRS 7 'Financial Instruments: Disclosures' (effective 1 January 2007); and
- Amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective 1 January 2007).

The adoption of these standards in the future periods is not expected to have a material impact on the unconsolidated profit or equity. Provisioning for off-balance sheet risks (commitments to extend loans) has an impact on the profit and loss account in the amount of CZK 100 million.

The following standards or interpretations have been issued by IASB but not yet endorsed by the EU:
- IFRS 8 Operating segments

- IFRIC 10 Interim financial reporting and impairment
- IFRIC 11: IFRS 2 on Group and treasury shares transactions
- IFRIC 12 Service concession arrangements
- IAS 39 Financial instruments: Recognition and Measurement in the area of certain hedge accounting requirements

These standards are not yet effective as of the reporting date. Endorsement by the EU is expected by the time the standards and interpretations become effective.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

(a) Impairment of Loans and Advances

The Bank regularly assesses its loan portfolio for possible impairment. In determining impairment losses the Bank assesses whether there are observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio although the decrease cannot yet be identified with individual loans. Management of the Company uses estimates based on historical experience of losses on loans that have similar risk characteristics. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data.

(b) Debt Securities Held to Maturity

Based upon the model of the development of future cash flows and its balance sheet structure, the Bank invests in securities and categorises a portion of purchased securities in the held-to-maturity portfolio. The key criterion driving this decision is the Bank's ability to hold the security to maturity assuming sufficient financial coverage throughout the whole term of the investment. Should the sale of a significant volume of the held-to-maturity debt securities before their maturity take place, pursuant to IAS 39 the Bank would be required to reallocate the held-to-maturity securities into one of the remaining portfolios. In terms of the Bank's asset management policy, the purchase of a debt security into the portfolio of the held-to-maturity debt securities is primarily considered as a tool of the banking book interest rate risk management, the ability to hold such a debt security to maturity is a pre-condition for using the debt security as a banking book interest rate risk management tool.

(c) Permanent Impairment of Securities

Securities held by the Bank, the only exception being debt securities in the held-to-maturity portfolio, are regularly marked to market and the marked-to-market revaluation is recognised in the profit and loss account (the trading portfolio and the at-fair-value-through-profit-or-loss portfolio) or in equity (the available-for-sale portfolio) which reflects permanent impairment, if any, of the securities (for instance, as a result of the bankruptcy of their issuer). If the Bank concludes that some of its securities held to maturity suffered permanent impairment (for instance, a full redemption of the nominal value of a debt security cannot be anticipated with a sufficient degree of certainty), the carrying amount of the security is written down and the incurred loss is taken to the profit and loss account. The same treatment applies to securities available for sale, permanent impairment is reflected in the profit and loss account instead of equity where current fluctuations in the market value of the security are recognised.

(d) Valuation of Instruments without Direct Quotations

Financial instruments without direct quotations in an active market are valued using the mark-to-model technique. The models are regularly reviewed by a skilled employee of the Risk Management Department that is different from the preparer of the model. Each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g., for correlations, volatilities, etc). Changes in the model assumptions may affect the reported market value of the relevant financial instruments.

(e) Provisions

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

(f) Fair Value of Assets

Assets held for sale are valued based on expert appraisals prepared by independent real estate appraisers and the valuation reflects anticipated prices on the real estate market.

(g) Impairment of Assets

The Bank tests its assets for impairment at least on an annual basis to determine whether there is any indication that those assets have suffered impairment. If any such indication exists, the Bank compares the carrying amount of the assets with their recoverable amount defined as the higher of fair value less costs to sell and value in use.

With regard to equity investments that are within the scope of IAS 27 Consolidated and Separate Financial Statements and IFRS 3 Business Combinations, the Bank determines value in use, the only exception being investments in the real estate funds CEE Property Development Portfolio B.V. and Czech and Slovak Property Fund B.V. In respect of real estate funds, the Bank determines the fair values of individual equity investments held via these funds less costs to sell. The fair value of the entire fund represents the sum of the fair values of all individual investments. In determining the fair value of equity investments held via the real estate funds, the Bank uses estimates prepared by recognised real estate appraisers. The value in use is established as equal to the discounted value of the projected cash flows from individual investments. The discount rate used by the Bank matches the zero-risk rate increased by a credit mark-up reflecting the Group's external rating.

With regard to tangible assets within the scope of IAS 16 Property, Plant and Equipment, the Bank determines the fair value less costs to sell. The fair value is arrived at on the basis of expert appraisals prepared by certified appraisers.

The Bank determines the value in use of intangible assets by estimating discounted future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal.

The fair value of securities held to maturity and securities available for sale that fall within the scope of IAS 39 Financial instruments: Recognition and Measurement is determined on the basis of standard market parameters or valuation models as appropriate.

5. CASH AND BALANCES WITH THE CNB

CZK mil.	2006	2005
Cash	13,988	13,188
Nostro accounts with the CNB	445	720
Minimum reserve deposit with the CNB	8,082	3,884
Total	**22,515**	**17,792**

Minimum reserve deposits represent mandatory deposits calculated in accordance with regulations promulgated by the CNB, and whose withdrawal is restricted. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulation. The nostro balances represent balances with the CNB relating to settlement activities and were available for withdrawal at the year-end.

6. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

CZK mil.	2006	2005
Nostro accounts	556	511
Loans and advances to financial institutions	31,207	43,007
Placements with financial institutions	29,322	36,531
Total	**61,085**	**80,049**

As of 31 December 2006, the Bank provided certain financial institutions with loans of CZK 25,814 million (2005: CZK 37,374 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 25,341 million (2005: CZK 37,237 million).

7. AMOUNTS DUE FROM ČESKÁ KONSOLIDAČNÍ AGENTURA

With effect from 1 September 2001, Konsolidační banka Praha, s.p.ú. was transformed into Česká konsolidační agentura ('ČKA') pursuant to Act 239/2001 Coll. This entity's receivables have been included in the government sector and are guaranteed by the State pursuant to the Act referred to above.

CZK mil.	2006	2005
Amounts due from Česká konsolidační agentura	**5,000**	**15,653**

As of 31 December 2006, the Bank had loans of CZK 5,000 million related to the loan portfolio restructuring effected by the State with ČKA's assistance (2005: CZK 14,900 million). These loans will fall due for repayment in the period from 2007 through 2008.

8. LOANS AND ADVANCES TO CUSTOMERS

The following table shows a breakdown of the loan balance by type of loan:

CZK mil.	2006	2005
Corporate loans	102,446	99,236
Mortgage loans	115,411	80,874
Retail loans	60,098	52,808
Public sector loans	13,543	11,689
Total	**291,498**	**244,607**

Industry Sector Analysis

The table below details the breakdown of loans and advances to customers by industry sector:

CZK mil.	2006	2005
Non-financial institutions	109,921	92,032
Financial institutions	18,578	23,992
Government sector	15,754	13,884
Not-for-profit organisations	2,423	1,163
Households (self employed)	10,259	8,678
Resident individuals	134,563	104,841
Other	–	17
Total	**291,498**	**244,607**

As of 31 December 2006, the Bank provided certain customers with loans of CZK nil (2005: CZK 1,014 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK nil (2005: CZK 1,362 million).

The gross exposures shown above include loans in the aggregate amount of CZK 3,853 million (2005: CZK 3,653 million) on which interest is no longer accrued.

Analysis of Loans and Advances to Customers according to Credit Risk Assessment Policies

31 December 2006 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	9,494	5,820	15,314
Collectively impaired	-	28,442	28,442
Unimpaired	132,666	115,076	247,742
Total	**142,160**	**149,338**	**291,498**

CZK mil. 31 December 2005	Individually significant loans	Individually insignificant loans	Total
Individually impaired	7,413	4,872	12,285
Collectively impaired	-	1,861	1,861
Unimpaired	120,210	110,251	230,461
Total	**127,623**	**116,984**	**244,607**

The Bank uses various types of collateral in order to mitigate credit risk exposure. The list of collateral instruments is set out in an internal regulation which also outlines the guidance to be followed in determining the values of individual types of collateral. The Bank establishes the nominal value of collateral based upon a market valuation which is subsequently used as a basis for arriving at the realisable value by applying a discount factor set for each type of collateral. Collateral that is valued at realisable value is taken into account in provisioning (refer to Note 4a). Collateral valuation rules also set out when and how often the valuations of individual collateral instruments are updated.

9. PROVISIONS FOR LOSSES ON LOANS AND ADVANCES

(a) Creation and use of provisions for losses on loans and advances

CZK mil.	2006	2005
At 1 January	5,046	5,578
Charge for provisions	3,092	3,299
Release of provisions	(1,634)	(2,916)
Net charge/(release) of provisions	1,458	383
Use of provisions for loans written off and assigned	(1,309)	(906)
FX differences from provisions in foreign currency	(20)	(9)
At 31 December	**5,175**	**5,046**

(b) Provisions for losses on loans and advances by category

31 December 2006 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	2,076	2,891	4,967
Collectively impaired	–	208	208
Total	**2,076**	**3,099**	**5,175**

31 December 2005 CZK mil.	Individually significant loans	Individually insignificant loans	Total
Individually impaired	2,342	2,504	4,846
Collectively impaired	–	200	200
Total	**2,342**	**2,704**	**5,046**

10. SECURITIES HELD FOR TRADING

CZK mil.	2006	2005
Listed debt securities	25,639	17,823
Listed equity securities and other variable yield securities	2,164	1,781
Total	**27,803**	**19,604**

Listed debt securities include Government treasury bills and treasury bills of the CNB in the aggregate amount of CZK 297 million (2005: CZK 4 million) and Government bonds in the aggregate amount of CZK 20,782 million (2005: CZK 9,858 million) which may be used for refinancing with the CNB (the amounts shown above do not reflect securities that were transferred to collateralise loans received under repurchase transactions).

Debt securities comprise:

CZK mil.	2006	2005
Variable yield debt securities		
Issued in CZK	210	–
Issued in other currencies	0	246
Total	**210**	**246**
Fixed income debt securities		
Issued in CZK	22,670	10,965
Issued in other currencies	2,759	6,612
Total	25,429	17,577
Total debt securities	25,639	17,823

Equity securities and other variable yield securities comprise:

CZK mil.	2006	2005
Shares and share certificates		
Issued in CZK	1,513	1,383
Issued in other currencies	651	398
Total	**2,164**	**1,781**

Debt securities were issued by:

CZK mil.	2006	2005
Debt securities issued by		
State institutions in the Czech Republic	21,810	10,912
Foreign state institutions	363	1,793
Financial institutions in the Czech Republic	1,052	1,131
Foreign financial institutions	1,820	3,197
Other entities in the Czech Republic	84	20
Other foreign entities	510	770
Total	**25,639**	**17,823**

Equity securities and other variable yield securities held for trading were issued by the following issuers:

CZK mil.	2006	2005
Shares and share certificates issued by		
Foreign financial institutions	2,070	1,706
Other entities in the Czech Republic	10	69
Other foreign entities	84	6
Total	**2,164**	**1,781**

11. SECURITIES DESIGNATED UPON INITIAL RECOGNITION AS AT FAIR VALUE THROUGH PROFIT OR LOSS

CZK mil.	2006	2005
Debt securities		
Listed	14,632	11,101
Equity securities and other variable yield securities		
Listed	5,601	4,810
Unlisted	860	680
Total	**21,093**	**16,591**

Debt securities and other fixed income securities do not include Government treasury bills, treasury bills of the CNB and Government bonds (2005: CZK 213 million) which may be used for refinancing with the CNB (the stated amounts do not reflect securities that were transferred to collateralise loans received under repurchase transactions). In 2006, debt securities additionally include securitised securities of CZK 1,565 million (2005: CZK 2,052 million).

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence in the aggregate amount of CZK 860 million (2005: CZK 680 million).

Debt securities comprise:

CZK mil.	2006	2005
Variable yield debt securities		
Issued in CZK	–	647
Issued in other currencies	3,658	2,875
Total	**3,658**	**3,522**
Fixed income debt securities		
Issued in CZK	–	–
Issued in other currencies	10,974	7,579
Total	**10,974**	**7,579**
Total debt securities	**14,632**	**11,101**

Equity securities and other variable yield securities comprise:

CZK mil.	2006	2005
Shares and share certificates		
Issued in CZK	860	680
Issued in other currencies	5,601	4,810
Total	**6,461**	**5,490**

Debt securities were issued by the following issuers:

CZK mil.	2006	2005
Debt securities issued by		
State institutions in the Czech Republic		213
Foreign state institutions	2,622	2,221
Financial institutions in the Czech Republic	244	287
Foreign financial institutions	10,993	7,975
Other entities in the Czech Republic	134	–
Other foreign entities	639	405
Total	**14,632**	**11,101**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2006	2005
Shares and share certificates issued by		
Financial institutions in the Czech Republic	3,795	2,687
Foreign financial institutions	2,666	2,803
Total	**6,461**	**5,490**

12. POSITIVE FAIR VALUE OF FINANCIAL DERIVATIVE TRANSACTIONS

CZK mil.	2006	2005
Financial derivatives		
– Foreign currency	8,163	4,997
– Interest rate hedging	383	328
– Interest rate non-hedging	9,698	12,403
– Other	97	31
Total	**18,341**	**17,759**

13. SECURITIES AVAILABLE FOR SALE

CZK mil.	2006	2005
Debt securities		
Listed	11,538	14,323
Equity securities and other variable yield securities		
Unlisted	43	43
Total	**11,581**	**14,366**

Debt securities include Government treasury bills in the aggregate amount of CZK 3,893 million (2005: CZK 5,872 million) which may be used for refinancing with the CNB (the amounts shown above do not reflect securities that were transferred to collateralise loans received under repurchase transactions).

Unlisted equity securities and other variable yield securities include equity investments and holdings that are not participating interests with controlling or significant influence in the aggregate amount of CZK 43 million (2005: CZK 43 million).

Debt securities comprise:

CZK mil.	2006	2005
Variable yield debt securities		
Issued in CZK	2,198	2,277
Issued in other currencies	2,740	3,210
Total	**4,938**	**5,487**
Fixed income debt securities		
Issued in CZK	4,049	6,030
Issued in other currencies	2,551	2,806
Total	**6,600**	**8,836**
Total debt securities	**11,538**	**14,323**

Equity securities and other variable yield securities comprise:

CZK mil.	2006	2005
Shares and share certificates		
Issued in CZK	38	38
Issued in other currencies	5	5
Total	**43**	**43**

Debt securities were issued by the following issuers:

CZK mil.	2006	2005
Debt securities issued by		
State institutions in the Czech Republic	3,892	5,872
Foreign state institutions	1,450	1,623
Financial institutions in the Czech Republic	2,355	2,435
Foreign financial institutions	3,152	3,666
Other foreign entities	689	727
Total	**11,538**	**14,323**

Equity securities and other variable yield securities were issued by the following issuers:

CZK mil.	2006	2005
Shares and share certificates issued by		
Financial institutions in the Czech Republic	38	38
Other foreign entities	5	5
Total	**43**	**43**

14. ASSETS HELD FOR SALE

CZK mil.	2006	2005
Cost		
At 1 January	578	146
Additions	199	589
Disposals	(160)	(157)
At 31 December	**617**	**578**
Accumulated depreciation including impairment		
At 1 January	(252)	(68)
Additions	(115)	(258)
Disposals	70	74
At 31 December	**(297)**	**(252)**
Net book value at 31 December	**320**	**326**

Assets are reported as held for sale due to their redundancy. When transferring assets to this category, the Bank recorded impairment of CZK 28 million.

A portion of the assets held for sale as of 1 January 2006 at an aggregate carrying amount of CZK 227 million was not sold in 2006 for reasons that were beyond the Bank's control. However, the Bank's commitment to sell these assets remains unchanged and the Bank is taking active steps to complete the sale in 2007. As such, these assets were not reclassified at the balance sheet date.
All assets held for sale are presented in the 'Other activities' segment.

15. SECURITIES HELD TO MATURITY

CZK mil.	2006	2005
Debt securities		
Listed	99,950	83,813
Unlisted	310	628
Total	**100,260**	**84,441**

Listed debt securities and other fixed income securities include Government treasury bills and treasury bills of the CNB of CZK 1,489 million (2005: CZK 978 million) and Government bonds of CZK 39,581 million (2005: CZK 32,672 million) which may be used for refinancing with the CNB (the amounts shown above do not reflect securities that were transferred to collateralise loans received under repurchase transactions).

The portfolio additionally comprises credit linked notes issued by the parent company, Erste Bank, at a cost of CZK 310 million (2005: CZK 628 million).

Debt securities comprise:

CZK mil.	2006	2005
Variable yield debt securities		
Issued in CZK	19,066	19,127
Issued in other currencies	2,830	–
Total	**21,896**	**19,127**
Fixed income debt securities		
Issued in CZK	77,814	65,314
Issued in other currencies	550	–
Total	**78,364**	**65,314**
Total debt securities	**100,260**	**84,441**

Debt securities were issued by the following issuers:

CZK mil.	2006	2005
Debt securities issued by		
State institutions in the Czech Republic	48,556	44,265
Financial institutions in the Czech Republic	8,892	7,504
Foreign financial institutions	41,200	31,556
Other entities in the Czech Republic	1,113	1,116
Other foreign entities	499	–
Total	**100,260**	**84,441**

16. EQUITY INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Name of the company	Registered office	Principal activities
Associated undertakings		
CBCB-Czech Banking Credit Bureau, a. s.	Na Příkopě 1096/21, Prague 1	Provision of information from the client information banking register
První certifikační autorita, a. s.	Prague 9, Podvinný mlýn 2178/6	Digital signature certification services
České nemovitosti, a. s.	Prague 1, Revoluční 3	Real estate activities
s IT Solutions SK, spol. s r. o. (formerly SporDat, spol. s r. o.)	Bratislava, Prievozská 14, Slovakia	Provision of software
Subsidiary undertakings		
brokerjet České spořitelny, a. s.	Prague 1, Na Příkopě 29/584	Investment services
CEE Property Development Portfolio B. V.	Naritaweg 165 Amsterdam, Netherlands	Real estate investment
Consulting České spořitelny, a. s.	Prague 3, Vinohradská 1632/180	Consultancy
CS Investment Limited	Ogier House, St Julian's Avenue, St Peter Port, Guernsey	Investments and equity holdings
CS Property Investment Limited	Themistokli Dervi, 48, Nicosia, Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B. V.	Fred Roeskerstraat 123, 1076EE, Amsterdam, Netherlands	Real estate investment
Czech TOP Venture Fund B. V.	Postweg 11 6561 Groesbeek, Netherlands	Management and financing services
Erste Corporate Finance, a. s.	Prague 1, Na Perštýně 1/342	Consultancy
Factoring České spořitelny, a. s.	Prague 8, Pobřežní 46	Factoring
Informatika České spořitelny, a. s.	Prague 7, Bubenská 1477/1	Provision of IT services
Investiční společnost České spořitelny, a. s.	Prague 1, Na Perštýně 1/342	Investment management
Leasing České spořitelny, a. s.	Prague 8, Střelničná 8/1680	Leasing
Penzijní fond České spořitelny, a. s.	Prague 4, Poláčkova 1976/2	Pension insurance
Pojišťovna České spořitelny, a. s.	Pardubice, nám. Republiky 115	Insurance
Realitní společnost České spořitelny, a. s.	Prague 3, Vinohradská 1632/180	Real estate activities
REICO investiční společnost ČS, a. s.	Prague 1, Na Perštýně 342/1	Real estate investment
sAutoleasing, a. s.	Prague 8, Střelničná 8/1680	Leasing
Stavební spořitelna České spořitelny, a. s.	Prague 3, Vinohradská 180/1632	Construction savings bank

At 31 December 2006 Name of the company	Share capital in CZK mil./T EUR, SKK	Currency	Ownership percentage	Voting power in %	Carrying amount in CZK mil.
Associated undertakings					
CBCB-Czech Banking Credit Bureau, a. s.	1	CZK	20.00%	20.00%	0.2
První certifikační autorita, a. s.	20	CZK	23.25%	23.25%	10
České nemovitosti, a. s.	45	CZK	24.00%	24.00%	17
s IT Solutions SK, spol. s r. o.	200	SKK	23.50%	23.50%	69
Total associated undertakings					**96**
Subsidiary undertakings					
brokerjet České spořitelny, a. s.	160	CZK	51.00%	51.00%	82
CEE Property Development Portfolio B. V.	20	EUR	20.00%	20.00%	1,741
Consulting České spořitelny, a. s.	1	CZK	100.00%	100.00%	5
CS Investment Limited	8	EUR	99.99%	100.00%	230
CS Property Investment Limited	47	EUR	100.00%	100.00%	1,245
Czech and Slovak Property Fund B. V.	30	EUR	10.00%	10.00%	253
Czech TOP Venture Fund B. V.	19	EUR	84.25%	84.25%	145
Erste Corporate Finance, a. s.	6	CZK	50.17%	50.17%	3
Factoring České spořitelny, a. s.	84	CZK	100.00%	100.00%	57
Informatika České spořitelny, a. s.	10	CZK	100.00%	100.00%	10
Investiční společnost České spořitelny, a. s.	70	CZK	100.00%	100.00%	77
Leasing České spořitelny, a. s.	300	CZK	100.00%	100.00%	75
Penzijní fond České spořitelny, a. s.	100	CZK	100.00%	100.00%	241
Pojišťovna České spořitelny, a. s.	1,117	CZK	55.25%	55.25%	1,363
Realitní společnost České spořitelny, a. s.	4	CZK	100.00%	100.00%	4
REICO investiční společnost ČS, a. s.	30	CZK	100.00%	100.00%	30
sAutoleasing, a. s.	100	CZK	100.00%	100.00%	100
Stavební spořitelna České spořitelny, a. s.	750	CZK	95.00%	95.00%	1,198
Total subsidiary undertakings					**6,859**
Total equity investments					**6,955**

The Bank presents its investments in the real estate funds CEE Property Development Portfolio B. V. and Czech and Slovak Property Fund B. V. as equity investments in subsidiary undertakings. While the Bank holds 20 percent and 10 percent, respectively, of the issued share capital of the funds and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Bank receiving substantially all of the returns and bearing substantially all of the risks of the investments. The second shareholder of CEE Property Development Portfolio B. V. bears minimal risks and receives minimal returns from its investment in the funds. Following the completion of shareholding changes, the Bank also remains the majority shareholder of Czech and Slovak Property Fund B. V. owning 67 percent of the invested funding.

During the year ended 31 December 2006, the portfolio of equity investments underwent the following changes:

- The investment in Servis 1 – ČS, a. s. was sold and the gain on the sale amounted to CZK 2 million;
- In November 2006, a subscription for the shares of s Autoleasing, a. s. of CZK 98 million took place and the issue price was paid, giving rise to an increase in the entity's share capital to CZK 100 million;
- The subsidiary Inbestis, a. s. was formed in June 2006. Based upon a licence granted by the Czech National Bank, the business name of Inbestis, a. s. was changed to REICO investiční společnost České spořitelny, a. s. in December 2006;
- In December 2006, the name of SporDat, spol. s r. o. was changed to s IT Solutions SK, spol. s r. o.;
- By way of issuing shares with share premium, the Bank increased its equity investment in CS Investment Limited and CS Property Investment Limited in connection with the development of their business activities;
- By way of share premium payment, the Bank increased its equity investment in Czech TOP Venture Fund B. V. in connection with the development of their business activities;
- Temporarily unused investment funding of CEE Property Development Portfolio B. V. of CZK 945 million was refunded (it was reflected in the reduction of the carrying value by this amount) and other investments taking the form of the payment of premium on the held shares were made, which ultimately resulted in the carrying amount decreasing to CZK 1,741 million;
- During 2006, by way of share premium payment, the Bank increased its investment in Czech and Slovak Property Fund B. V. (by a total of CZK 49 million);
- In October 2006, the Bank sold 1,333 shares of Czech and Slovak Property Fund B. V. (following the sale the Bank held 2,667 shares from the original number of 4,000 shares), giving rise to the aggregate reduction of the carrying amount (a total of CZK 108 million) and the decrease of the Bank's share of the share capital and voting rights from 20 percent to 13.34 percent; and
- In December 2006, the newly issued shares of Czech and Slovak Property Fund B. V. were subscribed for and paid which resulted in the entity's share capital increasing from EUR 20 thousand to EUR 30 thousand and the nominal value of the shares held by the Bank increasing from EUR 2,667 to EUR 3,000 and the Bank's investment decreasing to the current level of 10 percent.

CEE Property Development Portfolio B. V., Czech and Slovak Property Fund B. V., Leasing České spořitelny, a. s. and s Autoleasing, a. s. hold investments in other entities with which they form sub-groups (detailed information is provided in the consolidated financial statements).

At 31 December 2005 Name of the company	Share capital in CZK mil./T EUR, SKK	Currency	Ownership percentage	Voting power in %	Carrying amount in CZK mil.
Associated undertakings					
CBCB-Czech Banking Credit Bureau, a. s.	1	CZK	20.00%	20.00%	0.2
První certifikační autorita, a. s.	20	CZK	23.25%	23.25%	10
České nemovitosti, a. s.	45	CZK	24.00%	24.00%	17
SporDat, spol. s r. o.	200	SKK	23.50%	23.50%	69
Total associated undertakings					**96**
Subsidiary undertakings					
brokerjet České spořitelny, a. s.	160	CZK	51.00%	51.00%	82
CEE Property Development Portfolio B. V.	20	EUR	20.00%	20.00%	2,344
Consulting České spořitelny, a. s.	1	CZK	100.00%	100.00%	5
CS Investment Limited	6	EUR	99.98%	100.00%	174
CS Property Investment Limited	22	EUR	100.00%	100.00%	578
Czech and Slovak Property Fund B. V.	20	EUR	20.00%	20.00%	312
Czech TOP Venture Fund B. V.	19	EUR	84.25%	84.25%	122
Erste Corporate Finance, a. s.	6	CZK	50.17%	50.17%	3
Factoring České spořitelny, a. s.	84	CZK	100.00%	100.00%	57
Informatika České spořitelny, a. s.	10	CZK	100.00%	100.00%	10
Investiční společnost České spořitelny, a. s.	70	CZK	100.00%	100.00%	77
Leasing České spořitelny, a. s.	300	CZK	100.00%	100.00%	75
Penzijní fond České spořitelny, a. s.	100	CZK	100.00%	100.00%	241
Pojišťovna České spořitelny, a. s.	1,117	CZK	55.25%	55.25%	1,363
Realitní společnost České spořitelny, a. s.	4	CZK	100.00%	100.00%	4
sAutoleasing, a. s.	2	CZK	100.00%	100.00%	0
Servis 1 – ČS, a. s.	3	CZK	100.00%	100.00%	10
Stavební spořitelna České spořitelny, a. s.	750	CZK	95.00%	95.00%	1,198
Total subsidiary undertakings					6,655
Total equity investments					**6,751**

17. INTANGIBLE FIXED ASSETS

CZK mil.	Software	Other	Total
Cost			
1 January 2005	2,248	5,986	8,234
Additions	458	1,032	1,490
Disposals	(389)	(15)	(404)
31 December 2005	2,317	7,003	9,320
1 January 2006	2,317	7,003	9,320
Additions	995	733	1,728
Disposals	(37)	(152)	(189)
31 December 2006	**3,275**	**7,584**	**10,859**
Accumulated amortisation including impairment and provisions			
1 January 2005	(1,490)	(2,493)	(3,983)
Additions	(376)	(1,082)	(1,458)
Provision for impairment	–	96	96
Disposals	352	5	357
31 December 2005	(1,514)	(3,474)	(4,988)
1 January 2006	(1,514)	(3,474)	(4,988)
Additions	(482)	(1,094)	(1,576)
Disposals	27	138	165
31 December 2006	**(1,969)**	**(4,430)**	**(6,399)**
Net book value			
31 December 2006	**1,306**	**3,154**	**4,460**
31 December 2005	803	3,529	4,332

The balances as of 31 December 2006 shown above include CZK 1,954 million (2005: CZK 2,082 million) in assets under construction.

In 2005, the Bank released a part of the provision recognised in the past in respect of an impairment of assets under construction relating to the purchase of licences to operate an information system due to redundancy. In 2006, the Bank recorded asset impairment of CZK 11 million (2005: CZK nil).

18. PROPERTY AND EQUIPMENT

CZK mil.	Land and buildings	Equipment, fixtures and fittings	Total
Cost			
1 January 2005	15,876	10,979	26,855
Application of IFRS 5	(145)	(1)	(146)
Additions	536	1,895	2,431
Disposals	(747)	(1,477)	(2,224)
31 December 2005	15,520	11,396	26,916
1 January 2006	15,520	11,396	26,916
Additions	522	1,447	1,969
Disposals	**(472)**	**(1,689)**	**(2,161)**
31 December 2006	15,570	11,154	26,724
Accumulated depreciation including impairment and provisions			
1 January 2005	(4,741)	(7,464)	(12,205)
Application of IFRS 5	67	1	68
Additions	(179)	(1,355)	(1,534)
Provision for impairment	(71)	(1)	(72)
Disposals	52	472	524
31 December 2005	(4,872)	(8,347)	(13,219)
1 January 2006	(4,872)	(8,347)	(13,219)
Additions	(446)	(1,252)	(1,698)
Disposals	260	1,064	1,324
31 December 2006	**(5,058)**	**(8,535)**	**(13,593)**
Net book value			
31 December 2006	**10,512**	**2,619**	**13,131**
31 December 2005	10,648	3,049	13,697

The balances as of 31 December 2006 shown above include CZK 772 million (2005: CZK 637 million) in assets under construction. In 2006, the Bank recognised asset impairment of CZK 35 million relating largely to real estate that is insufficiently used by the Bank for its activities (2005: CZK 72 million).

19. OTHER ASSETS

CZK mil.	2006	2005
Accrued income	3,966	3,601
Of which:		
– Interest on loans and advances to financial institutions	254	111
– Interest on loans and advances to customers, including ČKA	727	669
– Coupons on bonds	2,984	2,818
– Other	1	3
Tax receivables	45	29
Deferred expenses	706	621
Various receivables	1,578	1,607
Total	**6,295**	**5,858**

20. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

CZK mil.	2006	2005
Loro accounts	267	389
Other	32,992	28,158
Total	**33,259**	**28,547**

As of 31 December 2006, the Bank received from other financial institutions loans of CZK 9,206 million (2005: CZK 15,171 million) under repurchase transactions which were collateralised by securities amounting to CZK 8,959 million (2005: CZK 14,917 million).

21. AMOUNTS OWED TO CUSTOMERS

CZK mil.	2006	2005
Repayable on demand	326,032	277,862
Other deposits	104,626	109,407
Total	**430,658**	**387,269**

As of 31 December 2006, the Bank received from customers loans of CZK 516 million (2005: CZK 1,327 million) under repurchase transactions which were collateralised by securities amounting to CZK 515 million (2005: CZK 1,316 million).

Analysis of amounts owed to customers:

CZK mil.	2006	2005
Savings deposits	99,547	104,631
Other amounts owed to customers		
– Public sector	45,357	34,869
– Corporate clients	78,085	70,687
– Retail clients	207,669	177,082
Total	**430,658**	**387,269**

22. LIABILITIES AT FAIR VALUE

CZK mil.	2006	2005
Payables arising from short sales – debt securities	5,435	7,360
Payables arising from short sales – shares	15	2
Total	**5,450**	**7,362**

23. NEGATIVE FAIR VALUE OF FINANCIAL DERIVATIVE TRANSACTIONS

CZK mil.	2006	2005
Financial derivatives		
– Foreign currency	2,786	957
– Interest rate hedging	254	305
– Interest rate non-hedging	9,262	13,046
– Other	381	250
Total	**12,683**	**14,558**

24. BONDS IN ISSUE

	ISIN	Date of issue	Maturity	Interest rate	2006 CZK mil.	2005 CZK mil.
Mortgage bonds	CZ0002000201	November 2002	November 2007	5.80%	2,947	3,102
Mortgage bonds	CZ0002000235	March 2003	March 2008	5.20%	3,028	3,121
Mortgage bonds	CZ0002000276	August 2003	August 2008	4.50%	2,958	2,932
Mortgage bonds	CZ0002000342	April 2004	April 2009	3.50%	298	278
Mortgage bonds	CZ0002000409	August 2004	August 2009	3.60%	695	476
Mortgage bonds	CZ0002000516	May 2005	August 2006	1.85%	0	600
Mortgage bonds	CZ0002000524	May 2005	May 2010	4.50%	2,096	2,131
Mortgage bonds	CZ0002000573	June 2005	June 2010	4.05%	2,078	2,133
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	5,441	5,560
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,863	–
Mortgage bonds	CZ0002000763	December 2005	December 2012	3M Pribor -0.2%	–	1,999
Mortgage bonds	CZ0002000771	December 2005	December 2008	4.45%	2,532	940
Mortgage bonds	CZ0002000896	October 2006	October 2011	Floating	1,116	–
Mortgage bonds	CZ0002000904	October 2006	October 2014	3.65%	1,064	–
Mortgage bonds	CZ0002000920	October 2006	October 2011	3.00%	201	–
Bonds	CZ0003700759	February 2004	February 2008	1.00% x)	312	306
Bonds	CZ0003700767	February 2004	February 2014	3.51% x)	1,499	1,499
Bonds	CZ0003701013	May 2005	June 2008	– x)	243	242
Bonds	CZ0003701047	July 2005	July 2012	2.72% xx)	745	763
Bonds	CZ0003701054	September 2005	September 2017	4.75% x)	204	196
Bonds	CZ0003701062	October 2005	October 2013	5.00% x)	244	237
Depository bills of exchange					3,899	14,755
Total					**36,463**	**41,270**

x) Bonds were issued with a combined yield.
xx) If the early repayments option is not exercised, the interest rate is increased by 3.55 percent.

Of the aggregate carrying value of the mortgage bonds, CZK 16,952 million (2005: CZK 16,568 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with applicable accounting policies, these mortgage bonds are remeasured at fair value.

Bonds issues were placed with an embedded derivative. The ISIN CZ0003700767 and CZ0003701047 issues of bonds is remeasured at fair value because they are hedged against interest rate risk and early repayment options are attached to the bonds. The ISIN CZ0003701013 and CZ0003701054 issues were placed with a share index option which is recorded separately and is remeasured at fair value.

As part of stand-alone issues of mortgage bonds, the Bank issued mortgage bonds ISIN CZ0002000755 with a nominal value of CZK 4,497 million in 2006. As part of its bond placement programme, the Bank issued mortgage bonds ISIN CZ0002000896, HZL ISIN CZ0002000904 and HZL ISIN CZ0002000920 in the aggregate nominal value of CZK 2,950 million in 2006.

25. PROVISIONS FOR LIABILITIES AND OTHER RESERVES

(a) Structure of provisions

CZK mil.	2006	2005
Provision for legal disputes relating to credit transactions	1,997	2,088
Provision for off balance sheet credit risks	100	–
Other reserves	553	492
Total	**2,650**	**2,580**

Other reserves include reserves for the Bonus programme, legal disputes, onerous contracts and other risks. The most significant reserve for the Bonus programme is maintained to cover the cost of providing clients with awards for the use of payment cards in making cash-free payments. The level of the reserve is determined by reference to the current developments in the drawing of the awards where the average value of the point is CZK 0.095 and clients utilise 80 percent of the allocated points, on average.

(b) Charge for and use of provisions

CZK mil.	2006	2005
Balance at 1 January	2,580	2,366
Charge for provisions	458	714
Use of provisions	(116)	(50)
Release of provisions	(272)	(450)
Balance at 31 December	**2,650**	**2,580**

(c) Provisions for other credit risks and off balance sheet credit exposures

Provisions for other credit risks and off balance sheet credit exposures are recorded to cover specific risks arising from pending legal disputes relating to loan transactions and to cover losses that result from off balance sheet and other exposures.

CZK mil.	2006	2005
Balance at 1 January	2,088	2,106
Charge for provisions	282	441
Use of provisions	(2)	(47)
Release of provisions	(271)	(412)
Balance at 31 December	**2,097**	**2,088**

26. OTHER LIABILITIES

CZK mil.	2006	2005
Accrued expenses	888	587
Of which:		
– Interest on amounts owed to financial institutions	48	27
– Interest on amounts owed customers	123	63
– Interest on bonds in issue	679	464
– Other	38	33
Deferred income	884	569
Various creditors	1,385	1,411
Payables from securities trading	711	968
Payables from payment transactions	2,805	2,039
Estimated payables	3,418	2,831
Other liabilities	1,803	975
Income tax liability	112	682
Deferred income tax liability (Note 27)	80	192
Total	**12,086**	**10,254**

Estimated payables largely comprise estimated payables for staff and management bonuses, unbilled supplies and contributions to the Deposit Insurance Fund.

27. DEFERRED INCOME TAXES

Deferred income tax is calculated from all temporary differences under the liability method using a principal tax rate of 24 percent (2005: 24 percent).

Net deferred income tax assets (liabilities) are as follows:

CZK mil.	2006	2005
Balance at the beginning of the year	(192)	(626)
Movement for the year – equity	90	143
Movement for the year – income/(expense)	22	291
Net balance at the end of the year	**(80)**	**(192)**

The impact of deferred tax liabilities on equity arises from changes in the fair value of securities available for sale and hedging derivatives. The deferred tax (charge)/credit in the profit and loss account comprises the following temporary differences:

CZK mil.	2006	2005
Provisions and reserves	7	(1)
Accelerated depreciation	75	56
Other temporary differences	(60)	236
Total (Note 39)	**22**	**291**
Of which: impact of the change of rate	**–**	**1**

Deferred income tax assets and liabilities are attributable to the following items:

CZK mil.	2006	2005
Deferred tax assets		
Tax losses carried forward	–	6
Non-tax deductible reserves and provisions	144	136
Other temporary differences	107	218
Total deferred tax asset	**251**	**360**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(239)	(314)
Changes in fair value of securities available for sale and hedging derivatives	(92)	(181)
Other temporary differences	–	(57)
Total deferred tax liability	**(331)**	**(552)**
Net deferred tax asset (liability)	**(80)**	**(192)**

28. SUBORDINATED DEBT

Date of issue	Maturity of the issue	Interest rate	Nominal value CZK mil.	Carrying amount at 31 December 2006 CZK mil.
16 May 2005	16 May 2015	6M PRIBOR + 0.46%	3,000	2,948
2 October 2006	2 October 2016	6M PRIBOR +0.45%	3,000	2,938
Total				**5,886**

Both issues of subordinated debt were made in certificate form and placed on the free market of the Prague Stock Exchange. If the Bank does not exercise its option for premature repayment of the debt after the lapse of five years, the interest rates attached to each issue shall increase to 6M PRIBOR plus 1.4 percent p.a. Interest is payable semi-annually in arrears. The debt is unsecured and unconditional. On 5 May 2005 and 13 September 2006, the Czech National Bank issued certificates confirming that these issues of subordinated debt are compliant with all regulatory requirements and may be included in the additional capital of the Bank for the purposes of calculating the capital adequacy ratio.

29. SHARE CAPITAL

Authorised, called-up and fully paid share capital was as follows:

	2006		2005	
	Number of shares	CZK mil.	Number of shares	CZK mil.
Ordinary shares of CZK 100 each	140,788 787	14,079	140,788,787	14,079
Priority shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Priority shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, priority shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Priority shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Priority registered shares can be issued only to municipalities and local governments in the Czech Republic. The priority registered shares can be transferred to entities other than municipalities and local governments of the Czech Republic only subject to the approval of the Board of Directors.

30. REVALUATION GAINS OR LOSSES

CZK mil.	Securities available for sale		Hedging derivatives		FX differences		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
At 1 January								
Gain on fair value changes	782	1,263	–	–	–	–	782	1,263
Deferred tax liability	(184)	(324)	3	–	–	–	(181)	(324)
FX differences	–	–	–	–	–	(42)	–	(42)
Cash flow hedge	–		(10)		–		(10)	
Total at 1 January	598	939	(7)	–		(42)	591	897
Changes during the year								
Gain/(loss) on fair value changes	(396)	(481)	–	–	–	–	(396)	(481)
Deferred tax (liability)/asset	93	140	(3)	3	–	–	90	143
FX differences	–	–	–	–	–	42	–	42
Cash flow hedge	–	–	11	(10)	–		11	(10)
At 31 December								
Gain on fair value changes	386	782	–	–	–	–	386	782
Deferred tax (liability)/asset	(91)	(184)	–	3	–	–	(91)	(181)
FX differences	–	–	–	–	–	–	–	–
Cash flow hedge	–	–	1	(10)	–	–	1	(10)
Total at 31 December	**295**	**598**	**1**	**(7)**	**–**	**–**	**296**	**591**

31. INTEREST INCOME AND SIMILAR INCOME

CZK mil.	2006	2005
Loans and advances to financial institutions	2,568	2,151
Loans and advances to customers	15,800	13,656
Debt securities and other fixed income securities	4,965	4,854
Proceeds from shares and other variable yield securities	934	1,770
Rental income	104	112
Total	**24,371**	**22,543**

32. INTEREST EXPENSE AND SIMILAR EXPENSE

CZK mil.	2006	2005
Amounts owed to financial institutions	691	672
Amounts owed to customers	3,457	2,945
Bonds in issue	1,103	517
Subordinated debt	108	49
Fair value of hedging derivatives	(198)	(133)
Total	**5,161**	**4,050**

33. PROVISIONS FOR CREDIT RISKS

CZK mil.	2006	2005
Charge for reserves for the year (refer to Note 25)	(282)	(441)
Release of reserves for the year (refer to Note 25)	271	412
Net (charge)/release of reserves for the year	(11)	(29)
Charge for provisions for the year (refer to Note 9)	(3,092)	(3,299)
Release of provisions for the year (refer to Note 9)	1,634	2,916
Reversal of the charge for provisions for outstanding interest	8	4
Net (charge)/release of provisions for the year	(1,450)	(379)
Write-offs of loans not covered by provisions	(13)	(13)
Recoveries	103	63
Total	**(1,371)**	**(358)**

34. FEE AND COMMISSION INCOME

CZK mil.	2006	2005
Lending activities	1,677	1,400
System of payment	5,901	5,678
Securities transactions	1,021	731
Insurance activities	122	161
Construction savings activities	476	416
Foreign exchange transactions	40	42
Other financial activities	216	229
Total	**9,453**	**8,657**

35. FEE AND COMMISSION EXPENSE

CZK mil.	2006	2005
Lending activities	75	2
System of payment	480	293
Securities transactions	4	6
Insurance transactions	19	–
Construction savings transactions	141	–
Foreign exchange transactions	4	5
Other financial activities	129	310
Total	**852**	**616**

36. NET TRADING RESULT

CZK mil.	2006	2005
Realised and unrealised profit/(losses) on securities held for trading	(372)	192
Derivative instruments	510	(369)
Foreign exchange trading	1,263	1,303
Other	214	137
Total	**1,615**	**1,263**

37. GENERAL ADMINISTRATIVE EXPENSES

(a) Composition of general administrative expenses

CZK mil.	2006	2005
Staff costs		
Wages and salaries	5,171	4,909
Social security costs	1,748	1,647
Other staff costs	338	335
Total staff costs	**7,257**	**6,891**
Other administrative expenses		
Data processing expenses	1,763	1,608
Building maintenance and rent	1,296	1,281
Costs of business transactions	980	921
Advertising and marketing	697	647
Advisory and legal services	374	263
Other administrative expenses	542	544
Total other administrative expenses	**5,652**	**5,264**
Depreciation		
Amortisation of intangible assets (Note 17)	1,565	1,458
Depreciation of property and equipment (Notes 14 and 18)	1,668	1,792
Total depreciation, amortisation and impairment	3,233	3,250
Total	**16,142**	**15,405**

(b) Board of Directors and Supervisory Board emoluments

CZK mil.	2006	2005
Salaries	119	99
Total	**119**	**99**

All emoluments to the members of the Board of Directors and Supervisory Board are treated as short-term employee benefits.

(c) Average number of employees and Board members

	2006	2005
Board of Directors	7	8
Supervisory Board	12	12
Staff	10,097	10,689

With a view to fostering loyalty of the Bank's key employees and attracting new key managers, the Supervisory Board of Erste Bank, resolved, based upon authorisation given by the General Meeting of Shareholders dated 8 May 2001, to implement an Employee Erste Bank Stock Ownership Programme ('ESOP') and a Management Erste Bank Stock Option Programme ('MSOP') within the Bank.

All employees of the Bank were entitled to subscribe for shares under the Employee Stock Ownership Programme. Each employee was entitled to subscribe for a maximum of 200 shares (2005: 100 shares). The price of one share was established on the basis of the average rate in April 2006 decreased by a 20 percent discount. The 20 percent discount is conditional upon the shares being held for a period of one year. A total of 541 employees (2005: 364) participated in the programme and subscribed for 71,879 shares (2005: 47,087).

Management of the Bank and selected key employees were granted the second tranche of options for subscription of shares under the Management Erste Bank Stock Option Plan 2005. In the year ended 31 December 2006, approximately 78,000 options (2005: 101,950) were granted to these employees. The following tranche of the programme in 2007 will be approximately of the same size. These options entitle the holders to acquire Erste Bank's shares for the price of EUR 43 which was determined as the average price of shares ruling in April 2005 plus a 10 percent mark-up, rounded to EUR 0.5 For the options subscribed until 2004 under the Management Erste Bank Stock Option Plan 2002, the price of the share was EUR 16.50, within five years from the issuance of each tranche of options. In 2006, 69,360 options granted under the Management Erste Bank Stock Option Plan 2002 were exercised (2005: 4,850). 11,200 options granted under the Management Erste Bank Stock Option Plan 2005 were exercised during the first exercise period in 2006 (2005: 10,040), 0 options in the second exercise period (2005: 24,872) and 2,900 options during the third exercise period. The aggregate amount of the discount in respect of both programmes was CZK 12 million (2005: CZK 12 million) and was reported within "General administrative expenses – other staff costs".

38. OTHER OPERATING INCOME/(EXPENSES), NET

CZK mil.	2006	2005
Release of other reserves	1	39
Gain on the sale of real estate	112	44
Income from other services	79	100
Received compensation for deficits and damage	255	55
Release of provisions against non-credit receivables	10	61
Income from statute-barred deposits	2	44
Other operating income	152	199
Total other operating income	**611**	**542**
Charges for other reserves	(176)	(273)
Contribution to the Deposit Insurance Fund	(397)	(350)
Write-off of assets under construction	(3)	(69)
Loss on the sale and impairment of real estate	(60)	(82)
Deficits and damage, fines and penalties	(333)	(74)
Charge for provisions against non-credit receivables	(10)	(54)
Sponsorship contributions	(30)	(50)
Other operating charges	(76)	(89)
Other taxes	(30)	(22)
Total other operating expense	**(1,115)**	**(1,063)**
Losses on the sale of securities held to maturity	(23)	–
Income from the revaluation/sale of securities at fair value through profit or loss	(62)	166
Income from the sale of securities available for sale	308	516
Income from revaluation hedging derivatives	8	12
Expense of revaluation of equity investments	2	71
Gains on the sale of equity investments	93	91
Total other operating income/(expenses), net	**(178)**	**335**

The year-on-year increase in "Deficits and damage, fines and penalties" and "Received compensation for deficits and damage" is attributable to a greater occurrence of insurance and natural disaster events in 2006 and related compensation.

The line "Gains on the sale of equity investments" for the year ended 31 December 2006 includes the gains on the sale of Czech and Slovak Property Fund B. V. and Servis 1 – ČS, a. s. amounting to CZK 91 million and CZK 2 million, respectively.

39. INCOME TAX EXPENSE

CZK mil.	2006	2005
Current tax expense	(2,817)	(2,900)
Deferred tax income/(expense) (Note 26)	22	291
Total	**(2,795)**	**(2,609)**

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

CZK mil.	2006	2005
Profit before tax	11,734	12,369
Tax calculated at a tax rate of 24 percent (2005: 26 percent)	**2,816**	**3,216**
Income not subject to tax	(559)	(745)
Expenses not deductible for tax purposes	514	567
Tax allowances and credits, including the utilisation of tax losses, tax recoveries and additional taxes for prior periods	62	(127)
Other differences	(16)	(11)
Subtotal	**2,817**	**2,900**
Movement in deferred taxation (Note 27)	(22)	(291)
Income tax expense	**2,795**	**2,609**
Effective tax rate	**23.82%**	**21.09%**

Further information about deferred income tax is presented in Note 27.

40. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the year as shown in the statements of cash flows are composed of the following balances:

CZK mil.	2006	2005
Cash (Note 5)	13,988	13,188
Nostro accounts with the CNB (Note 5)	445	720
Treasury bills with maturity of less than three months	30	4
Nostro accounts with financial institutions (Note 6)	556	511
Loro accounts with financial institutions (Note 20)	(267)	(389)
Total cash and cash equivalents	**14,752**	**14,034**

41. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Bank. The most significant risks include:

Credit Risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Credit Risk Management Methodology

In managing credit risk, the Bank applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy includes:

- Prudent credit process guidelines, including procedures for the prevention of money laundering and fraudulent activities;
- General guidelines regulating the acceptability of client segments on the basis of their principal activities, geographical areas, maximum maturity period, product and purpose of the loan;
- Principal methods for arriving at an internal rating of a borrower and its periodical reviews;
- Basic principles underlying the determination of the system of limits and the structure of approval authorities;
- Risk parameters calculation methodology;
- Rules of loan collateral management;
- Structure of basic product categories; and
- Provision calculation methodology.

In managing credit risk, the Bank differentiates between individually significant and individually insignificant exposures. The credit risk attached to individually significant exposures is managed on an individual basis with a minor use of portfolio models. The Bank aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis. The Bank's category of individually significant exposures includes corporate loans and private sector loans. Individually insignificant exposures include retails loans to households, individuals, individuals – entrepreneurs and small municipalities.

Collection of Key Risk Management Information

In 2006 the information collection efforts saw a further strengthening of the functionalities of the data warehouse with a focus on the ongoing improvement of the quality of data within the Česká spořitelna Group. In managing credit risk, the Bank refers not only to its own portfolio information but also the portfolio information of other members of the Česká spořitelna Group. The Bank additionally uses information obtained from external sources such as the Credit Bureau or ratings provided by reputable rating agencies. The quality of credit risk related data improved, which provides a better basis for its utilisation during debt recovery procedures, valuation of receivables and calculation of losses

Internal Rating Tools

Rating is perceived as one of the key risk management tools. Assessing the borrower is an obligatory part of every loan approval process or when making major changes to lending terms. The assessment takes into account both the borrower's financial position and non-financial characteristics. The assessment of corporate borrowers predominantly involves analysis of both strengths and weaknesses such as management quality or competitiveness. With regard to retail clients, the assessment principally focuses on demographic and behavioural indicators.

As part of risk management, the Bank allocates its clients into clients 'in default' and clients 'without default'. The Bank uses an 8-grade rating scale for clients 'without default' (with respect to retail clients – private individuals) and a 13-grade rating scale for other clients. The Bank uses one rating grade "R" for all clients in default. All information essential for assessing clients is collected and stored centrally. The Bank performs regular revisions (at least annually) of internal ratings. Internal rating is determined on the basis of statistical models of the probability of default for groups of clients with certain characteristics. The review, back-testing and calibration of these statistical models are made regularly (at least annually). These models are additionally validated by independent specialists.

The key milestones in 2006 involved the improvement of the functionalities of the rating tool for calculating application scoring for retail clients – private individuals.

In 2006, the Bank also implemented behavioural scoring for clients from the small and medium-sized business segment.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Bank may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Bank strives to protect its revenues and capital from risk concentration. Risk concentration is measured as the capital required for the given portfolio.

Structure of Approval Authorities

The structure of approval authorities is based on the principle of the materiality of the impact of a potential loss on a provided loan on the Bank's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Supervisory Board and the Credit Committee of the Board of Directors. Lower approval authorities are categorised taking account of the seniority of the staff of the Credit Risk Management Department.

Risk Parameters

The Bank uses its own internal models in determining risk parameters such as probability of default (PD), loss given default (LGD) and credit conversion factors (CCF). In 2006, the Bank expanded the set of models to include its own model for estimating CCF. All the models are developed according to Basel II requirements and were subject to review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for quantitative management of the portfolio credit risk. The Bank currently uses risk parameters in monitoring portfolio risks, in-default portfolio management, portfolio protection measurement and risk valuation. The active use of the risk parameters in managing the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments on both internal and external changes.

All models are back-tested at least annually and validated by independent specialists.

Provisions against Loan Losses

Since 2005, the Bank has been using a provisioning policy in accordance with IAS 39 (Revised) Financial Instruments: Recognition and Measurement. The policy is based on two components of incurred losses, namely individual and collective losses.

Individual Losses Component

The individual losses component is applied to clients in default.
The individual losses component covers losses arising from receivables impaired on an individual basis. Impairment of a receivable is identified based on loss making events that can be ascertained individually. Impairment of corporate receivables and retail receivables with a value exceeding CZK 5 million (individually significant exposures) is measured on an individual basis. The impairment

represents the difference between the net present value of expected future cash flows arising from the receivable using the original effective interest rate and the carrying amount of the receivable.

The level of impairment of retail receivables (individually insignificant) is determined using the provisioning coefficients matrix. Provisioning coefficients are derived from the historical values of probability of defaults (PD) and loss given default (LGD) in respect of individual portfolios of individually insignificant exposures. The coefficients additionally reflect durability of default.

All receivables are assessed by the Bank on a monthly basis to determine whether a loss making event or other changes occurred.

The estimated loss on the impairment of individually significant exposures is reviewed at least on a quarterly basis for each exposure.

Collective Losses Component

The collective losses component represents the loss on collective impairment of individually non-impaired exposures. Collective impairment covers losses arising from internal or external loss making events that cannot be allocated to individual exposures. Past loss making events are measurable and identifiable in respect of the current portfolio. Collective impairment losses represent the Bank's reasonable estimate made on the basis of a non-standard development in risk parameters in respect of individual sub-portfolios of individually non-impaired exposures. The breakdown on credit risk by industries is shown in Note 45.

Market Risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, equity and commodity financial instruments, the value of which changes subject to general and specific financial market movements. For market risk management purposes the Bank categorises all open positions according to the intent of holding into the banking and trading portfolios (books). The Bank is primarily exposed to the market risk arising from open positions in the trading book. A significant component of the market risk is also the interest rate risk associated with assets and liabilities included in the banking book.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Proprietary trading in the interbank, derivative and capital markets.

The Bank enters into short-term transactions on its own account in the trading book, that is, the Bank opens positions with a view to benefiting from short-term fluctuations in financial markets, purchases higher-interest bearing assets funded by the sale of lower-interest bearing assets with the objective of using the interest spread to generate profit, creates strategic positions, that is, positions opened to benefit from significant movements in the prices of financial assets.

The Bank trades with the following derivative financial instruments through the over-the-counter (OTC) market:

- Foreign currency forwards (including non delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps;
- Interest rate options such as swaptions, caps and floors;

- Commodity derivatives (for gold and oil); and
- Credit derivatives.

In the area of exchange-traded derivatives, the Bank trades the following instruments:
- Bond futures;
- Interest rate futures;
- Commodity derivatives (gold and oil futures); and
- Options in respect of bond futures.

The Bank also trades, on behalf of its clients, with other less common currency options, such as digital, barrier or windowed options. Certain option contracts or options on various underlying stock baskets or stock indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the banking book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (FX swaps and cross currency swaps).

In addition to the calculation of sensitivities to individual risk factors, the Bank applies the ‘value at risk’ methodology (‘VaR’) to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The Board of Directors establishes a VaR limit as the Bank’s maximum exposure to market risk that may be accepted. Sub-limits placed on sensitivity values and VaR in respect of individual trading desks enable the managing of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The VaR method is complemented with ‘back testing’ which is designed to review the model for correctness. Back testing involves comparing daily estimates of VaR to the hypothetical results of the portfolio on the assumption that the positions within the portfolio remain unchanged for one trading day. Back testing results have, to date, confirmed the correctness of the setting of the VaR calculation model.

Foreign Currency Risk
Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition to monitoring limits, the Bank uses the ‘value at risk’ concept for measuring its open positions taken in respect of all currency instruments. The Bank monitors special limits for foreign currency option contracts, such as limits for the delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent, and limits for option contract fair value sensitivity to the exchange rate volatility in the form of the vega equivalent. In addition, the Bank monitors fair value sensitivity of options to the period to maturity (theta) and interest rate sensitivity (rho, phi) which is measured, together with other interest rate instruments, in the form of the PVBP. The Bank’s net open foreign exchange rate position as of 31 December 2006 and 2005 is shown in Note 43.

Interest Rate Risk
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages its interest rate risk through the monitoring of the repricing dates of the Bank’s assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Bank’s net interest income. Refer to Note 44.

In order to measure the interest rate risk exposure within financial markets transactions the Bank uses the ‘PVBP gap’ (Present Value of a Basis Point) defined as a matrix of sensitivity factors to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency. The limits are compared to the value that represents the greater of the sum of positive PVBP values or the sum of negative PVBP values in absolute terms for each period to maturity. By adopting this approach, the Bank manages not only the risk attached to a parallel shift of the yield curve, but also any possible ‘flip’ of the yield curve. With regard to foreign currency options, the PVBP limits also include the Rho and Phi equivalents. In addition, the Bank monitors other special limits for interest rate option contracts, such as the gamma and vega limits for interest rates and their volatility.

For monitoring and managing the banking book interest rate exposures, the Bank uses a simulation model focused on monitoring potential impacts of market interest rate movements on the Bank’s net interest income. Simulations are performed over the period of 36 months. A basic analysis focuses on the sensitivity of the Bank’s net interest income to a one-off change(s) of market interest rates (rate shock). In addition, the Bank undertakes probability modelling of its net interest income (stochastic simulation) and the traditional gap analysis. The analyses noted above are undertaken on a monthly basis and the results are discussed by the Assets and Liabilities Committee (ALCO) which decides whether it is necessary to take measures in response to the Bank’s interest rate risk exposures.

Capital Requirement in Respect of Market Risks
Since December 2003, the Bank has used its internal model approved by the Czech National Bank in November 2003 to calculate its B capital requirements. The capital requirement in respect of market risks (foreign currency risk, general interest rate risk, general and specific equity risk and risk associated with trading book option contracts) is determined using the Value at Risk method. The model is based upon the calculation of Value at Risk with a 99 percent confidence level and a 10-day holding period using the historical simulation method.

Liquidity Risk
Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Bank’s liquidity position is monitored and managed based on expected cash flows and adjusting the structure of interbank deposits and placements accordingly and/or implementing other decisions aimed at adjusting the liquidity position of the Bank, for example, a decision to issue bonds. Refer to Note 46 for an analysis of the Bank’s balance sheet by maturity as of 31 December 2006 and 2005.

Operational Risk
In accordance with Regulation of the Czech National Bank No. 2 dated 3 February 2004, which sets out requirements in respect of the review of banks’ internal control and management systems including the risk management system, the Bank defines operational risk as the risk of loss arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events, including loss due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Bank Vienna, the Bank put in place a standardised categorisation of operational risks. This classification became a basis of the ‘Book of Risks’, developed in cooperation with the Risk Management and Internal Audit Departments. The Book of Risks is a tool used to achieve unification of risk identification procedures on a group-wide level and unification of risk categorisation in order to ensure consistency of risk monitoring and evaluation.

The Bank has cooperated with an external supplier in developing a specialised software application to collect data about operational risk which conforms to the data collection requirements set out in Basel II. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. In addition to monitoring actual occurrence of operational risk, the Bank also pays attention to how the operational risk is perceived by the Bank's management. This expert risk analysis is assessed twice a year.

A tool of importance in mitigating losses arising from operational risks is the Bank's insurance programme put in place in 2002. This insurance programme involves insurance of property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank and its subsidiaries have joined the Erste Bank Group insurance programme which expands the Bank's insurance protection specifically with regard to damage that may materially impact its profit or loss.

42. OFF BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off balance sheet financial instruments. The following represent notional amounts of these off balance sheet financial instruments, unless stated otherwise.

(a) Contingent Liabilities

Legal Disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Bank is named are resolved.

The Bank is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Bank believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

Assets Pledged

Assets are pledged as collateral under repurchase agreements with other banks and customers in the amount of CZK 10,977 million (2005: CZK 13,915 million). Mandatory reserve deposits are also held with the local central bank in accordance with statutory requirements (refer to Note 5). These deposits are not available to finance the Bank's day to day operations.

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached the commitments to extend credit represents a potential loss for the Bank. The Bank estimates the potential loss on the basis of historical developments of credit conversion factors, probability of default and loss given default. Credit conversion factors indicate the likelihood of the Bank paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Bank believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments is minimal.

In 2006, the Bank recorded provisions for off balance sheet risks to cover potential losses that may be incurred in connection with these off balance sheet transactions. As of 31 December 2006, the aggregate balance of these provisions was CZK 100 million (2005: CZK 0 million). Refer to Note 25.

CZK mil.	2006	2005
Guarantees and letters of credit	23,899	16,737
Undrawn loan commitments	90,267	78,246

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions, ie, the difference between the fair values of purchase and sale contracts. At any one time the amount subject to credit risk is limited to the positive fair value of derivative financial instruments, which is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers. Limits are established reflecting the risk of fair value fluctuations arising from market movements. Collateral or other security is not usually obtained for credit risk exposures on the derivative financial instruments, except where the Bank requires deposits from counterparties.

All derivatives are stated at fair value on the balance sheet as of 31 December 2006 and 2005 (refer to Notes 12 and 23).

(c) Foreign Currency Contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes.

Notional amounts CZK mil.	2006	2005
Trading instruments		
Commitments to purchase	69,997	47,285
Commitments to sell	70,518	47,321

(d) Interest rate swaps

Interest rate swap contracts obligate two parties to exchange one or more payments calculated by reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were principally transacted for propriety trading purposes, to hedge customer-oriented transactions or to hedge against interest rate risk.

The Bank has applied hedge accounting in respect of the interest rate exposure arising from its own issue of mortgage bonds. The mortgage bonds issued with a fixed interest rate were linked to a floating market rate through interest rate swaps.

At 31 December 2006	CZK mil.	Weighted average interest rate	
Notional amounts		Receive	Pay
Hedging instruments			
Residual maturity:			
– less than 1 year	90	2.55%	4.45%
– 1 to 5 years	9,360	3.30%	2.58%
– over 5 years	6,750	3.65%	2.71%
Total	**16,200**	**3.44%**	**2.64%**
Trading instruments			
Residual maturity:			
– less than 1 year	138,987	3.06%	2.97%
– 1 to 5 years	279,624	3.20%	3.62%
– over 5 years	136,009	3.47%	3.43%
Total	**554,620**	**3.23%**	**3.41%**

At 31 December 2005	CZK mil.	Weighted average interest rate	
Notional amounts		Receive	Pay
Hedging instruments			
Residual maturity:			
– less than 1 year	74	2.14%	4.45%
– 1 to 5 years	11,560	3.37%	2.04%
– over 5 years	4,000	3.21%	1.93%
Total	**15,634**	**3.32%**	**2.02%**
Trading instruments			
Residual maturity:			
– less than 1 year	160,320	2.63%	3.17%
– 1 to 5 years	233,751	2.67%	2.91%
– over 5 years	137,198	3.19%	3.41%
Total	**531,269**	**2.79%**	**3.12%**

(e) Option Contracts

Option contracts represent the formal reservation of the right to buy or sell an asset at the specified quantity, within a given time in the future and at a certain price. The buyer of the option has the right, but not the obligation, to exercise the right to buy or sell an asset and the seller has the obligation to sell or purchase the asset at the specified quantity and at the price defined in the option contract.

Notional amounts CZK mil.	2006	2005
Option contracts sold		
interest rate	24,624	10,344
foreign currency	48,671	30,653
equity	1,828	869
Option contracts purchased		
interest rate	24,624	10,344
foreign currency	48,756	30,288
equity	1,828	869

(f) Forward Rate Agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in market interest rates. In principle, the Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. All of the Bank's forward rate agreements were entered into for trading purposes.

		2006		2005
Notional amounts	CZK mil.	Weighted average rate	CZK mil.	Weighted average rate
Residual maturity:				
Purchase				
– less than 1 year	187,700	3.20%	187,923	2.57%
– 1 to 5 years	15,000	3.65%	23,000	2.87%
Total	**202,700**	**3.23%**	**210,923**	**2.60%**
Sale				
– less than 1 year	187,700	3.11%	187,923	2.53%
– 1 to 5 years	15,000	3.73%	23,000	2.88%
Total	**202,700**	**3.16%**	**210,923**	**2.57%**

(g) Forward Contracts with Securities

Forward contracts with securities are agreements to purchase or sell the securities for a specific amount at a future date. The forward contracts with securities are used by the Bank for trading purposes.

Notional amounts CZK mil.	2006	2005
Contracts with equities		
Commitments to purchase	117	2
Commitments to sell	115	3

(h) Cross Currency Swaps

Cross currency swaps are combinations of interest rate swaps and foreign currency contracts. As with interest rate swaps, the Bank agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, and are settled on a gross basis. Unlike interest rate swaps, the notional balances of the different currencies are typically exchanged at the beginning and re-exchanged at the end of the contract period.

Notional amounts CZK mil.	2006	2005
Trading instruments		
Commitments to purchase	119,607	97,651
Commitments to sell	113,623	93,709

(i) Other Derivatives

The Bank entered into transactions resulting in the Bank assuming risk on certain underlying debt securities denominated in a foreign currency. As of 31 December 2006, the total notional amount of equity return swaps and credit derivatives was CZK nil (2005: CZK 1,570 million) and CZK 310 million (2005: CZK 638 million), respectively.

(j) Futures

Futures contracts represent the obligation to sell or purchase a financial instrument in the organised market at a certain price at a certain agreed date in the future. The Bank entered into futures contracts in respect of debt securities and equities for trading purposes. As of 31 December 2006, the total notional amount of the futures transactions was CZK 15,564 million (2005: CZK 4,083 million).

43. NET FOREIGN EXCHANGE POSITIONS

The net foreign exchange positions of the Bank as of 31 December 2006 and 2005 were as follows:

At 31 December 2006 CZK mil.	CZK	EUR	USD	GBP	SKK	Other	Total
Assets							
Cash and balances with the CNB	20,798	993	202	131	138	253	22,515
Loans and advances to financial institutions	45,546	7,556	5,381	29	1,488	1,085	61,085
Loans and advances to customers	274,782	14,581	1,299	178	101	382	291,323
Securities at fair value through profit or loss	25,252	15,871	3,643	–	113	4,017	48,896
Positive fair value of financial derivative transactions	17,432	668	116	–	79	46	18,341
Securities available for sale	6,285	5,175	121	–	–	–	11,581
Securities held to maturity	96,880	3,380	–	–	–	–	100,260
Equity investments in subsidiary and associated undertakings	3,272	3,614	–	–	–	69	6,955
Other assets	23,347	633	187	16	6	17	24,206
	513,594	**52,471**	**10,949**	**354**	**1,925**	**5,869**	**585,162**
Liabilities							
Amounts owed to financial institutions	25,703	1,581	3,822	75	–	2,078	33,259
Amounts owed to customers	411,054	12,997	3,560	404	147	2,496	430,658
Negative fair value of financial derivative transactions	11,933	573	124	–	10	43	12,683
Bonds in issue	36,316	147	–	–	–	0	36,463
Other liabilities	24,256	1,473	287	28	11	17	26,072
	509,262	**16,771**	**7,793**	**507**	**168**	**4,634**	**539,135**
Net foreign exchange position – on balance sheet	**4,332**	**35,700**	**3,156**	**(153)**	**1,757**	**1,235**	**46,027**
Net foreign exchange position – off balance sheet	**(113,949)**	**12,827**	**(592)**	**(517)**	**115**	**(4,587)**	**(106,703)**

The line 'Loans and advances to customers' includes amounts due from ČKA and provisions against loans and advances. The line 'Other assets' includes other assets, property and equipment, intangible fixed assets and assets held for sale. The line 'Other liabilities' includes other liabilities, provisions, liabilities at fair value and subordinated debt.

At 31 December 2005 CZK mil.	CZK	EUR	USD	GBP	SKK	Other	Total
Assets							
Cash and balances with the CNB	16,311	764	227	126	114	250	17,792
Loans and advances to financial institutions	58,203	16,675	2,213	10	2,255	693	80,049
Loans and advances to customers	236,997	15,494	2,097	211	74	341	255,214
Securities at fair value through profit or loss	13,677	15,556	3,133	–	198	3,631	36,195
Positive fair value of financial derivative transactions	16,618	875	162	–	–	104	17,759
Securities available for sale	8,345	5,137	884	–	–	–	14,366
Securities held to maturity	84,441	–	–	–	–	–	84,441
Equity investments in subsidiary and associated undertakings	3,152	3,530	–	–	69	–	6,751
Other assets	23,378	628	150	6	12	39	24,213
	461,122	**58,659**	**8,866**	**353**	**2,722**	**5,058**	**536,780**
Liabilities							
Amounts owed to financial institutions	20,552	484	5,747	–	–	1,764	28,547
Amounts owed to customers	367,623	12,401	3,580	365	1,119	2,181	387,269
Negative fair value of financial derivative transactions	13,148	1,132	175	–	–	103	14,558
Bonds in issue	40,181	556	523	–	10	–	41,270
Other liabilities	22,060	791	271	9	11	52	23,194
	463,564	**15,364**	**10,296**	**374**	**1,140**	**4,100**	**494,838**
Net foreign exchange position – on balance sheet	**(2,442)**	**43,295**	**(1,430)**	**(21)**	**1,582**	**958**	**41,942**
Net foreign exchange position – off balance sheet	**(72,676)**	**(19,373)**	**918**	**(41)**	**1,412**	**1,561**	**(88,199)**

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment and intangible fixed assets. The line ‘Other liabilities’ includes other liabilities, provisions, liabilities at fair value and subordinated debt.

44. INTEREST RATE RISK

(a) Interest rate repricing analysis

The following tables present the distribution of assets and liabilities according to the interest rate repricing dates. They include significant financial assets and liabilities in CZK, EUR and USD as of 31 December 2006 and 2005. Variable yield assets and liabilities have been reported according to their next rate repricing date. Fixed income assets and liabilities have been reported according to their remaining maturity.

At 31 December 2006 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	8,527	–	–	–	–	8,527
Loans and advances to financial institutions	49,280	4,818	4,385	–	–	58,483
Loans and advances to customers	86,290	36,032	54,756	97,884	15,700	290,662
Securities at fair value through profit or loss	27,251	1,008	493	8,164	2,274	39,190
Securities available for sale	885	2,955	2,201	5,498	–	11,539
Securities held to maturity	5,741	20,855	7,725	42,145	23,794	100,260
	177,974	**65,668**	**69,560**	**153,691**	**41,768**	**508,661**
Selected liabilities						
Amounts owed to financial institutions	26,220	4,440	293	153	–	31,106
Amounts owed to customers	80,520	68,573	93,111	179,728	–	421,932
Bonds in issue	3,890	1,406	4,063	15,284	11,821	36,464
Subordinated debt	–	–	5,886	–	–	5,886
	110,630	**74,419**	**103,353**	**195,165**	**11,821**	**489,502**
Current gap	**67,344**	**(8,751)**	**(33,793)**	**(41,474)**	**29,947**	**13,273**
Cumulative gap	**67,344**	**58,593**	**24,800**	**(16,674)**	**13,273**	

At 31 December 2005 CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Selected assets						
Cash and balances with the CNB	4,604	–	–	–	–	4,604
Loans and advances to financial institutions	57,726	6,740	12,625	–	–	77,091
Loans and advances to customers	74,676	35,666	46,839	85,412	11,995	254,588
Securities at fair value through profit or loss	1,833	624	490	3,574	3,828	10,349
Securities available for sale	1,574	2,812	1,102	8,836	–	14,324
Securities held to maturity	5,041	11,950	6,369	31,606	29,476	84,442
	145,454	**57,792**	**67,425**	**129,428**	**45,299**	**445,398**
Selected liabilities						
Amounts owed to financial institutions	22,688	3,746	45	304	–	26,783
Amounts owed to customers	78,556	70,037	85,726	149,284	–	383,603
Bonds in issue	14,696	3,385	600	16,597	5,982	41,260
Subordinated debt	–	–	2,998	–	–	2,998
	115,940	**77,168**	**89,369**	**166,185**	**5,982**	**454,644**
Current gap	**29,514**	**(19,376)**	**(21,944)**	**(36,757)**	**39,317**	**(9,246)**
Cumulative gap	**29,514**	**10,138**	**(11,806)**	**(48,563)**	**(9,246)**	

The line ‘Loans and advances to customers’ includes amounts due from ČKA.
In addition, the Bank enters into interest rate swaps to manage its interest rate risk exposure.

(b) Effective yield information

The effective yields of significant financial assets and liabilities by major currencies of the banking segment as of 31 December 2006 and 2005 are as follows:

At 31 December 2006	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	2.50%	3.50%	0.00%	2.51%
Loans and advances to financial institutions	2.50%	3.70%	5.51%	2.93%
Loans and advances to customers	5.79%	4.92%	6.27%	5.75%
Securities at fair value through profit or loss	2.49%	4.16%	5.16%	3.27%
Securities available for sale	3.06%	3.87%	5.41%	3.45%
Securities held to maturity	4.17%	4.86%	0.00%	4.20%
Selected liabilities				
Amounts owed to financial institutions	2.51%	3.71%	5.29%	2.91%
Amounts owed to customers	0.73%	1.49%	2.81%	0.77%
Bonds in issue	3.06%	3.16%	0.00%	3.06%
Subordinated debt	3.25%	–	–	3.25%

At 31 December 2005	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate TOTAL
Selected assets				
Cash and balances with the CNB	2.00%	–	–	1.99%
Loans and advances to financial institutions	2.13%	2.46%	4.70%	2.27%
Loans and advances to customers	5.83%	4.19%	5.53%	5.73%
Securities at fair value through profit or loss	1.96%	4.11%	5.25%	4.10%
Securities available for sale	2.82%	2.77%	4.41%	2.90%
Securities held to maturity	4.28%	–	–	4.28%
Selected liabilities				
Amounts owed to financial institutions	1.96%	2.85%	4.41%	2.50%
Amounts owed to customers	0.64%	0.83%	1.66%	0.66%
Bonds in issue	2.52%	2.19%	4.02%	2.53%
Subordinated debt	2.89%	–	–	2.89%

The line ‘Loans and advances to customers’ includes amounts due from ČKA.

45. CONCENTRATIONS OF CREDIT RISK

The following table presents the distribution of the Bank's credit exposure by industry sector for loans and advances to customers and financial institutions and debt securities:

CZK mil.	2006		2005	
Financial institutions	145,984	29%	161,840	35%
Individuals	134,451	26%	104,659	22%
Trading	24,251	5%	21,166	5%
Energy sector	4,070	1%	4,140	1%
State institutions including ČKA	82,911	16%	81,755	17%
Public sector	15,299	3%	13,109	3%
Construction	5,540	1%	4,256	1%
Hotels, public catering	2,354	–	2,009	-
Processing industry	30,518	6%	28,770	6%
Other	64,274	13%	46,294	10%
Total	**509,652**		**467,998**	

For an analysis of the Bank's assets and liabilities by geographical concentration refer to Note 48b.

46. MATURITY ANALYSIS

The table below analyses assets and liabilities of the Bank into relevant maturity groupings as of 31 December 2006, based on the remaining period at the balance sheet date to the contractual maturity date.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	14,433	–	–	–	–	8,082	22,515
Loans and advances to financial institutions	49,517	2,667	4,329	4,572	–	–	61,085
Loans and advances to customers	13,662	8,450	67,770	89,878	101,481	10,082	291,323
Securities at fair value through profit or loss	86	134	3,680	26,301	10,071	8,624	48,896
Positive fair value of financial derivative transactions	976	350	657	2,406	4,690	9,262	18,341
Securities available for sale	–	–	1,404	7,482	2,652	43	11,581
Securities held to maturity	–	7,116	4,314	63,246	25,584	–	100,260
Equity investments in subsidiary and associated undertakings	–	–	–	–	–	6955	6,955
Other assets	2,142	1,140	1,783	4	–	19,137	24,206
Total	**80,816**	**19,857**	**83,937**	**193,889**	**144,478**	**62,185**	**585,162**
Liabilities							
Amounts owed to financial institutions	28,282	512	384	153	3,928	–	33,259
Amounts owed to customers	345,548	17,747	16,854	50,509	–	–	430,658
Negative fair value of financial derivative transactions	268	312	1,049	1,669	185	9,200	12,683
Bonds in issue	3,799	–	2,947	15,655	14,062	–	36,463
Subordinated debt	–	–	–	–	5,886	–	5,886
Other liabilities	3,657	3,972	347	2,432	815	8,963	20,186
Total	**381,554**	**22,543**	**21,581**	**70,418**	**24,876**	**18,163**	**539,135**
Current gap	**(300,738)**	**(2,686)**	**62,356**	**123,471**	**119,602**	**44,022**	**46,027**
Cumulative gap	**(300,738)**	**(303,424)**	**(241,068)**	**(117,597)**	**2,005**	**46,027**	

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment, intangible fixed assets and assets held for sale. The line ‘Other liabilities’ includes other liabilities, provisions and liabilities at fair value.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings as of 31 December 2005, based on the remaining period at the balance sheet date to the contractual maturity date.

CZK mil.	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Not specified	Total
Assets							
Cash and balances with the CNB	13,908	–	–	–	–	3,884	17,792
Loans and advances to financial institutions	59,027	3,541	12,782	4,699	–	–	80,049
Loans and advances to customers	12,783	10,946	67,483	99,862	56,712	7,428	255,214
Securities at fair value through profit or loss	61	662	1,269	14,789	12,144	7,270	36,195
Positive fair value of financial derivative transactions	–	–	–	–	–	17,759	17,759
Securities available for sale	–	172	1,181	9,998	2,972	43	14,366
Securities held to maturity	475	301	4,980	48,855	29,830	–	84,441
Equity investments in subsidiary and associated undertakings	–	–	–	–	–	6,751	6,751
Other assets	1,782	1,113	1,614	36	3	19,665	24,213
Total	**88,036**	**16,735**	**89,309**	**178,239**	**101,661**	**62,800**	**536,780**
Liabilities							
Amounts owed to financial institutions	24,259	738	45	497	3,008	–	28,547
Amounts owed to customers	304,558	18,777	21,693	42,240	1	–	387,269
Negative fair value of financial derivative transactions	14,655	–	600	15,772	10,243	–	41,270
Bonds in issue	–	–	–	–	–	14,558	14,558
Subordinated debt	–	–	–	–	2,998	–	2,998
Other liabilities	3,565	776	2,426	2,697	2,374	8,358	20,196
Total	**347,037**	**20,291**	**24,764**	**61,206**	**18,624**	**22,916**	**494,838**
Current gap	**(259,001)**	**(3,556)**	**64,545**	**117,033**	**83,037**	**39,884**	**41,942**
Cumulative gap	**(259,001)**	**(262,557)**	**(198,012)**	**(80,979)**	**2,058**	**41,942**	

The line 'Loans and advances to customers' includes amounts due from ČKA and provisions against loans and advances. The line 'Other assets' includes other assets, property and equipment, intangible fixed assets and assets held for sale. The line 'Other liabilities' includes other liabilities, provisions and liabilities at fair value.

47. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made based on relevant market data and information about the financial instruments. Because no readily available market prices exist for a significant portion of the Bank's financial instruments, fair value estimates for these instruments are based on judgements regarding current economic conditions, currency and interest rate characteristics and other factors.

Many of these estimates involve uncertainties and matters of significant judgement and cannot be determined with precision. Therefore, the calculated fair value estimates cannot always be substantiated by comparison to market values and, in many cases, may not be realised in the current sale of the financial instrument. Changes in underlying assumptions could significantly affect the estimates.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value.

CZK mil.		2006		2005
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets				
Loans and advances to financial institutions	61,085	61,085	80,049	80,043
Loans and advances to customers including ČKA	291,323	292,565	255,214	256,742
Securities held to maturity	100,260	103,136	84,441	88,460
Financial liabilities				
Amounts owed to financial institutions	33,259	33,251	28,547	28,527
Amounts owed to customers	430,658	430,443	387,269	387,173
Bonds in issue	36,463	36,515	41,270	41,385
Subordinated debt	5,886	5,889	2,998	3,018

Loans and Advances to Financial Institutions

The fair value of current accounts is deemed to approximate their carrying amount. Given that term receivables generally reprice at relatively short time periods, it is justifiable to regard their carrying amount as the estimated fair value.

Loans and Advances to Customers

Loans and advances to customers are carried net of provisions. The fair value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered by the Bank.

Securities Held to Maturity

The fair value of securities held to maturity is based on market prices or price quotations obtained from brokers or dealers. If this information is not available, the fair value is estimated using quoted market values for securities with similar credit risk characteristics, maturity or yield rate or, as and when appropriate, according to the recoverability of the net asset value of these securities.

Amounts Owed to Financial Institutions and Customers

The estimated fair value of amounts owed to financial institutions and customers with no stated maturity which include no-interest earning deposits, is equal to the amount payable on demand. The fair value of fixed income deposits and other liabilities with no stated market value is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar maturities. The fair value of products with no contractually stated maturity (such as sight deposits, passbooks, overdraft facilities, construction savings deposits) is considered equal to their carrying value.

Bonds in Issue

The aggregated fair value is based on quoted market prices. The fair value of securities where no market price is available is estimated as the present value of discounted future cash flows and the applied discount factor is equal to the interest rates currently offered on the market for deposits with similar remaining maturities.

48. SEGMENT REPORTING

(a) Industry segments

For management purposes, the Bank is organised into the following major operating divisions:

- Retail banking (accepting deposits from the public, providing loans to retail clients, services related to credit and debit cards);
- Commercial banking (providing loans to corporate clients and municipalities, issuance of guarantees, opening of letters of credit);
- Investment banking (securities investments, proprietary trading and trading on behalf of the client with securities, foreign exchange assets, entering into futures and options including foreign currency and interest rate transactions, financial brokerage, custodian services, participation in issuance of stock, management, safe-keeping and administration of securities or other assets); and
- Other operations.

2006			Banking	Other	Total
CZK mil.	Retail	Commercial	Investment	activities	
Revenue					
Total segment revenue	**21,107**	**3,692**	**2,809**	**2,754**	**30,362**
Profit					
Segment profit	**8,154**	**1,973**	**2,028**	**2,325**	**14,479**
Unallocated costs					(2,745)
Profit before tax					11,734
Income tax					(2,795)
Total profit					**8,939**
Other information					
Asset acquisition	1,700	59	169	1,771	3,699
Write-offs and depreciation	1,151	0	59	2,023	3,233
Impairment losses	4	0	0	70	74
Balance sheet					
Assets					
Segment assets	183,079	116,782	265,469	18,887	584,216
Unallocated assets					946
Total assets					**585,162**
Liabilities					
Segment liabilities	355,941	52,013	118,114		526,069
Unallocated liabilities					13,066
Total liabilities					**539,135**

2005 CZK mil.	Retail	Commercial	Banking Investment	Other activities	Total
Revenue					
Total segment revenue	**19,789**	**3,221**	**2,938**	**3,247**	**29,195**
Profit					
Segment profit	**7,153**	**2,196**	**2,262**	**3,577**	**15,188**
Unallocated costs					(2,819)
Profit before tax					12,369
Income tax					(2,609)
Total profit					**9,760**
Other information					
Asset acquisition	1,100	167	82	2,572	3,921
Write-offs and depreciation	1,853	40	72	1,284	3,249
Impairment losses				72	72
Balance sheet					
Assets					
Segment assets	153,847	107,100	260,852	14,732	536,531
Unallocated assets					249
Total assets					**536,780**
Liabilities					
Segment liabilities	330,433	37,449	119,820		487,702
Unallocated liabilities					7,136
Total liabilities					**494,838**

Total income is composed of 'Net interest income', 'Net fee and commission income', 'Net trading result', 'Total other operating income' and 'Income from the revaluation/sale of securities, derivatives and equity investments' (refer to Note 37).

(b) Geographical segments

The Bank operates predominantly within the Czech Republic and has no significant cross border operations.

The geographical concentration of assets and liabilities as of 31 December 2006 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	20,802	1,323	151	239	22,515
Loans and advances to financial institutions	36,731	20,534	2,829	991	61,085
Loans and advances to customers	287,380	2,800	487	656	291,323
Securities at fair value through profit or loss	27,128	18,382	969	2,417	48,896
Positive fair value of financial derivative transactions	2,622	15,615	28	76	18,341
Securities available for sale	6,285	5,296	–	–	11,581
Securities held to maturity	58,561	33,141	3,799	4,759	100,260
Equity investments in subsidiary and associated undertakings	3,272	3,683	–	–	6,955
Other assets	22,927	1,074	56	149	24,206
Total assets	**465,708**	**101,848**	**8,319**	**9,287**	**585,162**
Liabilities					
Amounts owed to financial institutions	26,125	6,986	147	1	33,259
Amounts owed to customers	422,737	6,776	586	559	430,658
Negative fair value of financial derivative transactions	3,218	9,246	27	192	12,683
Bonds in issue	36,277	182	4	–	36,463
Subordinated debt	4,002	1,834	50	–	5,886
Other liabilities	20,085	64	2	35	20,186
Total liabilities	**512,444**	**25,088**	**816**	**787**	**539,135**
Net position	**(46,736)**	**76,760**	**7,503**	**8,500**	**46,027**

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment, intangible fixed assets and assets held for sale. The line ‘Other liabilities’ includes other liabilities, provisions and liabilities at fair value.

The geographical concentration of assets and liabilities as of 31 December 2005 was as follows:

CZK mil.	Czech Republic	EU countries	Other European countries	Other	Total
Assets					
Cash and balances with the CNB	16,313	1,054	163	262	17,792
Loans and advances to financial institutions	52,657	22,720	3,709	963	80,049
Loans and advances to customers	250,440	2,867	1,018	889	255,214
Securities at fair value through profit or loss	15,318	17,608	716	2,553	36,195
Positive fair value of financial derivative transactions	2,538	15,029	2	190	17,759
Securities available for sale	8,345	5,279	496	246	14,366
Securities held to maturity	52,885	25,756	3,801	1,999	84,441
Equity investments in subsidiary and associated undertakings	3,152	3,599	-	-	6,751
Other assets	23,231	849	71	62	24,213
Total assets	**424,879**	**94,761**	**9,976**	**7,164**	**536,780**
Liabilities					
Amounts owed to financial institutions	22,279	6,207	56	5	28,547
Amounts owed to customers	385,689	1,522	15	43	387,269
Negative fair value of financial derivative transactions	2,431	11,694	15	418	14,558
Bonds in issue	41,015	33	3	219	41,270
Subordinated debt	2,699	299	-	-	2,998
Other liabilities	19,510	656	-	30	20,196
Total liabilities	**473,623**	**20,411**	**89**	**715**	**494,838**
Net position	**(48,744)**	**74,350**	**9,887**	**6,449**	**41,942**

The line ‘Loans and advances to customers’ includes amounts due from ČKA and provisions against loans and advances. The line ‘Other assets’ includes other assets, property and equipment, intangible fixed assets and assets held for sale. The line ‘Other liabilities’ includes other liabilities, provisions and liabilities at fair value.

49. ASSETS UNDER ADMINISTRATION

The Bank provides custody, trustee, investment management and advisory services to third parties which involve the Bank making purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Bank administered CZK 173,949 million (2005: CZK 124,056 million) of assets as of 31 December 2006 representing certificate securities and other assets received from customers into its custody for administration and safe-keeping split as follows:

CZK mil.	2006	2005
Customer securities in custody	8,760	16,342
Other assets in custody	–	–
Customer securities under administration	137,476	85,757
Customer securities for safe-keeping	4	2
Assets received for management	27,709	21,955
Total	**173,949**	**124,056**

In addition to customer assets arising from the provision of investment services (refer to Note 51), the total balance includes bills of exchange and other securities collateralising loans and other assets that do not relate to the provision of investment services.

The Bank also acts as a depositary for several mutual, investment and pension funds, whose assets amounted to CZK 96,519 million as of 31 December 2006 (2005: CZK 90,376 million).

50. RELATED PARTY TRANSACTIONS

Related parties involve connected entities or parties that have a special relation to the Bank.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Erste Bank der österreichischen Sparkassen AG.

The parties that have a special relation to the Bank are considered to be members of the Bank's statutory and supervisory bodies and management, legal entities exercising control over the Bank (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Bank's statutory and supervisory bodies, management, and entities exercising control over the Bank, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Bank and any other legal entity under their control, members of the Czech National Bank's Banking Board, and legal entities which the Bank controls.

Pursuant to the definitions outlined above, the category of the Bank's related parties principally comprises its subsidiary and associated undertakings, members of its Board of Directors and Supervisory Board, and other entities, namely Erste Bank, its subsidiary and associated undertakings, and subsidiary and associated undertakings owned by the Bank's subsidiaries.

The Bank has the following amounts due from/to related parties as of 31 December 2006 and 2005:

2006 CZK mil.	Parent bank	Subsidiaries	Associates	Members of the Board of Directors and Supervisory Board	Other related parties
Assets					
Loans and advances to financial institutions	2,912	–	–	–	758
Loans and advances to customers	0	441	90	26	5,630
Securities held to maturity	310	–	–	–	–
Positive fair value of financial derivative transactions	8,386	–	–	–	16
Other assets	195	199	–	–	58
Total assets	**11,803**	**640**	**90**	**26**	**6,462**
Liabilities					
Amounts owed to financial institutions	2,168	19	–	–	116
Amounts owed to customers	0	1,334	5	1	867
Bonds in issue	29	2,075	–	–	–
Negative fair value of financial derivative transactions	3,560	–	–	–	290
Other liabilities	65	46	24	–	285
Subordinated debt	1,069	–	–	–	–
Total liabilities	**6,891**	**3,474**	**29**	**1**	**1,558**
Off balance sheet					
Undrawn loans	111	1,634	10	–	2,282
Issued guarantees	20	7,296	1	–	837
Notional value of the underlying asset of derivatives	207,782	576	–	–	7,550
Income					
Interest income	74	93	1	–	284
Dividends received	–	582	12	–	–
Fee and commission income	9	1,252	–	–	17
Net trading result	116	–	–	–	(15)
Other operating income	13	55	–	–	91
Total income	**212**	**1,982**	**13**	**–**	**377**
Expenses					
Interest expense	85	106	–	–	32
Fee and commission expense	1	1	–	–	10
General administrative expenses	56	174	74	–	416
Other operating expenses	–	–	–	–	–
Total expenses	**142**	**281**	**74**	**–**	**458**

2005 CZK mil.	Parent bank	Subsidiaries	Associates	Members of the Board of Directors and Supervisory Board	Other related parties
Assets					
Loans and advances to financial institutions	2,589	–	–	–	2,708
Loans and advances to customers	–	6,483	20	16	1,004
Securities held to maturity	628	–	–	–	–
Positive fair value of financial derivative transactions	7,607	–	–	–	30
Other assets	21	236	20	–	12
Total assets	**10,845**	**6,719**	**40**	**16**	**3,754**
Liabilities					
Amounts owed to financial institutions	2,313	19	–	–	464
Amounts owed to customers	–	2,588	12	6	351
Bonds in issue	–	2,008	–	–	–
Negative fair value of financial derivative transactions	4,909	–	–	–	10
Other liabilities	13	104	25	–	172
Total liabilities	**7,235**	**4,719**	**37**	**6**	**997**
Off balance sheet					
Undrawn loans	200	675	80	–	1,400
Issued guarantees	194	3,246	1	–	–
Notional value of the underlying asset of derivatives	190,830	201	–	–	4,908
Income					
Interest income	463	137	–	–	98
Dividends received	–	1,628	4	–	–
Fee and commission income	8	1,139	–	–	53
Net trading result	1,603	–	–	–	55
Other operating income	1	74	–	–	1
Total income	**2,075**	**2,978**	**4**	**–**	**207**
Expenses					
Interest expense	357	88	–	–	76
Fee and commission expense	1	35	–	–	4
General administrative expenses	12	225	71	–	181
Other operating expenses	118	–	–	–	–
Total expenses	**488**	**348**	**71**	**–**	**261**

Subsidiaries include both direct and indirect investments with controlling influence, associates include both direct and indirect investments with significant influence.

(a) Members of the Board of Directors and Supervisory Board

Loans and advances granted to members of the Board of Directors and Supervisory Board amounted to CZK 26 million (in nominal values) as of 31 December 2006 (2005: CZK 16 million). Members of the Board of Directors and Supervisory Board held no shares of the Bank. Under the Employee Stock Option Plan (refer to Note 37), members of the Board of Directors subscribed for 14,000 shares (2005: 4,200 shares) of the parent company, Erste Bank. Under the Management Stock Option Plan (refer to Note 37), members of the Board of Directors hold 9,500 options (2005: 152,000 options) for subscription of shares of the parent company, Erste Bank.

(b) Related parties

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis.

51. PAYABLES TO CLIENTS ARISING FROM THE PROVISION OF INVESTMENT SERVICES

Investment services involve receiving and providing instructions related to investment instruments, performing instructions relating to investment instruments to a third party account, proprietary trading with investment instruments, management of customer assets under a contractual arrangement with the client if these assets include an investment instrument, and investment instruments underwriting or placement.

Additional investment services involve administration and custody of investment instruments, issuing loans to the client for the purpose of trading with investment instruments if the issuer of the loan takes part in the transaction, advisory services relating to capital structuring, industrial strategy, investments in investment instruments, provision of advice and services related to mergers and acquisitions, implementation of foreign exchange transactions relating to the provision of investment services, services related to the underwriting of investment instrument issues and rent of safe-deposit boxes.

In connection with the provision of these services, the Bank received cash and investment instruments from clients or obtained cash or investment instruments for its clients ('customer assets') in exchange for these values, which amounted to CZK 141,872 million as of 31 December 2006 (2005: CZK 85,611 million).

52. DIVIDENDS

Management of the Bank has proposed that total dividends of CZK 4,560 million be declared in respect of the profit for the year ended 31 December 2006, which represents CZK 30 per both ordinary and priority share (2005: CZK 4,560 million, that is, CZK 30 per both ordinary and priority share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15 percent or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an EU member country and whose interest in a subsidiary's share capital is no less than 25 percent and that hold the entity's shares for at least two years are not subject to a withholding tax.

53. POST BALANCE SHEET EVENTS

No significant events that would have a material impact on the financial statements for the year ended 31 December 2006 occurred subsequent to the balance sheet date.

Report on Relations between Related Parties

UNDER SECTION 66A (9) OF COMMERCIAL CODE 513/1991 COLL. FOR THE YEAR ENDED 31 DECEMBER 2006

Česká spořitelna, a. s., having its registered office address at Olbrachtova 1929/62, 140 00 Prague 4, Corporate ID: 45244782, incorporated in the Register of Companies, Section B, File 1171, maintained at the Municipal Court in Prague (hereinafter **"Česká spořitelna"** or the **"Company"**), is part of a business group (holding company) in which the following relations between Česká spořitelna and controlling entities and further between Česká spořitelna and entities controlled by the same controlling entities (hereinafter the **"related entities"**) exist.

This report on relations between the entities stated below was prepared in accordance with Section 66a (9) of Commercial Code 513/1991 Coll., as amended, for the year ended 31 December 2006 (hereinafter the **"accounting period"**). In the accounting period, Česká spořitelna and the below mentioned entities entered into the contracts stated below and adopted or effected the following legal acts and other factual measures. The Report on Relations for the year ended 31 December 2006 reports on material transactions and arrangements between the related entities.

A. CHART OF ENTITIES WHOSE RELATIONS ARE DESCRIBED

The Erste Bank Group

Die Erste Spar-Casse

Erste Bank

Česká spořitelna	Allgemeine Sparkasse
Alpha Immorent	Areal CZ
B. und S. Waldviertel Mitte	BCR
Beta Immorent	Centrum Radlická
City Property	Dezentrale IT
Dornbirner Sparkasse	ecetra CE Finance
Eltima Property	Epsilon Immorent
EB Befektetesi	Erste Bank Hungary
EB Investment Hungary	Erste Reinsurance
Erste Sec Polska	Erste-Sparinvest
Erste & Steiermärkische	Factoring SISp
Immokor	Immorent Avenir
Immorent BP	Immorent BH
Immorent BR	Immorent ČR
Immorent Chomutov	Immorent Investment
Immorent Kladno	Immorent PP
Immorent Rho	Immorent TP
Inprox F-M	Iota Immorent
Lambda Immorent	Leasing Property
Logcap ČR	Malá Štěpánská
Milou	OCI
Omega Immorent	Palác Karlín
Pankrácká obchodní	Procurement
Proxima Immorent	Realia Consult
Rega Property	S IT AT Spardat
S IT SK	S-Morava leasing
Salzburger Sparkasse	Slovenská sporiteľňa
Sparkasse Bregenz	Sparkasse Mühlviertel-West
Theta Immorent	Tiroler Sparkasse
U Glaubiců	Vila Property
Vltava Property	Weinviertel Sparkasse
Zeta Immorent	

B. CHART OF ENTITIES WHOSE RELATIONS ARE DESCRIBED

The Česká spořitelna Group

Die Erste Spar-Casse

Erste Bank
Česká spořitelna

- brokerjet ČS
- CEE Property Development
  - CPDP 2003
  - Gallery Myšák
- Consulting ČS
- CS Property Investment
- Czech and Slovak Property
  - BGA Czech
  - CSPF Residential
  - PBE
  - PRK
  - SRE
  - Zahradní čtvrť
- Erste Corporate
- Factoring ČS
- Informatika ČS
- Investiční společnost ČS
- Leasing ČS
  - Corfina Trade
- Penzijní fond ČS
- Pojišťovna ČS
- Realitní společnost ČS
- Reico ČS
- s Autoleasing
  - s Autoúvěr
- Stavební spořitelna ČS

C. CONTROLLING ENTITIES

- **Die Erste oesterreichische Spar-Casse Privatstiftung,** Am Graben 21, Vienna, Austria ("Die Erste Spar-Casse")
  Relation to the Company: indirectly controlling entity

- **Erste Bank der oesterreichischen Sparkassen AG,** Am Graben 21, Vienna, Austria ("Erste Bank")
  Relation to the Company: directly controlling entity

D. OTHER RELATED ENTITIES, whose relations are described

OTHER RELATED ENTITIES, The Erste Bank Group

- **Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft,** Promenade 11, Linz, Austria ("Allgemaine Sparkasse")
  Relation to the Company: related entity

- **Alpha Immorent s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Alpha Immorent")
  Relation to the Company: related entity

- **Areal CZ spol. s r. o.,** Národní 973/41, Prague 1, Czech Republic ("Areal CZ")
  Relation to the Company: related entity

- **Banca Comerciala Romana,** Regina Elisabeta Blvd 5, Bucharest, Romania ("BCR")
  Relation to the Company: related entity

- **Bank und Sparkassen Aktiengesellschaft Waldviertel Mitte,** Hauptplatz 3, Zwettl, Austria ("B. und S. Waldviertel Mitte")
  Relation to the Company: related entity

- **Beta Immorent s. r. o.,** in liquidation, Národní 973/41, Prague 1, Czech Republic ("Beta Immorent")
  Relation to the Company: related entity

- **Centrum Radlická, a. s.,** Kubánské nám. 11/1391, Prague 10, Czech Republic ("Centrum Radlická")
  Relation to the Company: related entity

- **City Property s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("City Property")
  Relation to the Company: related entity

- **Dezentrale IT-Infrastruktur Services G. m. b. H.,** Geiselbergstrasse 21, Vienna, Austria ("Dezentrale IT")
  Relation to the Company: related entity

- **Dornbirner Sparkasse Bank Aktiengesellschaft,** Bahnhofstrasse 2, Dornbirn, Austria ("Dornbirner Sparkasse")
  Relation to the Company: related entity

- **ecetra Central European e–Finance AG,** Neutorgasse 2, Vienna, Austria ("ecetra CE Finance")
  Relation to the Company: related entity

- **Eltima Property Company s. r. o.,** Václavské náměstí 22/782, Prague 1, Czech Republic ("Eltima Property")
  Relation to the Company: related entity

- **Epsilon Immorent s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Epsilon Immorent")
  Relation to the Company: related entity

- **Erste Bank Befektetesi Alapkezelö Rt,** Madách Imre ut. 13, Budapest, Hungary ("EB Befektetesi")
  Relation to the Company: related entity

- **Erste Bank Hungary Nyrt,** Hold utca 16, Budapest, Hungary ("Erste Bank Hungary")
  Relation to the Company: related entity

- **Erste Bank Investment Hungary Z Rt,** Madách Imre utca 13, Budapest, Hungary ("EB Investment Hungary")
  Relation to the Company: related entity

- **Erste Reinsurance S.A.,** 45 rue des Scillas, Howald, Luxembourg ("Erste Reinsurance")
  Relation to the Company: related entity

- **Erste Securities Polska S.A.,** ul. Królewska 16, Warsaw, Poland ("Erste Sec Polska")
  Relation to the Company: related entity

- **Erste-Sparinvest Kapitalanlagegesellschaft m. b. h.,** Habsburgergasse 1, Vienna, Austria ("Erste-Sparinvest")
Relation to the Company: related entity

- **Erste & Steiermärkische banka d. d.,** Rijeka, Jadranski trg 3, Rijeka, Croatia ("Erste & Steiermarkische")
Relation to the Company: related entity

- **Factoring Slovenskej sporiteľni a. s.,** Priemyselná 1, Bratislava, Slovakia ("Factoring SlSp")
Relation to the Company: related entity

- **Immokor d. o. o.,** Zelinska 3, Zagreb, Croatia ("Immokor")
Relation to the Company: related entity

- **Immorent Avenir 3 s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Avenir")
Relation to the Company: related entity

- **Immorent Borská Pole a. s.,** Národní 973/41, Prague 1, Czech republic ("Immorent BP")
Relation to the Company: related entity

- **Immorent Brno Heršpická, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Brno")
Relation to the Company: related entity

- **Immorent Brno Retail, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent BR")
Relation to the Company: related entity

- **Immorent ČR, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent ČR")
Relation to the Company: related entity

- **Immorent Chomutov, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Chomutov")
Relation to the Company: related entity

- **Immorent Investment s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Investment")
Relation to the Company: related entity

- **Immorent Kladno, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Kladno")
Relation to the Company: related entity

- **Immorent Panorama Prague, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent PP")
Relation to the Company: related entity

- **Immorent Rho, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent Rho")
Relation to the Company: related entity

- **Immorent Towers Prague, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Immorent TP")
Relation to the Company: related entity

- **Inprox Frýdek-Místek s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Inprox F-M")
Relation to the Company: related entity

- **Iota Immorent s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Iota Immorent")
Relation to the Company: related entity

- **Lambda Immorent s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Lambda Immorent")
Relation to the Company: related entity

- **Leasing Property s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Leasing Property")
Relation to the Company: related entity

- **Logcap ČR s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Logcap ČR")
Relation to the Company: related entity

- **Malá Štěpánská 17 s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Malá Štěpánská")
Relation to the Company: related entity

- **Milou s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Milou")
Relation to the Company: related entity

- **ÖCI – Unternehmensbeteiligungs-gesellschaft.m. b. h.,** Am Graben 21, Vienna, Austria ("OCI")
Relation to the Company: related entity

- **Omega Immorent s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Omega Immorent")
Relation to the Company: related entity

- **Palác Karlín s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Palác Karlín")
Relation to the Company: related entity

- **Pankrácká obchodní, a. s.,** Na Pankráci 14, Prague 4, Czech Republic ("Pankrácká obchodní")
Relation to the Company: related entity

- **Procurement Services G. m. b. H.,** Brehmstrasse 12, Vienna, Austria ("Procurement")
Relation to the Company: related entity

- **Proxima Immorent, s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Proxima Immorent")
Relation to the Company: related entity

- **Realia Consult Praha s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Realia Consult")
Relation to the Company: related entity

- **Rega Property Invest s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Rega Property")
Relation to the Company: related entity

- **s IT Solutions AT Spardat G. m. b. H.,** Geiselbergstrasse 21, Vienna, Austria ("S IT AT Spardat")
Relation to the Company: related entity

- **s IT Solutions SK, spol. s r. o.,** Prievozská 14, Bratislava, Slovakia ("S IT SK")
Relation to the Company: related entity

- **S – Morava leasing, a. s.,** Horní náměstí 18, Znojmo, Czech Republic ("S – Morava leasing")
Relation to the Company: related entity

- **Salzburger Sparkasse Bank AG,** Alter Markt 3, Salzburg, Austria ("Salzburger Sparkasse")
Relation to the Company: related entity

- **Slovenská sporiteľňa, a. s.,** Suché myto 4, Bratislava, Slovakia ("Slovenská sporiteľňa")
Relation to the Company: related entity

- **Sparkasse Bregenz Bank AG,** Rathausstrasse 29, Bregenz, Austria ("Sparkasse Bregenz")
Relation to the Company: related entity

- **Sparkasse Mühlviertel – West Bank Aktiengesellschaft,** Stadtplatz 24, Rohrbach, Austria ("Sparkasse Mühlviertel–West")
Relation to the Company: related entity

- **Theta Immorent s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Theta Immorent")
Relation to the Company: related entity

- **Tiroler Sparkasse Bankaktiengesellschaft Innsbruck,** Sparkassenplatz 1, Innsbruck, Austria ("Tiroler Sparkasse")
Relation to the Company: related entity

- **U Glaubiců spol. s r.o.,** Národní 973/41, Prague 1, Czech Republic ("U Glaubiců")
Relation to the Company: related entity

- **Vila Property s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Vila Property")
Relation to the Company: related entity

- **Vltava Property s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Vltava Property")
Relation to the Company: related entity

- **Weinviertler Sparkasse AG,** Hauptplatz 10, Hollabrunn, Austria ("Weinviertler Sparkasse")
Relation to the Company: related entity

- **Zeta Immorent s. r. o.,** Národní 973/41, Prague 1, Czech Republic ("Zeta Immorent")
Relation to the Company: related entity

OTHER RELATED ENTITIES, The Česká spořitelna Group

- **brokerjet České spořitelny, a. s.,** Na Příkopě 29/584, Prague 1, Czech Republic ("brokerjet ČS")
  Relation to the Company: directly controlled entity

- **BGA Czech s. r. o.,** Karlovo nám. 10, Prague 2, Czech Republic ("BGA Czech")
  Relation to the Company: indirectly controlled entity

- **CEE Property Development Portfolio B.V.,** Naritawes 165 Telestone 8, 1043 BW Amsterdam, Netherlands ("CEE Property Development")
  Relation to the Company: directly controlled entity

- **Consulting České spořitelny, a. s.,** Vinohradská 180/1632, Prague 3, Czech Republic ("Consulting ČS")
  Relation to the Company: directly controlled entity

- **Corfina Trade, s. r. o.,** Střelničná 8/1680, Prague 8, Czech Republic ("Corfina Trade")
  Relation to the Company: indirectly controlled entity

- **CPDP 2003 s. r. o.,** Vodičkova 710/31, Prague 1, Czech Republic ("CPDP 2003")
  Relation to the Company: indirectly controlled entity

- **CSPF Residential B.V.,** Fred Roeskestraat 123, Amsterdam, The Netherlands ("CSPF Residential")
  Relation to the Company: indirectly controlled entity

- **CS Property Investment Limited,** Arch. Makariou III, 2–4, Capital Center, 9th floor, P.C. 1505, Nicosia, Cyprus ("CS Property Investment")
  Relation to the Company: directly controlled entity

- **Czech and Slovak Property Fund B.V.,** Fred Roeskerstraat 123, 1076 EE Amsterdam, The Netherlands ("Czech and Slovak Property")
  Relation to the Company: directly controlled entity

- **Erste Corporate Finance, a. s.,** Na Perštýně 1/342, Prague 1, Czech Republic ("Erste Corporate")
  Relation to the Company: directly controlled entity

- **Factoring České spořitelny, a. s.,** Pobřežní 46, Prague 8, Czech Republic ("Factoring ČS")
  Relation to the Company: directly controlled entity

- **Gallery Myšák s. r. o.,** Vodičkova 710/31, Prague 1, Czech Republic ("Gallery Myšák")
  Relation to the Company: related party

- **Informatika České spořitelny, a. s.,** Bubenská 1447/1 , Prague 7, Czech Republic ("Informatika ČS")
  Relation to the Company: directly controlled entity

- **Investiční společnost České spořitelny, a. s.,** Na Perštýně 342/1, Prague 1, Czech Republic ("Investiční společnost ČS")
  Relation to the Company: directly controlled entity

- **Leasing České spořitelny, a. s.,** Střelničná 8, Prague 8, Czech Republic ("Leasing ČS")
  Relation to the Company: directly controlled entity

- **P.B.E., a. s.,** Karlovo nám. 10, Prague 2, Czech republic ("PBE")
  Relation to the Company: indirectly controlled entity

- **Penzijní fond České spořitelny, a. s.,** Poláčkova 1976/2, Prague 4, Czech Republic ("Penzijní fond ČS")
  Relation to the Company: directly controlled entity

- **Pojišťovna České spořitelny, a. s.,** nám. Republiky 115, Pardubice, Czech Republic ("Pojišťovna ČS")
  Relation to the Company: directly controlled entity

- **PRK Epsilon 05 s. r. o.,** Jáchymova 2, Prague 1, Czech Republic ("PRK")
  Relation to the Company: indirectly controlled entity

- **Realitní společnost České spořitelny, a. s.,** Vinohradská 180/1632 , Prague 3, Czech Republic ("Realitní společnost ČS")
  Relation to the Company: directly controlled entity

- **REICO investiční společnost České spořitelny, a. s.,** Na Perštýně 342/1, Prague 1, Czech Republic ("REICO ČS")
  Relation to the Company: directly controlled entity

- **s Autoleasing, a.s.,** Střelničná 8, Prague 8, Czech Republic ("s Autoleasing")
  Relation to the Company: directly controlled entity

- **s Autoúvěr, a.s.,** Střelničná 8, Prague 8, Czech Republic ("s Autoúvěr")
  Relation to the Company: indirectly controlled entity

- **Smíchov Real Estate, a.s.,** Karlovo nám. 10, Prague 2, Czech Republic ("SRE")
  Relation to the Company: indirectly controlled entity

- **Stavební spořitelna České spořitelny, a.s.,** Vinohradská 180/1632, Prague 3, Czech Republic ("Stavební spořitelna ČS")
  Relation to the Company: directly controlled entity

- **Zahradní čtvrť, a.s.,** Neumannova 1, Prague 5, Czech Republic ("Zahradní čtvrť")
  Relation to the Company: indirectly controlled entity

E. TRANSACTIONS WITH THE RELATED ENTITIES

Česká spořitelna identified relations with the related entities listed in Section C and Section D and aggregated them into the following categories.

Related Party Transactions on the Assets Side of Česká spořitelna's Balance Sheet

Loans and Advances to Financial Institutions

Česká spořitelna provided the related entities – financial institutions, with funding under contracts for the provision of loans, term placements, maintenance of current accounts and overdraft loans under standard business terms and conditions in the aggregate amount of CZK 3,670 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Loans and Advances to Customers

Česká spořitelna provided the related entities – non-financial institutions, with funding under contracts for the provision of loans, overdraft loans, etc. under standard business terms and conditions in the aggregate amount of CZK 6,161 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Securities Held to Maturity

Česká spořitelna holds own bonds and similar securities of related entities which were purchased under standard market conditions in the aggregate amount of CZK 310 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Positive Fair Value of Financial Derivative Transactions

Česká spořitelna entered into hedging and trading financial derivatives under standard market conditions, the positive fair value of which was CZK 8,402 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Assets

Other assets include other receivables from business transactions of Česká spořitelna to related entities on the asset side of the balance sheet in the aggregate amount of CZK 452 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Related Party Transactions on the Liabilities Side of Česká spořitelna's Balance Sheet

Amounts Owed to Financial Institutions

In the accounting period, Česká spořitelna provided related entities – financial institutions, with monetary services relating to the maintenance of current accounts, term bank accounts, received loans, loro accounts, etc. based on the contracts for the opening and maintenance of accounts under standard business terms and conditions, in the aggregate amount of CZK 2,303 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Amounts Owed to Customers

In the accounting period, Česká spořitelna provided related parties – non-financial institutions, with monetary services relating to the maintenance of current accounts, term bank accounts, received loans, credit balances on overdraft facilities, etc. based on the contracts for the opening and maintenance of accounts under standard business terms and conditions, in the aggregate amount of CZK 2,206 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Česká spořitelna's Bonds in Issue

Related entities hold bonds and similar securities issued by Česká spořitelna that were purchased under standard market conditions in the aggregate amount of CZK 2,105 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Negative Fair Value of Financial Derivative Transactions

Česká spořitelna entered into trading or hedging financial derivatives under standard market conditions with related entities, the negative value of which was CZK 3,850 million at the end of the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Subordinate Debt

Related parties hold subordinate bonds issued by Česká spořitelna that were purchased under standard terms and conditions in the aggregate amount of CZK 1,069 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Liabilities

Other liabilities include other liabilities from transactions between Česká spořitelna and related entities on the liabilities side of the balance sheet in the aggregate amount of CZK 419 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Transactions with Related Parties Having an Impact on Česká spořitelna's Profit and Loss Account

Interest Income

In the accounting period, Česká spořitelna generated total interest income of CZK 1,045 million, including dividends, from banking transactions with related entities under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Interest Expenses

Česká spořitelna incurred total interest expenses of CZK 224 million in respect of banking transactions with related entities under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Fee and Commission Income

In the accounting period, Česká spořitela received, as part of the transactions with related entities, under standard market or business terms and conditions, fee and commission income that predominantly includes fees and commissions for asset management, depository services, sale of the products of subsidiaries, etc. in the aggregate amount of CZK 1,279 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Fee and Commission Expense

In the accounting period, Česká spořitelna incurred, as part of the transactions with related parties, under standard market or business terms and conditions, fee and commission expense that predominantly includes transaction fees, in the aggregate amount of CZK 11 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Net Trading Result

Česká spořitelna, as part of securities transactions, foreign currency transactions and similar transactions with related entities, including income and expenses from changes in fair values of non-hedging derivatives, generated a net profit of CZK 101 million in the accounting period under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

General Administrative Expenses

In the accounting period, Česká spořitelna incurred CZK 721 million in general administrative expenses in respect of related entities, namely for the purchase of goods, material, insurance, advisory, professional, consulting and maintenance services, under standard market or business terms and conditions. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Operating Income/(Expenses)

In the accounting period, Česká spořitelna had, as part of other transactions with related entities, specifically in providing outsourcing services and client centre services, under standard market or business terms and conditions, a positive balance of other operating income and expenses in the aggregate amount of CZK 159 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Other Bank-business Transactions with Related Entities

General Limits

Česká spořitelna has approved general limits in place for transactions with the related entities in respect of current and term deposits, loans, repurchase transactions, own securities, letters of credit, and issued and received guarantees in the aggregate amount of CZK 59,553 million. Under these limits, the aggregate exposure to the related entities was CZK 33,429 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Provided and Received Guarantees

Česká spořitelna provided guarantees based on the contracts for the provision of guarantees to related parties under standard terms and conditions. The aggregate amount of the provided guarantees was CZK 8,154 million. Česká spořitelna received guarantees from related parties based on the contracts for the receipt of bank guarantees under standard business terms and conditions in the aggregate amount of CZK 431 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Fixed Term Contracts

In the accounting period, Česká spořitelna entered into fixed term contracts with the related entities under standard market conditions. At the accounting period-end, the nominal values of receivables and payables arising from fixed term contracts were CZK 215,908 million and CZK 210,883 million, respectively. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Equity Transactions with Related Entities

In the accounting period, Česká spořitelna, as a market maker, purchased and sold shares of related entities, under standard market conditions, with the aggregate turnover of CZK 12,378 million. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Loans Provided to Employees of the Česká spořitelna Financial Group

Based on the concluded contracts, Česká spořitelna provides the employees of companies – members of the Česká spořitelna Financial Group, with standard loans to individuals for prime rate interest rates. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

Paid Dividends

Following the decision of the General Meeting of 26 April 2006, Česká spořitelna paid dividends of CZK 4,468 million to related parties in the accounting period. Česká spořitelna incurred no detriment as a result of these transactions in the accounting period.

F. NON-BANKING TRANSACTIONS WITH THE RELATED ENTITIES

In the previous accounting periods, Česká spořitelna entered into contracts with related parties listed in sections C and D, concerning non-banking relations, the financial details of which are included in section E. In the accounting period, Česká spořitelna entered into new contracts with related entities listed in C and D concerning non-banking relations, the financial details of which are included in section E. The below list includes significant non-banking contracts entered into with related entities in the accounting period. The immaterial contractual arrangements under which Česká spořitelna received or provided performance as part of contractual arrangements with related entities, the financial details of which are also included in section E, and no detriment was incurred in relation to these contractual arrangements are not included in this report.

Name	Party to the Contract	Description of the performance	Detriment incurred, if any
Servicing contract	Erste Bank der oesterreichischen Sparkassen AG	Support of RICOS application	None
Contract for the provision of services	Procurement Services GmbH	Strategic purchase of goods and services, outsourcing of orders	None
Contracts for the provision of services, contracts for work	s IT Solutions AT Spardat GmbH	Services within various projects	None
Servicing contracts	s IT Solutions SK, spol. s r. o.	Servicing and support of SW	None
Contract for the sale and transfer of shares	Slovenská sporiteľňa, a. s.	Sale of 6.67% equity interest in Czech and Slovak Property Fund B. V.	None
Contracts for the provision of advisory services	Consulting České spořitelny, a. s.	Advisory services and valuation of assets	None
Contract for participation	Factoring České spořitelny, a. s.	Participation in business activities	None
Framework contract	Leasing České spořitelny, a. s.	Consulting for Basel II	None
Framework insurance contract	Pojišťovna České spořitelny, a. s.	Framework insurance contract, defines insurance-technical relations	None
Contract for the sale of securities	s Autoleasing, a. s.	Sale of 100% equity interest in Servis1 – ČS, a. s.	None
Contract for the subscription of shares	s Autoleasing, a. s.	Subscription of 98 shares during the increase in the share capital of s Autoleasing	None
Mandate contract	Erste Corporate Finance, a. s.	Advisory services	None

Legal title	Party to the Contract	Description of the performance	Detriment incurred, if any
The Employee Erste Bank Stock Ownership Programme ('ESOP') and the Management Erste Bank Stock Option Programme ('MSOP')	Erste Bank der oesterreichischen Sparkassen AG	Payment of a 20% discount on the subscription for shares by employees who made use of the option	None

G. OTHER LEGAL ACTS

In the accounting period, Česká spořitelna adopted or made no other legal acts in the interest, or at the initiative, of the related entities.

H. OTHER FACTUAL MEASURES

Česká spořitelna participates in the New Group Architecture (NGA) programme within the Erste Bank Group. The programme is designed to fully utilise the business potential of Central European markets in all segments, to benefit from economies of scale and cost synergies, to concentrate support activities in the group, and to ensure transparency and comparability in performance measurement. The NGA programme includes business projects (Retail 2008, Group Large Corporates, Card Strategy), IT projects (S IT Solutions, Group IT Operations, Decentralised Computing, Core SAP), performance and risk management projects (Group Performance Model, Basel II) and service activities projects (Group Procurement). In the IT area, the projects are expected to bring about savings as a result of the sharing of operational and development activities, merging of IT procurement, and standardisation of hardware. Česká spořitelna incurred no detriment as a result of its participation in the Group-wide projects referred to above.

I. CONCLUSION

Our review of the legal relations put in place between Česká spořitelna and the related entities indicates that Česká spořitelna incurred no detriment as a result of contractual arrangements, other legal acts or other measures implemented, made or adopted by Česká spořitelna during the year ended 31 December 2006 in the interest, or at the initiative, of individual related entities.

Česká spořitelna's Financial Group

FIGURES ARE STATED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), UNLESS INDICATED OTHERWISE.

STAVEBNÍ SPOŘITELNA ČESKÉ SPOŘITELNY, A. S.

Stavební spořitelna České spořitelny, a. s., with its registered office address at Vinohradská 180, Prague 3, was incorporated on 22 June 1994. Its principal business is the provision of financial services under the Construction Savings and Construction Savings State Support Act 96/1993 Coll. The shareholder structure consists of Česká spořitelna, a. s., which owns a 95 percent shareholding and the remaining five percent is held by Bausparkasse der österreichischen Sparkassen AG. The Company's issued share capital is CZK 750 million. Stavební spořitelna offers its clients construction savings with state support and statutory rights to loans from construction savings.

In 2006, Stavební spořitelna fulfilled its mission of "Funding Better Housing for Everyone" by simplifying its loan offering and introducing a new loan, HYPO TREND, combining the advantages of construction savings and mortgages. Simplicity, speed and a reasonable price as the core features of Stavební spořitelna's loan policy proved to be attractive for clients and resulted in a significant year-on-year growth in the volume and number of loan contracts sold.

In 2006, Stavební spořitelna provided almost 34,000 new loans in the aggregate amount of CZK 8.8 billion, thus breaking its record of 2004 by CZK 0.4 billion, which represents a year-on-year growth of over 26 percent. As of 31 December 2006, the Company maintained more than 167,000 loan accounts and lent its clients CZK 24.2 billion for housing improvements. The development of construction savings contracts' sale in 2006 confirmed the assumed growth trend. Compared to 2005, the number of new deposit transactions grew by 16 percent to almost 219,000. As of 31 December 2006, Stavební spořitelna administered 1,156,000 construction savings accounts. In 2006, clients entered into deposit contracts with the aggregate target amount of CZK 37.6 billion, which represents an increase of 20.6 percent as compared to 2005.

Stavební spořitelna generated a record net profit of CZK 938 million in 2006, which represents a year-on-year increase of 45 percent. The record profit was predominantly driven by the increase in net interest income arising from client loans and profit from the disposal of redundant assets. The cost/income ratio continued to fall from 36.5 percent to 30.4 percent year-on-year. Reducing costs contributed to the positive performance of the Company in 2006. The increase in the proportion of loans to deposits from 25.1 percent in 2005 to 28.8 percent in 2006 confirmed once again that housing needs have increasingly been funded from the loans provided by Stavební spořitelna ČS.

The outstanding financial and business results of Stavební spořitelna in 2006 correspond to the position of the Česká spořitelna Financial Group in the Czech market of funding housing needs. Its results are a sufficient incentive for the successful continuation of this development in 2007.

	2006	2005	2004	2003	2002
Share capital (CZK million)	750	750	750	750	750
Total assets (CZK billion)	90.8	84.3	73.7	61.6	47.5
Loans and advances to clients (CZK billion)	24.2	19.5	15,5	10.4	7.2
Client deposits (CZK billion)	83.8	77.6	67.4	56.0	42.1
Net profit (CZK million)	938	649	351	209	281
Number of clients (million)	1.2	1.2	1.3	1.4	1.1
Average headcount	215	234	281	304	310

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POJIŠŤOVNA ČESKÉ SPOŘITELNY, A. S.

Pojišťovna České spořitelny, a. s. was formed on 1 October 1992 and has had its registered office at náměstí Republiky 115, Pardubice since September 2002. Česká spořitelna acquired an equity interest in the Company in 1995. The Company's issued share capital is CZK 1,117 million and Česká spořitelna's share of the Company's share capital is 55.25 percent and the remaining 44.75 percent equity interest is held by Sparkasse Versicherung AG, a subsidiary of Erste Bank. Measured by the share capital balance, the Company is one of the best capitalised insurance companies on the Czech market. The Company has been licensed to undertake insurance activities, reinsurance activities and relating activities.

The Company operated as a universal insurer and offered basic types of life and non-life insurance. Following the resolution of the shareholders in 2003 to fulfil the strategy of the Erste Bank Group whereby insurance companies from within the Group were to specialise in providing life insurance only, as of 2 January 2004, the non-life insurance business of the Company was sold to Kooperativa, pojišťovna, a. s. At the date on which the sale of the non-life business became effective, the Company's universal profile changed and the Company became a specialised life-insurer offering primarily the following types of insurance: capital life insurance, insurance with an investment fund, loan life insurance and accident insurance. By its character and insurance portfolio structure, Pojišťovna ČS has continuously developed its life-insurance services and promoted their linking to bank services in the 'bankassurance' form.

The development of financial markets - especially the development of interest rates - the long-expected reform of the pension system, and the ongoing growth of competition in financial services are all reflected in the growth rate of the life-insurance market. Its progress did not meet the expectations and its dynamics failed to meet the levels of 2003 and 2004. Although this was not reflected in the sales volume, Pojišťovna ČS will have to monitor the market development and concentrate more on the non-replaceability of life insurance in the protection against risks, health and life protection, and financial support of families.

Premiums written in 2006 amounted to CZK 4,428 million, which represents a year-on-year increase of 81 percent primarily attributable to the increase in the sale of 'single sum premium' insurance. In 2006, the Company generated a net profit of CZK 312 million, technical reserves amounted to CZK 13,468 million and increased by CZK 2,787 million year-on-year.

	2006	2005	2004	2003	2002
Share capital (CZK million)	1,117	1,117	1,117	1,117	1,117
Total assets (CZK billion)	15.4	12.2	13.7	11.4	8.0
Premiums written (CZK billion)	4.4	2.5	3.9	6.9	6.3
Net profit (CZK million)	312	175	2,275	229	171
Number of insurance policies (thousand)	509	464	399	914	847
Average headcount	137	141	145	654	709

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PENZIJNÍ FOND ČESKÉ SPOŘITELNY, A. S.

Penzijní fond České spořitelny, a. s. was formed on 24 August 1994. The Company's registered office is located at Poláčkova 1976/2, Prague 4. The Company's issued share capital amounts to CZK 100 million. Česká spořitelna has been the Company's sole shareholder since March 2001. The Company is primarily engaged in the provision of retirement benefit schemes under Act 42/1994 Coll. on Retirement Benefit Schemes with State Contributions.

In 2006, the Company strengthened its position as one of the three largest pension funds in the Czech Republic. The Company saw dynamic growth in the volume of funding on clients' personal accounts, which amounted to over CZK 19.2 billion, a 27 percent increase year-on-year. The number of clients increased by 15 percent compared to 2005 and amounted to almost 550,000 at the end of 2006.

As of 31 December 2006, the net profit amounted to CZK 531 million, which represents a decrease of 15 percent compared to the previous year. Considering low interest rates and the adverse development on financial markets in the second quarter of 2006, the level of profit can be considered positive as distributions to clients will be higher than the average inflation in 2006, which represented 2.5 percent. Another factor that impacted the level of profit in a positive manner was the volume of financial assets under management, which grew by more than CZK 4.1 billion during the year.

The Company's business performance was notably driven by the development of cooperation with employers. As part of its corporate programme, the Company entered into business arrangements with more than 6,267 employers. The growth of business dynamics was supported by a further extension of the sales network covering all branches of Česká spořitelna and its mobile sales network, which also includes the insurance company Kooperativa.

In financial assets management, the Company followed the stated strategic objective to achieve the greatest possible return on clients' assets while maintaining a low rate of financial risk. The Company invested funds principally in Czech, largely government, debt securities that carry a low risk of non-payment, debt securities of OECD countries, government treasury bills and to a lesser extent also equities.

	2006	2005	2004	2003	2002
Share capital (CZK million)	100	100	100	100	100
Total assets (CZK billion)	20.3	16.5	12.9	9.7	7.4
Capital funds (CZK billion)*	19.2	15.1	12.0	9.2	6.9
Net profit (CZK million) under CAS**	531	630	408	243	238
Net profit (CZK million) under IFRS	531	630	644	220	430
Number of participants (thousand)	550	480	410	383	376
Average headcount	52	54	55	56	56

*This figure indicates the balance of funds in clients' personal accounts.
** Under the Retirement Benefit Schemes Act the pension fund allocates no less than 85 percent of the profit made under CAS to its clients.

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INVESTIČNÍ SPOLEČNOST ČESKÉ SPOŘITELNY, A. S.

Investiční společnost České spořitelny, a. s. was incorporated on 27 December 1991 as a wholly-owned subsidiary of Česká spořitelna. The Company's registered office is at Na Perštýně 342, Prague 1.

Investiční společnost ČS has been maintaining the leading position on the local market of mutual funds in the long-term. At the end of 2006, the Company managed nearly 30 percent of the total assets in the Czech market regardless of a fast growing competition, predominantly from cross-border funds. In 2006, the Company reported a high return in trading with participation certificates of managed funds. Gross sales of the Company's funds amounted to CZK 21.5 billion with aggregate repurchases of CZK 20.2 billion. The net sales of CZK 1.3 billion correspond with the trading development on the local market of mutual funds in 2006. The year-on-year increase in assets held by the Company's funds was CZK 2.5 billion and these dynamics moved the level of managed assets to almost CZK 74.1 billion.

The assets held in mixed funds increased by 64 percent. The strategy applied since mid-2005 to four profile funds generated very good results in 2006. Within a relatively short period of time, clients focused on purchasing Konzervativní Mix FF, Opatrný Mix FF, Vyvážený Mix FF and Dynamic Mix FF. The funds invest in participation certificates of other mutual funds according to their investment focus, observing the key rule of successful investment – diversification and risk distribution.

The equity fund segment saw high growth (of 44 percent) again and has become more attractive for clients. Low interest rates impacting the profit rates of deposits and money market funds are one of the reasons why clients tend to invest increasing amounts in equity funds. This trend was supported also by the development on stock markets - most of them reported four subsequent successful years. In May 2006, all markets were gradually subject to a substantial correction, however, the markets recovered in a relatively short amount of time and the correction was eliminated by the subsequent increase. Numerous share indexes came close to their historic maxima by the year end, some of them even exceeded their top values. Shares on the Turkish market underwent the slowest recovery. While they nearly reached the initial level at the year-end, investors incurred losses arising from the weakening of the Turkish lira. The Company introduced a new open mutual fund focused on stock, TOP STOCKS, in late August 2006 whose strategy is based on stock picking.

The performance of bond funds was unbalanced in 2006. The bond fund profit has decreased as a result of the gradual growth of global, especially US, interest rates. The Czech bond market overcame the downward trend of the first half of 2006 and grew by almost three percent from the start of the year. The performance of bond funds ranked higher than that of money market funds over the year. The Company introduced two new bond funds, HIGH GRADE dluhopisový FF and HIGH YIELD dluhopisový FF, in August 2006. Their investment policy is aimed at providing its participants with long-term appreciation of invested funds though investments in securities of collective investment bond funds.

The Company's financial indicators for the year ended 31 December 2006 were very positive. The Company generated a net profit of CZK 119 million for the year ended 31 December 2006, a year-on-year increase of 31 percent. This was markedly driven by the increased share of the most profitable, i.e. equity, funds in the total assets of the Company's funds, which resulted in higher income. The Company's profit saw a positive impact of reducing its administrative expenses. During the year, the Company continued implementing organisational and structural changes, the most significant of them being the transfer of part of the asset management relating to Česká spořitelna's institutional and private clients from Česká spořitelna to Investiční společnost ČS.

	2006	2005	2004	2003	2002
Share capital (CZK million)	70	70	70	70	70
Equity (CZK million)	289	261	597	510	406
Total assets (CZK million)	358	325	654	591	503
Net profit (CZK million)	119	91	85	104	-8
Assets under management (CZK billion)	74.1	71.6	58.9	48.3	40.1
Average headcount	15	23	32	32	58

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S AUTOLEASING, A. S.

s Autoleasing, a. s. was formed on 6 October 2003. Since May 2004, the Company has been wholly-owned by Česká spořitelna. In 2006, the Company's share capital was increased to CZK 100 million. Its registered office is located at Střelničná 8, Prague 8. As of 1 October 2004, s Autoleasing commenced active business activities on its own account. The Company had no employees until 31 December 2006; all services relating to business and administrative activities were purchased from the Company's fellow subsidiary, Leasing České spořitelny, a. s., under a mandate agreement and an agreement on the provision of business administration services. As of 1 January 2007, employees of Leasing ČS were transferred to s Autoleasing. In 2006, s Autoleasing ranked at the forefront of the Czech lease market in terms of newly leased assets. The Company's business focuses primarily on finance leases of transport equipment covering a wide range of commodities, primarily composed of passenger and utility cars.

For the year ended 31 December 2006, s Autoleasing incurred a loss of CZK 13 million primarily due to increased operating expenses, which are typically incurred in rolling out new business activities. During 2006, the Company executed new transactions worth CZK 5.2 billion, with the proportion of transport equipment being 72 percent. The substantial facts that should have a positive impact on s Autoleasing's meeting its business targets in the future comprise more intensive cooperation with the parent bank.

s Autoleasing is the sole shareholder of s Autoúvěr, which started its business activities, i. e. providing consumer loans for vehicles to individuals and legal persons, on 3 April 2006. During 2006, s Autoúvěr financed transactions worth CZK 0.6 billion.

	2006	2005	2004
Share capital (CZK million)	100	2	2
Total assets (CZK billion)	6.4	2.9	0.2
Number of new transactions (CZK billion)	5.2	3.1	0.2
Net profit or loss (CZK million)	-13	-22	-13
Number of new contracts	6,017	4,380	237
Number of personal points of sale	1	1	1
Average headcount	–	–	–

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LEASING ČESKÉ SPOŘITELNY, A. S.

Leasing České spořitelny, a. s. was formed on 1 January 1996. With effect from December 1996, the Company has been wholly-owned by Česká spořitelna. The Company's registered office is located at Střelničná 8, Prague 8, and its share capital balance is CZK 300 million. Leasing ČS discontinued active business activities on its own account as of 30 September 2004 and since 1 October 2004 the Company has been engaged in executing transactions exclusively on the account of its fellow subsidiary, s Autoleasing, a. s., to which it also provides all servicing activities.

Leasing České spořitelny generated a net profit of CZK 63 million for the year ended 31 December 2006 that was positively impacted by the pay-out received from the Czech Consolidation Agency based on a state guarantee and the effect of the sale of the contract portfolio to Matco as of 2 February 2006. The Company's total assets have gradually decreased in connection with the discontinuance of active business transactions. With effect from 1 January 2007, all employees of Leasing ČS were transferred to its fellow subsidiary, s Autoleasing.

	2006	2005	2004	2003	2002
Share capital (CZK million)	300	300	300	300	300
Total assets (CZK billion)	1.4	3.2	5.9	6.8	7.1
Number of new transactions (CZK billion)	–	–	3.7	4.2	5.3
Net profit or loss (CZK million)	63	-2	-407	15	77
Number of new contracts	–	–	4,924	6,600	12,353
Number of own points of sale	1	1	1	2	4
Average headcount	115	120	125	123	116

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FACTORING ČESKÉ SPOŘITELNY, A. S.

Factoring České spořitelny, a. s. was formed in November 1995. In 1997, the Company was transformed into a joint stock company and Česká spořitelna acquired a 10 percent equity holding. In 2001, Česká spořitelna became the sole shareholder of the Company. The Company's registered office address is Pobřežní 46, Prague 8. The Company's issued share capital is CZK 84 million. The Company's focus is on domestic, export and import factoring, and debt management related to a broad range of commodities that principally comprise corporate clients operating in the consumer and food industry, suppliers for wholesale networks, chemistry, metallurgy, etc.

The year ended 31 December 2006 saw a slight market revival for factoring companies, and hence also for Factoring České spořitelny. The Company managed to retain its market share of more than 27 percent and once again placed first in the market of factoring companies in the Czech Republic.

During 2006, Factoring ČS developed a system of operational risk prevention to eliminate losses and improve information technologies, thus increasing the user comfort for clients and starting the business of a new subsidiary in the Croatian market. For the year ended 31 December 2006, Factoring generated a net profit of CZK 24 million, which constitutes a year-on-year increase of 167 percent. The volume of contracts increased by 27 percent and amounted to CZK 27.3 billion.

	2006	2005	2004	2003	2002
Share capital (CZK million)	84	84	84	84	84
Equity (CZK million)	136	112	109	93	78
Total assets (CZK billion)	7.1	5.3	6.0	3.9	3.0
Net profit (CZK million)	21	9	16	15	17
Contracted amounts (CZK billion)	27.3	21.6	21.4	15.8	9.7
Average headcount	33	31	31	31	27

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REALITNÍ SPOLEČNOST ČESKÉ SPOŘITELNY, A. S.

Realitní společnost České spořitelny, a. s. with its registered office at Vinohradská 180/1632, Prague 3 was incorporated on 4 December 2002. Its share capital is CZK 4 million. The sole shareholder of the Company is Česká spořitelna. The Company is primarily engaged in undertaking real estate activities – mediation of sales and lease of residential and commercial real estate and provision of related advisory services, specifically in order to expand and complement the comprehensive services of the Česká spořitelna Financial Group in real estate and advisory services in respect of the sale and lease of real estate owned by the parent bank.

Realitní společnost České spořitelny extended its operations from Prague to throughout the Czech Republic in 2004–2005. In 2006, the Company focused on developing and stabilising the existing business network and distribution channels. The Company provided real estate services to the clients of the Group as well as to the public through its seven franchise partners, Česká spořitelna's 14 mortgage centres, and its own point of sale in Prague. The year ended 31 December 2006 was a very successful year for Realitní společnost. The Company generated income from real estate activities totalling CZK 48 million and a net profit of CZK 5 million. The principal objective of the Company for 2007 is the extension of services in residential housing and expansion in the regional and foreign markets.

	2006	2005	2004	2003	2002
Share capital (CZK million)	4	4	4	4	4
Total assets (CZK million)	95	68	38	20	4
Income from real estate activities (CZK million)	48	56	35	18	0
Net profit (CZK million)	5	5	1	–1	0
Average headcount	22	25	23	15	0

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BROKERJET ČESKÉ SPOŘITELNY, A. S.

Brokerjet České spořitelny, a. s. was established on 17 September 2003 by Česká spořitelna as a subsidiary (51 percent share) and by ecetra Internet Services AG (49 percent share). Ecetra Internet Services AG is a wholly-owned subsidiary of Erste Bank operating as one of the most important internet securities traders in Austria. Brokerjet České spořitelny has its registered office at Na Příkopě 29/584, Prague 1. The shareholder structure provides brokerjet České spořitelny with a unique combination of a strong background, an extensive sales network as a member of the Česká spořitelna Financial Group, and top technologies and ecetra Internet Services' several years of experience. This combination provides maximum support to the Company in achieving its strategic target of becoming one of the largest internet securities traders in the Czech Republic within a short period of time.

In 2006, Brokerjet České spořitelny reported rapid growth in its client base and the number of transactions, which more than doubled. The Company introduced a new business portal with an improved search of financial instruments and offered telephone broker services, a tool for accessing stock exchange details in real time and a technical analysis to its clients. The Company arranged over 100 events where it introduced its services and provided professional public with access to investments in the widest range of products.

	2006	2005	2004	2003
Share capital (CZK million)	160	160	160	160
Subordinated debt (CZK million)	60	0		
Total assets (CZK million)	2,420	1,434	256	165
Volume of managed assets (CZK million)	6,998	4,106	438	7
Net profit (CZK million)	41	5	-28	– 13
Average headcount	19	12	8	7

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CONSULTING ČESKÉ SPOŘITELNY, A. S.

Consulting České spořitelny, a. s. was formed on 8 June 1995; its current registered office address is at Vinohradská 180, Prague 3. The Company is wholly-owned by Česká spořitelna and is a medium-sized advisory business that is gradually building its position on the Czech and Slovak markets by offering specialised services to both businesses and other entities from the private and public sectors. The Company's activities focus on the provision of management consulting services, information system and information technology advisory services, financial and economic advisory services and appraisals of movable and immovable assets.

For the year ended 31 December 2006, the Company generated a net profit of almost CZK 11 million. Added value amounted, on average per employee, to CZK 1.8 million and CZK 1.5 million in the years ended 31 December 2006 and 2005, respectively. The total revenues from services amounted to CZK 80 million in 2006.

The Company's activities in 2007 will be predominantly targeted towards increasing the number of activities focused on adding value to the financial products and services of the Česká spořitelna Financial Group. Another important direction in the Company's business will involve increasing its activities in significant projects within the Erste Bank Group and transformation projects in the new Erste Bank's acquisitions (Romania, Ukraine).

	2006	2005	2004	2003	2002
Share capital (CZK million)	1	1	1	1	1
Total assets (CZK billion)	53	34	28	18	19
Net profit (CZK million)	11	4	3	1	0
Average headcount	31	35	30	27	28

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Internet: www.consultingcs.cz

ERSTE CORPORATE FINANCE, A. S.

Erste Corporate Finance, a. s. was formed on 19 July 1995 and has its registered office at Na Perštýně 1/342, Prague 1. The Company's share capital is CZK 6 million. The Company is a joint venture of three members of the Erste Bank Group: Česká spořitelna, Slovenská sporiteľna and Erste Corporate Finance Gmbh. Česká spořitelna holds 50.17 percent of the Company's issued share capital. Erste CF provides its clients in the Czech Republic and Slovakia with professional investment banking and financial advisory services, primarily in mergers and acquisitions, privatisation, MBO and IPO, valuation of companies or their divisions, economic advisory, due diligence, investment opportunity analysis, restructuring, etc. In the Czech Republic, Erste CF is a renowned advisory company and has one of the leading positions on the market.

In the year ended 31 December 2006 the Company was successful in winning a number of advisory mandates in investment banking and financial consulting. The most significant projects in 2006 comprised: consulting for ČEZ, a. s.; The Tetley Group in the acquisition of the Jemča tea division; advisory for Unilevel ČR spol. s r.o. at the purchase of a portfolio of brands of refrigerated creams; and advisory at the sale of shareholdings in Gumotex, a. s. The Company's prestigious projects involved providing advisory services to the Czech Consolidation Agency in the sale of two portfolios of distressed receivables and to the Ministry of Justice of the Czech Republic in the preparation of a pilot PPP project of court house construction.

In line with the Erste Bank Group's strategy and within the scope of its strategic targets, Erste CF increased its business activities in 2006 by providing consulting services in PPP projects whose role has materially grew in many European countries. In the Czech Republic, the role of the private sector in funding and operating infrastructure can also be expected to grow. Erste CF has immediately become the leading financial PPP advisor in the market as measured by the volume of mandates.

Erste Corporate Finance generated a net profit after tax of CZK 13 million under Czech Accounting Standards (CAS) for the year ended 31 December 2006. Income from advisory services amounted to CZK 85 million.

	2006	2005	2004	2003	2002
Share capital (CZK million)	6	6	6	6	6
Equity under CAS (CZK million)	50	67	37	61	16
Net profit under CAS (CZK million)	13	30	8	47	8
Average headcount	17	13	12	10	7

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INFORMATIKA ČESKÉ SPOŘITELNY, A. S.

Informatika České spořitelny, a. s. was formed on 11 December 1997 by Česká spořitelna as a wholly-owned subsidiary with the objective of providing Česká spořitelna and/or its subsidiaries with auxiliary banking services. The Company is involved in providing technical servicing and administration of information technologies and purchasing of goods for sale in the IT area for Česká spořitelna and other members of the Group.

In the year ended 31 December 2006, Informatika České spořitelny focused on providing warranty and post-warranty services of IT equipment owned by Group members, installation and servicing of ATMs for Česká spořitelna, technical support in IT servicing for the Česká spořitelna Financial Group, and support to traders equipped with POS and FlexiPad terminals. The Company was also involved in HW business activities for the ČS Group and provided technical support through its HW specialists in the implementation of Česká spořitelna's development projects.

	2006	2005	2004	2003	2002
Share capital (CZK million)	10	10	10	10	10
Total assets (CZK million)	95	123	57	93	97
Net profit (CZK million)	16	8	10	-3	0
Sales (CZK million)	279	281	247	390	520
Average headcount	93	98	101	371	362

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Tax Id. Nr.: CZ49620592

Independent Auditor's Report

to the Shareholders of Česká spořitelna, a. s.

Having its registered office at: Prague 4, Olbrachtova 1929/62, 140 00
Identification number: 45244782
Principal activities: Retail, corporate and investment banking services

UNCONSOLIDATED FINANCIAL STATEMENTS

Based upon our audit, we issued the following audit report dated 5 March 2007 on the unconsolidated financial statements which are included in this annual report on pages 153 to 221:

„We have audited the accompanying unconsolidated financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 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.

Statutory Body's Responsibility for the Financial Statements
The Statutory Body is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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 unconsolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 in 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 unconsolidated financial statements give a true and fair view of the financial position of Česká spořitelna, a. s. as of 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 EU."

CONSOLIDATED FINANCIAL STATEMENTS

Based upon our audit, we issued the following audit report dated 13 March 2007 on the consolidated financial statements which are included in this annual report on pages 75 to 150:

„We have audited the accompanying consolidated financial statements of Česká spořitelna, a. s., which comprise the balance sheet as of 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.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. 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 the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 in 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 Česká spořitelna, a. s. as of 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 EU."

RELATED PARTY TRANSACTIONS REPORT

We have also reviewed the factual accuracy of the information included in the related party transactions report of Česká spořitelna, a. s., for the year ended 31 December 2006 which is included in this annual report on pages 223 to 234. This related party transactions report is the responsibility of the Bank's Board of Directors. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 and the related application guidelines 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 related party transactions report is free of material factual rnisstatements, A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Česká spořitelna, a. s. for the year ended 31 December 2006 contains material factual misstatements.

ANNUAL REPORT

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 25 April 2007

Audit firm:
Deloitte Audit s. r. o.
Certificate no. 79
Represented by:

Michal Petrman, statutory executive

Statutory auditor:

Michal Petrman, certificate no. 1105

Audit. Tax. Consulting. Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Česká spořitelna Selected Consolidated Financial Performance

figures in 1. Quarter 2007 according to International Financial Reporting Standards (unaudited)

CZK milion	31. 3. 2007	31. 3. 2006
Interest income and similar income	8,132	6,963
Interest expense and similar expense	–2,438	–1,874
Net interest income	**5,694**	**5,089**
Provisions for credit risks	–401	–309
Net interest income after provisions for credit risks	**5,293**	**4,780**
Fee and commission income	2,599	2,376
Fee and commission expense	–254	–141
Net fee and commission income	**2,345**	**2,235**
Net profit on financial operations	461	508
General administrative expenses	–4,402	–4,142
Net insurance income	100	70
Other operating expenses, net	–148	–228
Results from financial assets	71	78
Profit before taxes	**3,720**	**3,301**
Income tax expense	–912	–762
Profit after taxes	**2,808**	**2,539**
Minority interest	–87	–35
Net profit for the year	**2,721**	**2,504**
Total Assets	**793,985**	**687,993**
Loans and advances to clients	346,554	294,165
Amounts owed to clients	606,709	519,542
Shareholders' equity	51,235	45,646

Conclusions of the Annual General Meeting of Shareholders

Held on 26 April 2007

At the Annual General Meeting of Česká spořitelna held on 26 April 2007 in Prague, the shareholders, inter alia, approved the Board of Directors' Report on the Bank's Performance and Financial Position as of and for the year ended 31 December 2006. The shareholders present at the General Meeting were presented with the Supervisory Board's Report for the year ended 31 December 2006 and approved the annual unconsolidated financial statements, consolidated financial statements and proposal for profit allocation. The distributable funds amounted to CZK 28,337 million, of which CZK 447 million was allocated to the statutory reserve fund, and CZK 4,560 million was allocated to the payment of dividends, which amount to CZK 30 per share. The balance of retained earnings is CZK 23,330 million. The Annual General Meeting approved the proposed changes to the Articles of Association; among other things, the Articles of Association now stipulate that the Board of Directors has seven members. The shareholders appointed Messrs Heinz Kessler, Johannes Kinsky, Péter Kisbenedek and Andreas Klingen as members of Česká spořitelna's Supervisory Board.

As of 27 April 2007, Česká spořitelna's Supervisory Board consists of the following members: Andreas Treichl, Chairman of the Supervisory Board, Maxmillian Hardegg, Monika Houštecká, Herbert Juranek, Heinz Kessler, Johannes Kinsky, Péter Kisbenedek, Andreas Klingen, Monika Laušmanová, Marek Pospěch, Bernhard Spalt and Jitka Šrotýřová.

Index

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