



ANNUAL REPORT 2002



A Bank of HVB Group

ANNUAL REPORT 2002

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FINANCIAL HIGHLIGHTS

| HVB BANK CZECH REPUBLIC A.S. | 2002 | 2001 |
|---|-------------|-------------|
| Operating performance (in TCZK) | | |
| Net interest income | 2,835,132 | 3,030,058 |
| Profit from ordinary activities before adjustments and reserves for loans and investments | 2,254,532 | 1,956,169 |
| Profit from ordinary activities before taxes | 2,407,213 | 1,621,506 |
| Profit for the accounting period | 1,665,671 | 1,128,757 |
| Key indicators | | |
| Return on equity | 18.6 % | 12.3 % |
| Cost-income ratio | 50.4 % | 58.5 % |
| Ratio of net commission income to operating revenues | 18.1 % | 17.6 % |
| Balance sheet figures (in TCZK) | | |
| Total assets | 124,811,833 | 125,464,046 |
| Total net customer lending volume | 69,470,464 | 66,180,695 |
| Registered capital | 5,047,000 | 5,047,000 |
| Key capital ratios compliant with the regulations of the Czech National Bank (in TCZK) | | |
| Core capital | 8,767,153 | 9,392,396 |
| Total equity | 10,416,533 | 11,070,935 |
| Risk weighted assets (banking portfolio) | 71,037,426 | 68,892,882 |
| Capital adequacy ratio | 13.73 % | 15.12 % |
| Employees at year-end | 1,163 | 1,158 |
| Branch offices | 23 | 24 |



Bank in the Heart of Europe

The year 2002 was a milestone in European history: at its Copenhagen summit, the European Union definitively decided on its enlargement. Companies and investors thus acquired a dependable basis for their future planning. Our country has made great progress in integration with the EU and our business outlets already operate in close relationship with their European partners.

What prospective and mission do we see in such an environment for our bank?

Along with our parent company, Bank Austria Creditanstalt, we form a significant part of **HVB Group**, the strategy of which has been aimed at European integration for more than ten years. The business strategy of this “**Bank in the Heart of Europe**” is connecting decentralised customer services with the quality and potential of a major multinational bank. We want to help both companies and individuals enter international markets and, conversely, to bring international markets to customers – always on a partnership basis. The success of our clients is also our success.

We are proud of the fact that we can perform our business and operate on **a growing market**. This circumstance enables us to make use of a variety of creative talents and to make active progress. We have the necessary resources for that and therefore we are able to fully concentrate on the development of our customers’ business. Simultaneously, by delivering services to the growing business sphere, we intend to enforce the competitiveness of the Czech Republic and – while taking aspects other than purely economic ones into consideration – make our contribution to a peaceful integration of Europe.



**STATEMENT OF THE MANAGING
BOARD**



Statement of the Managing Board

Dear clients and business partners,

The Managing Board of HVB Bank Czech Republic, a.s. (hereinafter HVB Bank) is hereby pleased to present you the Bank's Annual Report for 2002.

MACROECONOMIC ENVIRONMENT IN 2002

The determining factors of the Czech economy's development in 2002 were significant appreciation of the Czech currency over the first half of the year and the gradual deceleration of the growth in EU countries. The growth of Czech GDP – albeit weaker than in the previous years – ensured continuation of the real convergence of the domestic economy.

In spite of the fact that the strong CZK did not result in any massive wave of bankruptcies among domestic exporters, it nevertheless led to a reduction of the number of workforce and to a drop of investment activities. At the turn of the year, the level of unemployment reached its highest level. The previously growing fixed capital formation started to stagnate, which emphasised the role of private consumption as the major drag of economic growth. The increase of private consumption was supported by the acceleration of the growth rate of real wages due to the substantial reduction of the inflation rate which approached zero. However, household spending was more cautious than expected in view of the growth of wages, as the people's fear of losing jobs made them more susceptible

to save money. The interest rates declined during the year and reached their all-time minimum.

The decision taken at the Copenhagen Summit on EU enlargement in 2004 was the most significant international event regarding the prospects of the Czech economy. On the domestic scene, the economic policy was primarily linked to the parliamentary elections and to the following government change. Consequently, key decisions that might bring a new impetus to the economic growth were in the main postponed.

OUR FINANCIAL GROUP'S PROFIT INCREASED AFTER A SUCCESSFUL MERGER

The economic results of our financial Group for 2002 convincingly demonstrate the success of the 2001 merger, in particular by the slash of general administrative expenses. The Group attained very good economic results despite operating in an adverse and competitive economic environment, characteristic with declining interest rates, a strengthening CZK, the slowdown of economic growth of EU countries and, last but not least, also in the environment hit by the devastating August floods. All of these circumstances impacted on the level and structure of traditional income items and motivated our financial Group to search for alternative revenues and ways of cost-savings.

In accordance with the Czech Accounting Standards (CAS) the consolidated pre-tax profit for the last year

totalled CZK 2,622mn, a 57% increase over the 2001 figure (CZK 1,667mn). The increase was considerably influenced by the release of general loan-loss provisions and by the change to the procedures of securities accounting due to recent legislative amendments. The Bank's consolidated profit after taxes excluding minority shares posted CZK 1,709mn, a 47% increase over the 2001 result of CZK 1,162mn. Such a positive year-on-year development manifests also in the improvement of the key performance indicators of the Group: The return on equity before taxes increased from 18% to 29% and after taxes from 12% to 19%. The effectiveness of the financial Group measured by the cost/income ratio also appreciably improved: from 60% to 51%, although the beginning of 2002 was still marked by some additional costs caused by the merger. The financial Group kept a safe level of capital adequacy ratio being 14 % after the payment of the dividends for 2001.

The loan portfolio of the Bank continues to be stable and well diversified, the volume of standard loans to clients increased by 5% while, in contrast, the volume of classified loans was reduced by 5%. In 2002, the Bank continued its cautious credit policy as a result of which there was only a slight increase (5 %) of loans granted to clients.

With its continuously increasing balance sheet total (presently CZK 138 billion), HVB Bank CZ Group holds uninterruptedly the position of the fourth biggest banking financial group in the Czech Republic. Its owner, Bank Austria Creditanstalt, provided the parent company of the financial Group with sufficient capital to continue expanding and expects a significant growth in compliance with its CEE region development strategy.

CORPORATE CLIENTS

HVB Bank managed to strengthen its position as one of the prominent banks in the Czech banking market delivering complex services to corporate clients. Service to our customers is based on individual client care, detail knowledge of clients' needs and "tailored" solutions. Our clients are served from 10 regional competence centres.

In 2002, we focused particularly on the companies pertaining to the category of medium-size businesses, and simultaneously on preparing a new strategy for the municipal sphere. Regarding products, apart from the standard complex assortment of products offered by most universal banks we developed alternative advantaged forms of refinancing projects for SMEs making use of our co-operation with the European Investment Bank, Kreditanstalt fuer Wiederaufbau and Deutsche Ausgleichsbank. We have a traditionally strong position in financing and structuring of foreign trade transactions and in project and structured financing. We managed to substantially enhance our

assortment of products for cash management and electronic banking and to improve its quality.

Commercial real estate financing is another of our core competencies. In the last years, we succeeded in acquiring a significant share of the Czech market using the expert know-how and background of our parent company. We concentrate primarily at financing real estate for lease (i.e. office premises) and big shopping centres. In 2002 we also prepared a new strategy for financing of residential and apartment projects.

PRIVATE AND BUSINESS CLIENTS

HVB Bank holds a very good position in retail banking. The bank's strategy aims at a high-quality offering of services and products corresponding to individual client's needs and at qualified advisory services.

Mortgage finance business is covered by the Bank with its successful product, Majordomus. This segment is one of the core competencies of the Bank and we intend to further expand it. The Bank also ranks first on the Czech credit card market, with a share of more than 50%.

The Bank actively sold to its clients investment share funds administered by the parent HVB Group and successfully placed its own issues of mortgage bonds and zero-coupon bonds on the market as alternative and more advantageous investment products compared with traditional deposits.

The Private Banking division offers private investors who invest amounts higher than app. CZK 10 million a first class complex care based on proposing individual solutions of the highest standard.

We are aware of the fact that different groups of our customers have distinct and specific needs. In order to satisfy the needs, we established competence centres for notaries and persons performing business in the sphere of healthcare.

Apart from our network of branch offices offering services at 23 business outlets in the most important regions of the Czech Republic we implemented the strategy of alternative channels to our services, Online Interbanking and Telebanking, which are supplementary services available to our clients.

HVB understands the business clients segment as being extraordinarily promising and dynamically developing. Therefore it is one of the chief goals of HVB Bank to expand in the business clients segment. In 2002 we aimed at the segmentation of business clients and an active attitude to the individual segments. Thanks to our active attitude we managed to boost the utilisation of a number of products and services. For example, the substantial increase in electronic and Internet banking can be counted amongst our most important successes.

TREASURY

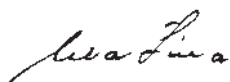
As in previous years, the International Markets division attained excellent results and made a significant contribution to the Bank's profitability. The pivotal strategy is constant customer orientation and satisfying their financial needs through "tailored" solutions. The International Markets division (INM) maintains its lead position on the local market thanks to its ability to offer a broad range of products in the exchange rate risk management and interest rate risk management. HVB belongs to a small group of banks that acquired the Czech National Bank's permit to issue their own mortgage bonds. In February 2002 the Bank placed the biggest mortgage bond in the Czech Republic having a maximum volume of CZK 10 billion. The Bank issued two tranches of this mortgage bond having a total value of CZK 2.35bn. For private investors, the bank specially prepared three issues of zero-coupon bonds with their maturity in 2003, 2005 and 2007 in the total volume of CZK 4 billion. Bonds worth 1.1 billion were successfully placed in the fourth quarter.

CREDIT RISK MANAGEMENT

The rating structure of the loan portfolio improved in 2002 in compliance with our strategy of cautious credit risk management. The net creation of loan-loss provisions and adjustments in 2002 thus remained below expectations and below the standard risk costs of the Bank's loan portfolio.

ACKNOWLEDGEMENT TO EMPLOYEES

The results of HVB Bank Czech Republic a.s. in the last year demonstrate the high efforts and constructive co-operation of the Bank's staff. The Supervisory Board and the Managing Board would like to thank our employees for their systematic endeavours and express their acknowledgement for the work performed.



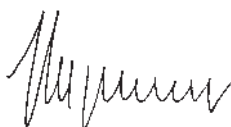
JUDr. Karel Kratina



Ing. David Grund



Ing. Petr Brávek



Hartmut Adolf Hagemann

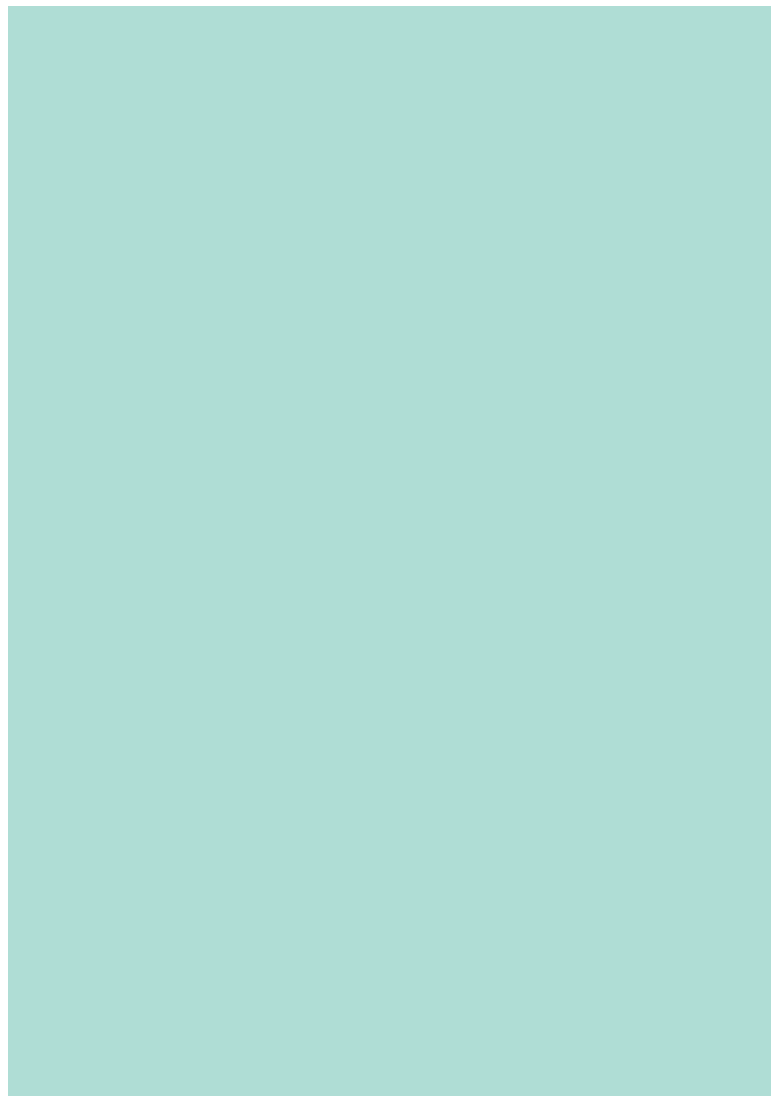


Manfred Meier
(until August 30, 2002)



Dr. Udo Szekulics
(from September 1, 2002)

**REPORT OF THE SUPERVISORY
BOARD**



Report of the Supervisory Board

In the course of the 2002 business year the Supervisory Board of HVB Bank Czech Republic a.s. was duly informed on the progress of the Bank's business activities and on the tasks performed by the Bank as stipulated for the post-merger period, through its meetings and discussions with the Managing Board. The Supervisory Board fulfilled all of its duties as defined by law and in the Bank's Articles of Association.

The submitted financial statements as of December 31, 2002 and the annual report were examined by the Supervisory Board and subsequently approved. The financial statements and the annual report were audited by the Bank's auditor, KPMG Česká Republika Audit, spol. s r. o. The Supervisory Board also endorses the findings contained in the auditor's report on the Bank's 2002 annual report.

The Supervisory Board thanks all the members of the Managing Board and the employees of HVB Bank Czech Republic a.s. for their contribution to the results achieved by the Bank in the 2002 business year.



Mag. Martin Grill

**NON-CONSOLIDATED FINANCIAL
STATEMENTS**



BALANCE SHEET AS AT 31 DECEMBER 2002

| ASSETS | | | | | |
|---------------------|------|----------------------|--------------------|--------------------|--------------------|
| CZK 000 | Note | 2002 Gross amount | 2002 Adjustment | 2002 Net amount | 2001 Net amount |
| 1 | | 545,476 | - | 545,476 | 1,679,540 |
| 2 | | | | | |
| | | 7,800,806 | - | 7,800,806 | 7,423,132 |
| a) | | 7,800,806 | - | 7,800,806 | 7,423,132 |
| b) | | - | - | - | - |
| 3 | | | | | |
| | | 32,991,472 | - | 32,991,472 | 41,334,150 |
| a) | | 303,303 | - | 303,303 | 612,637 |
| b) | | 32,688,169 | - | 32,688,169 | 40,721,513 |
| 4 | | | | | |
| | | 71,053,980 | 1,583,516 | 69,470,464 | 66,180,695 |
| a) | | 1,258,795 | 1,086,081 | 172,714 | 2,133,098 |
| b) | | 69,795,185 | 497,435 | 69,297,750 | 64,047,597 |
| 5 | | | | | |
| | | 10,108,040 | - | 10,108,040 | 4,061,509 |
| a) | | 57,671 | - | 57,671 | 54,590 |
| b) | | 10,050,369 | - | 10,050,369 | 4,006,919 |
| 6 | | | | | |
| | | 3,000 | - | 3,000 | 3,000 |
| 7 | | | | | |
| | | 240 | 240 | - | 300 |
| a) | | - | - | - | - |
| b) | | 240 | 240 | - | 300 |
| 8 | | | | | |
| | | 399,000 | 39,000 | 360,000 | 375,707 |
| a) | | 360,000 | - | 360,000 | 360,000 |
| b) | | 39,000 | 39,000 | - | 15,707 |
| 9 | | | | | |
| | | 556,237 | 394,082 | 162,155 | 288,810 |
| a) | | - | - | - | - |
| b) | | - | - | - | - |
| c) | | 556,237 | 394,082 | 162,155 | 288,810 |
| 10 | | | | | |
| | | 2,266,481 | 1,769,159 | 497,322 | 723,585 |
| a) | | 874,903 | 622,350 | 252,553 | 358,088 |
| b) | | 1,391,578 | 1,146,809 | 244,769 | 365,497 |
| 11 | | | | | |
| | | 2,798,763 | 3,642 | 2,795,121 | 2,820,494 |
| 12 | | | | | |
| | | - | - | - | - |
| 13 | | | | | |
| | | 77,977 | - | 77,977 | 573,124 |
| Total assets | | 128,601,472 | 3,789,639 | 124,811,833 | 125,464,046 |

The notes set out on pages 18 to 50 form part of these financial statements.

LIABILITIES

| CZK 000 | Note | 2002 | 2001 |
|--|------|--------------------|--------------------|
| 1 Due to banks, savings and loans cooperatives | 20 | 23,042,562 | 20,052,745 |
| a) repayable on demand | | 2,168,644 | 1,104,211 |
| b) other payables | | 20,873,918 | 18,948,534 |
| 2 Due to customers, members of savings and loans cooperatives | 21 | 66,968,852 | 63,470,142 |
| a) repayable on demand | | 31,164,821 | 24,564,988 |
| thereof: savings | | 177,317 | 151,654 |
| b) other | | 35,804,031 | 38,905,154 |
| thereof: ba) savings with maturity | | 2,346,345 | 2,581,519 |
| bb) savings with a notice period | | 484 | 2,245 |
| bc) term instruments with fixed maturity | | 30,774,761 | 32,810,146 |
| bd) term instruments with a notice period | | - | - |
| 3 Payables from debt securities | 22 | 14,389,725 | 21,795,398 |
| a) debt securities issued | | 14,389,725 | 21,795,398 |
| b) other payables from debt securities | | - | - |
| 4 Other liabilities | 24 | 7,110,825 | 6,451,908 |
| 5 Deferred income and accrued expenses | | 374,540 | 749,069 |
| 6 Reserves | | 1,364,939 | 1,505,705 |
| a) reserves for pensions and similar liabilities | | - | - |
| b) income tax reserves | 30 | 200,000 | - |
| d) other reserves | | 1,164,939 | 1,505,705 |
| 7 Subordinated liabilities | 23 | 1,127,373 | 1,140,759 |
| 8 Registered capital | 25 | 5,047,000 | 5,047,000 |
| thereof: registered paid up capital | | 5,047,000 | 5,047,000 |
| 9 Own shares | | - | - |
| 10 Share premium | | 1,996,920 | 1,996,920 |
| 11 Reserve funds and other funds from profit | 28 | 1,576,632 | 2,270,917 |
| a) statutory reserve funds | | 563,121 | 506,683 |
| b) reserve funds to own shares | | - | - |
| c) other reserve funds | | 1,013,319 | 1,763,319 |
| d) other funds from profit | | 192 | 915 |
| thereof: risk fund | | - | - |
| 12 Revaluation reserve fund | | - | - |
| 13 Capital funds | | - | - |
| 14 Gains (losses) from revaluation of | 29 | - | (223,749) |
| a) assets and liabilities | | - | - |
| b) hedging derivatives | | - | (223,749) |
| c) participation interests | | - | - |
| 15 Retained earnings (or accumulated losses) from previous years | 28 | 146,794 | 78,475 |
| 16 Profit (loss) for the accounting period | | 1,665,671 | 1,128,757 |
| Total liabilities | | 124,811,833 | 125,464,046 |

OFF-BALANCE SHEET

| Off-balance sheet assets | | | |
|---------------------------------------|----|------------|------------|
| | | | |
| 1 Commitments and guarantees provided | 31 | 39,462,867 | 27,353,331 |
| a) commitments | | 31,464,315 | 21,127,446 |
| b) guarantees and warranties | | 7,403,940 | 5,571,721 |
| c) guarantees from notes | | - | - |
| d) guarantees from letters of credit | | 594,612 | 654,164 |
| 2 Collaterals provided | 31 | 122,188 | - |
| a) real estates collaterals | | - | - |
| b) cash collaterals | | - | - |
| c) securities collaterals | | 122,188 | - |
| d) other | | - | - |

| | | | | |
|--------------------------------------|--|----|-------------|-------------|
| 3 | Receivables from spot transactions with | | 8,997,615 | 5,672,252 |
| | a) interest rate instruments | | - | - |
| | b) currency instruments | | 8,997,615 | 5,672,252 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| 4 | Receivables from fixed term transactions with | 31 | 252,585,196 | 222,653,695 |
| | a) interest rate instruments | | 238,192,583 | 174,367,979 |
| | b) currency instruments | | 14,392,613 | 48,285,716 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 5 | Receivables from options for | | - | - |
| | a) interest rate instruments | | - | - |
| | b) currency instruments | | - | - |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 6 | Receivables written-off | | 630,503 | 576,048 |
| 7 | Values placed into custody, administration and deposit thereof: securities | | - | - |
| 8 | Values placed under management thereof: securities | | - | - |
| Off-balance sheet liabilities | | | | |
| 1 | Commitments and guarantees received | | 16,659,815 | 17,076,705 |
| | a) commitments | | - | - |
| | b) guarantees and warranties | | 16,659,815 | 17,076,705 |
| | c) guarantees from notes | | - | - |
| | d) guarantees from letters of credit | | - | - |
| 2 | Collateral received | | 59,828,634 | 47,452,603 |
| | a) real estate | | 19,079,107 | 13,938,415 |
| | b) cash | | 1,940,565 | 1,606,489 |
| | c) securities | | 8,401,602 | 7,991,249 |
| | d) other | | 3,401,781 | - |
| | e) collateral – securities | | 27,005,579 | 23,916,450 |
| 3 | Payables from spot transactions with | | 9,140,029 | 5,654,097 |
| | a) interest rate instruments | | - | - |
| | b) currency instruments | | 9,140,029 | 5,654,097 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| 4 | Payables from fixed term transactions with | 31 | 252,437,739 | 222,802,671 |
| | a) interest rate instruments | | 238,192,583 | 174,367,979 |
| | b) currency instruments | | 14,245,156 | 48,434,692 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 5 | Payables from options for | | - | - |
| | a) interest rate instruments | | - | - |
| | b) currency instruments | | - | - |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 6 | Values taken into custody, administration and deposit thereof: securities | 32 | 47,353,793 | 41,563,566 |
| 7 | Values taken under management thereof: securities | 32 | 831,186 | - |

The notes set out on pages 18 to 50 form part of these financial statements.

**PROFIT AND LOSS ACCOUNT FOR
THE YEAR ENDED 31 DECEMBER 2002**

| CZK 000 | Note | 2002 | 2001 |
|--|----------|------------------|------------------|
| 1 Interest income and similar income | 5 | 6,281,254 | 7,725,668 |
| thereof: interest income from debt securities | | 758,705 | 872,468 |
| 2 Interest expense and similar expense | 5 | (3,446,122) | (4,695,610) |
| thereof: interest expense from debt securities | | (535,011) | (439,077) |
| Net interest income | 5 | 2,835,132 | 3,030,058 |
| 3 Income from shares and participation interests: | | 25,500 | 15,300 |
| a) income from participation interests with substantial influence | | - | - |
| b) income from participation interests with controlling influence | | 25,500 | 15,300 |
| c) income from other shares and participation interests | | - | - |
| 4 Commission and fee income | 6 | 999,959 | 1,013,640 |
| 5 Commission and fee expense | 6 | (178,491) | (182,368) |
| 6 Net gains (losses) from financial operations | 7 | 912,616 | 1,019,312 |
| 7 Other operating income | 8 | 82,566 | 66,995 |
| 8 Other operating expenses | 8 | (129,175) | (248,178) |
| 9 Administrative expenses | 9 | (1,914,089) | (2,266,750) |
| thereof: | | | |
| a) employee expenses | | (905,393) | (953,664) |
| aa) wages and salaries | | (668,316) | (705,040) |
| ab) social and health insurance | | (237,077) | (248,624) |
| b) other administrative expenses | | (1,008,696) | (1,313,086) |
| 10 Use of reserves and adjustments to tangible and intangible fixed assets | | - | - |
| a) use of reserves for tangible fixed assets | | - | - |
| b) use of adjustments to tangible fixed assets | | - | - |
| c) use of adjustments to intangible fixed assets | | - | - |
| 11 Depreciation, creation of reserves and adjustments to tangible and intangible fixed assets | | (379,486) | (543,324) |
| a) depreciation of tangible fixed assets | 18 | (262,097) | (335,557) |
| b) creation of reserves for tangible fixed assets | | - | - |
| c) creation of adjustments to tangible fixed assets | 18 | - | (51,484) |
| d) depreciation of intangible fixed assets | 17 | (117,389) | (156,283) |
| e) creation of adjustments to intangible fixed assets | | - | - |
| 12 Use of adjustments and reserves for receivables and guarantees, income from the assignment of receivables and income from written-off receivables | | 914,574 | 636,136 |
| a) use of reserves for receivables and guarantees | | 359,061 | 277,779 |
| b) use of adjustments to receivables and receivables from guarantees | | 544,113 | 356,544 |
| c) profit from the assignment of receivables and income from receivables written-off | | 11,400 | 1,813 |
| 13 Write-offs, creation of adjustments and reserves for receivables and guarantees | | (746,675) | (864,099) |
| a) creation of adjustments to receivables and receivables from guarantees | | (672,946) | (509,082) |
| b) creation of reserves for guarantees | | (19,026) | - |
| c) write-off of receivables and receivables from guarantees, losses from the assignment of receivables | | (54,703) | (355,017) |
| 14 Use of adjustments to participation interests with controlling and substantial influence | | - | - |
| 15 Creation of adjustments to participation interests with controlling and substantial influence | | (15,947) | (932) |
| 16 Use of other reserves | | 44,440 | 6,950 |
| 17 Creation of other reserves | | (43,711) | (61,234) |
| 18 Use of other adjustments | | - | - |
| 19 Creation of other adjustments | | - | - |
| 20 Current year profit (loss) on ordinary activities before tax | | 2,407,213 | 1,621,506 |

| | | | | |
|-----------|--|----|------------------|------------------|
| 21 | Extraordinary income | 10 | 258,624 | 244 |
| 22 | Extraordinary expenses | 10 | (158,204) | - |
| 23 | Current year profit (loss) on extraordinary activities before tax | | 100,420 | 244 |
| 24 | Income tax | | (841,962) | (492,993) |
| 25 | Share of profits (losses) of subsidiaries and associates | | - | - |
| 26 | Net profit (loss) for the accounting period | | 1,665,671 | 1,128,757 |

The notes set out on pages 18 to 50 form part of these financial statements.

**SUMMARY OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 DECEMBER 2002**

| CZK 000 | Note | 2002 | 2001 |
|--|------|------------------|------------------|
| 1. Registered capital | | | |
| Opening balance | 25 | 5,047,000 | 5,047,000 |
| increase | | - | - |
| decrease | | - | - |
| conversion of convertible bonds to shares | | - | - |
| exercise of options and warrants | | - | - |
| Closing balance | | 5,047,000 | 5,047,000 |
| 2. Own shares | | | |
| 3. Share premium | | | |
| Opening balance | 25 | 1,996,920 | 1,996,920 |
| increase | | - | - |
| decrease | | - | - |
| Closing balance | | 1,996,920 | 1,996,920 |
| 4. Reserve funds | | | |
| Opening balance | 28 | 2,270,002 | 1,791,996 |
| obligatory additions | | 56,438 | 76,874 |
| other increase | | - | 401,132 |
| decrease | | (750,000) | - |
| Closing balance | | 1,576,440 | 2,270,002 |
| 5. Other funds from profit | | | |
| Opening balance | 28 | 915 | 2,020 |
| increase | | 4,198 | 1,433 |
| decrease | | (4,921) | (2,538) |
| Closing balance | | 192 | 915 |
| 6. Capital funds | | | |
| 7. Revaluation gains (losses) not included in profit (loss) | | | |
| Opening balance | 29 | (223,749) | (1,994) |
| increase | | 223,749 | - |
| decrease | | - | (221,755) |
| Closing balance | | - | (223,749) |
| 8. Retained earnings | | | |
| Opening balance | 28 | 78,475 | 5,269 |
| increase | | 1,068,319 | 73,206 |
| decrease | | (1,000,000) | - |
| Closing balance | | 146,794 | 78,475 |
| 9. Accumulated losses | | | |
| Opening balance | | - | - |
| increase | | - | - |
| decrease | | - | - |
| Closing balance | | - | - |
| 10. Net profit (loss) for the accounting period | | 1,665,671 | 1,128,757 |
| 11. Dividends | | 1,750,000 | 985,000 |

The notes set out on pages 18 to 50 form part of these financial statements.

Notes to the Financial statements

1. BACKGROUND

On 1 October 2001, Bank Austria Creditanstalt Czech Republic, a.s., merged with HypoVereinsbank CZ a.s. through the termination of Bank Austria Creditanstalt Czech Republic, a.s., without liquidation. The name of the combined entity was changed to HVB Bank Czech Republic a.s. All rights and liabilities of the terminated Bank Austria Creditanstalt Czech Republic, a.s. were assigned to HVB Bank Czech Republic a.s. The change of the name to HVB Bank Czech Republic a.s. (the Bank), the change of the registered capital and the change of other facts connected with the merger were recorded on 1 October 2001 in the Companies Register of the District Court of Prague under reference number B 3608. The sole shareholder of the Bank is Bank Austria Creditanstalt Aktiengesellschaft, Vienna.

2. BASIS OF PREPARATION

The financial statements have been prepared on the basis of accounting maintained in accordance with the Act on Accounting and relevant regulations and decrees of the Czech Republic. They have been prepared under the historical cost convention on the basis of full accrual accounting, except for the selected financial instruments that are stated at fair value.

The financial statements are presented in accordance with the Czech Ministry of Finance decree on regulating the layout and definition of financial statements and disclosure requirements of banks and certain financial

institutions dated 7 December 2001 (N. 282/73 391/2001).

Numbers in brackets represent negative amounts.

Amounts are presented in thousands of Czech crowns (CZK) unless otherwise stated.

These financial statements are non consolidated financial statements.

Due to the merger process and establishment of the new Bank in 2001, these financial statements do not include comparative figures for the year 2000.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Transaction date

A transaction date is, in particular, the date of payment or collection of cash; the date of purchasing or selling of foreign currency or securities; the date of payment or collection from a customer's account; the date of order to a correspondent to make a payment, the settlement date of the bank's payment orders with the ČNB clearing centre, the value date according to a statement received from a bank's correspondent (statement means SWIFT statement, bank's notice, received media, bank statement or other documents); the trade date and settlement date of transactions with securities, foreign

currency, options or other derivatives; the date of issue or receipt of a guarantee or opening credit line; the date of acceptance of values into custody.

Accounting transactions involving the purchase or sale of financial assets with a usual term of delivery (spot transactions) as well as fixed term and option contracts shall be recorded in off-balance sheet accounts from the trade date until the settlement date.

A financial asset or its part is derecognised from the balance sheet if the Bank loses control over the contractual rights to this financial asset or its part. The Bank loses this control if it exercises the rights to the benefits defined in the contract, if these rights expire or the Bank waives these rights.

(b) Debt securities, shares, units and other investments

Treasury bills, bonds and other debt securities and shares including units and other investments are classified into a portfolio which is held to maturity, for trading purposes or available for sale, based on the Bank's intention. Only debt securities can be classified into a portfolio held to maturity.

Treasury bills, bonds and other debt securities are carried at amortised/accreted cost. Accrued interest income is part of the carrying amount of these securities. Shares, units and other investments are stated at acquisition cost.

Premiums and discounts on debt securities are amortised/accreted through the profit and loss account over the period from the date of purchase to the date of maturity using the effective interest rate method. In the case of securities classified into the portfolio held for trading, available for sale and the securities which have a residual maturity shorter than 1 year, the premium and the discount are amortised/accreted equally through the profit and loss account over the period from the date of purchase to the date of maturity.

Debt securities and shares, units and other investments held for trading or available for sale are measured at fair value and gains/losses from this revaluation are charged to the profit and loss account in "Net gains or losses from financial operations".

The fair value used for the revaluation of securities is determined based on the market price published as at the date of the fair value statement, if the Bank proves that securities can be sold for that market price.

For debt and equity securities traded on the public market, fair values are equal to the price reached on the public market of OECD countries, if, at the same time, the condition of securities liquidity is fulfilled.

If it is not possible to determine the fair value being the market value (i.e. the Bank does not prove that it is

possible to sell securities for such market price), the fair value is estimated as an adjusted value of securities.

An adjusted value of securities equals the share proportion on equity for shares, share proportion on fund's net assets value for units and present value of security for debt securities.

Adjustments are established to debt securities held to maturity. Adjustments to these securities are created by an amount, which only reflects the change in the risk of the issuer, but not the change in the risk-free interest rates, calculated on an individual basis.

The acquisition cost of held-to-maturity securities at their disposal is determined using the weighted average price method for individual issues.

Transactions where securities are sold under a commitment to repurchase (repurchase commitment) at a predetermined price or purchased under a commitment to resell (resale commitment) are treated as collateralised borrowing and lending transactions. The legal title of securities subject to resale or repurchase commitments is transferred to the lender. Securities transferred under a repurchase commitment are henceforth included in the relevant items of securities in the Bank's balance sheet while the borrowing is recorded in "Due to banks, savings and loans cooperatives" or "Due to customers, members of savings and loans cooperatives". Securities received under a resale commitment are recorded in off-balance sheet accounts in "Collateral received". The lending granted under a resale commitment is recorded in "Receivables from banks, savings and loans cooperatives" or "Receivables from customers, members of savings and loans cooperatives". Interest on debt securities transferred under a repurchase commitment is accrued while interest on debt securities received under a resale commitment is not accrued.

Income and expenses arising under repurchase and resale commitments as the difference between the selling and purchase price are accrued over the period of the transaction and charged to the profit and loss account as "Interest income and similar income" or "Interest expense and similar expense".

(c) Transactions with securities for customers

Securities taken by the Bank into custody, administration or deposit are accounted for in their market values and recorded in an off-balance sheet account "Values taken into custody, administration and deposit". Securities received by the Bank for management are accounted for in their market values and recorded in an off-balance sheet account "Values taken under management". The Bank's payables to customers as a result of the cash received for the purchase of securities or the cash to be refunded to

customers are accounted for in the balance sheet liability accounts.

(d) Participation interests with controlling and substantial influence

A participation interest with controlling influence is one where the Bank is a major associate. In this case, the Bank has controlling influence over the subject's management and fully supervises its activity. Such influence arises from participation in registered capital, or from agreement or articles of association regardless of the percentage of participation.

A participation interest with substantial influence is one in which the Bank holds at least 20 per cent of an organisation's registered capital. In this case, the Bank has substantial influence over the subject's management, which arises from participation in registered capital, or from agreement or articles of association regardless of the percentage of participation.

Participation interests with substantial and controlling influence are valued at acquisition cost less adjustment for any temporary diminution in value or write-offs for any permanent diminution in value.

Adjustments for participation interests with substantial and controlling influence are created by an amount equal to the excess of acquisition cost over the measure of participation in the net asset value of the company on an individual basis.

(e) Receivables from banks and customers

Receivables are carried net of adjustments. Accrued interest income is part of the carrying amount of receivables. Reserves for receivables are included in "Reserves" on the liability side of the balance sheet.

Receivables are reviewed for recoverability. Adjustments are created against specific receivables as considered appropriate. The methodology for the creation of adjustments in the appropriate accounting period is included in Note 34 (a), (b) and (c) of these notes. Adjustments created by debiting expenses are reported in "Write-offs, creation of adjustments and reserves for receivables and guarantees" in sub-ledgers used for the calculation of an income tax liability.

The tax-deductible portion of the period charge for the creation of adjustments for credit losses is calculated in accordance with the requirements of section 5 ("Banking reserves and adjustments") and section 8 ("Adjustments to receivables from debtors subject to bankruptcy or composition proceedings") of the Act on Reserves N. 593/1992 Coll.

Receivables are written-off only when they are considered uncollectible by the Bank's management or

when the bankruptcy process of the client has been finalised in accordance with Czech legislation.

The Bank also accrues interest income from classified receivables. The accrued interest income is subsequently included in the basis for calculation of adjustments created in accordance with the appropriate Czech National Bank requirement.

The write-off of unrecoverable receivables is accounted for as "Write-offs, creation of adjustments and reserves for receivables and guarantees" in the profit and loss account. Adjustments and reserves are reduced in an equal amount to the amount written off in "Use of adjustments and reserves for receivables and guarantees, income from the assignment of receivables and income from written-off receivables" in the profit and loss account. Recoveries on loans previously written off are included in the profit and loss account in "Use of adjustments and reserves for receivables and guarantees, income from the assignment of receivables and income from written-off receivables".

(f) Creation of reserves

A reserve represents probable cash outflow of uncertain timing and amount. Reserves are established in cases where the following criteria are met:

- a duty (legal or factual) to perform exists, resulting from past events,
- it is probable that the event will occur and that it will require a cash outflow representing economic benefits; "probable" means the probability exceeding 50%
- the amount of such performance can be reliably estimated.

In accordance with the Act on Reserves N. 593/1992 Coll., reserves for standard credits should be transferred to adjustments to classified receivables, used to cover the expenses associated with the write-off of receivables, used to cover losses from the assignment of receivables or released for redundancy by 31 December 2005 at the latest.

General reserves for guarantees should be transferred to specific reserves for guarantees or adjustments to classified receivables from the fulfilment of guarantees, used to cover the expenses associated with the write-off of these receivables or losses from the assignment of receivables or released for redundancy by 31 December 2005 at the latest.

(g) Intangible and tangible fixed assets

Tangible and intangible fixed assets are stated at historical cost and are depreciated using the straight-line method over their estimated useful lives.

The annual depreciable lives for each category of intangible and tangible fixed asset are as follows:

| | |
|--------------------|---------------|
| Software | 4 years |
| Buildings and land | 33 years |
| Other | 4 to 20 years |

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or their remaining useful lives.

Intangible fixed assets costing less than CZK 60,000 and tangible fixed assets costing less than CZK 40,000 having useful lives less than 1 year are charged to the profit and loss account in the period in which they are acquired.

(h) Foreign currency translation

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates on the date of the transaction. Assets and liabilities denominated in foreign currencies together with unsettled spot foreign exchange transactions are translated into the local currency at the ČNB foreign exchange rate prevailing on the balance sheet date. Foreign exchange gains or losses arising from the translation of foreign currency assets and liabilities, except for the net investments in foreign entities, are recognised in the profit and loss account as “Net gains (losses) from financial operations”.

(i) Financial derivatives

Embedded derivatives

In certain cases a derivative may be a component of a hybrid (combined) financial instrument that includes both a host contract (instrument) and the derivative (which is referred to as “an embedded derivative”), which influences cash flows or otherwise modifies the characteristics of the host instrument. An embedded derivative shall be separated from the host instrument and accounted for separately, if all of the following criteria are met at the same time:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the host instrument is not remeasured at fair value or is measured at fair value but the changes from revaluation are reported in the balance sheet.

Trading derivatives

Financial derivatives held for trading are carried at fair value and gains (losses) from the changes in fair value

are recorded in the profit and loss account in “Net gains (losses) from financial operations”.

Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognition of fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- the hedge is in line with the Bank’s risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- it is expected that the hedge relationship will be highly effective throughout its life,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is highly effective throughout the accounting period,
- in the case of hedging the expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of assets and liabilities, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) from the revaluation of the hedged item and hedging derivative are recorded in the profit and loss account in “Interest income and similar income” and “Interest expense and similar expense”.

If the derivative hedges the exposure to changes in cash flows related to recorded assets and liabilities, commitments or expected transactions, the effective part of the hedge (fair values of the hedging derivative) is reported in equity in “Gains (losses) from revaluation of hedging derivatives”. The ineffective part of the hedge is recognised in the profit and loss account in “Net gains (losses) from financial operations”.

If the hedging of commitments or expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative reported in equity are included in the carrying amount of such an asset or liability. Otherwise the gains or losses are charged to the profit and loss account at the same moment as the gains or losses from the revaluation of a hedged item.

The fair value of financial derivatives is determined as the present value of expected cash flows from these transactions, using valuation models generally accepted on the market, such as the Black-Scholes model used for certain types of options. The parameters ascertained on the active market, such as foreign exchange rates, yield curves, volatility of financial instruments, etc., are used in these models.

(j) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income that is further adjusted by tax allowances and relevant credits to which the current tax rate is applied.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes multiplied by the income tax rate prescribed by the Income Tax Act for the next period. A deferred tax asset is recognised only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised.

(k) Prior period items

Prior period items are reported as income or expense in the current period profit and loss account, with the exception of corrections of significant errors in the recording of income and expenses of prior periods that are reported in "Retained earnings (or accumulated losses) from previous years" in the Bank's balance sheet.

4. CHANGES IN ACCOUNTING POLICIES

In the year 2002 the following two significant changes occurred in accounting policies compared to the year 2001:

Fair value hedging

Hedging derivatives were recorded at their fair values in 2001 and the changes in fair values were accounted directly in the Bank's equity as "Gains (losses) from revaluation of hedging derivatives". Since 2002, the changes in fair values of derivatives that hedge the risk of changes in the fair value of assets and liabilities are recorded directly in the Bank's profit and loss account in the rows "Interest income and similar income" and "Interest expense and similar expense". The hedged items are also carried at their fair values and changes in their fair values are recorded in the relevant profit and loss account items, in which gains (losses) from revaluation of hedging derivatives are presented (see Note 3 (i)). As a result of this change in the accounting policy "Extraordinary income" increased by CZK 140,380 thousand and "Extraordinary expenses" increased by CZK 148,277 thousand (see Note 10). These charges represent the impact of the new accounting policy for hedging accounting relating to previous years.

Debt securities and shares, units and other investments held for trading or available for sale

Debt securities and shares, units and other investments held for trading or available for sale were measured at amortised/acquisition cost less adjustments for any temporary diminution in value or write-offs for any permanent diminution in value. Since 2002, these

financial instruments held for trading or available for sale are measured at their fair values (see Note 3 (b)). This change in accounting method is reflected in the 2002 profit and loss account in the item "Extraordinary income" in amount of CZK 118,244 thousand and "Extraordinary expenses" in amount of CZK 9,927 thousand (see Note 10).

Reclassifications of 2001 audited balances

The Bank reclassified the 2001 audited balances in order to report them under conditions of the accounting legislation effective for the year 2002 and to ensure the comparability of data for respective years. Within these reclassifications no changes in valuation methods applied in particular accounting periods were performed, only the respective items within individual lines of the financial statements were reclassified.

As a result of these reclassifications the total assets of the Bank as at 31 December 2001 decreased from the originally reported CZK 149,380,496 thousand to CZK 125,464,046 thousand. This change was caused by reclassification of securities received under resale commitments, which were initially recorded either as "State zero coupon bonds and other securities eligible for refinancing with the CNB" or "Debt securities", but according to the new 2002 legislation are presented in off balance sheet as "Collateral received".

Since the Bank's accounting systems do not enable full automatic allocation of accrued interest/income to individual items of the 2001 balance sheet, the accrued interest/income are not reclassified and they are recorded respectively in "Prepaid expenses and accrued income" and "Deferred income and accrued expenses".

5. NET INTEREST INCOME

| CZK 000 | 2002 | 2001 |
|----------------------------|------------------|------------------|
| Interest income | | |
| from deposits | 383,867 | 1,388,444 |
| from loans | 4,778,110 | 5,277,446 |
| other | 1,119,277 | 1,059,778 |
| Interest expense | | |
| from deposits | 1,711,211 | 2,991,048 |
| from loans | 807,833 | 564,101 |
| other | 927,078 | 1,140,461 |
| Net interest income | 2,835,132 | 3,030,058 |

The Bank did not claim or waive default interest of CZK 3,539 thousand (2001: CZK 5 thousand). Furthermore, the Bank did not apply the accrual principle for the default interest relating to endangered receivables of clients in the bankruptcy process of CZK 627,581

thousand (2001: CZK 628,919 thousand) that resulted in estimated lost profit of CZK 50,260 thousand (2001: CZK 53,487 thousand).

6. FEES AND COMMISSIONS

| CZK 000 | 2002 | 2001 |
|---|----------------|------------------|
| Fee and commission income from securities transactions | 22,957 | 40,415 |
| management, administration, deposit and custody | 60,086 | 50,756 |
| other | 916,916 | 922,469 |
| Total | 999,959 | 1,013,640 |
| Fee and commission expense from securities transactions | 4,994 | 2,231 |
| management, administration, deposit and custody | 4,601 | 5,634 |
| other | 168,896 | 174,503 |
| Total | 178,491 | 182,368 |

7. NET GAINS OR LOSSES FROM FINANCIAL OPERATIONS

| CZK 000 | 2002 | 2001 |
|---|----------------|------------------|
| Gains/losses from securities transactions | 176,767 | 163,609 |
| Gains/losses from derivative transactions | (252,909) | (139,449) |
| Gains/losses from foreign transactions | 988,758 | 995,152 |
| Total | 912,616 | 1,019,312 |

8. OTHER OPERATING INCOME AND EXPENSES

| CZK 000 | 2002 | 2001 |
|---|----------------|----------------|
| Release of estimated payables | 40,337 | - |
| Income from transfer (sale) of fixed assets | 17,561 | 11,317 |
| Income from rent | 8,276 | 11,071 |
| Contractual fines received | 6,387 | 8,423 |
| Income of the prior year | 2,946 | 21,930 |
| Other | 7,059 | 14,254 |
| Total other operating income | 82,566 | 66,995 |
| Residual value of sold assets | 54,107 | 11,408 |
| Deposit insurance fund | 59,877 | 175,000 |
| Losses and damages | 7,982 | 10,504 |
| Expenses of the prior year | 6,126 | 11,508 |
| Expenses connected with the merger | - | 38,300 |
| Other | 1,083 | 1,458 |
| Total other operating expense | 129,175 | 248,178 |

9. ADMINISTRATIVE EXPENSES

| CZK 000 | 2002 | 2001 |
|---|------------------|------------------|
| Personnel expenses | | |
| Wages and salaries paid to employees | 668,316 | 705,040 |
| Social and health insurance | 237,077 | 248,624 |
| | 905,393 | 953,664 |
| Including wages and salaries paid to: | | |
| Members of the Board of Directors | 14,799 | 18,116 |
| Other executives | 61,018 | 74,992 |
| Remuneration paid from profit: | | |
| Members of the Supervisory Board | - | 1,260 |
| Other administrative expenses | 1,008,696 | 1,313,086 |
| of which expenses for audit, legal and tax advisory | 26,470 | 25,331 |
| Total administrative expenses | 1,914,089 | 2,266,750 |

Information on bonuses tied to equity is included in Note 26.

The average number of the Bank's employees (including expatriates) was as follows:

| | 2002 | 2001 |
|-----------------------------------|-------|-------|
| Employees | 1,134 | 1,241 |
| Members of the board of directors | 5 | 7 |
| Members of the supervisory board | 9 | 7 |
| Other executives | 28 | 48 |

(b) Analysis of receivables from banks by type of security received

| CZK 000 | 2002 | 2001 |
|-----------------------------------|-------------------|-------------------|
| Security held by the Bank | 27,549,027 | 23,558,443 |
| Unsecured | 5,442,445 | 17,775,707 |
| Net receivables from banks | 32,991,472 | 41,334,150 |

10. EXTRAORDINARY INCOME AND EXPENSES

| CZK 000 | 2002 | 2001 |
|---|----------------|------------|
| Effects of changes in accounting policies: | | |
| Fair-value hedging | 140,380 | - |
| Revaluation of securities held for trading or available for sale as at 1 January 2002 | 118,244 | - |
| Other | - | 244 |
| Total extraordinary income | 258,624 | 244 |
| Effects of changes in accounting policies: | | |
| Fair-value hedging | 148,277 | - |
| Revaluation of securities held for trading or available for sale as at 1 January 2002 | 9,927 | - |
| Total extraordinary expense | 158,204 | - |

No receivables from banks secured by tangible movable assets are included in "Security held by the Bank" (2001: CZK 0 thousand).

(c) Subordinated receivables from banks

The Bank has not provided any loan with stipulations on subordination to another bank in the years 2002 and 2001.

(d) Receivables from banks written-off and recovered

The Bank did not write-off any receivable from banks and reported no revenues from previously written-off receivables from banks in the years 2002 and 2001.

(e) Receivables from participation interests with controlling and substantial influence

No receivables from participation interests with controlling and substantial influence are included in receivables from banks in 2002 (2001: CZK 0 thousand).

The summary of participation interests with controlling and substantial influence is presented in Note 16.

(f) Receivables from persons with a special relationship to the Bank

The volume of receivables from persons with a special relationship to the Bank totalled CZK 607,824 thousand in 2002 (2001: CZK 3,033,206 thousand).

11. RECEIVABLES FROM BANKS

Receivables from banks do not include any receivables from securities that have been acquired from primary auctions and are not held for trading (2001: CZK 0 thousand).

(a) Classification of receivables from banks

| CZK 000 | 2002 | 2001 |
|--|-------------------|-------------------|
| Standard | 32,991,472 | 41,334,150 |
| Adjustments to potential losses from receivables | - | - |
| Net receivables from banks | 32,991,472 | 41,334,150 |

In 2002 the Bank did not carried out any restructuring of receivables from banks (2001: CZK 0 thousand).

12. RECEIVABLES FROM CUSTOMERS

(a) Classification of receivables from customers

| CZK 000 | 2002 | 2001 |
|---|-------------------|-------------------|
| Standard | 63,659,608 | 60,678,851 |
| Special mentioned | 3,898,308 | 4,256,903 |
| Non-standard | 1,609,584 | 678,369 |
| Doubtful | 681,550 | 754,844 |
| Loss | 1,204,930 | 1,285,384 |
| Adjustment to potential losses from receivables | (1,583,516) | (1,473,656) |
| Net receivables from customers | 69,470,464 | 66,180,695 |

Receivables from customers include CZK 742,756 thousand, which represents receivables from securities that have been acquired from primary auctions and are not intended for trading (2001: CZK 751,491 thousand).

In 2002 the Bank carried out a restructuring of receivables from customers in the total amount of CZK 174,874 thousand (2001: CZK 95,313 thousand).

(b) Analysis of receivables from customers by sector

| CZK 000 | 2002 | 2001 |
|----------------------------|-------------------|-------------------|
| Financial institutions | 8,246,373 | 6,945,582 |
| Non-financial institutions | 52,380,569 | 52,216,836 |
| Insurance institutions | 2 | 472,252 |
| Government sector | 3,754,672 | 2,011,864 |
| Non-profit organisations | 173,127 | 163,906 |
| Self-employed | 491,200 | 713,778 |
| Resident individuals | 3,856,855 | 3,106,674 |
| Non-resident | 1,871,572 | 1,605,045 |
| Companies without ICO | 279,610 | 110,984 |
| Unallocated | - | 307,430 |
| Total | 71,053,980 | 67,654,351 |

(c) Subordinated receivables from customers

The Bank has not provided any short-term loan with stipulations on subordination to customer in the years 2001 and 2002.

(d) Analysis of receivables from customers by sector and type of security received

| CZK 000 | Personal guarantee | Bank guarantee | Mortgage | Corporate guarantee | Letter of credit | Security held by the Bank | Unsecured | Total |
|----------------------------|--------------------|------------------|-------------------|---------------------|------------------|---------------------------|-------------------|-------------------|
| At 31 December 2002 | | | | | | | | |
| Financial institutions | - | 347,421 | 235,000 | 203,604 | - | 4,445,649 | 3,014,699 | 8,246,373 |
| Non-financial institutions | 720,389 | 6,212,972 | 13,864,037 | 3,927,275 | - | 4,920,036 | 22,735,860 | 52,380,569 |
| Insurance institutions | - | - | - | - | - | - | 2 | 2 |
| Government sector | - | 1,215,000 | 2,332 | - | - | - | 2,537,340 | 3,754,672 |
| Non-profit organisations | - | - | 134,489 | 391 | - | 27,500 | 10,747 | 173,127 |
| Self-employed | - | 27,680 | 353,581 | 1,826 | - | 28,119 | 79,994 | 491,200 |
| Resident individuals | 10,310 | 1,616 | 2,934,159 | 507 | 195 | 118,639 | 791,429 | 3,856,855 |
| Non-resident | - | 41,014 | 51,054 | - | - | 21,976 | 1,757,528 | 1,871,572 |
| Companies without ICO | - | - | 20,388 | - | - | 51,192 | 208,030 | 279,610 |
| Unallocated | - | - | - | - | - | - | - | - |
| Total | 730,699 | 7,845,703 | 17,595,040 | 4,133,603 | 195 | 9,613,111 | 31,135,629 | 71,053,980 |
| At 31 December 2001 | | | | | | | | |
| Financial institutions | 56,862 | 349,964 | 245,926 | 37,930 | - | 3,468,964 | 2,785,936 | 6,945,582 |
| Non-financial institutions | 187,344 | 6,780,252 | 7,245,532 | 8,905,799 | 10,785 | 6,631,690 | 22,455,434 | 52,216,836 |
| Insurance institutions | - | - | - | - | - | 472,247 | 5 | 472,252 |
| Government sector | - | - | 3,799 | - | - | 613,764 | 1,394,301 | 2,011,864 |
| Non-profit organisations | - | - | 85,858 | 58,042 | - | 7,180 | 12,826 | 163,906 |
| Self-employed | 6,013 | 30,000 | 401,822 | 100,202 | - | 70,110 | 105,631 | 713,778 |
| Resident individuals | 10,508 | 1,635 | 2,707,081 | 53,831 | 20 | 112,901 | 220,698 | 3,106,674 |
| Non-resident | - | 29,918 | 31,843 | 71,322 | - | 264,926 | 1,207,036 | 1,605,045 |
| Companies without ICO | - | - | - | - | - | - | 110,984 | 110,984 |
| Unallocated | - | - | 7,972 | - | - | 26,816 | 272,642 | 307,430 |
| Total | 260,727 | 7,191,769 | 10,729,833 | 9,227,126 | 10,805 | 11,668,598 | 28,565,493 | 67,654,351 |

No receivables from customers secured by tangible movable assets are included in “Security held by the Bank” (2001: CZK 0 thousand).

(e) Net receivables from customers written-off and recovered

The summary of net receivables from customers written-off and recovered by sector.

| CZK 000 | 2002 | 2001 |
|----------------------------|---------------|----------------|
| Write-offs | | |
| Non-financial institutions | 2,833 | 253,634 |
| Self-employed | 100 | 139 |
| Resident individuals | 50,945 | 99,170 |
| Non-residents | 20 | 50 |
| Total | 53,898 | 352,993 |
| Recoveries | | |
| Non-financial institutions | 30 | - |
| Self-employed | 11,370 | 1,813 |
| Total | 11,400 | 1,813 |

The part of the profit and loss account line “Write-offs, creation of adjustments and reserves for receivables and guarantees” are also charges from write-offs of functionary receivables, which are stated in the balance sheet in “Other assets”.

(f) Syndicated loans as at 31 December 2002

| Loan | Banks involved | Amount in 000 CZK | Split of risk | Split of interest |
|------|-------------------------------------|-------------------|-----------------|-------------------|
| I. | HVB Bank Czech Republic a.s. | 587,411 | 59.72 % | 59.72 % |
| | IKB Deutsche Industriebank | 177,589 | 18.06 % | 18.06 % |
| | Živnostenská banka, a.s. | 218,571 | 22.22 % | 22.22 % |
| | Total | 983,571 | 100.00 % | 100.00 % |
| II. | HVB Bank Czech Republic a.s. | 36,616 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 207,490 | 85.00 % | 85.00 % |
| | Total | 244,106 | 100.00 % | 100.00 % |
| III. | HVB Bank Czech Republic a.s. | 34,918 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 197,872 | 85.00 % | 85.00 % |
| | Total | 232,790 | 100.00 % | 100.00 % |
| IV. | HVB Bank Czech Republic a.s. | 407,213 | 40.00 % | 40.00 % |
| | Bayerische Landesbank Girozentrale | 305,365 | 30.00 % | 30.00 % |
| | Česká spořitelna, a.s. | 305,365 | 30.00 % | 30.00 % |
| | Total | 1,017,943 | 100.00 % | 100.00 % |
| V. | HVB Bank Czech Republic a.s. | 23,957 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 135,756 | 85.00 % | 85.00 % |
| | Total | 159,713 | 100.00 % | 100.00 % |

| | | | | |
|-------|---|------------------|-----------------|-----------------|
| VI. | HVB Bank Czech Republic a.s. | 34,939 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 197,985 | 85.00 % | 85.00 % |
| | Total | 232,924 | 100.00 % | 100.00 % |
| VII. | HVB Bank Czech Republic a.s. | 48,282 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 273,595 | 85.00 % | 85.00 % |
| | Total | 321,877 | 100.00 % | 100.00 % |
| VIII. | HVB Bank Czech Republic a.s. | 23,592 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 133,688 | 85.00 % | 85.00 % |
| | Total | 157,280 | 100.00 % | 100.00 % |
| IX. | HVB Bank Czech Republic a.s. | 31,456 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 178,251 | 85.00 % | 85.00 % |
| | Total | 209,707 | 100.00 % | 100.00 % |
| X. | HVB Bank Czech Republic a.s. | 31,422 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 178,055 | 85.00 % | 85.00 % |
| | Total | 209,477 | 100.00 % | 100.00 % |
| XI. | HVB Bank Czech Republic a.s. | 23,166 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 131,277 | 85.00 % | 85.00 % |
| | Total | 154,443 | 100.00 % | 100.00 % |
| XII. | HVB Bank Czech Republic a.s. | 144,715 | 67.20 % | 67.20 % |
| | Voralberger Landes und Hypotekenbank AG | 70,650 | 32.80 % | 32.80 % |
| | Total | 215,365 | 100.00 % | 100.00 % |
| XIII. | HVB Bank Czech Republic a.s. | 522,355 | 50.00 % | 50.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 522,355 | 50.00 % | 50.00 % |
| | Total | 1,044,710 | 100.00 % | 100.00 % |
| XIV. | HVB Bank Czech Republic a.s. | 300,516 | 47.45 % | 47.45 % |
| | Bayerische Hypo- und Vereinsbank AG | 332,843 | 52.55 % | 52.55 % |
| | Total | 633,359 | 100.00 % | 100.00 % |
| XV. | HVB Bank Czech Republic a.s. | 18,416 | 33.33 % | 33.33 % |
| | Dresdner Bank CZ a.s. Praha | 18,417 | 33.33 % | 33.33 % |
| | Komerční banka, a.s. Praha | 18,417 | 33.33 % | 33.33 % |
| | Total | 55,250 | 100.00 % | 100.00 % |
| XVI. | HVB Bank Czech Republic a.s. | 25,000 | 25.00 % | 25.00 % |
| | Živnostenská banka, a.s. | 25,000 | 25.00 % | 25.00 % |
| | Raiffeisenbank a.s. Praha | 33,333 | 33.33 % | 33.33 % |
| | Raiffeisenlandesbank AG Linz | 16,667 | 16.67 % | 16.67 % |
| | Total | 100,000 | 100.00 % | 100.00 % |

(g) Receivables from persons with a special relationship to the Bank

| CZK 000 | Management bodies | | Other |
|----------------------------|--------------------|------------------|------------------|
| | Board of Directors | Other executives | |
| At 31 December 2001 | 2,922 | 23,848 | 774,023 |
| Interest income | 5 | 279 | 74,365 |
| At 1 January 2002 | 2,922 | 23,848 | 774,023 |
| Additions | - | 4,653 | 625,732 |
| Disposals | (80) | (4,010) | (5,003) |
| At 31 December 2002 | 2,842 | 24,491 | 1,394,752 |
| Interest income | 95 | 1,284 | 39,907 |

The above presented loans and advances were provided based on arm length conditions.

(h) Receivables from participation interests with controlling and substantial influence

| CZK 000 | 2002 | 2001 |
|------------------------------|---------------|---------------|
| Controlling influence | | |
| From 3 months to 1 year | 3,903 | 3,680 |
| From 1 year to 5 years | 18,127 | 17,089 |
| Over 5 years | 45,148 | 46,171 |
| | 67,178 | 66,940 |
| Substantial influence | - | - |
| Total | 67,178 | 66,940 |

13. STATE ZERO COUPON BONDS AND OTHER SECURITIES ELIGIBLE FOR REFINANCING WITH THE ČNB

(a) Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB

| CZK 000 | 2002 | 2001 |
|---|------------------|------------------|
| State treasury bills | 6,394,763 | 6,906,670 |
| Other securities eligible for refinancing with the ČNB | 1,406,043 | 516,462 |
| Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB | 7,800,806 | 7,423,132 |

The book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB includes accrued interest as at the balance sheet date of CZK 22,399 thousand (2001: CZK 22,457 thousand).

(b) Classification of state zero coupon bonds and other securities eligible for refinancing with the ČNB into individual portfolios based on the Bank's intention

| CZK 000 | 2002 | 2001 |
|---|------------------|------------------|
| State zero coupon bonds and other trading securities | 2,725,394 | 4,712,982 |
| State zero coupon bonds and other available-for-sale securities | 5,075,412 | 2,710,150 |
| State zero coupon bonds and other held-to-maturity securities | - | - |
| Net book value | 7,800,806 | 7,423,132 |

(c) Repurchase and resale commitments

Under resale commitments the Bank has acquired state zero coupon bonds and other securities in the market value of CZK 27,005,579 thousand (2001: in the nominal value CZK 23,916,450 thousand), which are reported in the off-balance sheet in "Collaterals received". Subsequently the Bank provided under repurchase commitments securities received under the above-mentioned resale commitments in the market value of CZK 122,188 thousand (2001: in the nominal value CZK 0 thousand) which are reported in the off-balance sheet in "Collaterals provided".

Included in the value of state zero coupon bonds and other securities are the securities of CZK 1,724,436 thousand (2001: CZK 3,314,050 thousand), which have been transferred under repurchase commitments.

14. DEBT SECURITIES

(a) Net book value of debt securities

| CZK 000 | 2002 | 2001 |
|---|-------------------|------------------|
| Book value of debt securities | 10,108,040 | 4,061,509 |
| Less | | |
| Withholding tax applying to debt securities included in "Other liabilities" | - | - |
| Net book value of debt securities | 10,108,040 | 4,061,509 |

The book value of debt securities includes accrued interest as at the balance sheet date of CZK 222,603 thousand (2001: CZK 119,292 thousand).

(b) Repurchase and resale commitments

No debt securities, which are reported in the off-balance sheet in “Collaterals received”, have been acquired by the Bank under resale commitments in 2001 and 2002.

No debt securities, which have been transferred under repurchase commitments, are included in the value of the debt securities in 2001 and 2002.

(c) Classification of debt securities into individual portfolios based on the Bank's intention

| CZK 000 | 2002 | 2001 |
|------------------------------------|-------------------|------------------|
| Debt securities held for trading | 2,478,862 | 2,776,498 |
| Available-for-sale debt securities | 7,005,752 | 685,302 |
| Held-to-maturity debt securities | 623,426 | 599,709 |
| Net book value | 10,108,040 | 4,061,509 |

(d) Analysis of debt securities held for trading

| CZK 000 | 2002 | | 2001 | |
|---|------------------|------------------|------------------|------------|
| | Market value | Book value | Market value | Book value |
| Issued by financial institutions | | | | |
| - Listed on a recognised CR exchange | 1,378,896 | 2,150,945 | 2,209,057 | |
| - Listed elsewhere | 370 | - | - | |
| | 1,379,266 | 2,150,945 | 2,209,057 | |
| Issued by non-financial institutions | | | | |
| - Listed on a recognised CR exchange | 759,938 | 605,267 | 625,483 | |
| - Listed elsewhere | 339,658 | - | - | |
| | 1,099,596 | 605,267 | 625,483 | |
| Issued by insurance institutions | | | | |
| - Listed on a recognised CR exchange | - | 20,286 | 20,286 | |
| | - | 20,286 | 20,286 | |
| Total | 2,478,862 | 2,776,498 | 2,854,826 | |

Securities listed elsewhere are traded in particular on stock exchanges of the European Union countries.

The Bank has purchased debt securities issued by the Bank in the book value of CZK 2,554,115 thousand (2001: CZK 0 thousand) that are held for trading. These securities decrease “Payables from debt securities” (see Note 22(b)).

(e) Analysis of available for sale debt securities

| CZK 000 | 2002 | | 2001 | |
|---|------------------|----------------|----------------|------------|
| | Market value | Book value | Market value | Book value |
| Issued by financial institutions | | | | |
| - Listed elsewhere | 3,165,717 | - | - | |
| - Unlisted | 798,727 | - | - | |
| | 3,964,444 | - | - | |
| Issued by non-financial institutions | | | | |
| - Listed elsewhere | 2,983,637 | 631,537 | 648,784 | |
| | 2,983,637 | 631,537 | 648,784 | |
| Issued by government sector | | | | |
| - Listed on a recognised CR exchange | 57,671 | 53,765 | 56,961 | |
| | 57,671 | 53,765 | 56,961 | |
| Total | 7,005,752 | 685,302 | 705,745 | |

The Bank has purchased no debt securities issued by the Bank that are classified as available for sale in 2001 and 2002.

Securities listed elsewhere are traded in particular on stock exchanges of the European Union countries.

(f) Analysis of debt securities held to maturity

| CZK 000 | 2002 | | 2001 | |
|---|----------------|--------------|----------------|--------------|
| | Book value | Market value | Book value | Market value |
| Issued by non-financial institutions | | | | |
| - Unlisted | 623,426 | - | 598,884 | - |
| | 623,426 | - | 598,884 | - |
| Issued by government sector | | | | |
| - Listed on a recognised CR exchange | - | - | 825 | 825 |
| | - | - | 825 | 825 |
| Total | 623,426 | - | 599,709 | 825 |

The proportion of debt securities with residual maturity up to 1 year to the total balance of debt securities is 17.66 % (2001: 14.10 %).

(b) Analysis of shares, units and other investments available for sale

| CZK 000 | 2002 | 2001 | |
|---|----------------|--------------|--------------|
| | Adjusted value | Book value | Market value |
| Issued by non-financial institutions | | | |
| - Unlisted | 3,000 | 3,000 | - |
| | 3,000 | 3,000 | - |
| Total | 3,000 | 3,000 | - |

The Bank has purchased no own shares for the purpose of future sales in 2002 (2001: CZK 0 thousand).

15. SHARES, UNITS AND OTHER INVESTMENTS

(a) Classification of shares, units and other investments into individual portfolios based on the Bank's intention

| CZK 000 | 2002 | 2001 |
|--|--------------|--------------|
| Shares, units and other investments available for sale | 3,000 | 3,000 |
| Total | 3,000 | 3,000 |

16. PARTICIPATION INTERESTS WITH CONTROLLING AND SUBSTANTIAL INFLUENCE

(a) Participation interests with controlling influence

| CZK 000 | | Business activity | Registered capital | Other components of Equity | Share in Equity | Share of voting rights | Net Book value |
|-------------------------------|---------------------------|--------------------|--------------------|----------------------------|-----------------|------------------------|----------------|
| Name | Registered office | | | | | | |
| At 31 December 2002 | | | | | | | |
| BAPS s.r.o. | Praha 1, Revoluční 15 | real estate agency | 37,142 | (61,312) | 100 % | 100 % | - |
| HYPO stavební spořitelna a.s. | Praha 1, Senovážné nám. 4 | building society | 500,000 | 269,085 | 60 % | 60 % | 360,000 |
| | | | 537,142 | 207,773 | | | 360,000 |
| At 31 December 2001 | | | | | | | |
| BAPS s.r.o. | Praha 1, Revoluční 15 | real estate agency | 37,142 | (21,435) | 100 % | 100 % | 15,707 |
| HYPO stavební spořitelna a.s. | Praha 1, Senovážné nám. 4 | building society | 500,000 | 205,243 | 60 % | 60 % | 360,000 |
| | | | 537,142 | 183,808 | | | 375,707 |

(b) Participation interests with substantial influence

| CZK 000 | | | | | | | |
|--|--------------------------|--------------------------|--------------------|----------------------------|-----------------|------------------------|----------------|
| Name | Registered office | Business activity | Registered capital | Other components of Equity | Share in Equity | Share of voting rights | Net book value |
| At 31 December 2002 | | | | | | | |
| CBCB – Czech Banking Credit Bureau, a.s. | Praha 3, V. Nejedlého 15 | running of bank register | 1,200 | (3,228) | 20 % | 20 % | – |
| | | | 1,200 | (3,228) | | | – |
| At 31 December 2001 | | | | | | | |
| CBCB – Czech Banking Credit Bureau, a.s. | Praha 3, V. Nejedlého 15 | running of bank register | 1,200 | (9) | 25 % | 25 % | 300 |
| | | | 1,200 | (9) | | | 300 |

17. INTANGIBLE FIXED ASSETS**Movements in intangible fixed assets**

| CZK 000 | | | | | |
|-------------------------------------|----------------|----------------------|--------------|----------------|--|
| | Software | Software acquisition | Other | Total | |
| Cost | | | | | |
| At 1 January 2001 | 930,394 | 30,099 | 3,339 | 963,832 | |
| Additions | 92,172 | 42,778 | 939 | 135,889 | |
| Transfers | 28,558 | (28,558) | – | – | |
| Disposals | (192,866) | (405) | – | (193,271) | |
| At 31 December 2001 | 858,258 | 43,914 | 4,278 | 906,450 | |
| At 1 January 2002 | 858,258 | 43,914 | 4,278 | 906,450 | |
| Additions | 26,146 | 42,686 | 845 | 69,677 | |
| Disposals | (349,623) | (68,622) | – | (418,245) | |
| Other changes | – | (1,645) | – | (1,645) | |
| At 31 December 2002 | 534,781 | 16,333 | 5,123 | 556,237 | |
| Amortisation and adjustments | | | | | |
| At 1 January 2001 | 652,825 | – | 1,188 | 654,013 | |
| Charge for the year | 155,160 | – | 1,123 | 156,283 | |
| Disposals | (192,656) | – | – | (192,656) | |
| At 31 December 2001 | 615,329 | – | 2,311 | 617,640 | |
| At 1 January 2002 | 615,329 | – | 2,311 | 617,640 | |
| Charge for the year | 116,319 | – | 1,070 | 117,389 | |
| Disposals | (340,947) | – | – | (340,947) | |
| At 31 December 2002 | 390,701 | – | 3,381 | 394,082 | |
| Net book value | | | | | |
| At 1 January 2001 | 277,569 | 30,099 | 2,151 | 309,819 | |
| At 31 December 2001 | 242,929 | 43,914 | 1,967 | 288,810 | |
| At 31 December 2002 | 144,080 | 16,333 | 1,742 | 162,155 | |

18. TANGIBLE FIXED ASSETS

(a) Movements in tangible fixed assets

| CZK 000 | Land and building | Equipment | Furniture and fittings | Fixed assets not used | Fixed assets not yet in use | Total |
|------------------------------------|-------------------|-----------|------------------------|-----------------------|-----------------------------|-----------|
| Cost | | | | | | |
| At 1 January 2001 | 1,042,121 | 999,597 | 317,400 | 4,606 | 7,810 | 2,371,534 |
| Additions | 3,814 | 68,336 | 3,886 | - | 116,312 | 192,348 |
| Transfers | 2,520 | 97,751 | - | - | (100,271) | - |
| Disposals | (80,121) | (21,102) | (440) | (128) | (5,193) | (106,984) |
| Other changes | (363) | - | - | - | (3,207) | (3,570) |
| At 31 December 2001 | 967,971 | 1,144,582 | 320,846 | 4,478 | 15,451 | 2,453,328 |
| At 1 January 2002 | 967,971 | 1,144,582 | 320,846 | 4,478 | 15,451 | 2,453,328 |
| Additions | 16,738 | 73,278 | 6,626 | - | 63,169 | 159,811 |
| Disposals | (109,806) | (140,541) | (17,240) | (209) | (78,241) | (346,037) |
| Other changes | - | - | (621) | - | - | (621) |
| At 31 December 2002 | 874,903 | 1,077,319 | 309,611 | 4,269 | 379 | 2,266,481 |
| Depreciation and adjustment | | | | | | |
| At 1 January 2001 | 532,975 | 701,335 | 196,648 | 3,798 | - | 1,434,756 |
| Charge for the year | 97,461 | 219,175 | 17,392 | 70 | - | 334,098 |
| Disposals | (72,037) | (18,065) | (365) | (128) | - | (90,595) |
| Adjustments | 51,484 | - | - | - | - | 51,484 |
| Transfers | - | (68) | - | 68 | - | - |
| At 31 December 2002 | 609,883 | 902,377 | 213,675 | 3,808 | - | 1,729,743 |
| At 1 January 2002 | 609,883 | 902,377 | 213,675 | 3,808 | - | 1,729,743 |
| Charge for the year | 91,940 | 150,839 | 19,260 | 58 | - | 262,097 |
| Disposals | (79,473) | (129,895) | (13,206) | (107) | - | (222,681) |
| Transfers | - | (9,924) | 9,924 | - | - | - |
| At 31 December 2002 | 622,350 | 913,397 | 229,653 | 3,759 | - | 1,769,159 |
| Net book value | | | | | | |
| At 1 January 2001 | 509,146 | 298,262 | 120,752 | 808 | 7,810 | 936,778 |
| At 31 December 2001 | 358,088 | 242,205 | 107,171 | 670 | 15,451 | 723,585 |
| At 31 December 2002 | 252,553 | 163,922 | 79,958 | 510 | 379 | 497,322 |

Total 2001 depreciation expense of CZK 491,840 thousand includes charges of CZK 1,459 thousand for low value items. Since 2002 the low value tangible assets are not accounted in the balance sheet, therefore depreciation charges do not include costs of low value items.

(b) Tangible fixed assets held under finance leases

Since the year 2000 the Bank uses assets totalling CZK 242 thousand which are subject to leasing agreement in which the Bank acts as lessee.

The Bank is committed to payments under finance leases for fixed assets as follows:

| CZK 000 | Paid during 2002 | Due within 1 year | Due from 1 year to 5 years | Due in following years | Total payments remaining |
|------------------|------------------|-------------------|----------------------------|------------------------|--------------------------|
| Office equipment | 39 | 39 | 39 | - | 78 |
| Total | 39 | 39 | 39 | - | 78 |

19. OTHER ASSETS

| CZK 000 | 2002 | 2001 |
|--------------------------------------|------------------|------------------|
| Other debtors | 35,495 | 43,239 |
| Collections accepted from customers | 32,462 | 10,654 |
| Fair value of derivatives (positive) | 2,624,757 | 2,427,181 |
| Deferred tax asset | 14,315 | 74,453 |
| Other | 91,734 | 268,799 |
| Total other assets | 2,798,763 | 2,824,326 |
| Less: | | |
| Adjustments | (3,642) | (3,832) |
| Total | 2,795,121 | 2,820,494 |

20. DUE TO BANKS

(a) Analysis of due to banks by residual maturity

| CZK 000 | 2002 | 2001 |
|-------------------------|-------------------|-------------------|
| Repayable on demand | 2,168,644 | 1,104,211 |
| Up to 3 months | 12,751,289 | 13,128,447 |
| From 3 months to 1 year | 2,578,753 | 2,889,391 |
| From 1 to 5 years | 3,006,288 | 2,179,205 |
| Over 5 years | 2,537,588 | 751,491 |
| Total | 23,042,562 | 20,052,745 |

(b) Due to participation interests with controlling and substantial influence

| CZK 000 | 2002 | 2001 |
|--------------------------------------|----------------|----------------|
| Controlling influence | | |
| Repayable on demand | | |
| (up to 24 hours or in 1 working day) | 14,429 | 13,592 |
| Up to 3 months | - | - |
| From 3 months to 1 year | - | - |
| From 1 to 5 years | 193,531 | 193,000 |
| Over 5 years | - | - |
| Total | 207,960 | 206,592 |

No due to participation interests with substantial influence are included in due to banks in 2002 (2001: CZK 0 thousand).

(c) Due to persons with a special relationship to the Bank

The volume of due to persons with a special relationship to the Bank totalled CZK 7,403,718 thousand in 2002 (2001: CZK 4,565,848 thousand).

21. DUE TO CUSTOMERS

(a) Analysis of due to customers by sector

| CZK 000 | Repayable on demand | Savings with fixed maturity | Savings with notice | Term deposits with fixed maturity | Other | Total |
|----------------------------|------------------------|-----------------------------------|---------------------------|---|------------------|-------------------|
| At 31 December 2002 | | | | | | |
| Financial institutions | 242,200 | - | - | 411,644 | 14,970 | 668,814 |
| Non-financial institutions | 18,734,216 | - | - | 8,471,549 | 359,661 | 27,565,426 |
| Insurance institutions | 324,602 | - | - | 1,038,184 | 835,680 | 2,198,466 |
| Government sector | 2,115,078 | - | - | 122,144 | 1,000,146 | 3,237,368 |
| Non-profit organisations | 383,718 | - | - | 265,086 | - | 648,804 |
| Self-employed | 4,711,096 | - | - | 4,503,121 | 16,905 | 9,231,122 |
| Resident individuals | 3,186,007 | 2,346,345 | 484 | 14,484,659 | 422,560 | 20,440,055 |
| Non-residents | 1,427,973 | - | - | 1,357,864 | 32,519 | 2,818,356 |
| Companies without IČO | 39,931 | - | - | 120,510 | - | 160,441 |
| Total | 31,164,821 | 2,346,345 | 484 | 30,774,761 | 2,682,441 | 66,968,852 |
| At 31 December 2001 | | | | | | |
| Financial institutions | 193,262 | - | - | 1,883,488 | - | 2,076,750 |
| Non-financial institutions | 16,066,436 | - | - | 5,556,856 | 234,831 | 21,858,123 |
| Insurance institutions | 275,492 | - | - | 1,430,972 | 2,140,900 | 3,847,364 |
| Government sector | 1,323,302 | - | - | 3,277,546 | 819,000 | 5,419,848 |
| Non-profit organisations | 322,803 | - | - | 353,355 | 231 | 676,389 |
| Self-employed | 2,295,001 | - | - | 2,545,478 | 16,283 | 4,856,762 |
| Resident individuals | 2,668,517 | 2,581,519 | 2,245 | 15,999,860 | 255,522 | 21,507,663 |
| Non-residents | 1,380,016 | - | - | 1,762,152 | 42,477 | 3,184,645 |
| Companies without IČO | 40,159 | - | - | 439 | 2,000 | 42,598 |
| Total | 24,564,988 | 2,581,519 | 2,245 | 32,810,146 | 3,511,244 | 63,470,142 |

No due to customers that relates to the provision of investment services to customers are included in 2001 and 2002.

(b) Due to participation interests with controlling and substantial influence

No due to participation interests with controlling and substantial influence is included in 2001 and 2002.

(c) Due to persons with a special relationship to the Bank

| CZK 000 | Management | | Other |
|----------------------------|--------------------|------------------|----------------|
| | Board of directors | Other executives | |
| At 31 December 2001 | 7,219 | 18,400 | 90,506 |
| At 1 January 2002 | 7,219 | 18,400 | 90,506 |
| Additions | 9,308 | 8,618 | 98,632 |
| Disposals | (1,679) | (8,109) | (77,742) |
| At 31 December 2002 | 14,848 | 18,909 | 111,396 |

22. PAYABLES FROM DEBT SECURITIES

(a) Analysis of certificates of deposit and zero-coupon bonds by sector

| CZK 000 | 2002 | 2001 |
|----------------------------|------------------|-------------------|
| Financial institutions | 44,757 | - |
| Non-financial institutions | 6,246,293 | - |
| Government sector | 60,721 | - |
| Non-profit organisations | 19,494 | - |
| Self-employed | 448,032 | - |
| Resident individuals | 1,560,431 | 17,407,511 |
| Non-residents | 758,313 | - |
| Companies without IČO | 1,913 | - |
| Unallocated | 323 | - |
| Total | 9,140,277 | 17,407,511 |

(b) Analysis of bonds issued

| Issue date | Maturity date | Currency | Amount CZK 000 | Amount due within 1 year |
|--------------------------|---------------|----------|-------------------|-----------------------------|
| 01/04/1998 | 01/04/2003 | CZK | 400,000 | 400,000 |
| 17/06/1998 | 17/06/2003 | CZK | 300,000 | 300,000 |
| 10/06/1999 | 10/06/2004 | CZK | 2,400,000 | - |
| 14/02/2002 | 04/02/2009 | CZK | 1,882,114 | - |
| Total | | | 4,982,114 | 700,000 |
| Accrued interest expense | | | 267,334 | |
| Total | | | 5,249,448 | 700,000 |

The proportion of issued debt securities with residual maturity up to 1 year to the total balance of issued debt securities is 13.43% (2001: 26.19%).

The Bank has purchased its own debt securities for the purpose of trading in the total amount of CZK 2,554,115 thousand (2001: CZK 0 thousand), see Note 14 (d).

23. SUBORDINATED LIABILITIES

| CZK 000 | 2002 | 2001 |
|--|------------------|------------------|
| Subordinated debt, Bank Austria AG, Vienna | 739,576 | 748,332 |
| Subordinated debt, Bayerische Hypo- und Vereinsbank AG, Munich | 387,797 | 392,427 |
| Total | 1,127,373 | 1,140,759 |

The above subordinated debt amounts are subject to the following terms and conditions:

A new contract regarding the subordinated debt from Bank Austria Creditanstalt International AG, Vienna was concluded on 1 April 2000 to replace the original contract. Bank Austria Creditanstalt International AG, Vienna was merged with Bank Austria AG, Vienna in November 2000. The subordinated loan was issued in the notional amount of EUR 23,400 thousand at market rates of interest and matures in March 2010.

The amount of CZK 387,797 thousand (2001: CZK 392,427 thousand) represents the subordinated loan granted by Bayerische Hypo- und Vereinsbank AG, Munich totalling EUR 12,271 thousand for 6-month EURIBOR+0.25%. The loan matures on 31 December 2005.

Both loans fulfil the CNB requirements for subordinated liability.

24. OTHER LIABILITIES

| CZK 000 | 2002 | 2001 |
|--|------------------|------------------|
| Other short term payables to customers | 2,396,787 | 2,461,245 |
| Estimated payables | 430,216 | 604,570 |
| Other creditors | 95,561 | 94,160 |
| Fair value of derivatives (negative) | 3,664,016 | 3,067,741 |
| Taxes payable | 290,285 | 147,724 |
| Other | 233,960 | 76,468 |
| Total | 7,110,825 | 6,451,908 |

25. REGISTERED CAPITAL

The registered capital of the Bank was CZK 5,047,000 thousand as at 31 December 2002. The registered capital of the former Bank Austria Creditanstalt Czech Republic, a.s., of CZK 1,996,920 thousand was transferred into share premium of the Bank.

The shareholders of the Bank at 31 December 2002 are:

| Name | Registered office | Notional amount of shares in thousands pieces | Share of ownership % |
|---------------------------------------|-------------------|---|----------------------|
| Bank Austria Creditanstalt AG, Vienna | Austria | 5,047,000 | 100.00 |
| Total | | 5,047,000 | 100.00 |

26. BONUSES TIED TO EQUITY

The Bank has not implemented any programmes for the purchase of own shares and remuneration in the form of options for own shares in order to motivate and retain its employees.

27. RESERVES AND ADJUSTMENTS FOR POSSIBLE CREDIT LOSSES

(a) Reserves for possible credit and guarantee losses

| CZK 000 | | |
|--|-----------|------------------|
| Reserves for possible credit and guarantee losses (tax deductible) | | |
| Balance at 1 January 2001 | | 1,714,024 |
| Creation during current year | | - |
| Standard loans (1 %) | - | |
| Guarantees (2 %) | - | |
| Use during current year | | (277,779) |
| Write-off of loans | (276,640) | |
| Cover of losses from loans sold | (1,139) | |
| Release of reserves no longer considered necessary | | - |
| Balance of tax deductible reserves at 31 December 2001 | | 1,436,245 |
| Balance at 1 January 2002 | | 1,436,245 |
| Creation during current year | | 19,026 |
| Guarantees | 19,026 | |
| Use during current year | | (994) |
| Write-off of loans | (994) | |
| Release of reserves no longer considered necessary | | (358,067) |
| Balance of tax deductible reserves at 31 December 2002 | | 1,096,210 |
| Total reserves for possible credit and guarantee losses at 31 December 2001 | | 1,436,245 |
| Total reserves for possible credit and guarantee losses at 31 December 2002 | | 1,096,210 |

(b) Adjustments to classified receivables

| CZK 000 | | |
|--|----------|------------------|
| Adjustments to classified receivables (tax deductible) | | |
| Balance at 1 January 2001 | | 1,188,179 |
| Creation during current year | | 286,557 |
| Special mentioned loans | 42,569 | |
| Non-standard loans | 22,454 | |
| Doubtful loans | 75,484 | |
| Loss loans | 131,293 | |
| Receivables from debtors subject to bankruptcy and composition proceedings | 14,757 | |
| Use during current year | | (75,214) |
| Write-off of loans | (35,652) | |
| Cover of losses from loans sold | (39,562) | |
| Release of adjustments no longer considered necessary | | (108,208) |
| FX differences | | (42,795) |
| Balance of tax deductible adjustments at 31 December 2001 | | 1,248,519 |
| Balance at 1 January 2002 | | 1,248,519 |
| Creation during current year | | 671,976 |
| Special mentioned loans | 114,912 | |
| Non-standard loans | 151,988 | |
| Doubtful loans | 57,946 | |
| Loss loans | 333,957 | |
| Receivables from debtors subject to bankruptcy and composition proceedings | 13,173 | |
| Use during current year | | (53,254) |
| Write-off of loans | (53,254) | |
| Release of adjustments no longer considered necessary | | (264,859) |
| FX differences | | (18,866) |
| Balance of tax deductible adjustments at 31 December 2002 | | 1,583,516 |
| Other adjustments to losses from receivables (tax non-deductible) | | |
| Balance at 1 January 2001 | | 172,819 |
| Creation during current year | | 222,503 |
| Release of adjustments no longer considered necessary | | (170,185) |
| Balance of tax non-deductible adjustments at 31 December 2001 | | 225,137 |

| | |
|--|------------------|
| Balance at 1 January 2002 | 225,137 |
| Release of adjustments no longer considered necessary | (224,839) |
| FX differences | (298) |
| Balance of tax non-deductible adjustments at 31 December 2002 | - |
| Total adjustments to credit losses at 31 December 2001 | 1,473,656 |
| Total adjustments to credit losses at 31 December 2002 | 1,583,516 |

28. RETAINED EARNINGS, RESERVE FUNDS AND OTHER FUNDS ALLOCATED FROM PROFIT

The Bank has allocated the 2001 profit and proposes to allocate the 2002 profit and use reserve funds as follows:

| CZK 000 | Profit | Retained earnings | Statutory reserve funds | Other reserve funds | Other funds from profit |
|---|------------------|-------------------|-------------------------|---------------------|-------------------------|
| Balance at 1 January 2002 | - | 78,475 | 506,683 | 1,763,319 | 915 |
| Profit for 2001 | 1,128,757 | | | | |
| Allocation of the 2001 profit approved by the supervisory board: | | | | | |
| Transfer to funds | (60,438) | | 56,438 | | 4,000 |
| Transfer to retained earnings | (1,068,319) | 1,068,319 | | | |
| Dividends paid up from retained earnings and other reserve funds | | (1,000,000) | | (750,000) | |
| Other creation of funds | | - | - | - | 198 |
| Use of funds | | - | - | - | (4,921) |
| Balance at 31 December 2002 before allocation of the 2002 profit | - | 146,794 | 563,121 | 1,013,319 | 192 |
| Profit for 2002 | 1,665,671 | | | | |
| Proposed allocation of the 2002 profit: | | | | | |
| Transfer to funds | (87,739) | - | 83,239 | | 4,500 |
| Transfer to retained earnings | (1,577,932) | 1,577,932 | | | |
| | - | 1,724,726 | 646,360 | 1,013,319 | 4,692 |

29. REVALUATION DIFFERENCES

| CZK 000 | Hedging derivatives | Net investments in foreign entities | Other |
|------------------------------------|---------------------|-------------------------------------|-------|
| Balance at 1 January 2001 | (1,994) | - | - |
| Increase | (221,755) | - | - |
| Decrease | - | - | - |
| Balance at 31 December 2001 | (223,749) | - | - |
| Balance at 1 January 2002 | (223,749) | - | - |
| Increase | - | - | - |
| Decrease | 223,749 | - | - |
| Balance at 31 December 2002 | - | - | - |

30. INCOME TAX AND DEFERRED TAX ASSET/LIABILITY

(a) Current income tax

| CZK 000 | 2002 | 2001 |
|--|----------------|----------------|
| Current year profit (loss) before tax | 2,507,663 | 1,621,750 |
| Income not liable to tax | (549,061) | (550,672) |
| Tax non-deductible expenses | 263,952 | 691,570 |
| Subtotal | 2,222,554 | 1,762,648 |
| Income tax calculated using the 31% tax rate | 688,991 | 546,421 |
| Tax discounts and offsets used | (87,500) | (27,632) |
| Income tax for the year | 601,491 | 518,789 |

(b) Deferred tax liability/asset

Deferred income tax is calculated on all temporary differences using a principal tax rate of 31%. Deferred income tax assets and liabilities are attributable to the following items:

| CZK 000 | 2002 | 2001 |
|---|---------------|---------------|
| Deferred tax assets | | |
| Credit provisions and reserves | - | 69,198 |
| Reserves for litigations | 21,306 | 9,665 |
| Social and health insurance for bonuses | 17,207 | 8,446 |
| Other | 1,240 | - |
| | 39,753 | 87,309 |
| Deferred tax liabilities | | |
| Differences in net book value of fixed assets | 25,438 | 12,856 |
| Deferred tax assets | 14,315 | 74,453 |

Bank management believes that it is highly probable that the Bank will fully realise its deferred tax asset as at 31 December 2002 based upon the Bank's current and expected future level of taxable profits.

(c) Income tax reserve

As at 31 December 2002 the Bank created income tax reserve totalling CZK 200,000 thousand. This reserve was recognised based on expected increase in taxable expenses for next three accounting periods that will not be induced by the Bank's current activities but which relate solely to the amendment of the Act on Reserves No. 592/1992 (see Note 3 (f)).

31. OFF-BALANCE SHEET ITEMS

(a) Irrevocable contingent liabilities arising from acceptances and endorsements, other written contingent liabilities and assets pledged as collateral

| CZK 000 | 2002 | 2001 |
|--|-------------------|-------------------|
| Banks | | |
| Letters of credit and financial guarantees | 413,095 | 188,332 |
| Other contingent liabilities | 518,989 | 558,598 |
| Collaterals provided | - | - |
| | 932,083 | 746,930 |
| Clients | | |
| Letters of credit and financial guarantees | 7,278,793 | 5,559,279 |
| Other contingent liabilities | 31,251,991 | 21,047,122 |
| Collaterals provided | 122,188 | - |
| | 38,652,972 | 26,606,401 |
| Total | 39,585,055 | 27,353,331 |

(b) Guarantees issued in favour of persons with a special relationship to the Bank

| CZK 000 | Executives |
|----------------------------|------------|
| At 31 December 2001 | 647 |
| At 1 January 2002 | 647 |
| Additions | - |
| Disposals | - |
| At 31 December 2002 | 647 |

(c) Guarantees issued in favour of participation interests with controlling and substantial influence

| CZK 000 | 2002 | 2001 |
|-----------------------|-----------|-----------|
| Controlling influence | 17 | 17 |
| Substantial influence | - | - |
| Total | 17 | 17 |

(d) Off-balance sheet financial instruments

| CZK 000 | Contractual amounts | | Fair value | |
|--------------------------------------|---------------------|-------------|------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Hedging instruments | | | | |
| Interest rate swap contracts | 13,605,070 | 6,725,402 | (890,615) | (234,002) |
| Cross currency swap contracts | | | (4,785) | - |
| Purchase | 166,550 | - | | |
| Sale | 150,705 | - | | |
| Trading instruments | | | | |
| Forward rate agreements (FRA) | 161,029,200 | 118,700,000 | (4,264) | (17,501) |
| Interest rate swap contracts | 63,010,332 | 48,888,140 | (274,610) | (235,370) |
| Forward foreign exchange contracts | | | 135,949 | (154,148) |
| Purchase | 13,835,786 | 47,893,151 | | |
| Sale | 13,704,174 | 48,042,127 | | |
| Forward transactions with securities | 547,981 | 54,437 | (1,189) | (12) |
| Cross currency swap contracts | 390,277 | 392,565 | 255 | 473 |

(e) Residual maturity of financial derivatives

The allocation of nominal values of individual types of financial derivatives to their residual maturity is as follows.

| CZK 000 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|-------------------|-----------------------|----------------------|-----------------|-------------|
| At 31 December 2002 | | | | | |
| Hedging instruments | | | | | |
| Interest rate swap contracts | 1,882,988 | 1,104,824 | 8,284,482 | 2,332,776 | 13,605,070 |
| Cross currency swap contracts (Purchase) | - | - | - | 166,550 | 166,550 |
| Cross currency swap contracts (Sale) | - | - | - | 150,705 | 150,705 |
| Trading instruments | | | | | |
| Forward rate agreements (FRA) | 80,755,640 | 80,273,560 | - | - | 161,029,200 |
| Interest rate swap contracts | 6,457,300 | 20,518,045 | 27,539,937 | 8,495,050 | 63,010,332 |
| Forward foreign exchange contracts (Purchase) | 9,499,440 | 4,330,026 | 6,320 | - | 13,835,786 |
| Forward foreign exchange contracts (Sale) | 9,431,740 | 4,266,245 | 6,189 | - | 13,704,174 |
| Forward transactions with securities | - | 547,981 | - | - | 547,981 |
| Cross currency swap contracts | - | 194,895 | 195,382 | - | 390,277 |
| At 31 December 2001 | | | | | |
| Hedging instruments | | | | | |
| Interest rate swap contracts | 400,000 | 998,858 | 3,672,180 | 1,654,364 | 6,725,402 |
| Trading instruments | | | | | |
| Forward rate agreements (FRA) | 49,900,000 | 68,800,000 | - | - | 118,700,000 |
| Interest rate swap contracts | 2,942,590 | 6,330,000 | 32,525,550 | 7,090,000 | 48,888,140 |
| Forward foreign exchange contracts (Purchase) | 16,680,791 | 31,212,360 | - | - | 47,893,151 |
| Forward foreign exchange contracts (Sale) | 16,588,187 | 31,453,940 | - | - | 48,042,127 |
| Forward transactions with securities | - | 54,437 | - | - | 54,437 |
| Cross currency swap contracts | - | - | 392,565 | - | 392,565 |

(f) Refinancing agreements

The Bank was allowed to draw following loan facilities as at 31 December 2002:

Loan facility granted by Bank Austria Creditanstalt AG, Vienna amounting CZK 2,705,276 thousand (EUR 85,610 thousand) with final maturity in December 2006.

Credit line granted by European Investment Bank (EIB) amounting CZK 3,160,000 thousand (EUR 100,000 thousand) with final maturity in December 2009. This facility is special-purpose line strictly bounded on refinancing of loans fulfilling the terms and conditions of EIB.

The Bank manages risks associated with its trading activities on the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the volume limits of individual transactions, stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management" in Note 33 (c).

The majority of derivatives are contracted on the OTC market as a result of the non-existence of the public market with financial derivatives in the Czech Republic.

(b) Other (non-trading) activities

The selected risks to which the Bank is exposed as a result of its non-trading activities, management of positions arising as a result of these activities and the Bank's approach to the management of these risks are described below. More details on the procedures used by the Bank to measure and manage these risks are included in "Risk management" in Note 33 (c).

(ba) Liquidity risk

Liquidity risk arises as a result of the type of financing of the Bank's activities and management of its positions. It includes both the risk of being able to finance the Bank's assets using the instruments with the appropriate maturity and the Bank's ability to dispose of / sell its assets for the appropriate price within the appropriate time period.

The Bank has access to diversified sources of funds, which comprise deposits and other savings, securities issued, loans accepted including subordinated loans and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates a liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Bank's board of directors. The Bank also holds, as part of its liquidity risk management strategy, a portion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

32. VALUES TAKEN INTO ADMINISTRATION AND MANAGEMENT

| CZK 000 | 2002 | 2001 |
|--|-------------------|-------------------|
| Bonds | 22,268,287 | 6,644,001 |
| Shares and open-end funds certificates | 16,374,877 | 17,002,111 |
| Total | 38,643,164 | 23,646,112 |

33. FINANCIAL INSTRUMENTS – MARKET RISK

The Bank is exposed to market risks arising from the open positions of transactions with interest rates, equity and currency instruments, which are sensitive to the changes in conditions on financial markets.

(a) Trading

The Bank holds trading positions in certain financial instruments including financial derivatives. The majority of the Bank's business activities are conducted on the basis of the requirements of the Bank's customers. According to the estimated demand of its customers the Bank holds a certain supply of financial instruments and maintains the admission to the financial markets through the quoting of bid and ask prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Bank's business strategy is thus affected by the speculative expectation and market creation and its goal is to maximise net income from trading.

Residual maturity of the Bank's assets and liabilities

| CZK 000 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Without specification | Total |
|--|---------------------|-----------------------|----------------------|-------------------|--------------------------|--------------------|
| At 31 December 2002 | | | | | | |
| Cash | 456,325 | - | - | - | 89,151 | 545,476 |
| State zero coupon bonds | 3,829,766 | 2,564,997 | 441,500 | 964,543 | - | 7,800,806 |
| Receivables from banks | 32,151,366 | 728,260 | 77,657 | - | 34,189 | 32,991,472 |
| Receivables from customers | 8,419,149 | 14,835,318 | 20,399,367 | 19,306,136 | 6,510,494 | 69,470,464 |
| Debt securities | 74,851 | 1,102,901 | 7,125,202 | 1,805,086 | - | 10,108,040 |
| Shares, units and other investments | - | - | - | - | 3,000 | 3,000 |
| Participation interests with substantial influence | - | - | - | - | - | - |
| Participation interests with controlling influence | - | - | - | - | 360,000 | 360,000 |
| Other assets | - | 14,314 | - | - | 3,440,284 | 3,454,598 |
| Prepaid expenses and accrued income | 77,977 | - | - | - | - | 77,977 |
| Total | 45,009,434 | 19,245,790 | 28,043,726 | 22,075,765 | 10,437,118 | 124,811,833 |
| Due to banks | 14,919,932 | 2,578,753 | 3,006,288 | 2,537,589 | - | 23,042,562 |
| Due to customers | 65,771,586 | 928,084 | 267,464 | 1,718 | - | 66,968,852 |
| Payables from debt securities | 8,001,781 | 822,201 | 3,448,683 | 2,117,060 | - | 14,389,725 |
| Other liabilities | - | - | - | - | 18,908,781 | 18,908,781 |
| Accrued expenses and deferred income | 374,540 | - | - | - | - | 374,540 |
| Subordinated liabilities | 135 | 34 | 387,764 | 739,440 | - | 1,127,373 |
| Total | 89,067,974 | 4,329,072 | 7,110,199 | 5,395,807 | 18,908,781 | 124,811,833 |
| Gap | (44,058,540) | 14,916,718 | 20,933,527 | 16,679,958 | (8,471,663) | - |
| Cumulative gap | (44,058,540) | (29,141,822) | (8,208,295) | 8,471,663 | - | - |
| At 31 December 2001 | | | | | | |
| Cash | 1,679,232 | - | - | - | 308 | 1,679,540 |
| State zero coupon bonds | 1,892,631 | 5,308,608 | 193,684 | 28,209 | - | 7,423,132 |
| Receivables from banks | 38,624,084 | 1,150,227 | 317 | - | 1,559,522 | 41,334,150 |
| Receivables from customers | 10,181,728 | 12,498,809 | 19,545,486 | 16,843,432 | 7,111,240 | 66,180,695 |
| Debt securities | 381,560 | 573,753 | 1,639,556 | 1,466,640 | - | 4,061,509 |
| Shares, units and other investments | - | - | - | - | 3,000 | 3,000 |
| Participation interests with substantial influence | - | - | - | - | 300 | 300 |
| Participation interests with controlling influence | - | - | - | - | 375,707 | 375,707 |
| Other assets | 123,054 | 74,451 | - | - | 3,635,384 | 3,832,889 |
| Prepaid expenses and accrued income | 106,663 | 90,467 | 152,032 | 190,070 | 33,892 | 573,124 |
| Total | 52,988,952 | 19,696,315 | 21,531,075 | 18,528,351 | 12,719,353 | 125,464,046 |
| Due to banks | 14,232,658 | 2,889,391 | 2,179,205 | 751,491 | - | 20,052,745 |
| Due to customers | 62,066,423 | 1,186,044 | 207,214 | 10,461 | - | 63,470,142 |
| Payables from debt securities | 16,534,282 | 1,973,405 | 3,287,711 | - | - | 21,795,398 |
| Other liabilities | 2,652,122 | 114,336 | - | - | 15,489,475 | 18,255,933 |
| Accrued expenses and deferred income | 234,355 | 75,828 | 96,809 | 674 | 341,403 | 749,069 |
| Subordinated liabilities | - | - | 392,427 | 748,332 | - | 1,140,759 |
| Total | 95,719,840 | 6,239,004 | 6,163,366 | 1,510,958 | 15,830,878 | 125,464,046 |
| Gap | (42,730,888) | 13,457,311 | 15,367,709 | 17,017,393 | (3,111,525) | - |
| Cumulative gap | (42,730,888) | (29,273,577) | (13,905,868) | 3,111,525 | - | - |

(bb) Interest rate risk

The Bank is exposed to an interest rate risk since the interest-bearing assets and liabilities have different maturity dates, periods of changes / adjustments of interest rates and volumes during these periods. In the case of variable interest rates, the Bank is exposed to a basis risk that is based on the difference in the mechanism of adjusting individual types of interest rates, such as PRIBOR, announced interest on deposits, etc. The Bank's interest rate risk management activities are aimed at optimising net interest income in accordance with the Bank's strategy approved by the board of directors.

The Bank is generally more interest sensitive on the side of its liabilities, which means that its interest sensitive assets have a longer duration or period of adjusting interest rates than its liabilities. When interest rates increase, net interest income decreases (negative BPV value – see below).

Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for the management of assets and liabilities approved by the board of directors.

Part of the Bank's income is generated by the aimed incongruity between the interest sensitive assets and liabilities. The table below is summarising the incongruity between the interest sensitive assets and liabilities, which is expressed by the change of present values of assets and liabilities if interest rates increase by 1 basis point (0.01%), so-called "Basis point value – BPV". Sensitivity (BPV) of instruments is recorded either in the period in which they are due or in the period in which the interest rate changes, i.e. in the period that occurs earlier. Certain assets or liabilities are allocated to individual periods on the basis of an expert appraisal due to the expected preliminary repayment or non-defined maturity dates.

Interest sensitivity BPV of the Bank's assets and liabilities

| CZK 000 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|--|-------------------|-----------------------|----------------------|-----------------|-----------------|
| At 31 December 2002 | | | | | |
| Cash | - | - | - | - | - |
| State zero coupon bonds | (46) | (209) | - | - | (255) |
| Receivables from banks | (75) | (25) | - | - | (100) |
| Receivables from customers | (422) | (733) | (4,606) | (2,595) | (8,356) |
| Debt securities | (15) | (173) | (1,605) | (1,268) | (3,061) |
| Other interest sensitive assets | - | (1) | - | (1) | (2) |
| Total | (558) | (1,141) | (6,211) | (3,864) | (11,774) |
| Due to banks | 93 | 140 | 1 166 | 477 | 1 876 |
| Due to customers | 341 | 395 | 123 | 1 | 860 |
| Payables from debt securities | 8 | 35 | 773 | 1 026 | 1 842 |
| Other interest sensitive liabilities | - | - | - | - | - |
| Subordinated liabilities | 18 | 19 | - | - | 37 |
| Total | 460 | 589 | 2,062 | 1,504 | 4,615 |
| Long positions of interest rate derivatives | 777 | 1,143 | 8,322 | 4,171 | 14,413 |
| Short positions of interest rate derivatives | (846) | (1,654) | (5,086) | (922) | (8,508) |
| Gap | (167) | (1,063) | (913) | 889 | (1,254) |
| Cumulative gap | (167) | (1,230) | (2,143) | (1,254) | (1,254) |
| At 31 December 2001 | | | | | |
| Cash | - | - | - | - | - |
| State zero coupon bonds | (32) | (227) | - | - | (259) |
| Receivables from banks | (110) | (62) | - | - | (172) |
| Receivables from customers | (500) | (693) | (2,913) | (3,447) | (7,553) |
| Debt securities | (10) | (75) | (589) | (916) | (1,590) |
| Other interest sensitive assets | (3) | - | - | - | (3) |
| Total | (655) | (1,057) | (3,502) | (4,363) | (9,577) |
| Due to banks | 135 | 173 | 961 | 892 | 2,161 |
| Due to customers | 135 | 92 | 50 | 4 | 281 |
| Payables from debt securities | - | 99 | 690 | - | 789 |
| Other interest sensitive liabilities | - | 942 | - | - | 942 |
| Subordinated liabilities | 18 | 19 | - | - | 37 |
| Total | 288 | 1,325 | 1,701 | 896 | 4,210 |
| Long positions of interest rate derivatives | 583 | 312 | 7,684 | 2,839 | 11,418 |
| Short positions of interest rate derivatives | (656) | (268) | (6,438) | (908) | (8,270) |
| Gap | (440) | 312 | (555) | (1,536) | (2,219) |
| Cumulative gap | (440) | (128) | (683) | (2,219) | (2,219) |

(bc) Equity risk

Due to fact that the Bank does not trade with equity instruments, no exposure to equity risk exists.

(bd) Currency risk

Assets and liabilities denominated in foreign currency including off-balance sheet exposures represent the Bank's exposure to currency risks. Both realised and unrealised foreign exchange gains and losses are reported directly in the profit and loss account. The Bank's foreign currency position in the most significant currencies is as follows:

The Bank's foreign currency position

| CZK 000 | EUR | USD | SKK | CZK | Other | Total |
|--|-------------------|------------------|---------------|-------------------|------------------|--------------------|
| At 31 December 2002 | | | | | | |
| Cash | 97,319 | 30,567 | 4,055 | 395,709 | 17,826 | 545,476 |
| State zero coupon bonds | - | - | - | 7,800,806 | - | 7,800,806 |
| Receivables from banks | 829,885 | 92,624 | 45,314 | 31,625,779 | 397,870 | 32,991,472 |
| Receivables from customers | 21,467,813 | 1,702,349 | 6 | 44,919,825 | 1,380,471 | 69,470,464 |
| Debt securities | 3,823,628 | 934,148 | - | 5,350,264 | - | 10,108,040 |
| Shares, units and other investments | - | - | - | 3,000 | - | 3,000 |
| Participation interests with substantial influence | - | - | - | - | - | - |
| Participation interests with controlling influence | - | - | - | 360,000 | - | 360,000 |
| Other assets | 29,374 | 3,770 | 5 | 3,420,995 | 454 | 3,454,598 |
| Prepaid expenses and accrued income | 737 | 2,862 | - | 74,189 | 189 | 77,977 |
| Total | 26,248,756 | 2,766,320 | 49,380 | 93,950,567 | 1,796,810 | 124,811,833 |
| Due to banks | 10,279,428 | 920,624 | - | 11,842,510 | - | 23,042,562 |
| Due to customers | 10,192,248 | 4,218,164 | 14,122 | 52,227,782 | 316,536 | 66,968,852 |
| Payables from debt securities | 434,467 | 172,210 | 16,770 | 13,093,726 | 672,552 | 14,389,725 |
| Other liabilities | 631,297 | 49,843 | 3,971 | 18,211,843 | 11,827 | 18,908,781 |
| Accrued expenses and deferred income | 34,822 | 456 | - | 339,262 | - | 374,540 |
| Subordinated liabilities | 1,127,373 | - | - | - | - | 1,127,373 |
| Total | 22,699,635 | 5,361,297 | 34,863 | 95,715,123 | 1,000,915 | 124,811,833 |
| Long-positions of off-balance sheet instruments | - | 2,643,680 | - | 1,569,816 | 42,277 | 4,255,773 |
| Short-positions of off-balance sheet instruments | 3,432,727 | - | - | - | 818,003 | 4,250,730 |
| Net foreign currency position | 116,394 | 48,703 | 14,517 | (194,740) | 20,169 | 5,043 |

The Bank's foreign currency position

| CZK 000 | EUR | USD | SKK | CZK | Other | Total |
|--|-------------------|------------------|----------------|--------------------|------------------|--------------------|
| At 31 December 2001 | | | | | | |
| Cash | 191,720 | 39,623 | 3,688 | 1,296,111 | 148,398 | 1,679,540 |
| State zero coupon bonds | - | - | - | 7,423,132 | - | 7,423,132 |
| Receivables from banks | 2,612,753 | 6,666,748 | 3,644 | 31,163,373 | 887,632 | 41,334,150 |
| Receivables from banks | 21,557,542 | 2,247,156 | 5 | 41,799,405 | 576,587 | 66,180,695 |
| Debt securities | 635,956 | 35,345 | - | 3,390,208 | - | 4,061,509 |
| Shares, units and other investments | - | - | - | 3,000 | - | 3,000 |
| Participation interests with substantial influence | - | - | - | 300 | - | 300 |
| Participation interests with controlling influence | - | - | - | 375,707 | - | 375,707 |
| Other assets | 184,439 | 66,903 | - | 3,514,442 | 67,105 | 3,832,889 |
| Prepaid expenses and accrued income | 121,361 | 14,616 | - | 432,599 | 4,548 | 573,124 |
| Total | 25,303,771 | 9,070,391 | 7,337 | 89,398,277 | 1,684,270 | 125,464,046 |
| Due to banks | 7,035,303 | 403,000 | - | 12,611,804 | 2,638 | 20,052,745 |
| Due to customers | 10,967,698 | 6,055,703 | 4,313 | 45,534,731 | 907,697 | 63,470,142 |
| Payables from debt securities | 2,152,152 | 444,902 | 3,107 | 18,371,608 | 823,629 | 21,795,398 |
| Other liabilities | 627,286 | 142,353 | 1,667 | 17,289,477 | 195,150 | 18,255,933 |
| Accrued expenses and deferred income | 62,175 | 8,612 | - | 663,708 | 14,574 | 749,069 |
| Subordinated liabilities | 1,140,759 | - | - | - | - | 1,140,759 |
| Total | 21,985,373 | 7,054,570 | 9,087 | 94,471,328, | 1,943,688 | 125,464,046 |
| Long-positions of off-balance sheet instruments | - | - | - | 4,718,266 | 63,928 | 4,782,194 |
| Short-positions of off-balance sheet instruments | 2,748,198 | 1,974,243 | - | - | 190,573 | 4,913,014 |
| Net foreign currency position | 570,200 | 41,578 | (1,750) | (354,785) | (386,063) | (130,820) |

(c) Risk management

The Bank's risk management concentrates on the management of the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by monitoring the sensitivity of particular assets or liabilities in individual time periods. The sensitivity is expressed by the change of present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For the hedge accounting purposes the Bank identifies specific assets/liabilities causing this incongruity in a way to meet the accounting criteria for the application of the hedge accounting.

Interest rate risks

The Bank applies a "Basis Point Value – BPV" approach for the measurement of interest sensitivity of non-trading assets and liabilities. BPV represents the change of present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. represents the sensitivity of instruments towards interest rate risks.

The Bank set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

Currency risk

The Bank has set the system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of EUR 20,000 thousand (approximately 7% of the Bank's capital) with respect to the total net currency exposure and to individual main currencies (CZK, EUR and USD). For remaining currencies are valid limits ranging from EUR 200 thousand to EUR 5,000 thousand according to the risk profile of particular currency.

Value at Risk

Market risks arising from the Bank's trading activities are managed using the Value at Risk method. Value at Risk represents a potential loss from an unfavourable movement on the market within a certain time period on a certain confidence level. The Bank determines Value at Risk using the stochastic simulation of a large number of scenarios of potential development on the

financial markets. Value at Risk is measured based on a one-day holding period and confidence level of 99%. The results of this model are back-tested and compared with the results corresponding to the actual changes of interest rates achieved on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets. The Value at Risk relating to individual types of risks was as follows.

| CZK 000 | Average | | Average | |
|----------------------------------|---------|--------|---------|--------|
| | 2002 | 2002 | 2001 | 2001 |
| VaR of interest rate instruments | 13,010 | 16,723 | 15,290 | 17,215 |
| VaR of currency instruments | 1,241 | 1,000 | 864 | 813 |

At 31 December 2002 the total VaR for all market risks was CZK 12,965 thousand (2001: CZK 15,193 thousand), which is lower than the aggregate of VaR values relating to individual risks due to the correlation between individual risks.

34. FINANCIAL INSTRUMENTS – CREDIT RISK

The Bank is exposed to credit risks as a result of its trading activities, providing the loans, hedging transactions, investment and mediation activities.

(a) Classification of receivables

The Bank classifies receivables into individual categories in accordance with the ČNB decree issued on 9 July 1998. The classification is as follows:

Standard receivables

Receivables that are repaid within their due dates or are not overdue for more than 30 days from the contractual date of maturity. The Bank receives information on the financial position of the debtor within 30 days from the date when it should receive such information in accordance with the contract. Debtor's financial position is favourable and there is no doubt that the receivable will be repaid in time.

Special mentioned receivables

The principal amount, interests and fees from these receivables are expected to be fully repaid. The criteria influencing the repayment of principal amount, interests and fees have been worsened since the date of credit approval but at the review date there is no expectation of any loss or nothing is indicating that the Bank will be forced to apply its recovery rights at the court. Receivables that are overdue for more than 31 days and less than 90 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 31 days and

less than 90 days from the date when it should receive such information in accordance with the contract or the Bank has carried out the restructuring of repayment plan based on debtor's financial position more than six months ago and less than three years ago.

Substandard receivables

The Bank is exposed to a high credit risk; the full repayment of principal amount, interests and fees is uncertain. On the other hand, the partial repayment of the receivables is highly probable. Receivables that are overdue for more than 91 days and less than 180 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 91 days and less than 180 days from the date when it should receive such information in accordance with the contract or the Bank has carried out the restructuring of repayment plan based on debtor's financial position less than six months ago.

Doubtful receivables

The likelihood of full repayment of principal amount, interests and fees is low. The partial repayment of the receivables is possible and probable. Receivables that are overdue for more than 181 days and less than 360 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 181 days and less than 360 days from the date when it should receive such information in accordance with the contract.

Loss receivables

Receivables are assessed as irrecoverable or partially recoverable in a small amount. The Bank makes an effort on credit repayments till the moment when future repayments are considered 100% uncollectible. Receivables that are overdue for more than 361 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 361 days from the date when it should receive such information in accordance with the contract or the debtor is in the bankruptcy process.

In addition, the Bank uses an internal rating system of receivables. This system comprises 28 categories. The internal rating system also assesses, apart from the overdue period, the financial ratios and indicators (as the balance sheet and profit and loss structure, cash flow.), quality of management, ownership structure, market position of the debtor, quality of client's reporting, production equipment, etc.

If an external rating of the debtor prepared by a renowned rating agency is available, the rating results are also taken into account upon the assessment of the appropriate debtor. However, this rating does not replace internal evaluation prepared using the Bank's internal rating system.

(b) Evaluation of collateral

The Bank generally requires collateral for loans granted to certain debtors before the provision of these loans. As acceptable collateral, which reduces gross credit exposure for the purpose of calculation of adjustments, the Bank considers the following types of collateral:

- Cash
- First-class securities
- Bank guarantee of reputable bank
- Guarantee provided by a reputable third party
- Real estates

The Bank's assessment of the net realisable value of the collateral is based on an expert appraisal or internal evaluation prepared by the Bank's special department. The net realisable value of the collateral is determined using this value and the correction coefficient, which reflects the Bank's ability to realise the collateral when necessary. For the purposes of the adjustments calculation the net realisable value of the collateral is determined on an individual basis for each receivable.

(c) Calculation of adjustments

When calculating adjustments, the Bank considers the gross book value of individual receivables reduced by the net realisable value of the collateral. To these net receivables, which are determined as described above, the Bank creates the following adjustments in accordance with the ČNB decree issued on 9 July 1998:

| | |
|-------------------|-------|
| Standard | 0 % |
| Special mentioned | 5 % |
| Sub-standard | 20 % |
| Doubtful | 50 % |
| Loss | 100 % |

For customer receivables resulting from credit cards, the adjustments are calculated for each category of receivables using higher percentage rates than determined according to ČNB requirement.

(d) Concentration of credit risk

The concentration of credit risks arises as a result of the existence of loans with similar economic characteristics affecting the debtor's (or group's of debtors) ability to meet his obligations. The significant exposure development, i.e. the receivable from a debtor or an economically bound group of debtors that exceeds 10% of the Bank's capital, is monitored by the Bank weekly. The Bank has created a system of internal limits for individual countries, industries and debtors in order to prevent significant concentration of credit risks and the credit exposure of individual segments is regularly monitored.

Sector analysis

The analysis of concentration of credit risks according to individual industries / sectors is included in Notes 12 (b), 14 (d), 14 (e) and 14 (f).

(e) Securitisation and use of credit derivatives

The Bank did not carry out any securitisation of its receivables at the balance sheet date. The Bank did not trade with credit derivatives.

Operational, legal and other risks

The Bank has developed the complex of internal rules and regulations that organises and defines the working processes and related control activities.

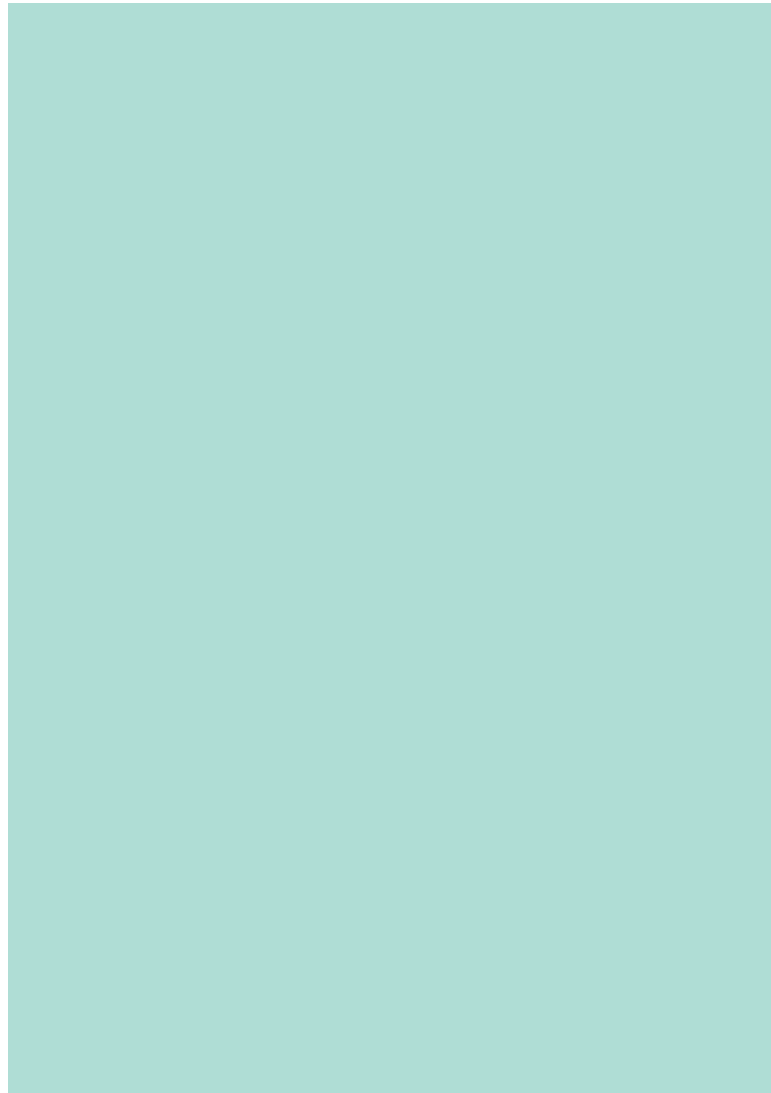
The complex of internal rules and regulation also comprises "Disaster Recovery Plan" and "Business Continuity Plan" that are of great importance considering operational risks. Internal and external auditors review the validity of these documents regularly. Moreover, the Bank verified the effectiveness and usefulness of these plans during the recoveries from failures that occurred for example in August 2002 when the Bank was affected by floods.

The obligations of employees and management together with related control activities are precisely defined in the complex of internal rules and regulation.

The Bank limits its operational risk in the payment and settlement systems adhering to the following principles:

- The transactions that result in cash in- or outflow (payment system and clearing transactions, settlement of interbank transactions, loan administration) are performed based on four eyes principle (person performing data entry – person authorising);
- Daily nostro accounts reconciliation;
- Daily and monthly internal accounts reconciliation that is in competence of particular departments;
- Evidence, processing and escalation of client's complaints resulting from processing mistakes.

**AUDITOR'S REPORT ON THE
NON-CONSOLIDATED ANNUAL
REPORT**



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Auditor's report to the shareholders of HVB Bank Czech Republic a.s.

On the basis of our audit, on 17 March 2003 we issued an auditor's report on the Bank's non-consolidated statutory financial statements, which are included in this annual report, and our report was as follows:

“We have audited the accompanying financial statements of HVB Bank Czech Republic a.s. for the year ended 31 December 2002. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.


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

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of HVB Bank Czech Republic a.s. as of 31 December 2002 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic.”

We have reviewed other financial information in the annual report for consistency with the audited financial statements. In our opinion, the information is consistent in all material aspects with the audited financial statements.

The management of the Bank is responsible for the completeness and accuracy of the report on relations between related parties. Our responsibility is to review the accuracy of the information included in the report. During our review nothing came to our attention that would cause us to believe that the information contained in the report is materially inaccurate.

Prague
21 May 2003


KPMG Česká republika Audit, spol. s r.o.
Licence number 71


Pavel Závitkovský
Licence number 69

OTHER INFORMATION

PUBLISHED PURSUANT TO § 80a OF ACT
NO.591/1991 COLL., ON SECURITIES, AS AMENDED



Other information

1. INFORMATION ABOUT HVB BANK AS AN ISSUER OF REGISTERED SECURITIES

1.1. ELEMENTARY DATA

| | |
|--------------------|----------------------------------|
| Business name: | HVB Bank Czech Republic a.s. |
| Organisation id: | 64948242 |
| Registered office: | Prague 1, nám. Republiky 3a/2090 |

HVB Bank Czech Republic a.s. (hereinafter also “HVB Bank”) was incorporated according to Czech law and in particular pursuant to the Banking Act 21/1992 Coll., as amended. HVB Bank was established for an indefinite term.

HVB Bank is duly registered in the Companies Register administered by the Municipal Court in Prague, Section B, Folio 3608. A banking licence was granted to HVB Bank by the Czech National Bank’s decision ref. no. V 40/9-95 dated September 14, 1995 effective from January 1, 1996.

No interruptions occurred in the issuer’s business.

1.2. DIVIDENDS AND DIRECTORS' FEES

In 2002, HVB Bank paid dividends in the amount of CZK 1,750,000,000 to its shareholder from the reserve funds and retained earnings. It did not pay any directors' fees.

1.3. SUBJECT MATTER OF THE BUSINESS ACCORDING TO THE ARTICLES OF ASSOCIATION

The subject matter of HVB Bank's business includes banking transactions and the provision of a full scope of financial services as defined in the Banking Act 21/1992 Coll., as amended, and the Foreign Exchange Act 219/1995 Coll., as amended, and deals with securities on own and third party account as defined in the Securities Act 591/1992 Coll., as amended, i.e.

- (a) the activities laid down in § 1 para.1 (a) and (b) and para. 3 (a) through (r) of the Act on Banking 21/1992 Coll., as amended,
- (b) the issuance of mortgage bonds pursuant to § 1 para. 4 of the Act on Banking 21/1992 Coll., as amended
- (c) dealings with securities (on own name and own account, on own name and third party account, on third party's name and third party's account) pursuant to § 45 par.1 of the Securities Act 591/1992 Coll., as amended, and other activities allowed by the Securities Act.

(Article I. para 2 of HVB Bank's Articles of Association)

2. SHARE CAPITAL AND SHAREHOLDER'S EQUITY, SECURITIES AND GROUP

2.1. SHARE CAPITAL

HVB Bank has share capital of CZK 5,047,000,000 consists of:

- (a) 100 registered booked common stock of CZK 16,320,000 nominal value each,
- (b) 200 registered booked common stock of CZK 13,375,000 nominal value each,
- (c) 74,000 registered booked common stock of CZK 10,000 nominal value each.

All the above shares are registered with the Securities Centre. HVB Bank's share capital has been fully paid up.

HVB Bank issued no shares entitling their holders to use the right to exchange such shares for other shares or the right to priority subscription of other shares.

2.2. CHANGES IN SHAREHOLDER'S EQUITY

| Capital per year*/Bank: | Bank Austria Creditanstalt | HypoVereinsbank | Total – HVB |
|-------------------------|----------------------------|-------------------|--------------------|
| 2000 | CZK 4,123,548,000 | CZK 6,255,135,000 | CZK 10,378,683,000 |
| 2001 | – | – | CZK 10,298,320,000 |
| 2002 | – | – | CZK 10,433,017,000 |

*) always by 31st December

2.3. LIST OF UNPAID BOND ISSUES

| | |
|-------------------------------------|--|
| Issuer | HYPO-BANK CZ a.s. |
| Bond/stock exchange name | Mortgage bonds /HZL3HYPO 11.0/03 |
| Coupon | 11.0 % |
| ISIN | CZ0002000052 |
| Volume | CZK 400,000,000 |
| Date | 1. 4. 1998 |
| Maturity date | 1. 4. 2003 |
| Collateral | Package of mortgage loans |
| Issuer | Vereinsbank (CZ) a.s. |
| Bond/stock exchange name | Mortgage bonds /HZL3VEREIN 10.9/03 |
| Coupon | 10.9 % |
| ISIN | CZ0002000086 |
| Volume | CZK 300,000,000 |
| Date | 17. 6. 1998 |
| Maturity date | 17. 6. 2003 |
| Collateral | Package of mortgage loans |
| Issuer | Bank Austria Creditanstalt Czech Republic a.s. |
| Bond/stock exchange name | Mortgage bonds /HZL BACA 8.5/04 |
| Coupon | 8.5 % |
| ISIN | CZ0002000128 |
| Volume | CZK 2,400,000,000 |
| Date | 10. 6. 1999 |
| Maturity date | 10. 6. 2004 |
| Collateral | Package of mortgage loans |
| Issuer | HVB Bank Czech Republic a.s. |
| Bond/stock exchange name | Mortgage bonds /HZL HVB 6,0/09 |
| Coupon | 6.0 % |
| ISIN | CZ0002000185 |
| Volume | CZK 3,350,000,000 |
| Date | 4. 2. 2002 |
| Maturity date | 4. 2. 2009 |
| Collateral | Package of mortgage loans |
| Issuer | HVB Bank Czech Republic a.s. |
| Bond/stock exchange name | 30-year bond program |
| Revenue | 1st issue/HVB zero/03 |
| ISIN | Discount bonds with revenues on discount basis |
| Volume | CZ0003700643 |
| Date | CZK 500,000,000 |
| Maturity date | September 12, 2002 |
| Bond/stock exchange name | December 31, 2003 |
| Revenue | 2 nd issue/HVB zero/05 |
| ISIN | Discount bonds with revenues on discount basis |
| Volume | CZ0003700650 |
| Date | CZK 1,500,000,000 |
| Maturity date | September 12, 2002 |
| Bond/stock exchange name | December 31, 2005 |
| Revenue | 3rd issue/HVB zero/07 |
| ISIN | Discount bonds with revenues on discount basis |
| Volume | CZ0003700668 |
| Date | CZK 2,000,000,000 |
| Maturity date | September 12, 2002 |
| | December 31, 2007 |
| Total volume of unpaid bonds | CZK 9,450,000,000 |

All issues except HZL HYPO 10.5/02 are registered in the open market of Prague Stock Exchange (Burza cenných papírů Prague, a.s.)

2.4. GROUP STRUCTURE

A/ HVB Bank shareholders

| Shareholder | Share in CZK | % share |
|---------------------------------|---------------|---------|
| Bank Austria AG, Vienna Austria | 5,047,000,000 | 100 % |

B/ Affiliate companies and other companies on an equal footing

| Company | Address | Partner/Shareholder (% share) |
|---|----------------------------------|---|
| BV Finance Praha s.r.o. | Prague 2, Italská 24 | Bayerische Hypo- und Vereinsbank AG, Munich (100 %) |
| HVB Reality CZ, s.r.o. | Prague 5, Elišky Peškové 15 | Bayerische Hypo- und Vereinsbank AG, Munich (100 %) |
| BAWCO, s.r.o. | Prague 1, Revoluční 7 | Bank Austria Creditanstalt AG, Vienna (100 %) |
| CA IB Securities, a.s. | Prague 5, nám. Kinských 2/602 | Bank Austria Creditanstalt AG, Vienna (100 %) |
| Bank Austria Creditanstalt Leasing Real Estate s.r.o. | Prague 2, Vinohradská 938/37 | Bank Austria Creditanstalt Leasing GmbH, Vienna (100 %) |
| CAC Leasing a.s. | Prague 5, Janáčkovo nábř. 55/140 | Komerční banka, a.s. (50 %), Bank Austria Creditanstalt Leasing GmbH, Vienna (35 %), Bank Austria Creditanstalt AG, Vienna (15 %) |

C/ Subsidiaries

| Company | Address | Partner/Shareholder (% share) |
|--|-----------------------------|---|
| HYPO stavební spořitelna a.s. | Prague 1, Senovážné nám. 4 | HVB Bank Czech Republic a.s. (60 %), Vereinsbank Victoria Bauspar AG, Munich (40 %) |
| BAPS s.r.o. | Prague 1, Revoluční 15 | HVB Bank Czech Republic a.s. (100 %) |
| CBCB – Czech Banking Credit Bureau, a.s. | Prague 8, Sokolovská 192/79 | HVB Bank Czech Republic a.s. (20 %) Česká spořitelna, a.s. (20 %) GE Capital Bank, a.s. (20 %) Československá obchodní banka, a.s. (20 %) Komerční banka, a.s. (20 %) |

3. ACTIVITIES

3.1. KEY ACTIVITIES

| | |
|--------------------------|--|
| Clients | Bank products and services |
| Corporate clients | Loans Project funding and structured funding International transactions Documentary transactions Mortgages Treasury & Custody services Deposits Retail banking Payment cards Asset management |
| Retail (private) clients | Personal and business (current) account maintenance Saving accounts, saving books, term deposits Overdraft loans on personal accounts Standardised consumer loans Mortgage loans Payment cards Homebanking and Phonebanking Asset management Investment consultancy (share certificates) OTC services |

3.2. SEAT OF THE ISSUER'S ORGANISATION UNITS AND DESCRIPTION OF ESTATES OWNED BY THE ISSUER

HVB Bank Czech Republic a.s. has no branch offices or separate organisation units.

HVB Bank owns the only real estate – in Brno, Lidická ulice nr. 59.

3.3. PATENTS AND LICENCES

1/ ČNB resolution dated September 14, 1995, ref. nr. V 40/9-95, banking licence for Vereinsbank (CZ) a.s. The ČNB licence is valid also subsequent to the change of the business company o Hypovereinsbank CZ a.s. and thereafter to HVB Bank Czech Republic a.s.

2/ Czech Ministry of Finance resolution dated December 19, 1995, ref. nr. 104/75 407/95, permit for Vereinsbank (CZ) a.s. to trade in securities and to perform other activities permitted by the Securities Act (confirming

decision by the Securities Commission dated June 14, 1999, ref. nr. 521/2703 – k/99). This permit is also valid after the change of the business company into Hypovereinsbank CZ a.s. and subsequently HVB Bank. HVB Bank requested an extension of the granted permit by other investment services. The Securities Commission granted its permit by its resolution dated October 9, 2002, ref. Nr. 43/N/224/2001, legally valid and effective on November 13, 2002.

3.4. JUDICIAL, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

HVB Bank is not and was not involved in any judicial, administrative or arbitration proceedings which had or might have a significant impact on the issuer's financial standing. Neither HVB Bank nor its legal predecessors were involved in such proceedings during the current accounting period and the two preceding accounting periods.

3.5. MAIN INVESTMENTS

| Investment type | 2002 | 2001 | 2000 |
|--------------------------|--------------------|--------------------|--------------------|
| Information technologies | CZK 161,311,000 | CZK 286,843,000 | CZK 277,570,000 |
| Securities (aggregate*) | CZK 19,014,842,000 | CZK 12,615,336,000 | CZK 12,503,175,000 |

*) Details on investments in securities in 2002 and 2001 can be found in the Notes to financial statements.

All HVB Bank investments except financial investments are of operating nature and are funded from HVB Bank's own resources. All information is valid as of 31st December of the relevant calendar year and covers all legal predecessors of HVB Bank.

3.6. OUTSTANDING LOANS, ACCEPTED LOANS AND OTHER LIABILITIES

| | |
|---------------|---|
| Creditor | European Investment Bank, Luxembourg |
| Debtor | HypoVereinsbank CZ a.s. |
| Loan amount | CZK 940,000,000 |
| Interest rate | PRIBOR – 0.05% |
| Loan date | 15. 6. 1999 |
| Maturity date | 15. 3. 2009 |
| Collateral | No collateral * |
| Creditor | European Investment Bank, Luxembourg |
| Debtor | HypoVereinsbank CZ a.s. |
| Loan amount | CZK 677,000,000 |
| Interest rate | PRIBOR – 0.05 % |
| Loan date | 15. 12. 2000 |
| Maturity date | 15. 3. 2009 |
| Collateral | No collateral* |
| Creditor | European Investment Bank, Luxembourg |
| Debtor | Bank Austria Creditanstalt Czech Republic, a.s. |
| Loan amount | 4,000,000 USD |
| Interest rate | EIB POOL RATE** |
| Loan date | 20. 6. 2000 |
| Maturity date | 15. 6. 2005 |
| Collateral | No collateral* |
| Creditor | European Investment Bank, Luxembourg |
| Debtor | Bank Austria Creditanstalt Czech Republic, a.s. |
| Loan amount | 5,862,639 EUR |
| Interest rate | EIB POOL RATE** |
| Loan date | 20. 6. 2000 |
| Maturity date | 15. 6. 2005 |
| Collateral | No collateral* |
| Creditor | European Investment Bank, Luxembourg |
| Debtor | Bank Austria Creditanstalt Czech Republic, a.s. |
| Loan amount | 25,000,000 EUR |
| Interest rate | EIB POOL RATE** |
| Loan date | 15. 6. 2001 |
| Maturity date | 15. 6. 2009 |
| Collateral | No collateral* |
| Creditor | European Investment Bank, Luxembourg |
| Debtor | HVB Bank Czech Republic a.s. |
| Loan amount | 100,000,000 EUR (not disbursed yet) |
| Interest rate | EIB POOL RATE** |
| Loan date | 4. 12. 2001 |
| Maturity date | 4. 12. 2009 |
| Collateral | No collateral* |

*) Bayerische Hypo-und Vereinsbank AG Munich issued its guarantee for all loans granted by EIB and accepted by HypoVereinsbank CZ a.s. and Bank Austria AG Vienna issued its guarantee for all loans granted by EIB and accepted by Bank Austria Creditanstalt Czech Republic, a.s., and HVB Bank Czech Republic a.s.

***) EIB POOL RATE is an interest rate fixed by EIB on a quarterly basis.

| | |
|---|------------------|
| Total amount of loans as at 31.12.2002 | |
| Converted to CZK except the last loan – not yet disbursed | 2,709,708,522.26 |

4. STATEMENT OF ACCURACY OF THE DATA IN THE ANNUAL REPORT

The Managing Board hereby declares that the data included in the Annual Report correspond to reality and that no substantial circumstances that might affect the accurate and correct assessment of the Bank as issuer of securities were omitted.

**REPORT ON RELATIONS BETWEEN
THE CONTROLLING AND
CONTROLLED ENTITY AND ON THE
RELATIONS BETWEEN THE
CONTROLLED ENTITY AND OTHER
ENTITIES CONTROLLED BY THE
SAME CONTROLLING ENTITY
PURSUANT TO § 66a OF THE
COMMERCIAL CODE**

Report on relations between the controlling and controlled entity and on the relations between the controlled entity and other entities controlled by the same controlling entity pursuant to § 66a of the Commercial Code

This report includes information on the relations between the company HVB Bank Czech Republic a.s. having its registered office at nám.Republiky 3a, reg.no.2090, 110 00 Prague 1 (“the controlled entity”) and the company Bank Austria Creditanstalt AG (until 12th July 2002 operating under the business name Bank Austria Aktiengesellschaft) having its registered office at Vordere Zollamtsstrasse 13, 1030 Vienna, Austrian Republic (hereinafter referred to as “the controlling entity”) and on the relations between the controlled entity and other entities controlled by the controlling entities (hereinafter referred to as “the associated entities”).

With a view to the fact that the controlling entity is the sole shareholder of the controlled entity, pursuant to § 66a para. 16 of the Commercial Code this report shall not be reviewed by the Supervisory Board of the company.

Within the framework of their business activities in the last year the controlled entity entered into the following contractual relations with the controlling entity as well as with other entities controlled by the controlling entity.

GUARANTEES

Contractual relations established in connection with the provision of a guarantee by the controlling entity and associated entities in favour of the controlled person. For these guarantees the controlling entity and

associated entities are provided with commissions. The controlled entity did not incur any loss on the basis of such relations.

COUNTER-GUARANTEES

Relations arising from either accepted or issued counter-guarantees are of a similar nature. On the basis of accepted counter-guarantee the Bank issues a Bank guarantee in favour of a beneficiary (a third person). In the last year such counter-guarantees were provided by the controlling entity and associated entities in favour of the controlled entity. The controlled entity paid aval commissions to the controlling entity or to the associated entities as its counter-performance, except for the cases when the controlling or associated entities were simultaneously the principal for the issuance of the relevant guarantee. In such cases, the controlled entity was paid a part of the commission that the controlling or associated entities received from the clients. The controlled entity did not incur any loss on the basis of such relations.

PLEDGE CONTRACTS

Pledge contracts represent another form of credit securing. Pursuant to the Measure of the Czech National Bank No. 3/1999, on Capital Adequacy of Banks Including Credit and Market Risks, the controlling entity and the controlled entity concluded a pledge contract, incl. the amendment, pursuant to § 39 et seq. Act No. 591/1992 Coll., on Securities, and pursuant to § 152 of

the Civil Code, in the last accounting period, on the basis of which the controlling entity as a pledgor establishes a pledge right to debentures and its claims from bank accounts in favour of the controlled entity as a pledgee as a guarantee for the obligations of the controlled entity's debtors. The controlled entity did not incur any loss on the basis of such relations.

IT CONTRACTS

Another group of relations to the associated entities is formed by the relations under the contracts that provide the controlled entity with services in the field of information technologies. On the basis of contracts a framework contract on the provision of software ("Framework Contract") and on the provision of software services ("Service Level Agreement") were concluded with the company WAVE Solutions Information Technology GmbH. In this sphere performance corresponding to standard market conditions was provided. The controlled entity did not incur any loss on the basis of these relations either.

LEASE CONTRACTS

For the purpose of ensuring materially its activities the controlled entity enters a number of lease contractual relations, both as the lessee and the lessor. In the last year no new contracts were concluded with the associated entities in this sphere. Performance provided

on the basis of the contracts having been concluded before, corresponds to standard market conditions. The controlled entity did not incur any loss on the basis of these relations.

OTHER CONTRACTS

The controlled entity entered also into contractual relations with the associated persons in the last accounting period, which may not be unambiguously classified in any of the above defined groups. A sub-custody agreement, the subject of which is the provision of custody services on the Polish market, was concluded with the Polish company Bank Przemyslowo-Handlowy PBK S.A. A contract on the payments in national currencies was concluded with the Slovak company HVB Bank Slovakia a.s. Also, the controlled entity reimbursed the controlling entities for the activity of the foreign managers correspondingly. The controlled entity did not incur any loss on the basis of such relations.

CONCLUSION

All services and counter-performances were provided in compliance with regular business conditions on the market. The company declares that it did not incur any loss due to the conclusion of the above mentioned contracts and performances provided or counter-performances accepted.

**MANAGING BOARD, SUPERVISORY
BOARD**



Managing Board, Supervisory Board

MEMBERS OF THE MANAGING BOARD AS OF DECEMBER 31, 2002:

JUDR. KAREL KRATINA
 date of birth: May 25, 1951
 Chairman of the Managing Board and
 Chief Executive Officer
 Date of establishment of the function:
 October 1, 2001
 Pražského povstání 675/42, Prague 4
 Faculty of Law, Charles University,
 Prague
 13 years of experience in banking

ING. DAVID GRUND
 date of birth: February 24, 1955
 Vice-chairman of the Managing Board
 and Executive Director
 Date of establishment of the function:
 October 1, 2001
 K lukám 702, Šestajovice
 University of Economics, Prague
 23 years of experience in banking
 business

HARTMUT ADOLF HAGEMANN
 date of birth: August 1, 1957
 Member of the Managing Board and
 Executive Director
 Date of establishment of the function:
 October 1, 2001
 Na Fialce I.1555/67, Prague 6
 Several years of experience as a
 member of the Managing Board of
 HypoVereinsbank CZ, a.s.

DR. UDO AMADEUS SZEKULICS
 date of birth: December 19, 1958
 Member of the Managing Board and
 Executive Director
 Date of establishment of the function:
 September 1, 2002
 Nad údolím 62/338, Prague 4
 University of Salzburg
 17 years of experience in risk
 management and law

ING. PETR BRÁVEK
 date of birth: August 4, 1961
 Member of the Managing Board and
 Executive Director
 Date of establishment of the function:
 December 12, 2001
 Dykova 19, Prague 10
 Technical University, Prague
 9 years of experience in bank
 operations and project management

MEMBERS OF THE MANAGING BOARD WHO LEFT THEIR FUNCTIONS IN THE COURSE OF 2002:

MANFRED MEIER

date of birth: August 27, 1942
Date of leaving the function:
September 1, 2002
Several years of experience as a member of the Managing Board of Bank Austria Creditanstalt Czech Republic, a.s.

CHANGES ON THE MANAGING BOARD FROM JANUARY 1, 2003 UNTIL MAY 21, 2003:

ING. DAVID GRUND

date of birth: February 24, 1955
Chairman of the Managing Board and Chief Executive Officer
Date of establishment of the function:
February 4, 2003
University of Economics, Prague
23 years of experience in banking business

ING. VĚSLAV MICHALIK, CSC.

date of birth: March 1, 1963
Member of the Managing Board and Executive Director
Date of establishment of the function:
February 1, 2003
Dolní Břežany 405
Technical University, Prague
8 years of experience in corporate finance and investment banking

MEMBERS OF THE MANAGING BOARD WHO RESIGNED THEIR FUNCTIONS FROM JANUARY 1, 2003 UNTIL MAY 21, 2003:

JUDR. KAREL KRATINA

date of birth: May 25, 1951
Date of resigning the function:
January 31, 2003
Faculty of Law, Charles University, Prague
13 years of experience in banking

HARTMUT ADOLF HAGEMANN

date of birth: August 1, 1957
Date of resigning the function:
January 31, 2003
Several years of experience as a member of the Managing Board of HypoVereinsbank CZ, a.s.

MEMBERS OF THE SUPERVISORY BOARD AS OF DECEMBER 31, 2002:

MAG. MARTIN GRÜLL

date of birth: October 25, 1959
Dr. Hans Schürff Gasse 21, 2340 Mödling, Republic of Austria
Date of establishment of the function:
July 30, 2001
University of Economics, Vienna
21 years of experience in international banking

MAG. WOLFGANG HALLER

date of birth: May 23, 1951
Rudolfplatz 3/16, 1010 Vienna, Republic of Austria
Date of establishment of the function:
July 30, 2001
University of Linz
29 years of experience in banking

HEINZ MEIDLINGER

date of birth: September 6, 1955
Kalmusweg 46/Haus 107, 1220 Vienna, Republic of Austria
Date of establishment of the function:
July 30, 2001
Academy of Commerce and Trade
33 years of experience in treasury

MAG. FRIEDERIKE KOTZ

date of birth: November 22, 1962
Dobliger Hauptstrasse 11, DG 29 1190 Vienna, Republic of Austria
Date of establishment of the function:
March 21, 2002
University of Economics, Vienna
17 years of experience in commercial banking, internal audit and quality management

HARALD NOGRASEK

date of birth: October 5, 1958
Leopold Moser Gasse 4/1/158 1020 Vienna, Republic of Austria
Date of establishment of the function:
March 21, 2002
University of Economics, Vienna
16 years of experience in capital markets and portfolio management

WILLIBALD CERNKO

date of birth: July 7, 1956
Freyung 3/3/7 1010 Vienna, Republic of Austria
Date of establishment of the function:
May 2, 2002
University of Economics and Business Administration, Vienna
20 years of experience in Corporate Banking

ING. JIŘÍ DRBOHLAV

date of birth: April 7, 1970
K Halmýři 687/15 181 00 Prague 8
Date of establishment of the function:
March 11, 2002
University of Economics, Prague
11 years of experience in the field of corporate clients business and strategy and product development

JUDR. PETR DUŠEK

date of birth: January 26, 1962
Děčínská 9 190 00 Prague 9
Date of establishment of the function:
March 11, 2002
Faculty of Law, Charles University, Prague
15 years of experience in the sphere of law and legal activity in banking

HELENA ŠRÁMKOVÁ

date of birth: May 18, 1954
Liškova 633/8 140 00 Prague 4
Date of establishment of the function:
March 11, 2002
Secondary school of economics, Prague
12 years of experience in banking and payments

MEMBERS OF THE SUPERVISORY BOARD WHO LEFT THEIR FUNCTIONS IN THE COURSE OF 2002:

DR. ERICH HAMPEL

date of birth: February 25, 1951
Date of leaving the function:
May 2, 2002
Several years of experience in executive positions in banking business

DKFM. GERHARD BAYREUTHER

date of birth: May 30, 1959
Date of leaving the function:
March 21, 2002
Several years of experience in executive positions in banking business

ANTON KNETT

date of birth: May 13, 1955
Date of leaving the function:
March 21, 2002
Several years of experience in executive positions in banking business

Branches

HVB BANK CZECH REPUBLIC A.S.
nám. Republiky 3a
110 00 Prague 1
Tel.: 00420 221 112 111
Fax: 00420 221 112 132

PRAGUE – NÁM. REPUBLIKY
nám. Republiky 3a
110 00 Prague 1
Tel.: 00420 221 119 611
Fax: 00420 221 119 622

PRAGUE – REVOLUČNÍ
Revoluční 7
110 00 Prague 1
Tel.: 00420 221 119 761
Fax: 00420 221 119 762

PRAGUE – PALÁC ADRIA
Jungmannova 31
110 00 Prague 1
Tel.: 00420 221 119 641
Fax: 00420 221 119 642

PRAGUE – HAVELSKÁ
Havelská 19
110 00 Prague 1
Tel.: 00420 221 119 711
Fax: 00420 221 119 702

PRAGUE – ITALSKÁ
Italská 24
121 49 Prague 2
Tel.: 00420 221 119 130
Fax: 00420 221 119 672

PRAGUE – VALDEK
Jugoslávská 29
120 00 Prague 2
Tel.: 00420 221 119 721
Fax: 00420 221 119 722

PRAGUE – ARBES
Štefánikova 32
150 00 Prague 5
Tel.: 00420 251 081 617
Fax: 00420 251 081 620

PRAGUE – VÍTĚZNÉ NÁM.
Vítězné nám. 10
160 00 Prague 6
Tel.: 00420 233 089 511
Fax: 00420 233 089 520

BRNO – KOBLIŽNÁ
Kobližná 2
661 80 Brno
Tel.: 00420 542 422 411
Fax: 00420 542 215 561

BRNO – LIDICKÁ

Lidická 59
661 09 Brno
Tel.: 00420 549 523 411
Fax: 00420 549 523 499

ČESKÉ BUDĚJOVICE

U Zimního stadionu 3
370 21 České Budějovice
Tel.: 00420 386 105 411
Fax: 00420 386 105 499

HRADEC KRÁLOVÉ

Ulrichovo nám. 854
500 02 Hradec Králové
Tel.: 00420 495 000 111
Fax: 00420 495 512 550

CHOMUTOV

Blatenská 802
430 01 Chomutov
Tel.: 00420 420 474 686 832
Fax: 00420 420 474 629 295

JIHLAVA

Palackého 28
586 01 Jihlava
Tel.: 00420 567 310 767
Fax: 00420 567 301 107

KARLOVY VARY

Moskevská 10
360 01 Karlovy Vary
Tel.: 00420 353 221 525
Fax: 00420 353 228 208

LIBEREC

Husova 1354/49
460 01 Liberec
Tel.: 00420 485 105 267
Fax: 00420 485 105 268

MLADÁ BOESLAV

Českoobrátské nám. 1321
293 01 Mladá Boleslav
Tel.: 00420 326 721 837
Fax: 00420 326 721 845

OLOMOUC

Ostružnická 17
772 00 Olomouc
Tel.: 00420 585 223 281
Fax: 00420 585 223 269

OSTRAVA

Smetanovo nám. 1
702 00 Ostrava
Tel.: 00420 596 101 411
Fax: 00420 596 112 004

PARDUBICE

Smilova 1904
530 02 Pardubice
Tel.: 00420 466 614 091
Fax: 00420 466 614 096

PLZEŇ – NÁM. REPUBLIKY

nám. Republiky/Riegrova 1
304 48 Plzeň
Tel.: 00420 377 196 111
Fax: 00420 377 196 245

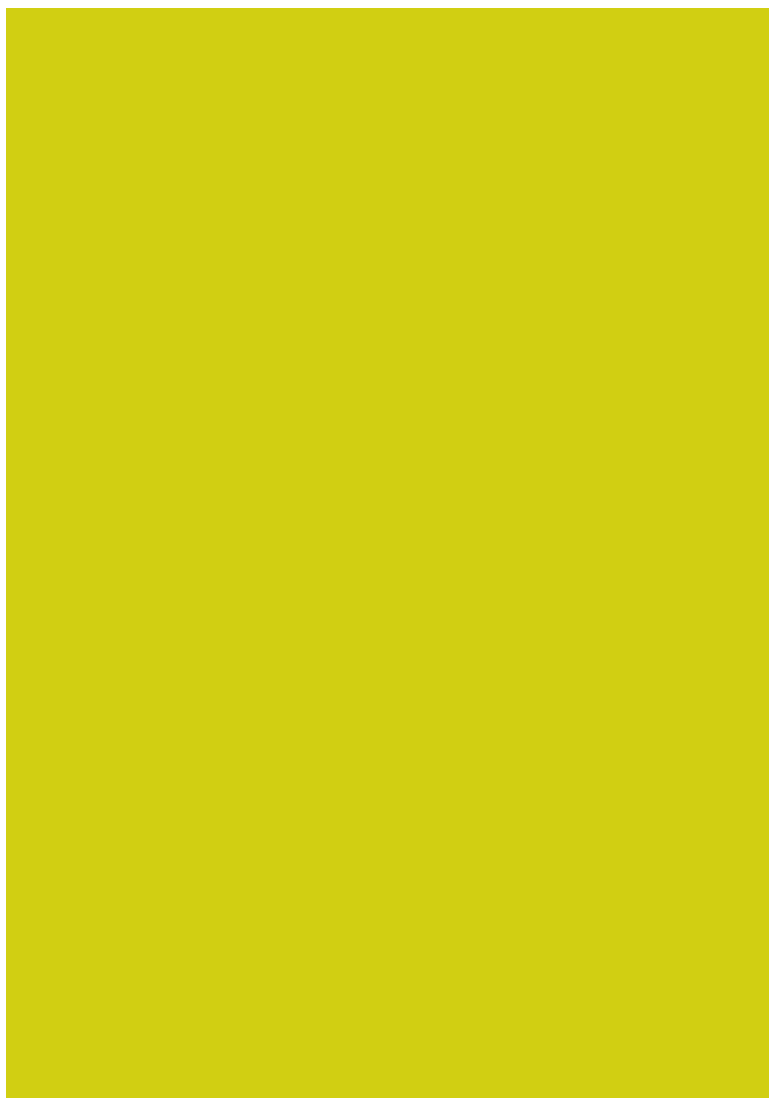
ÚSTÍ NAD LABEM

Mírové nám. 37
400 01 Ústí nad Labem
Tel.: 00420 477 011 401
Fax: 00420 477 011 409

ZLÍN

nám. Míru 175
760 01 Zlín
Tel.: 00420 577 212 239
Fax: 00420 577 212 233

www.hvb.cz



Financial Group HVB Bank Czech Republic a.s.

STRUCTURE OF THE FINANCIAL GROUP HVB BANK CZECH REPUBLIC A.S. AND ITS CONSOLIDATION UNIT

A significant position of the Financial Group HVB Bank Czech Republic a.s. (HVB Bank) on the Czech banking market is supported, apart from the background of its parent Bank, by the company HYPO stavební spořitelna a.s., which extends the Group's offer of financial services by widely used construction savings products.

HYPO STAVEBNÍ SPOŘITELNA A.S.

The subsidiary company HYPO stavební spořitelna a.s. controlled by HVB Bank is subsumed as the only entity under the consolidation unit of HVB Bank.

HVB Bank holds a 60% share in the registered capital of the company. The other shareholder is the company VEREINSBANK VICTORIA Bauspar Aktiengesellschaft having a minority share of 40%.

During 2002 the company HYPO stavební spořitelna a.s. concluded over 109 thousand contracts. As at 2002-end the savings company registered almost 369 thousand valid construction savings contracts, with aggregate target amount of CZK 60.7 billion. In terms of the newly agreed target amount, HYPO stavební spořitelna a.s. ranked 5th on the Czech construction savings market in 2002 with an 8.4% share in the total value of the target amount. Granted construction savings loans including bridging loans totalled CZK 610 million at the end of 2002. HYPO stavební spořitelna a.s. attained the highest

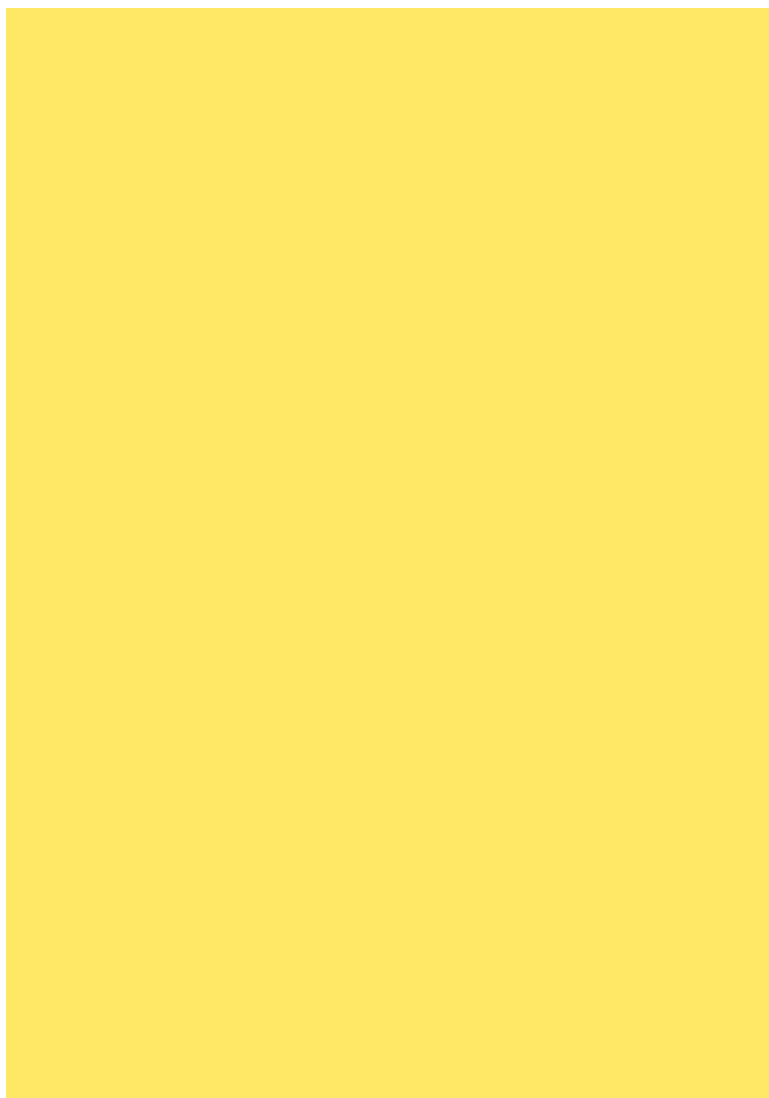
net profit per employee among the Czech construction saving companies in 2002.

Also in the upcoming period HYPO stavební spořitelna a.s. will continue extending its business activities, in particular, by increasing the volume of loans advanced under construction savings.

KEY FINANCIAL CHARACTERISTICS OF THE COMPANY

| CZK THOU | December 31, 2002 |
|--------------------|-------------------|
| Registered capital | 500,000 |
| Equity | 769,084 |
| Total assets | 13,496,117 |
| Net profit/loss | 113,841 |

**KEY FINANCIAL INDICATORS OF
HVB BANK CZECH REPUBLIC A.S.
ON CONSOLIDATED BASIS**



**KEY FINANCIAL INDICATORS OF
HVB BANK CZECH REPUBLIC A.S.
ON CONSOLIDATED BASIS**

| | | 2002 | 2001 |
|---|------|------------|------------|
| Capital adequacy ratio | % | 14.0 | 15.9 |
| Tier 1 | TCZK | 8,963,126 | 9,704,348 |
| Total equity | TCZK | 10,777,185 | 11,383,895 |
| Tier 2 and Tier 3 | TCZK | 1,814,058 | 1,926,798 |
| Deductible items | TCZK | 170,200 | 247,251 |
| Capital requirement A | TCZK | 5,771,499 | 5,718,236 |
| Capital requirement B | TCZK | 384,723 | – |
| Return on average assets (ROAA) | % | 1.3 | 0.9 |
| Return on average equity (ROAE) after tax | % | 18.4 | 12.3 |
| Assets per employee | TCZK | 111,530 | 99,462 |
| Administrative expenses per employee | TCZK | 1,681 | 1,779 |
| Net profit per employee | TCZK | 1,383 | 862 |

Note: The capital requirement A as at December 31, 2001 corresponds to the total regulatory capital on a consolidated basis in accordance with the requirements of the Czech National Bank.

**CONSOLIDATED FINANCIAL
STATEMENTS**



CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002

| ASSETS | | | | | |
|---------------------|--------|----------------------|--------------------|--------------------|--------------------|
| CZK 000 | Note | 2002 Gross amount | 2002 Adjustment | 2002 Net amount | 2001 Net amount |
| 1 | | 601,912 | - | 601,912 | 1,722,142 |
| 2 | | | | | |
| | | 12,893,743 | - | 12,893,743 | 10,553,204 |
| | 14 | 12,893,743 | - | 12,893,743 | 10,553,204 |
| | | - | - | - | - |
| 3 | | 36,485,130 | - | 36,485,130 | 45,439,926 |
| | 12 | 36,485,130 | - | 36,485,130 | 45,439,926 |
| | | 303,303 | - | 303,303 | 612,638 |
| | | 36,181,827 | - | 36,181,827 | 44,827,288 |
| 4 | | 73,658,032 | 1,584,752 | 72,073,280 | 66,455,150 |
| | 13, 29 | 73,658,032 | 1,584,752 | 72,073,280 | 66,455,150 |
| | | 1,258,795 | 1,086,081 | 172,714 | 2,133,098 |
| | | 72,399,237 | 498,671 | 71,900,566 | 64,322,052 |
| 5 | | 11,191,129 | - | 11,191,129 | 4,721,009 |
| | 15 | 11,191,129 | - | 11,191,129 | 4,721,009 |
| | | 369,707 | - | 369,707 | 54,590 |
| | | 10,821,422 | - | 10,821,422 | 4,666,419 |
| 6 | | 3,000 | - | 3,000 | 3,000 |
| | 16 | 3,000 | - | 3,000 | 3,000 |
| 7 | | 240 | 240 | - | 300 |
| | 17 | 240 | 240 | - | 300 |
| 8 | | | | | |
| | 18 | 39,000 | 39,000 | - | 15,707 |
| 9 | | (53) | - | (53) | (107) |
| | 19 | 691,389 | 521,136 | 170,253 | 291,166 |
| 10 | | 2,312,858 | 1,807,645 | 505,213 | 733,528 |
| | 20 | 2,312,858 | 1,807,645 | 505,213 | 733,528 |
| | | 876,223 | 622,460 | 253,763 | 359,149 |
| | | 1,436,635 | 1,185,185 | 251,450 | 374,379 |
| 12 | | 3,742,711 | 6,434 | 3,736,277 | 3,565,068 |
| | 21 | 3,742,711 | 6,434 | 3,736,277 | 3,565,068 |
| 13 | | - | - | - | - |
| | | - | - | - | - |
| 14 | | 80,048 | - | 80,048 | 574,660 |
| | | 80,048 | - | 80,048 | 574,660 |
| Total assets | | 141,699,139 | 3,959,207 | 137,739,932 | 134,074,753 |

The notes set out on pages 82 to 116 form part of these consolidated financial statements.

LIABILITIES

| CZK 000 | Note | 2002 | 2001 |
|---|--------|--------------------|--------------------|
| 1 Due to banks | 22 | 22,834,602 | 19,846,153 |
| a) repayable on demand | | 2,154,215 | 1,090,619 |
| b) other payables | | 20,680,387 | 18,755,534 |
| 2 Due to customers | 23 | 78,211,287 | 71,057,903 |
| a) repayable on demand | | 31,181,799 | 24,573,992 |
| thereof: savings | | 194,295 | 160,658 |
| b) other payables | | 47,029,488 | 46,483,911 |
| thereof: ba) savings with maturity | | 12,741,627 | 10,160,276 |
| bb) savings with a notice period | | 830,659 | 2,245 |
| bc) term instruments with fixed maturity | | 30,774,761 | 32,810,146 |
| bd) term instruments with a notice period | | - | - |
| 3 Payables from debt securities | 24 | 14,389,725 | 21,412,548 |
| a) debt securities issued | | 14,389,725 | 21,412,548 |
| b) other payables from debt securities | | - | - |
| 4 Other liabilities | 26 | 8,573,960 | 7,713,499 |
| 5 Deferred income and accrued expenses | | 375,468 | 751,366 |
| 6 Reserves | 29, 32 | 1,385,470 | 1,509,069 |
| 7 Subordinated liabilities | 25 | 1,127,373 | 1,140,759 |
| 8 Registered capital (excluding minority interests) | 27 | 5,047,000 | 5,047,000 |
| 9 Own shares | | - | - |
| 10 Share premium | | 1,996,920 | 1,996,920 |
| 11 Capital funds (excluding minority interests) | | - | - |
| 12 Reserve funds and other funds from profit (excluding minority interests) | 30 | 1,576,632 | 2,270,917 |
| a) statutory reserve funds | | 563,121 | 506,683 |
| b) reserve funds to own shares | | - | - |
| c) other reserve funds | | 1,013,319 | 1,763,319 |
| d) other funds from profit | | 192 | 915 |
| 13 Revaluation reserve fund | 31 | - | (223,749) |
| 14 Retained earnings (or accumulated losses) from previous years (excluding minority interests) | 30 | 205,333 | 108,223 |
| 15 Profit or (loss) for the accounting period (excluding minority interests) | | 1,708,768 | 1,162,048 |
| 16 Share on profit or (loss) in associates | | (240) | |
| 17 Minority interests | | 307,634 | 282,097 |
| thereof: minority registered capital | | 200,000 | 200,000 |
| minority share premium | | - | - |
| minority capital funds | | - | - |
| minority funds from profit | | 40,000 | 40,000 |
| minority retained earnings/(losses) from previous periods | | 22,097 | 9,738 |
| minority profit/(loss) for the accounting period | | 45,537 | 32,359 |
| Total liabilities | | 137,739,932 | 134,074,753 |

OFF-BALANCE SHEET

| Off-balances sheet assets | | | |
|---------------------------------------|----|------------|------------|
| 1 Commitments and guarantees provided | 33 | 39,620,124 | 27,397,313 |
| a) commitments | | 31,621,589 | 21,171,445 |
| b) guarantees and warranties | | 7,403,923 | 5,571,704 |
| c) guarantees from notes | | - | - |
| d) guarantees from letters of credit | | 594,612 | 654,164 |
| 2 Collaterals provided | | 243,153 | 69,629 |
| a) real estates collaterals | | - | - |
| b) cash collaterals | | 120,965 | 69,629 |
| c) securities collaterals | | 122,188 | - |

| | | | | |
|--------------------------------------|--|----|-------------|-------------|
| | d) other | - | - | - |
| 3 | Receivables from spot transactions with | | 9,389,172 | 5,672,252 |
| | a) interest rate instruments | | 391,557 | - |
| | b) currency instruments | | 8,997,615 | 5,672,252 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| 4 | Receivables from fixed term transactions with | 33 | 252,585,196 | 222,653,695 |
| | a) interest rate instruments | | 238,192,583 | 174,367,979 |
| | b) currency instruments | | 14,392,613 | 48,285,716 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 5 | Receivables from options for | | - | - |
| | a) interest rate instruments | | - | - |
| | b) currency instruments | | - | - |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 6 | Receivables written-off | | 630,503 | 576,048 |
| 7 | Values placed into custody, administration and deposit thereof: securities | | - | - |
| 8 | Values placed under management thereof: securities | | - | - |
| Off-balance sheet liabilities | | | | |
| 1 | Commitments and guarantees received | | 16,659,798 | 17,076,688 |
| | a) commitments | | - | - |
| | b) guarantees and warranties | | 16,659,798 | 17,076,688 |
| | c) guarantees from notes | | - | - |
| | d) guarantees from letters of credit | | - | - |
| 2 | Collateral received | | 60,919,841 | 48,005,524 |
| | a) real estate | | 19,350,059 | 14,167,686 |
| | b) cash | | 1,970,886 | 1,655,658 |
| | c) securities | | 8,401,702 | 7,991,349 |
| | d) other | | 4,191,615 | 274,381 |
| | e) collateral – securities | | 27,005,579 | 23,916,450 |
| 3 | Payables from spot transactions with | | 9,140,029 | 5,654,097 |
| | a) interest rate instruments | | - | - |
| | b) currency instruments | | 9,140,029 | 5,654,097 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| 4 | Payables from fixed term transactions with | 33 | 252,437,739 | 222,802,671 |
| | a) interest rate instruments | | 238,192,583 | 174,367,979 |
| | b) currency instruments | | 14,245,156 | 48,434,692 |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 5 | Payables from options for | | - | - |
| | a) interest rate instruments | | - | - |
| | b) currency instruments | | - | - |
| | c) equity instruments | | - | - |
| | d) commodity instruments | | - | - |
| | e) credit instruments | | - | - |
| 6 | Values taken into custody, administration and deposit thereof: securities | 34 | 47,353,793 | 41,563,566 |
| | | | 47,353,793 | 41,563,566 |
| 7 | Values taken under management thereof: securities | 34 | 831,186 | - |
| | | | 831,186 | - |

The notes set out on pages 84 to 116 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2002

| CZK 000 | Note | 2002 | 2001 |
|--|----------|------------------|------------------|
| 1 Interest income and similar income | 6 | 6,835,801 | 8,105,806 |
| 2 Interest expense and similar expense | 6 | (3,758,161) | (4,914,536) |
| Net interest income | 6 | 3,077,640 | 3,191,270 |
| 3 Income from shares and interests | | - | - |
| 4 Income from participation interests | | - | - |
| 5 Commission and fee income | 7 | 1,350,256 | 1,358,718 |
| 6 Commission and fee expense | 7 | (442,571) | (454,234) |
| 7 Net gains (losses) from financial operations | 8 | 913,244 | 1,019,312 |
| 8 Other operating income | 9 | 82,788 | 69,744 |
| thereof: negative goodwill | | 53 | 53 |
| 9 Other operating expenses | 9 | (134,075) | (254,767) |
| thereof: goodwill | | - | - |
| 10 Administrative expenses | 10 | (2,076,289) | (2,397,616) |
| 11 Use of reserves and adjustments to tangible and intangible fixed assets | | - | - |
| 12 Depreciation, creation of reserves and adjustments to tangible and intangible fixed assets | 19, 20 | (397,472) | (573,313) |
| 13 Use of adjustments and reserves for receivables and guarantees, income from the assignment of receivables and income from written-off receivables | | 920,803 | 638,761 |
| 14 Write-offs, creation of adjustments and reserves for receivables and guarantees | | (757,190) | (875,295) |
| 15 Use of adjustments to participation interests with controlling and substantial influence | | - | - |
| 16 Creation of adjustments to participation interests with controlling and substantial influence | | (15,707) | (932) |
| 17 Use of other reserves | | 44,440 | 6,950 |
| 18 Creation of other reserves | | (43,711) | (61,234) |
| 19 Use of other adjustments | | - | 820 |
| 20 Creation of other adjustments | | - | (1,654) |
| Current year profit (loss) on ordinary activities before tax | | 2,522,156 | 1,666,530 |
| 21 Extraordinary income | 11 | 258,624 | 244 |
| 22 Extraordinary expenses | 11 | (158,204) | - |
| Current year profit (loss) on extraordinary activities before tax | | 100,420 | 244 |
| Income tax | | (868,271) | (472,367) |
| 23 Profit or loss for the accounting period excluding minority interests | | 1,708,768 | 1,162,048 |
| 24 Share of profits (losses) of associates | | (240) | - |
| 25 Minority net profit or loss for the accounting period | | 45,537 | 32,359 |

The notes set out on pages 82 to 116 form part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2002

| CZK 000 | Registered capital | Own shares | Share premium | Reserve funds | Capital funds | Revaluation gains (losses) | Retained earnings | Profit (loss) | Total |
|--|-----------------------|---------------|------------------|------------------|------------------|-------------------------------|----------------------|------------------|-------------------|
| Balance as at 1 January 2001 | 5,047,000 | - | 1,996,920 | 1,794,016 | - | (1,994) | 26,690 | 1,548,499 | 10,411,131 |
| Corrections of fundamental errors | - | - | - | - | - | - | - | - | - |
| Revaluation gains (losses) not included in profit (loss) | - | - | - | - | - | (221,755) | - | - | (221,755) |
| Dividends | - | - | - | - | - | - | - | (985,000) | (985,000) |
| Transfers to funds | - | - | - | 478,006 | - | - | - | (478,006) | - |
| Use of funds | - | - | - | (2,538) | - | - | - | - | (2,538) |
| Transfer to retained earnings | - | - | - | - | - | - | 81,533 | (81,533) | - |
| Issue of shares | - | - | - | - | - | - | - | - | - |
| Registered capital reduction | - | - | - | - | - | - | - | - | - |
| Own shares purchases | - | - | - | - | - | - | - | - | - |
| Other changes | - | - | - | 1,433 | - | - | - | (3,960) | (2,527) |
| Profit or loss for the accounting period (excluding minority interests) | - | - | - | - | - | - | - | 1,162,048 | 1,162,048 |
| Balance as at 31 December 2001 | 5,047,000 | - | 1,996,920 | 2,270,917 | - | (223,749) | 108,223 | 1,162,048 | 10,361,359 |
| Balance as at 1 January 2002 | 5,047,000 | - | 1,996,920 | 2,270,917 | - | (223,749) | 108,223 | 1,162,048 | 10,361,359 |
| Corrections of fundamental errors | - | - | - | - | - | - | - | - | - |
| Revaluation gains (losses) not included in profit (loss) | - | - | - | - | - | 223,749 | - | - | 223,749 |
| Dividends | - | - | - | (750,000) | - | - | (1,000,000) | - | (1,750,000) |
| Transfers to funds | - | - | - | 60,438 | - | - | - | (60,438) | - |
| Use of funds | - | - | - | (4,921) | - | - | - | - | (4,921) |
| Transfer to retained earnings | - | - | - | - | - | - | 1,097,110 | (1,097,110) | - |
| Issue of shares | - | - | - | - | - | - | - | - | - |
| Registered capital reduction | - | - | - | - | - | - | - | - | - |
| Own shares purchases | - | - | - | - | - | - | - | - | - |
| Other changes | - | - | - | 198 | - | - | - | (4,500) | (4,302) |
| Profit or loss for the accounting period (excluding minority interests) | - | - | - | - | - | - | - | 1,708,768 | 1,708,768 |
| Balance as at 31 December 2002 | 5,047,000 | - | 1,996,920 | 1,576,632 | - | - | 205,333 | 1,708,768 | 10,534,653 |

The notes set out on pages 84 to 116 form part of these consolidated financial statements.

Notes to the Financial statements (consolidated)

1. BACKGROUND

On 1 October 2001, Bank Austria Creditanstalt Czech Republic, a.s. merged with HypoVereinsbank CZ a.s. through the termination of Bank Austria Creditanstalt Czech Republic, a.s., without liquidation. The name of the combined entity was changed to HVB Bank Czech Republic a.s. All rights and liabilities of the terminated Bank Austria Creditanstalt Czech Republic, a.s. were assigned to HVB Bank Czech Republic a.s. The change of the name to HVB Bank Czech Republic a.s. (the Bank), the change of the registered capital and the change of other facts connected with the merger were recorded on 1 October 2001 in the Companies Register of the District Court of Prague under reference number B 3608. The sole shareholder of the Bank is Bank Austria Creditanstalt Aktiengesellschaft, Vienna.

Registered office of the Bank:
Nám. Republiky 3a, č. p. 2090
110 00 Prague 1

The Bank serves as a universal bank providing retail, commercial and investment banking services in the Czech Republic.

The main activities are as follows:

- receiving deposits from public;
- granting loans;
- investing in securities on its own behalf;
- system of payments and clearing;
- issuing payment products, e.g. payment cards, travel cheques;
- granting guarantees;
- opening and confirming letters of credit (export financing);
- administration of cash collection;
- trading on own behalf or on behalf of clients:
 1. with foreign exchange currency products
 2. with forward and option contracts including foreign currency and interest rate
 3. with transferable securities;
- participation in shares subscription and other related services;
- issuing of mortgage bonds in accordance with legislation;
- financial brokerage;
- managing clients' securities including portfolio management;
- depository services and administration of securities or other values;
- depository services for investment funds;

- foreign currency exchange services;
- providing banking information;
- rent of safe-deposit boxes.

The Bank also provides the following additional services through its subsidiary:

- receiving deposits from members of building savings;
- granting loans to members of building savings;
- granting state subsidy to individuals – members of building savings;
- granting specific loans to members of building savings schemes that are subject to specific conditions.

2. BASIS OF PREPARATION

The financial statements have been prepared on the basis of accounting maintained in accordance with the Act on Accounting and relevant regulations and decrees of the Czech Republic. They have been prepared under the historical cost convention on the basis of full accrual accounting, except for the selected financial instruments that are stated at fair value.

The financial statements are presented in accordance with the Czech Ministry of Finance decree on regulating the procedures for consolidation of financial statements and the layout and definition of consolidated financial statement and disclosure requirements of banks and certain financial institutions dated 21 December 2001 (N. 282/113 410/2001).

Numbers in brackets represent negative amounts.

These financial statements are consolidated financial statements.

Due to the merger process and establishment of the new Bank in 2001, these financial statements do not include comparative figures for the year 2000.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of consolidation

Participation interests over which the Bank has a controlling influence ("the subsidiary") are consolidated by using the direct method. A participation interest over which has the Bank a controlling influence is a participation, in which the Bank has a majority shareholding.

Participation interests over which the Bank has a substantial influence ("associated company") are consolidated by using the equity method. Participation interests over which the Bank has a substantial influence are participations in the subject where the Bank, directly or indirectly, owns between 20 % to 50 % in the registered capital.

Participation interests over which the Bank has a controlling influence, whose financial results, equity and financial position were immaterial to the consolidated results, are accounted for at cost value less any adjustments (when there is an indication of a temporary decrease in participation value) or impairments (when there is an indication of permanent decrease in participation value). The adjustments against participation interests over which the Bank has a controlling influence are created individually whenever the cost value exceeds the Bank's share in the company's equity. These participation interests are presented as investment securities, stated as "Participation interests in non-consolidated subjects" in the balance sheet.

(b) Transaction date

A transaction date is, in particular, the date of payment or collection of cash; the date of purchasing or selling of foreign currency or securities; the date of payment or collection from a customer's account; the date of order to a correspondent to make a payment, the settlement date of the bank's payment orders with the ČNB clearing centre, the value date according to a statement received from a bank's correspondent (statement means SWIFT statement, bank's notice, received media, bank statement or other documents); the trade date and settlement date of transactions with securities, foreign currency, options or other derivatives; the date of issue or receipt of a guarantee or opening credit line; the date of acceptance of values into custody.

Accounting transactions involving the purchase or sale of financial assets with a usual term of delivery (spot transactions) as well as fixed term and option contracts shall be recorded in off-balance sheet accounts from the trade date until the settlement date.

A financial asset or its part is derecognised from the balance sheet if the Bank loses control over the contractual rights to this financial asset or its part. The Bank loses this control if it exercises the rights to the benefits defined in the contract, if these rights expire or the Bank waives these rights.

(c) Debt securities, shares, units and other investments

Treasury bills, bonds and other debt securities and shares including units and other investments are classified into a portfolio which is held to maturity, for

trading purposes or available for sale, based on the Bank's intention. Only debt securities can be classified into a portfolio held to maturity.

Treasury bills, bonds and other debt securities are carried at amortised/accreted cost. Accrued interest income is part of the carrying amount of these securities. Shares, units and other investments are stated at acquisition cost.

Premiums and discounts on debt securities are amortised/accreted through the profit and loss account over the period from the date of purchase to the date of maturity using the effective interest rate method. In the case of securities classified into the portfolio held for trading, available for sale and the securities which have a residual maturity shorter than 1 year, the premium and the discount are amortised/accreted equally through the profit and loss account over the period from the date of purchase to the date of maturity.

Debt securities and shares, units and other investments held for trading or available for sale are measured at fair value and gains/losses from this revaluation are charged to the profit and loss account in "Net gains or losses from financial operations".

The fair value used for the revaluation of securities is determined based on the market price published as at the date of the fair value statement, if the Bank proves that securities can be sold for that market price.

For debt and equity securities traded on the public market, fair values are equal to the price reached on the public market of OECD countries, if, at the same time, the condition of securities liquidity is fulfilled.

If it is not possible to determine the fair value being the market value (i.e. the Bank does not prove that it is possible to sell securities for such market price), the fair value is estimated as an adjusted value of securities.

An adjusted value of securities equals the share proportion on equity for shares, share proportion on fund's net assets value for units and present value of security for debt securities.

Adjustments are established to debt securities held to maturity. Adjustments to these securities are created by an amount, which only reflects the change in the risk of the issuer, but not the change in the risk-free interest rates, calculated on an individual basis.

The acquisition cost of held-to-maturity securities at their disposal is determined using the weighted average price method for individual issues.

Transactions where securities are sold under a commitment to repurchase (repurchase commitment) at a predetermined price or purchased under a commitment to resell (resale commitment) are treated as collateralised borrowing and lending transactions.

The legal title of securities subject to resale or repurchase commitments is transferred to the lender. Securities transferred under a repurchase commitment are henceforth included in the relevant items of securities in the Bank's balance sheet while the borrowing is recorded in "Due to banks" or "Due to customers". Securities received under a resale commitment are recorded in off-balance sheet accounts in "Collateral received". The lending granted under a resale commitment is recorded in "Receivables from banks" or "Receivables from customers". Interest on debt securities transferred under a repurchase commitment is accrued while interest on debt securities received under a resale commitment is not accrued.

Income and expenses arising under repurchase and resale commitments as the difference between the selling and purchase price are accrued over the period of the transaction and charged to the profit and loss account as "Interest income and similar income" or "Interest expense and similar expense".

(d) Transactions with securities for customers

Securities taken by the Bank into custody, administration or deposit are accounted for in their market values and recorded in an off-balance sheet account "Values taken into custody, administration and deposit". Securities received by the Bank under management are accounted for in their market values and recorded in an off-balance sheet account "Values taken under management". The Bank's payables to customers as a result of the cash received for the purchase of securities or the cash to be refunded to customers are accounted for in the balance sheet liability accounts.

(e) Receivables from banks and customers

Receivables are carried net of adjustments. Accrued interest income is part of the carrying amount of receivables. Reserves for receivables are included in "Reserves" on the liability side of the balance sheet.

Receivables are reviewed for recoverability. Adjustments are created against specific receivables as considered appropriate. The methodology for the creation of adjustments in the appropriate accounting period is included in Note 36 (a), (b) and (c) of these notes. Adjustments created by debiting expenses are reported in "Write-offs, creation of adjustments and reserves for receivables and guarantees" in sub-ledgers used for the calculation of an income tax liability.

The tax-deductible portion of the period charge for the creation of adjustments for credit losses is calculated in accordance with the requirements of section 5 ("Banking reserves and adjustments") and section 8 ("Adjustments to receivables from debtors subject to

bankruptcy or composition proceedings”) of the Act on Reserves N. 593/1992 Coll.

Receivables are written-off only when they are considered uncollectible by the Bank’s management or when the bankruptcy process of the client has been finalised in accordance with Czech legislation.

The Bank also accrues interest income from classified receivables. The accrued interest income is subsequently included in the basis for calculation of adjustments created in accordance with the appropriate Czech National Bank requirement.

The write-off of unrecoverable receivables is accounted for as “Write-offs, creation of adjustments and reserves for receivables and guarantees” in the profit and loss account. Adjustments and reserves are reduced in an equal amount to the amount written off in “Use of adjustments and reserves for receivables and guarantees, income from the assignments of receivables and income from written-off receivables” in the profit and loss account. Recoveries on loans previously written off are included in the profit and loss account in “Use of adjustments and reserves for receivables and guarantees, income from the assignments of receivables and income from written-off receivables”.

(f) Creation of reserves

A reserve represents probable cash outflow of uncertain timing and amount. Reserves are established in cases where the following criteria are met:

- a duty (legal or factual) to perform exists, resulting from past events,
- it is probable that the event will occur and that it will require a cash outflow representing economic benefits; “probable” means the probability exceeding 50%,
- the amount of such performance can be reliably estimated.

In accordance with the Act on Reserves N. 593/1992 Coll., reserves for standard credits should be transferred to adjustments to classified receivables, used to cover the expenses associated with the write-off of receivables, used to cover losses from the assignment of receivables or released for redundancy by 31 December 2005 at the latest.

General reserves for guarantees should be transferred to specific reserves for guarantees or adjustments to classified receivables from the fulfilment of guarantees, used to cover the expenses associated with the write-off of these receivables or losses from the assignment of receivables or released for redundancy by 31 December 2005 at the latest.

(g) Goodwill (negative goodwill)

The consolidation difference (goodwill/negative goodwill) is recognized whenever the cost value of participation interests adjusted by adjustments differs from the revaluation that is created based on the Bank’s participation share in the fair value of the subsidiary’s or associated company’s equity (excluding current year profit or loss), when the subsidiary or associated company is included into the consolidation group for the first time.

The consolidation difference is recognized as an asset (goodwill) or liability (negative goodwill) and it is released by 20% year depreciation into other operating income/expenses in row “Goodwill” or “Negative goodwill” in the consolidated profit and loss account against “Goodwill (negative goodwill)”.

(h) Intangible and tangible fixed assets

Tangible and intangible fixed assets are stated at historical cost and are depreciated using the straight-line method over their estimated useful lives.

The annual depreciable lives for each category of intangible and tangible fixed asset are as follows:

| | |
|--------------------|---------------|
| Software | 4 years |
| Buildings and land | 33 years |
| Other | 4 to 30 years |

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or their remaining useful lives.

Intangible fixed assets costing less than CZK 60,000 and tangible fixed assets costing less than CZK 40,000 are charged to the expense account in the period in which they are acquired.

(i) Foreign currency translation

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates on the date of the transaction. Assets and liabilities denominated in foreign currencies together with unsettled spot foreign exchange transactions are translated into the local currency at the ČNB foreign exchange rate prevailing on the balance sheet date. Foreign exchange gains or losses arising from the translation of foreign currency assets and liabilities, except for the net investments in foreign entities, are recognised in the profit and loss account as “Net gains (losses) from financial operations”.

(j) Financial derivatives

Embedded derivatives

In certain cases a derivative may be a component of a hybrid (combined) financial instrument that includes both a host contract (instrument) and the derivative

(which is referred to as “an embedded derivative”), which influences cash flows or otherwise modifies the characteristics of the host instrument. An embedded derivative shall be separated from the host instrument and accounted for separately, if all of the following criteria are met at the same time:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the host instrument is not remeasured at fair value or is measured at fair value but the changes from revaluation are reported in the balance sheet.

Trading derivatives

Financial derivatives held for trading are carried at fair value and gains (losses) from the changes in fair value are recorded in the profit and loss account in “Net gains (losses) from financial operations”.

Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognition of fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- the hedge is in line with the Bank’s risk management strategy;
- the hedge relationship is formally documented at the inception of the hedge;
- it is expected that the hedge relationship will be highly effective throughout its life;
- the effectiveness of the hedge relationship can be objectively measured;
- the hedge relationship is highly effective throughout the accounting period;
- in the case of hedging the expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of assets and liabilities, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) from the revaluation of the hedged item and hedging derivative are recorded in the profit and loss account in “Interest income and similar income” and “Interest expense and similar expense”.

If the derivative hedges the exposure to changes in cash flows related to recorded assets and liabilities, commitments or expected transactions, the effective part of the hedge (fair values of the hedging derivative)

is reported in equity in “Revaluation reserve fund”. The ineffective part of the hedge is recognised in the profit and loss account in “Net gains (losses) from financial operations”.

If the hedging of commitments or expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative reported in equity are included in the carrying amount of such an asset or liability. Otherwise the gains or losses are charged to the profit and loss account at the same moment as the gains or losses from the revaluation of a hedged item.

The fair value of financial derivatives is determined as the present value of expected cash flows from these transactions, using valuation models generally accepted on the market, such as the Black-Scholes model used for certain types of options. The parameters ascertained on the active market, such as foreign exchange rates, yield curves, volatility of financial instruments, etc., are used in these models.

(k) Taxation

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income that is further adjusted by tax allowances and relevant credits to which the current tax rate is applied.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes multiplied by the income tax rate prescribed by the Income Tax Act for the next period. A deferred tax asset is recognised only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilised.

(l) Due to customers

Deposits on accounts of building savings are recorded as customer savings and are monitored and allocated into three basic deposit types with stated maturity. The first type are deposits with the saving period up to 5 years, which are classified as savings with a 5 year stipulated maturity, which is in accordance to the period required by the legal terms for payment of the state subsidy. The second type is represented by the deposits related to those building savings contracts that continue after the 5 years period of saving. These deposits are classified as savings with a notice period whose maturity is equal to the contractual notice period (3 months). The third type is represented by building savings after the granting of building loans; respectively deposits received after concluding a loan agreement under a condition that enables paying out of the savings before drawing a loan. These deposits are classified as saving deposits

repayable on demand without stated maturity. State subsidy on building savings accounts is stated separately if the saving period has finished before the legal binding period for payment of the state subsidy as a result of granting the loan, which has no proof of finality. This classification of deposits is in accordance with CNB decree N. 8 dated 25 September 2002.

(m) Prior period items

Prior period items are reported as income or expense in the current period profit and loss account, with the exception of corrections of significant errors in the recording of income and expenses of prior periods that are reported in "Retained earnings (or accumulated losses) from previous years (excluding minority interests)" and "Minority interest" in the Bank's balance sheet.

4. CHANGES IN ACCOUNTING POLICIES

In the year 2002 the following two significant changes occurred in accounting policies compared to the year 2001:

Fair value hedging

Hedging derivatives were recorded at their fair values in 2001 and the changes in fair values were accounted directly in the Bank's equity as "Revaluation reserve fund". Since 2002, the changes in fair values of derivatives that hedge the risk of changes in the fair value of assets and liabilities are recorded directly in the Bank's profit and loss account in the rows "Interest income and similar income" and "Interest expense and similar expense". The hedged items are also carried at their fair values and changes in their fair values are recorded in the relevant profit and loss account items, in which gains (losses) from revaluation of hedging derivatives are presented (see Note 3 (j)). As a result of this change in the accounting policy "Extraordinary income" increased by CZK 140,380 thousand and "Extraordinary expense" increased by CZK 148,277 thousand (see Note 11). These charges represent the impact of the new accounting policy for hedging accounting relating to previous years.

5. COMPANIES INCLUDED INTO CONSOLIDATION

The consolidated financial statements as at 31 December 2002 include the following subsidiary included in the Bank's consolidated entity:

| CZK 000 | | Business activity | Registered capital | Other equity elements | Consol. entity share | | Method of consolidation |
|-----------------------------|----------------------------|-------------------|--------------------|-----------------------|----------------------|------------------|-------------------------|
| Name | Registered address | | | | in equity | in voting rights | |
| HYPOTAVEBNÍ SPOŘITELNA A.S. | Prague 1, Senovážné nám. 4 | building savings | 500,000 | 269,084 | 60 % | 60 % | direct |

The financial statements of the subsidiary for the year ended 31 December 2002 were used for the preparation of these consolidated financial statements.

Debt securities and shares, units and other investments held for trading or available for sale

Debt securities and shares, units and other investments held for trading or available for sale were measured at amortised/acquisition cost less adjustments for any temporary diminution in value or write-offs for any permanent diminution in value. Since 2002, these financial instruments held for trading or available for sale are measured at their fair values (see Note 3 (c)). This change in accounting method is reflected in the 2002 profit and loss account in the item "Extraordinary income" in amount of CZK 118,244 thousand and "Extraordinary expenses" in amount of CZK 9,927 thousand (see Note 11).

Reclassifications of 2001 audited balances

The Bank reclassified the 2001 audited balances in order to report them under conditions of the accounting legislation effective for the year 2002 and to ensure the comparability of data for respective years. Within these reclassifications no changes in valuation methods applied in particular accounting periods were performed, only the respective items within individual lines of the financial statements were reclassified.

As a result of these reclassifications the total assets of the Bank as at 31 December 2001 decreased from the originally reported CZK 157,991,311 thousand to CZK 134,074,753 thousand. This change was caused by reclassification of securities received under resale commitments, which were initially recorded either as "State zero coupon bonds and other securities eligible for refinancing with the CNB" or "Debt securities", but according to the new 2002 legislation are presented in off balance sheet as "Collateral received".

Since the Bank's accounting systems do not enable full automatic allocation of accrued interest/income to individual items of the 2001 balance sheet, the accrued interest/income are not reclassified and they are recorded respectively in "Prepaid expenses and accrued income" and "Deferred income and accrued expenses".

6. NET INTEREST INCOME

| CZK 000 | 2002 | 2001 |
|----------------------------|------------------|------------------|
| Interest income | | |
| from deposits | 600,743 | 1,599,448 |
| from loans | 4,798,059 | 5,294,454 |
| from securities | 1,076,388 | 1,024,594 |
| other | 360,611 | 187,310 |
| Interest expense | | |
| from deposits | 2,053,931 | 3,250,003 |
| from loans | 807,833 | 564,101 |
| from securities | 504,330 | 398,999 |
| other | 392,067 | 701,433 |
| Net interest income | 3,077,640 | 3,191,270 |

The Bank did not claim or waive default interest of CZK 3,630 thousand (2001: CZK 37 thousand). Furthermore, the Bank did not apply the accrual principle for the default interest relating to endangered receivables of clients in the bankruptcy process of CZK 627,581 thousand (2001: CZK 628,919 thousand) that resulted in estimated lost profit of CZK 50,260 thousand (2001: CZK 53,487 thousand).

7. FEES AND COMMISSIONS

| CZK 000 | 2002 | 2001 |
|---|------------------|------------------|
| Fee and commission income from | | |
| securities transactions | 22,957 | 40,415 |
| management, administration, deposit and custody | 60,086 | 50,756 |
| other | 1,267,213 | 1,267,547 |
| Total | 1,350,256 | 1,358,718 |
| Fee and commission expense from | | |
| securities transactions | 5,164 | 2,371 |
| management, administration, deposit and custody | 4,601 | 5,634 |
| other | 432,806 | 446,229 |
| Total | 442,571 | 454,234 |

8. NET GAINS OR LOSSES FROM FINANCIAL OPERATIONS

| CZK 000 | 2002 | 2001 |
|---|----------------|------------------|
| Gains/losses from securities transactions | 176,767 | 163,609 |
| Gains/losses from derivative transactions | (252,909) | (139,449) |
| Gains/losses from foreign exchange transactions | 989,386 | 995,152 |
| Total | 913,244 | 1,019,312 |

9. OTHER OPERATING INCOME AND EXPENSES

| CZK 000 | 2002 | 2001 |
|---|----------------|----------------|
| Release of estimated payables | 40,337 | - |
| Income from transfer (sale) of fixed assets | 17,561 | 11,317 |
| Income from rent | 8,276 | 11,071 |
| Contractual fines received | 6,387 | 8,423 |
| Income of the prior year | 2,946 | 21,930 |
| Other | 7,281 | 17,003 |
| Total other operating income | 82,788 | 69,744 |
| Residual value of fully depreciated assets | 54,107 | 11,408 |
| Deposit insurance fund | 64,125 | 180,393 |
| Losses and damages | 7,982 | 10,504 |
| Expenses of the prior year | 6,126 | 11,508 |
| Expenses connected with the merger | - | 38,300 |
| Other | 1,735 | 2,654 |
| Total other operating expense | 134,075 | 254,767 |

10. ADMINISTRATIVE EXPENSES

| CZK 000 | 2002 | 2001 |
|---|------------------|------------------|
| Personnel expenses | | |
| Wages and salaries paid to employees | 703,794 | 728,648 |
| Social and health insurance | 247,101 | 256,971 |
| | 950,895 | 985,619 |
| Including wages and salaries paid to: | | |
| Members of the Board of Directors | 15,339 | 18,116 |
| Other executives | 65,807 | 74,992 |
| Remuneration paid from profit: | | |
| Members of the Supervisory Board | - | 1,260 |
| Other administrative expenses | 1,125,394 | 1,411,997 |
| of which expenses for audit, legal and tax advisory | 29,414 | 27,677 |
| Total administrative expenses | 2,076,289 | 2,397,616 |

Information on bonuses tied to equity is included in Note 28.

The average number of the Bank's employees (including expatriates) was as follows:

| | 2002 | 2001 |
|-----------------------------------|-------|-------|
| Employees | 1,205 | 1,300 |
| Members of the board of directors | 8 | 10 |
| Members of the supervisory board | 15 | 13 |
| Other executives | 30 | 48 |

11. EXTRAORDINARY INCOME AND EXPENSES

| CZK 000 | 2002 | 2001 |
|---|----------------|------------|
| Effects of changes in accounting policies: | | |
| Fair-value hedging | 140,380 | - |
| Revaluation of securities held for trading or available for sale as at 1 January 2002 | 118,244 | - |
| Other | - | 244 |
| Total extraordinary income | 258,624 | 244 |
| Effects of changes in accounting policies: | | |
| Fair-value hedging | 148,277 | - |
| Revaluation of securities held for trading or available for sale as at 1 January 2002 | 9,927 | - |
| Total extraordinary expenses | 158,204 | - |

12. RECEIVABLES FROM BANKS

Receivables from banks do not include any receivables from securities that have been acquired from primary auctions and are not held for trading (2001: CZK 0 thousand).

(a) Classification of receivables from banks

| CZK 000 | 2002 | 2001 |
|--|-------------------|-------------------|
| Standard | 36,485,130 | 45,439,926 |
| Adjustments to potential losses from receivables | - | - |
| Net receivables from banks | 36,485,130 | 45,439,926 |

In 2002 the Bank did not carried out any restructuring of receivables from banks (2001: CZK 0 thousand).

(b) Analysis of receivables from banks by type of security received

| CZK 000 | 2002 | 2001 |
|-----------------------------------|-------------------|-------------------|
| Security held by the Bank | 31,250,645 | 27,870,811 |
| Unsecured | 5,234,485 | 17,569,115 |
| Net receivables from banks | 36,485,130 | 45,439,926 |

No receivables from banks secured by tangible movable assets are included in "Security held by the Bank" (2001: CZK 0 thousand).

(c) Subordinated receivables from banks

The Bank has not provided any loan with stipulations on subordination to another bank in the years 2002 and 2001.

(d) Receivables from banks written-off and recovered

The Bank did not write-off any receivable from banks and reported no revenues from previously written-off receivables from banks in the years 2002 and 2001.

(e) Receivables from persons with a special relationship to the Bank

The volume of receivables from persons with a special relationship to the Bank totalled CZK 607,824 thousand in 2002 (2001: CZK 3,033,206 thousand).

13. RECEIVABLES FROM CUSTOMERS

(a) Classification of receivables from customers

| CZK 000 | 2002 | 2001 |
|---|-------------------|-------------------|
| Standard | 66,253,933 | 60,949,897 |
| Special mentioned | 3,906,195 | 4,258,794 |
| Non-standard | 1,610,556 | 678,670 |
| Doubtful | 681,865 | 756,865 |
| Loss | 1,205,483 | 1,286,180 |
| Adjustment to potential losses from receivables | (1,584,752) | (1,475,256) |
| Net receivables from customers | 72,073,280 | 66,455,150 |

Receivables from customers include CZK 2,733,400 thousand, which represents receivables from securities that have been acquired from primary auctions and are not intended for trading (2001: CZK 751,491 thousand).

In 2002 the Bank carried out a restructuring of receivables from customers in the total amount of CZK 174,874 thousand (2001: CZK 95,313 thousand).

(b) Analysis of receivables from customers by sector

| CZK 000 | 2002 | 2001 |
|----------------------------|-------------------|-------------------|
| Financial institutions | 8,246,373 | 6,945,582 |
| Non-financial institutions | 52,380,569 | 52,216,836 |
| Insurance institutions | 2 | 472,252 |
| Government sector | 5,748,334 | 2,012,768 |
| Non-profit organisations | 173,127 | 163,906 |
| Self-employed | 491,200 | 713,778 |
| Resident individuals | 4,463,606 | 3,378,455 |
| Non-resident | 1,871,572 | 1,605,045 |
| Companies without ICO | 279,610 | 110,984 |
| Unallocated | 3,639 | 310,800 |
| Total | 73,658,032 | 67,930,406 |

(c) Subordinated receivables from customers

The Bank has not provided any loan with stipulations on subordination to customers in the years 2001 and 2002.

(d) Analysis of receivables from customers by sector and type of security received

| CZK 000 | Personal guarantee | Bank guarantee | Mortgage | Corporate guarantee | Other types of security | Security held by the Bank | Unsecured | Total |
|----------------------------|-----------------------|-------------------|-------------------|------------------------|----------------------------|------------------------------|-------------------|-------------------|
| At 31 December 2002 | | | | | | | | |
| Financial institutions | - | 347,421 | 235,000 | 203,604 | - | 4,445,649 | 3,014,699 | 8,246,373 |
| Non-financial institutions | 720,389 | 6,212,972 | 13,864,037 | 3,927,275 | - | 4,920,036 | 22,735,860 | 52,380,569 |
| Insurance institutions | - | - | - | - | - | - | 2 | 2 |
| Government sector | - | 1,215,000 | 5,351 | - | - | - | 4,527,983 | 5,748,334 |
| Non-profit organisations | - | - | 134,489 | 391 | - | 27,500 | 10,747 | 173,127 |
| Self-employed | - | 27,680 | 353,581 | 1,826 | - | 28,119 | 79,994 | 491,200 |
| Resident individuals | 10,310 | 1,616 | 3,010,947 | 507 | 439,593 | 145,538 | 855,095 | 4,463,606 |
| Non-resident | - | 41,014 | 51,054 | - | - | 21,976 | 1,757,528 | 1,871,572 |
| Companies without ICO | - | - | 20,388 | - | - | 51,192 | 208,030 | 279,610 |
| Unallocated | - | - | - | - | - | - | 3,639 | 3,639 |
| Total | 730,699 | 7,845,703 | 17,674,847 | 4,133,603 | 439,593 | 9,640,010 | 33,193,577 | 73,658,032 |
| At 31 December 2001 | | | | | | | | |
| Financial institutions | 56,862 | 349,964 | 245,926 | 37,930 | - | 3,468,964 | 2,785,936 | 6,945,582 |
| Non-financial institutions | 187,344 | 6,780,252 | 7,245,532 | 8,905,799 | 10,785 | 6,631,690 | 22,455,434 | 52,216,836 |
| Insurance institutions | - | - | - | - | - | 472,247 | 5 | 472,252 |
| Government sector | - | - | 4,289 | - | - | 614,178 | 1,394,301 | 2,012,768 |
| Non-profit organisations | - | - | 85,858 | 58,042 | - | 7,180 | 12,826 | 163,906 |
| Self-employed | 6,013 | 30,000 | 401,822 | 100,202 | - | 70,110 | 105,631 | 713,778 |
| Resident individuals | 133,507 | 1,684 | 2,782,309 | 53,831 | 20 | 159,382 | 247,722 | 3,378,455 |
| Non-resident | - | 29,918 | 31,843 | 71,322 | - | 264,926 | 1,207,036 | 1,605,045 |
| Companies without ICO | - | - | - | - | - | - | 110,984 | 110,984 |
| Unallocated | - | - | 7,972 | - | - | 26,816 | 276,012 | 310,800 |
| Total | 383,726 | 7,191,818 | 10,805,551 | 9,227,126 | 10,805 | 11,715,493 | 28,595,887 | 67,930,406 |

No receivables from customers secured by tangible movable assets are included in “Security held by the Bank” (2001: CZK 0 thousand).

(e) Net receivables from customers written-off and recovered

The summary of net receivables from customers written-off and recovered by sector:

| CZK 000 | 2002 | 2001 |
|----------------------------|---------------|----------------|
| Write-offs | | |
| Non-financial institutions | 2,833 | 253,634 |
| Self-employed | 100 | 139 |
| Resident individuals | 58,699 | 108,830 |
| Non-residents | 20 | 50 |
| Unallocated | 80 | 126 |
| Total | 61,732 | 362,779 |
| Recoveries | | |
| Non-financial institutions | 30 | - |
| Self-employed | 11,370 | 1,813 |
| Individuals (residents) | 2,481 | 2,347 |
| Total | 13,881 | 4,160 |

The part of the profit and loss account row "Write-offs, creation of adjustments and reserves for receivables and guarantees" are also charges from write-offs of functionary receivables, which are stated in the balance sheet in "Other assets".

(f) Syndicated loans as at 31 December 2002

| Loan | Banks involved | Amount in 000 CZK | Split of risk | Split of interest |
|------|-------------------------------------|-------------------|-----------------|-------------------|
| I. | HVB Bank Czech Republic a.s. | 587,411 | 59.72 % | 59.72 % |
| | IKB Deutsche Industriebank | 177,589 | 18.06 % | 18.06 % |
| | Živnostenská banka a.s. | 218,571 | 22.22 % | 22.22 % |
| | Total | 983,571 | 100.00 % | 100.00 % |
| II. | HVB Bank Czech Republic a.s. | 36,616 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 207,490 | 85.00 % | 85.00 % |
| | Total | 244,106 | 100.00 % | 100.00 % |
| III. | HVB Bank Czech Republic a.s. | 34,918 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 197,872 | 85.00 % | 85.00 % |
| | Total | 232,790 | 100.00 % | 100.00 % |
| IV. | HVB Bank Czech Republic a.s. | 407,213 | 40.00 % | 40.00 % |
| | Bayerische Landesbank Girozentrale | 305,365 | 30.00 % | 30.00 % |
| | Česká spořitelna, a.s. | 305,365 | 30.00 % | 30.00 % |
| | Total | 1,017,943 | 100.00 % | 100.00 % |
| V. | HVB Bank Czech Republic a.s. | 23,957 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 135,756 | 85.00 % | 85.00 % |
| | Total | 159,713 | 100.00 % | 100.00 % |

| | | | | |
|-------|---------------------------------------|------------------|-----------------|-----------------|
| VI. | HVB Bank Czech Republic a.s. | 34,939 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 197,985 | 85.00 % | 85.00 % |
| | Total | 232,924 | 100.00 % | 100.00 % |
| VII. | HVB Bank Czech Republic a.s. | 48,282 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 273,595 | 85.00 % | 85.00 % |
| | Total | 321,877 | 100.00 % | 100.00 % |
| VIII. | HVB Bank Czech Republic a.s. | 23,592 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 133,688 | 85.00 % | 85.00 % |
| | Total | 157,280 | 100.00 % | 100.00 % |
| IX. | HVB Bank Czech Republic a.s. | 31,456 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 178,251 | 85.00 % | 85.00 % |
| | Total | 209,707 | 100.00 % | 100.00 % |
| X. | HVB Bank Czech Republic a.s. | 31,422 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 178,055 | 85.00 % | 85.00 % |
| | Total | 209,477 | 100.00 % | 100.00 % |
| XI. | HVB Bank Czech Republic a.s. | 23,166 | 15.00 % | 15.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 131,277 | 85.00 % | 85.00 % |
| | Total | 154,443 | 100.00 % | 100.00 % |
| XII. | HVB Bank Czech Republic a.s. | 144,715 | 67.20 % | 67.20 % |
| | Voralberger Landes und Hypotekbank AG | 70,650 | 32.80 % | 32.80 % |
| | Total | 215,365 | 100.00 % | 100.00 % |
| XIII. | HVB Bank Czech Republic a.s. | 522,355 | 50.00 % | 50.00 % |
| | Bayerische Hypo- und Vereinsbank AG | 522,355 | 50.00 % | 50.00 % |
| | Total | 1,044,710 | 100.00 % | 100.00 % |
| XIV. | HVB Bank Czech Republic a.s. | 300,516 | 47.45 % | 47.45 % |
| | Bayerische Hypo- und Vereinsbank AG | 332,843 | 52.55 % | 52.55 % |
| | Total | 633,359 | 100.00 % | 100.00 % |
| XV. | HVB Bank Czech Republic a.s. | 18,416 | 33.33 % | 33.33 % |
| | Dresdner Bank a.s. Praha | 18,417 | 33.33 % | 33.33 % |
| | Komerční banka a.s. Praha | 18,417 | 33.33 % | 33.33 % |
| | Total | 55,250 | 100.00 % | 100.00 % |
| XVI. | HVB Bank Czech Republic a.s. | 25,000 | 25.00 % | 25.00 % |
| | Živnostenská banka a.s. | 25,000 | 25.00 % | 25.00 % |
| | Raiffeisenbank a.s. Praha | 33,333 | 33.33 % | 33.33 % |
| | Raiffeisenlandesbank AG Linz | 16,667 | 16.67 % | 16.67 % |
| | Total | 100,000 | 100.00 % | 100.00 % |

(g) Receivables from persons with a special relationship to the Bank

| CZK 000 | Management bodies | | Other |
|----------------------------|--------------------|------------------|------------------|
| | Board of Directors | Other executives | |
| At 31 December 2001 | 2,922 | 23,848 | 774,023 |
| Interest income | 5 | 279 | 74,365 |
| At 1 January 2002 | 2,922 | 23,848 | 774,023 |
| Additions | - | 4,653 | 629,232 |
| Disposals | (80) | (4,010) | (5,003) |
| At 31 December 2002 | 2,842 | 24,491 | 1,398,252 |
| Interest income | 95 | 1,284 | 40,068 |

The above presented loans and advances were provided based on arm's length conditions.

(h) Receivables from participation interests with controlling influence not included in the consolidation (residual maturity)

| CZK 000 | 2002 | 2001 |
|------------------------------|---------------|---------------|
| Controlling influence | | |
| From 3 months to 1 year | 3,903 | 3,680 |
| From 1 year to 5 years | 18,127 | 17,089 |
| Over 5 years | 45,148 | 46,171 |
| Total | 67,178 | 66,940 |

14. STATE ZERO COUPON BONDS AND OTHER SECURITIES ELIGIBLE FOR REFINANCING WITH THE ČNB

(a) Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB

| CZK 000 | 2002 | 2001 |
|---|-------------------|-------------------|
| State treasury bills | 6,394,763 | 6,906,670 |
| Other securities eligible for refinancing with the ČNB | 6,498,980 | 3,646,534 |
| Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB | 12,893,743 | 10,553,204 |

The book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB includes

accrued interest as at the balance sheet date of CZK 160,202 thousand (2001: CZK 133,586 thousand).

(b) Classification of state zero coupon bonds and other securities eligible for refinancing with the ČNB into individual portfolios based on the Bank's intention

| CZK 000 | 2002 | 2001 |
|---|-------------------|-------------------|
| State zero coupon bonds and other trading securities | 2,725,394 | 4,712,982 |
| State zero coupon bonds and other available-for-sale securities | 5,075,412 | 2,710,150 |
| State zero coupon bonds and other held-to-maturity securities | 5,092,937 | 3,130,072 |
| Net book value | 12,893,743 | 10,553,204 |

(c) Repurchase and resale commitments

Under resale commitments the Bank has acquired state zero coupon bonds and other securities in the market value of CZK 27,005,579 thousand (2001: in the nominal value CZK 23,916,450 thousand), which are reported in the off-balance sheet in "Collaterals received". Subsequently the Bank provided under repurchase commitments securities received under the above-mentioned resale commitments in the market value of CZK 122,188 thousand (2001: in the nominal value CZK 0 thousand) which are reported in the off-balance sheet in "Collaterals provided".

Included in the value of state zero coupon bonds and other securities are the securities of CZK 1,724,436 thousand (2001: CZK 3,314,050 thousand), which have been transferred under repurchase commitments.

15. DEBT SECURITIES

(a) Net book value of debt securities

| CZK 000 | 2002 | 2001 |
|---|-------------------|------------------|
| Book value of debt securities | 11,191,129 | 4,721,009 |
| Less | | |
| Withholding tax applying to debt securities included in "Other liabilities" | - | - |
| Net book value of debt securities | 11,191,129 | 4,721,009 |

The book value of debt securities includes accrued interest as at the balance sheet date of CZK 257,200 thousand (2001: CZK 142,211 thousand).

(b) Repurchase and resale commitments

No debt securities, which are reported in the off-balance sheet in "Collaterals received", have been acquired by the Bank under resale commitments.

No debt securities, which have been transferred under repurchase commitments, are included in the value of the debt securities.

(c) Classification of debt securities into individual portfolios based on the Bank's intention

| CZK 000 | 2002 | 2001 |
|------------------------------------|-------------------|------------------|
| Debt securities held for trading | 2,478,862 | 2,776,498 |
| Available-for-sale debt securities | 7,005,752 | 685,302 |
| Held-to-maturity debt securities | 1,706,515 | 1,259,209 |
| Net book value | 11,191,129 | 4,721,009 |

(d) Analysis of debt securities held for trading

| CZK 000 | 2002 | | 2001 | |
|---|------------------|------------------|------------------|--------------|
| | Market value | Book value | Market value | Market value |
| Issued by financial institutions | | | | |
| - Listed on a recognised CR exchange | 1,378,896 | 2,150,945 | 2,209,057 | |
| - Listed elsewhere | 370 | - | - | |
| | 1,379,266 | 2,150,945 | 2,209,057 | |
| Issued by non-financial institutions | | | | |
| - Listed on a recognised CR exchange | 759,938 | 605,267 | 625,483 | |
| - Listed elsewhere | 339,658 | - | - | |
| | 1,099,596 | 605,267 | 625,483 | |
| Issued by insurance institutions | | | | |
| - Listed on a recognised CR exchange | - | 20,286 | 20,286 | |
| | - | 20,286 | 20,286 | |
| Total | 2,478,862 | 2,776,498 | 2,854,826 | |

Securities listed elsewhere are traded in particular on stock exchanges of the European Union countries.

The Bank has purchased debt securities issued by the Bank in the book value of CZK 2,554,115 thousand (2001: CZK 0 thousand) that are held for trading. These securities decrease "Payables from debt securities" (see Note 24 (b)).

(e) Analysis of available for sale debt securities

| CZK 000 | 2002 | | 2001 | |
|---|------------------|----------------|----------------|--------------|
| | Market value | Book value | Market value | Market value |
| Issued by financial institutions | | | | |
| - Listed elsewhere | 3,165,717 | - | - | |
| - Unlisted | 798,727 | - | - | |
| | 3,964,444 | - | - | |
| Issued by non-financial institutions | | | | |
| - Listed elsewhere | 2,983,637 | 631,537 | 648,784 | |
| | 2,983,637 | 631,537 | 648,784 | |
| Issued by government sector | | | | |
| - Listed on a recognised CR exchange | 57,671 | 53,765 | 56,961 | |
| | 57,671 | 53,765 | 56,961 | |
| Total | 7,005,752 | 685,302 | 705,745 | |

The Bank has purchased no debt securities issued by the Bank that are classified as available for sale in 2001 and 2002.

Securities listed elsewhere are traded in particular on stock exchanges of the European Union countries.

(f) Analysis of debt securities held to maturity

| CZK 000 | 2002 | | 2001 | |
|---|------------------|------------------|------------------|----------------|
| | Book value | Market value | Book value | Market value |
| Issued by financial institutions | | | | |
| - Listed on a recognised CR exchange | 771,053 | 878,521 | 501,209 | 557,612 |
| - Unlisted | - | - | 158,291 | 158,487 |
| | 771,053 | 878,521 | 659,500 | 716,099 |
| Issued by non-financial institutions | | | | |
| - Unlisted | 623,426 | - | 598,884 | - |
| | 623,426 | - | 598,884 | - |
| Issued by government sector | | | | |
| - Listed on a recognised CR exchange | 312,036 | 329,656 | 825 | 825 |
| | 312,036 | 329,656 | 825 | 825 |
| Total | 1,706,515 | 1,208,177 | 1,259,209 | 716,924 |

The proportion of debt securities with residual maturity up to 1 year to the total balance of debt securities is 15.23 % (2001: 27.86 %).

16. SHARES, UNITS AND OTHER INVESTMENTS

(a) Classification of shares, units and other investments into individual portfolios based on the Bank's intention

| CZK 000 | 2002 | 2001 |
|--|--------------|--------------|
| Shares, units and other investments available for sale | 3,000 | 3,000 |
| Total | 3,000 | 3,000 |

(b) Analysis of shares, units and other investments available for sale

| CZK 000 | 2002 | 2001 | |
|---|----------------|--------------|--------------|
| | Adjusted value | Book value | Market value |
| Issued by non-financial institutions | | | |
| - Unlisted | 3,000 | 3,000 | - |
| Total | 3,000 | 3,000 | - |

The Bank has purchased no own shares for the purpose of future sales in 2002 (2001: CZK 0 thousand).

17. PARTICIPATION INTERESTS WITH SUBSTANTIAL INFLUENCE

Analysis of participation interests with substantial influence

| CZK 000 | Registered office | Business activity | Registered capital | Other equity elements | Consol. entity share in equity | in voting rights | Net book value |
|--|---------------------------|--------------------------|--------------------|-----------------------|--------------------------------|------------------|----------------|
| As at 31 December 2002 | | | | | | | |
| CBCB-Czech Banking Credit Bureau, a.s. | Prague 3, V. Nejedlého 15 | running of bank register | 1,200 | (3,228) | 20 % | 20 % | - |
| | | | 1,200 | (3,228) | | | - |
| As at 31 December 2001 | | | | | | | |
| CBCB-Czech Banking Credit Bureau, a.s. | Prague 3, V. Nejedlého 15 | running of bank register | 1,200 | (9) | 25 % | 25 % | 300 |
| | | | 1,200 | (9) | | | 300 |

18. PARTICIPATION INTERESTS IN NON-CONSOLIDATED SUBJECTS

Analysis of participation interests in non-consolidated subjects

| CZK 000 | | | | Other | Consol. entity share | | Net |
|-------------------------------|---------------------------|--------------------|--------------------|-----------------|----------------------|------------------|---------------|
| Name | Registered office | Business activity | Registered capital | parts of equity | in equity | in voting rights | book value |
| As at 31 December 2002 | | | | | | | |
| BAPS s.r.o. | Prague 1, Revoluční 15 | real estate agency | 37,142 | (61,312) | 100 % | 100 % | - |
| | | | 37,142 | (61,312) | | | - |
| As at 31 December 2001 | | | | | | | |
| BAPS s.r.o. | Prague 1, Revoluční 15 | real estate agency | 37,142 | (21,435) | 100 % | 100 % | 15,707 |
| | | | 37,142 | (21,435) | | | 15,707 |

In the opinion of the management of the parent company, the consolidation of BAPS s.r.o.'s financial statements will not have a material impact on the consolidated financial statements, therefore the management of the parent company decided not to include the company into the consolidated group.

19. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets

| CZK 000 | Software | Software acquisition | Other | Total |
|-------------------------------------|-----------|----------------------|-------|-----------|
| Cost | | | | |
| At 1 January 2001 | 1,032,674 | 30,099 | 3,339 | 1,066,112 |
| Additions | 105,502 | 42,778 | 939 | 149,219 |
| Transfers | 28,558 | (28,558) | - | - |
| Disposals | (192,866) | (405) | - | (193,271) |
| At 31 December 2001 | 973,868 | 43,914 | 4,278 | 1,022,060 |
| At 1 January 2002 | 973,868 | 43,914 | 4,278 | 1,022,060 |
| Additions | 40,647 | 47,727 | 845 | 89,219 |
| Disposals | (349,623) | (68,622) | - | (418,245) |
| Other changes | - | (1,645) | - | (1,645) |
| At 31 December 2002 | 664,892 | 21,374 | 5,123 | 691,389 |
| Amortisation and adjustments | | | | |
| At 1 January 2001 | 741,180 | - | 1,188 | 742,368 |
| Charge for the year | 180,059 | - | 1,123 | 181,182 |
| Disposals | (192,656) | - | - | (192,656) |
| At 31 December 2001 | 728,583 | - | 2,311 | 730,894 |
| At 1 January 2002 | 728,583 | - | 2,311 | 730,894 |
| Charge for the year | 130,119 | - | 1,070 | 131,189 |
| Disposals | (340,947) | - | - | (340,947) |
| At 31 December 2002 | 517,755 | - | 3,381 | 521,136 |
| Net book value | | | | |
| At 1 January 2001 | 291,494 | 30,099 | 2,151 | 323,744 |
| At 31 December 2001 | 245,285 | 43,914 | 1,967 | 291,166 |
| At 31 December 2002 | 147,137 | 21,374 | 1,742 | 170,253 |

20. TANGIBLE FIXED ASSETS

(a) Movements in tangible fixed assets

| CZK 000 | Land and building | Furniture and fittings | Equipment | Fixed assets not used | Fixed assets not yet in use | Total |
|------------------------------------|-------------------|------------------------|-----------|-----------------------|-----------------------------|-----------|
| Cost | | | | | | |
| At 1 January 2001 | 1,043,784 | 1,032,969 | 323,413 | 4,606 | 7,810 | 2,412,582 |
| Additions | 4,149 | 72,337 | 4,120 | - | 116,312 | 196,918 |
| Transfers | 2,520 | 97,751 | - | - | (100,271) | - |
| Disposals | (80,121) | (21,102) | (440) | (128) | (5,193) | (106,984) |
| Other changes | (1,235) | (59) | (124) | - | (3,207) | (4,625) |
| At 31 December 2001 | 969,097 | 1,181,896 | 326,969 | 4,478 | 15,451 | 2,497,891 |
| At 1 January 2002 | 969,097 | 1,181,896 | 326,969 | 4,478 | 15,451 | 2,497,891 |
| Additions | 16,932 | 75,218 | 6,626 | - | 63,169 | 161,945 |
| Disposals | (109,806) | (140,861) | (17,240) | (209) | (78,241) | (346,357) |
| Other changes | - | - | (621) | - | - | (621) |
| At 31 December 2002 | 876,223 | 1,116,253 | 315,734 | 4,269 | 379 | 2,312,858 |
| Depreciation and adjustment | | | | | | |
| At 1 January 2001 | 533,061 | 725,941 | 201,728 | 3,798 | - | 1,464,528 |
| Charge for the year | 97,500 | 223,564 | 18,054 | 70 | - | 339,188 |
| Disposals | (72,097) | (18,123) | (489) | (128) | - | (90,837) |
| Adjustments | 51,484 | - | - | - | - | 51,484 |
| Transfers | - | (68) | - | 68 | - | - |
| At 31 December 2001 | 609,948 | 931,314 | 219,293 | 3,808 | - | 1,764,363 |
| At 1 January 2002 | 609,948 | 931,314 | 219,293 | 3,808 | - | 1,764,363 |
| Charge for the year | 91,985 | 154,907 | 19,333 | 58 | - | 266,283 |
| Disposals | (79,473) | (130,215) | (13,206) | (107) | - | (223,001) |
| Transfers | - | (9,924) | 9,924 | - | - | - |
| At 31 December 2002 | 622,460 | 946,082 | 235,344 | 3,759 | - | 1,807,645 |
| Net book value | | | | | | |
| At 1 January 2001 | 510,723 | 307,028 | 121,685 | 808 | 7,810 | 948,054 |
| At 31 December 2001 | 359,149 | 250,582 | 107,676 | 670 | 15,451 | 733,528 |
| At 31 December 2002 | 253,763 | 170,171 | 80,390 | 510 | 379 | 505,213 |

Total 2001 depreciation expense of CZK 521,829 thousand includes charges of CZK 1,459 thousand for low value items. Since 2002 the low value tangible assets are not accounted in the balance sheet, therefore depreciation charges do not include costs of low value items.

(b) Tangible fixed assets held under finance leases

The Bank uses assets totalling CZK 2,101 thousand which are subject to leasing agreement in which the Bank acts as lessee.

The Bank is committed to payments under finance leases for fixed assets as follows:

| CZK 000 | Paid during 2002 | Due within 1 year | Due from 1 year to 5 years | Due in following years | Total payments remaining |
|------------------|------------------|-------------------|----------------------------|------------------------|--------------------------|
| Office equipment | 517 | 517 | 198 | - | 715 |
| Total | 517 | 517 | 198 | - | 715 |

21. OTHER ASSETS

| CZK 000 | 2002 | 2001 |
|--|------------------|------------------|
| Other debtors | 41,996 | 56,066 |
| Collections accepted from customers | 32,462 | 10,654 |
| Fair value of derivatives (positive) | 2,624,757 | 2,427,181 |
| Deferred tax asset | 26,639 | 95,079 |
| Estimated receivables (expected claim for state subsidy) | 870,000 | 696,684 |
| Other | 146,857 | 285,890 |
| Total other assets | 3,742,711 | 3,571,554 |
| Less: | | |
| Adjustments | (6,434) | (6,486) |
| Total | 3,736,277 | 3,565,068 |

The expected claim by the subsidiary for a state subsidy from the Ministry of finance for the year 2002 was calculated based on the volume of the client's deposits with an enforced claim for state subsidy for the year 2002 and it is limited to CZK 4,500 per individual. The estimated receivable resulting from expected claim for state subsidy was calculated and is included in the accounting evidence and it is presented in the balance sheet as "Other assets" and "Other liabilities" as at 31 December 2002 (see Note 26).

22. DUE TO BANKS

(a) Analysis of due to banks by residual maturity

| CZK 000 | 2002 | 2001 |
|-------------------------|-------------------|-------------------|
| Repayable on demand | 2,154,215 | 1,090,619 |
| Up to 3 months | 12,751,289 | 13,128,447 |
| From 3 months to 1 year | 2,385,222 | 2,889,391 |
| From 1 to 5 years | 3,006,288 | 1,986,205 |
| Over 5 years | 2,537,588 | 751,491 |
| Total | 22,834,602 | 19,846,153 |

(b) Due to persons with a special relationship to the Bank

The volume of due to persons with a special relationship to the Bank totalled CZK 7,195,758 thousand in 2002 (2001: CZK 4,359,256 thousand).

23. DUE TO CUSTOMERS

(a) Analysis of due to customers by sectors

| CZK 000 | Repayable on demand | Savings with fixed maturity | Savings with notice | Term | Other | Total |
|----------------------------|---------------------|-----------------------------|---------------------|------------------------------|------------------|-------------------|
| | | | | deposits with fixed maturity | | |
| At 31 December 2002 | | | | | | |
| Financial institutions | 242,200 | - | - | 411,644 | 14,970 | 668,814 |
| Non-financial institutions | 18,734,216 | 15,987 | 1,573 | 8,471,549 | 359,661 | 27,582,986 |
| Insurance institutions | 324,602 | - | - | 1,038,184 | 835,680 | 2,198,466 |
| Government sector | 2,115,078 | 12,189 | 2,035 | 122,144 | 1,000,146 | 3,251,592 |
| Non-profit organisations | 383,718 | 410 | - | 265,086 | - | 649,214 |
| Self-employed | 4,711,096 | 1 | - | 4,503,121 | 16,905 | 9,231,123 |
| Resident individuals | 3,202,985 | 12,713,040 | 827,051 | 14,484,659 | 422,560 | 31,650,295 |
| Non-residents | 1,427,973 | - | - | 1,357,864 | 32,519 | 2,818,356 |
| Companies without IČO | 39,931 | - | - | 120,510 | - | 160,441 |
| Total | 31,181,799 | 12,741,627 | 830,659 | 30,774,761 | 2,682,441 | 78,211,287 |
| At 31 December 2001 | | | | | | |
| Financial institutions | 193,262 | - | - | 1,883,488 | - | 2,076,750 |
| Non-financial institutions | 16,066,436 | 8,941 | - | 5,556,856 | 234,831 | 21,867,064 |
| Insurance institutions | 275,492 | - | - | 1,430,972 | 2,140,900 | 3,847,364 |
| Government sector | 1,323,302 | 11,367 | - | 3,277,546 | 819,000 | 5,431,215 |
| Non-profit organisations | 322,803 | 403 | - | 353,355 | 231 | 676,792 |
| Self-employed | 2,295,001 | - | - | 2,545,478 | 16,283 | 4,856,762 |
| Resident individuals | 2,677,521 | 10,139,565 | 2,245 | 15,999,860 | 255,522 | 29,074,713 |
| Non-residents | 1,380,016 | - | - | 1,762,152 | 42,477 | 3,184,645 |
| Companies without IČO | 40,159 | - | - | 439 | 2,000 | 42,598 |
| Total | 24,573,992 | 10,160,276 | 2,245 | 32,810,146 | 3,511,244 | 71,057,903 |

No due to customers that relates to the provision of investment services to customers are included in 2001 and 2002.

(b) Due to persons with a special relationship to the Bank

| CZK 000 | Management | | Other |
|----------------------------|--------------------|------------------|----------------|
| | Board of Directors | Other executives | |
| At 31 December 2001 | 7,219 | 18,400 | 90,506 |
| At 1 January 2002 | 7,219 | 18,400 | 90,506 |
| Additions | 9,308 | 8,618 | 100,164 |
| Disposals | (1,679) | (8,109) | (77,742) |
| At 31 December 2002 | 14,848 | 18,909 | 112,928 |

24. PAYABLES FROM DEBT SECURITIES

(a) Analysis of certificates of deposit and similar bonds by sectors

| CZK 000 | 2002 | 2001 |
|----------------------------|------------------|-------------------|
| Financial institutions | 44,757 | - |
| Non-financial institutions | 6,246,293 | - |
| Government sector | 60,721 | - |
| Non-profit organisations | 19,494 | - |
| Self-employed | 448,032 | - |
| Resident individuals | 1,560,431 | 17,407,511 |
| Non-residents | 758,313 | - |
| Companies without IČO | 1,913 | - |
| Unallocated | 323 | - |
| Total | 9,140,277 | 17,407,511 |

(b) Analysis of mortgage bonds issued

| Issue date | Maturity date | Currency | Amount CZK 000 | Amount due within 1 year |
|--------------------------|---------------|----------|-------------------|-----------------------------|
| 01/04/1998 | 01/04/2003 | CZK | 400,000 | 400,000 |
| 17/06/1998 | 17/06/2003 | CZK | 300,000 | 300,000 |
| 10/06/1999 | 10/06/2004 | CZK | 2,400,000 | - |
| 14/02/2002 | 04/02/2009 | CZK | 1,882,114 | - |
| Total | | | 4,982,114 | 700,000 |
| Accrued interest expense | | | 267,334 | - |
| Total | | | 5,249,448 | 700,000 |

The proportion of issued debt securities with residual maturity up to 1 year to the total balance of issued debt securities is 13.43% (2001: 18.15%).

The Bank has purchased its own debt securities for the purpose of trading or available for sale in the total amount of CZK 2,554,115 thousand (2001: CZK 0 thousand), see Note 15 (d).

25. SUBORDINATED LIABILITIES

| CZK 000 | 2002 | 2001 |
|--|------------------|------------------|
| Subordinated debt, Bank Austria AG, Vienna | 739,576 | 748,332 |
| Subordinated debt, Bayerische Hypo- und Vereinsbank AG, Munich | 387,797 | 392,427 |
| Total | 1,127,373 | 1 140,759 |

The above subordinated debt amounts are subject to the following terms and conditions:

A new contract regarding the subordinated debt from Bank Austria Creditanstalt International AG, Vienna was concluded on 1 April 2000 to replace the original contract. Bank Austria Creditanstalt International AG, Vienna was merged with Bank Austria AG, Vienna (currently Bank Austria Creditanstalt AG, Vienna) in November 2000. The subordinated loan was issued in the notional amount of EUR 23,400 thousand at market rates of interest and matures in March 2010.

The amount of CZK 387,797 thousand (2001: CZK 392,427 thousand) represents the subordinated loan granted by Bayerische Hypo- und Vereinsbank AG, Munich totalling EUR 12,271 thousand for 6-month EURIBOR+0.25%. The loan matures on 31 December 2005.

Both loans fulfil the CNB requirements for subordinated liability.

26. OTHER LIABILITIES

| CZK 000 | 2002 | 2001 |
|---|------------------|------------------|
| Other short term payables to customers | 2,548,886 | 2,729,225 |
| Estimated payables | 840,106 | 882,467 |
| Other creditors | 117,761 | 103,765 |
| Fair value of derivatives (negative) | 3,664,016 | 3,067,741 |
| Taxes payable | 290,802 | 148,083 |
| Other payables to customers (expected claim for state subsidy) | 870,000 | 696,684 |
| Other | 242,389 | 85,534 |
| Total | 8,573,960 | 7,713,499 |

The current year creation of estimated payables for interest bonuses had an impact on the estimated payables as at 31 December 2002. These interest bonuses are credited in accordance with the subsidiary's business terms and conditions in the client's building saving accounts after the end of the saving cycle. In 2002, an estimated payable was created for these future expenditures amounting to CZK 167,000 thousand (2001: CZK 166,000 thousand).

27. REGISTERED CAPITAL

The registered capital of the Bank was CZK 5,047,000 thousand as at 31 December 2002. The registered capital of the former Bank Austria Creditanstalt Czech Republic, a.s. of CZK 1,996,920 thousand was transferred into share premium of the Bank.

The shareholders of the Bank at 31 December 2002 are:

| Name | Registered office | Notional amount of shares in thousands pieces | Share of ownership % |
|---------------------------------------|-------------------|--|-------------------------|
| Bank Austria Creditanstalt AG, Vienna | Austria | 5,047,000 | 100.00 |
| Total | | 5,047,000 | 100.00 |

28. BONUSES TIED TO EQUITY

The Bank has not implemented any programmes for the purchase of own shares and remuneration in the form of options for own shares in order to motivate and retain its employees.

29. RESERVES AND ADJUSTMENTS FOR POSSIBLE CREDIT LOSSES

(a) Reserves for possible credit and guarantee losses

| CZK 000 | | |
|--|-----------|------------------|
| Reserves for possible credit and guarantee losses (tax deductible) | | |
| Balance at 1 January 2001 | | 1,717,388 |
| Creation during current year | | - |
| Standard loans (1 %) | | - |
| Guarantees (2 %) | | - |
| Use during current year | | (277,779) |
| Write-off of loans | (276,640) | |
| Cover of losses from loans sold | (1,139) | |
| Release of reserves no longer considered necessary | | - |
| Balance of tax deductible reserves at 31 December 2001 | | 1,439,609 |
| Balance at 1 January 2002 | | 1,439,609 |
| Creation during current year | | 19,026 |
| Guarantees | 19,026 | |
| Use during current year | | (994) |
| Write-off of loans | (994) | |
| Release of reserves no longer considered necessary | | (358,908) |
| Balance of tax deductible reserves at 31 December 2002 | | 1,098,733 |
| Total reserves for possible credit and guarantee losses at 31 December 2001 | | 1,439,609 |
| Total reserves for possible credit and guarantee losses at 31 December 2002 | | 1,098,733 |

(b) Adjustments to classified receivables

| CZK 000 | |
|--|------------------|
| Adjustments to classified receivables (tax deductible) | |
| Balance at 1 January 2001 | 1,188,334 |
| Creation during current year | 286,944 |
| Special mentioned loans | 42,587 |
| Substandard loans | 22,469 |
| Doubtful loans | 75,679 |
| Loss loans | 131,452 |
| Receivables from debtors subject to bankruptcy and composition proceedings | 14,757 |
| Use during current year | (75,214) |
| Write-off of loans | (35,652) |
| Cover of losses from loans sold | (39,562) |
| Release of adjustments no longer considered necessary | (108,295) |
| FX differences | (42,795) |
| Balance of tax deductible adjustments at 31 December 2001 | 1,248,974 |
| Balance at 1 January 2002 | 1,248,974 |
| Creation during current year | 673,190 |
| Special mentioned loans | 115,297 |
| Substandard loans | 152,182 |
| Doubtful loans | 58,101 |
| Loss loans | 334,437 |
| Receivables from debtors subject to bankruptcy and composition proceedings | 13,173 |
| Use during current year | (53,276) |
| Write-off of loans | (53,276) |
| Release of adjustments no longer considered necessary | (265,270) |
| FX differences | (18,866) |
| Balance of tax deductible adjustments at 31 December 2002 | 1,584,752 |

| | |
|--|------------------|
| Other adjustments to losses from receivables (tax non-deductible) | |
| Balance at 1 January 2001 | 173,133 |
| Creation during current year | 223,526 |
| Use during current year | - |
| Release of adjustments no longer considered necessary | (170,377) |
| FX differences | - |
| Balance of tax non-deductible adjustments at 31 December 2001 | 226,282 |
| Balance at 1 January 2002 | 226,282 |
| Creation during current year | - |
| Use during current year | - |
| Release of adjustments no longer considered necessary | (225,984) |
| FX differences | (298) |
| Balance of tax non-deductible adjustments at 31 December 2002 | - |
| Total adjustments to credit losses at 31 December 2001 | 1,475,256 |
| Total adjustments to credit losses at 31 December 2002 | 1,584,752 |

30. RETAINED EARNINGS, RESERVE FUNDS AND OTHER FUNDS FROM PROFIT

The Bank has allocated the 2001 profit and proposes to allocate the 2002 profit and use reserve funds as follows:

| CZK 000 | Profit | Retained earnings | Statutory reserve funds | Other reserve funds | Other funds from profit |
|---|------------------|-------------------|-------------------------|---------------------|-------------------------|
| Balance at 1 January 2002 | - | 108,223 | 506,683 | 1,763,319 | 915 |
| Profit for 2001 | 1,162,048 | | | | |
| Allocation of the 2001 profit approved by the supervisory board: | | | | | |
| Transfer to funds | (60,438) | - | 56,438 | | 4,000 |
| Transfer to retained earnings | (1,097,110) | 1,097,110 | | | |
| Dividends paid up from retained earnings and other reserve funds | | (1,000,000) | | (750,000) | |
| Withholding tax paid from intra-group dividends | (4,500) | | | | |
| Other creation of funds | - | - | - | - | 198 |
| Use of funds | - | - | - | - | (4,921) |
| Balance at 31 December 2002 before allocation of the 2002 profit | - | 205,333 | 563,121 | 1,013,319 | 192 |
| Profit for 2002 | 1,708,768 | | | | |
| Proposed allocation of the 2002 profit: | | | | | |
| Transfer to funds | (87,739) | - | 83,239 | | 4,500 |
| Transfer to retained earnings | (1,621,029) | 1,621,029 | | | |
| | - | 1,826,362 | 646,360 | 1,013,319 | 4,692 |

31. REVALUATION RESERVE FUND

| CZK 000 | Hedging derivatives | Net investments in foreign entities | Other |
|------------------------------------|---------------------|-------------------------------------|----------|
| Balance at 1 January 2001 | (1,994) | - | - |
| Increase | (221,755) | - | - |
| Decrease | - | - | - |
| Balance at 31 December 2001 | (223,749) | - | - |
| Balance at 1 January 2002 | (223,749) | - | - |
| Increase | - | - | - |
| Decrease | 223,749 | - | - |
| Balance at 31 December 2002 | - | - | - |

32. INCOME TAX AND DEFERRED TAX ASSET/LIABILITY

(a) Current income tax

| CZK 000 | 2002 | | 2001 | |
|---|----------------|---------------|----------------|------------|
| | Bank | Subsidiary | Bank | Subsidiary |
| Current year profit (loss) before tax | 2,507,663 | 140,151 | 1,621,750 | 60,271 |
| Income not liable to tax | (549,061) | (55,488) | (550,672) | (69,204) |
| Tax non-deductible expenses | 263,952 | (3,388) | 691,570 | 23,248 |
| Other items adjusting tax base | - | (3,464) | - | (5,895) |
| Subtotal | 2,222,554 | 77,811 | 1,762,648 | 8,420 |
| Deduction of tax losses, 10% reinvestment allowance | - | (13,374) | - | (3,096) |
| Adjusted tax base | 2,222,554 | 64,437 | 1,762,648 | 5,325 |
| Income tax calculated using the 31% tax rate | 688,991 | 19,975 | 546,421 | 1,650 |
| Tax discounts and offsets used | (87,500) | (2,750) | (27,632) | (1,650) |
| Income tax for the year | 601,491 | 17,225 | 518,789 | - |

(b) Deferred tax liability/asset

Deferred income tax is calculated on all temporary differences using a principal tax rate of 31%. Deferred income tax assets and liabilities are attributable to the following items:

| CZK 000 | 2002 | 2001 |
|---|---------------|---------------|
| Deferred tax assets | | |
| Credit provisions and reserves | - | 69,412 |
| Tax loss carried forward | - | 4,094 |
| Differences in net book value of fixed assets | - | 3,105 |
| Tax non-deductible reserves | 21,306 | 9,665 |
| Social and health insurance for bonuses | 17,651 | 8,803 |
| Other | 1,240 | - |
| | 40,197 | 95,079 |
| Deferred tax liabilities | | |
| Differences in net book value of fixed assets | 13 558 | - |
| Deferred tax assets | 26 639 | 95 079 |

Bank management believes that it is highly probable that the Bank will fully realise its deferred tax asset as at 31 December 2002 based upon the Bank's current and expected future level of taxable profits.

(c) Income tax reserve

As at 31 December 2002 the Bank created income tax reserve totalling CZK 200,000 thousand. This reserve was recognised based on expected increase in taxable

expenses for next three accounting periods that will not be induced by the Bank's current activities but which relate solely to the amendment of the Act on Reserves No. 592/1992 Coll. (see Note 3 (f)).

As at 31 December 2002 the subsidiary created an income tax reserve totalling to CZK 17,225 thousand and reserves for other taxes totalling CZK 782 thousand.

33. OFF-BALANCE SHEET ITEMS

(a) Irrevocable contingent liabilities arising from acceptances and endorsements, other written contingent liabilities and assets pledged as collateral

| CZK 000 | 2002 | 2001 |
|--|-------------------|-------------------|
| Banks | | |
| Letters of credit and financial guarantees | 413,095 | 188,332 |
| Other contingent liabilities | 518,972 | 558,581 |
| Collaterals provided | 3,495 | 3,372 |
| | 935,562 | 750,285 |
| Clients | | |
| Letters of credit and financial guarantees | 7,278,793 | 5,559,279 |
| Other contingent liabilities | 31,409,264 | 21,091,121 |
| Collaterals provided | 239,658 | 66,257 |
| | 38,927,715 | 26,716,657 |
| Total | 39,863,277 | 27,466,942 |

(b) Guarantees issued in favour of persons with a special relationship to the Bank

| CZK 000 | Executives |
|----------------------------|------------|
| At 31 December 2001 | 647 |
| At 1 January 2002 | 647 |
| Additions | - |
| Disposals | - |
| At 31 December 2002 | 647 |

(c) Off-balance sheet financial instruments

| CZK 000 | Contractual amounts | | Fair value | |
|--------------------------------------|---------------------|-------------|------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Hedging instruments | | | | |
| Interest rate swap contracts | 13,605,070 | 6,725,402 | (890,615) | (234,002) |
| Cross currency swap contracts | | | (4,785) | - |
| Purchase | 166,550 | - | | |
| Sale | 150,705 | - | | |
| Trading instruments | | | | |
| Forward rate agreements (FRA) | 161,029,200 | 118,700,000 | (4,264) | (17,501) |
| Interest rate swap contracts | 63,010,332 | 48,888,140 | (274,610) | (235,370) |
| Forward foreign exchange contracts | | | 135,949 | (154,148) |
| Purchase | 13,835,786 | 47,893,151 | | |
| Sale | 13,704,174 | 48,042,127 | | |
| Forward transactions with securities | 547,981 | 54,437 | (1,189) | (12) |
| Cross currency swap contracts | 390,277 | 392,565 | 255 | 473 |

(d) Residual maturity of financial derivatives

The allocation of nominal values of individual types of financial derivatives to their residual maturity is as follows.

| CZK 000 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|-------------------|-----------------------|----------------------|-----------------|-------------|
| At 31 December 2002 | | | | | |
| Hedging instruments | | | | | |
| Interest rate swap contracts | 1,882,988 | 1,104,824 | 8,284,482 | 2,332,776 | 13,605,070 |
| Cross currency swap contracts (Purchase) | - | - | - | 166,550 | 166,550 |
| Cross currency swap contracts (Sale) | - | - | - | 150,705 | 150,705 |
| Trading instruments | | | | | |
| Forward rate agreements (FRA) | 80,755,640 | 80,273,560 | - | - | 161,029,200 |
| Interest rate swap contracts | 6,457,300 | 20,518,045 | 27,539,937 | 8,495,050 | 63,010,332 |
| Forward foreign exchange contracts (Purchase) | 9,499,440 | 4,330,026 | 6,320 | - | 13,835,786 |
| Forward foreign exchange contracts (Sale) | 9,431,740 | 4,266,245 | 6,189 | - | 13,704,174 |
| Forward transactions with securities | - | 547,981 | - | - | 547,981 |
| Cross currency swap contracts | - | 194,895 | 195,382 | - | 390,277 |
| At 31 December 2001 | | | | | |
| Hedging instruments | | | | | |
| Interest rate swap contracts | 400,000 | 998,858 | 3,672,180 | 1,654,364 | 6,725,402 |
| Trading instruments | | | | | |
| Forward rate agreements (FRA) | 49,900,000 | 68,800,000 | - | - | 118,700,000 |
| Interest rate swap contracts | 2,942,590 | 6,330,000 | 32,525,550 | 7,090,000 | 48,888,140 |
| Forward foreign exchange contracts (Purchase) | 16,680,791 | 31,212,360 | - | - | 47,893,151 |
| Forward foreign exchange contracts (Sale) | 16,588,187 | 31,453,940 | - | - | 48,042,127 |
| Forward transactions with securities | - | 54,437 | - | - | 54,437 |
| Cross currency swap contracts | - | - | 392,565 | - | 392,565 |

(e) Refinancing agreements

The Bank was allowed to draw following loan facilities as at 31 December 2002:

Loan facility granted by Bank Austria Creditanstalt AG, Vienna amounting CZK 2,705,276 thousand (EUR 85,610 thousand) with final maturity in December 2006.

Credit line granted by European Investment Bank (EIB) amounting CZK 3,160,000 thousand (EUR 100,000 thousand) with final maturity in December 2009. This facility is special-purpose line strictly bounded on refinancing of loans fulfilling the terms and conditions of EIB.

34. VALUES TAKEN INTO ADMINISTRATION AND MANAGEMENT

| CZK 000 | 2002 | 2001 |
|--|-------------------|-------------------|
| Bonds | 22,268,287 | 6,644,001 |
| Shares and open-end funds certificates | 16,374,877 | 17,002,111 |
| Total | 38,643,164 | 23,646,112 |

35. FINANCIAL INSTRUMENTS – MARKET RISK

The Bank is exposed to market risks arising from the open positions of transactions with interest rates, equity and currency instruments, which are sensitive to the changes in conditions on financial markets.

(a) Trading

The Bank holds trading positions in certain financial instruments including financial derivatives. The majority of the Bank's business activities are conducted

on the basis of the requirements of the Bank's customers. According to the estimated demand of its customers the Bank holds a certain supply of financial instruments and maintains the admission to the financial markets through the quoting of bid and ask prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Bank's business strategy is thus affected by the speculative expectation and market creation and its goal is to maximise net income from trading.

The Bank manages risks associated with its trading activities on the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are the volume limits of individual transactions, stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management" in Note 35 (c).

The majority of derivatives are contracted on the OTC market as a result of the non-existence of the public market with financial derivatives in the Czech Republic.

(b) Other (non-trading) activities

The selected risks to which the Bank is exposed as a result of its non-trading activities, management of positions arising as a result of these activities and the Bank's approach to the management of these risks are described below. More details on the procedures used by the Bank to measure and manage these risks are included in "Risk management" in Note 35 (c).

(ba) Liquidity risk

Liquidity risk arises as a result of the type of financing of the Bank's activities and management of its positions. It includes both the risk of being able to finance the Bank's assets using the instruments with the appropriate maturity and the Bank's ability to dispose of / sell its assets for the appropriate price within the appropriate time period.

The Bank has access to diversified sources of funds, which comprise deposits and other savings, securities issued, loans accepted including subordinated loans and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates a liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Bank's board of directors. The Bank also holds, as part of its liquidity risk management strategy, a portion of its assets in highly liquid funds, such as state treasury bills and similar bonds.

Residual maturity of the assets and liabilities of the consolidated entity

| CZK 000 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Without specification | Total |
|--|---------------------|-----------------------|----------------------|-------------------|--------------------------|--------------------|
| At 31 December 2002 | | | | | | |
| Cash | 500,576 | - | - | - | 101,336 | 601,912 |
| State zero coupon bonds | 3,875,545 | 3,024,344 | 1,890,595 | 4,103,259 | - | 12,893,743 |
| Receivables from banks | 33,268,871 | 756,112 | 2,425,958 | - | 34,189 | 36,485,130 |
| Receivables from customers | 8,456,533 | 14,924,255 | 21,759,080 | 20,410,788 | 6,522,624 | 72,073,280 |
| Debt securities | 74,851 | 1,287,260 | 7,428,821 | 2,400,197 | - | 11,191,129 |
| Shares, units and other investments | - | - | - | - | 3,000 | 3,000 |
| Participation interests with substantial influence | - | - | - | - | - | - |
| Participation interests in non-consol. subjects | - | - | - | - | - | - |
| Other assets | - | 884,314 | - | - | 3,527,376 | 4,411,690 |
| Prepaid expenses and accrued income | 77,977 | - | - | - | 2,071 | 80,048 |
| Total | 46,254,353 | 20,876,285 | 33,504,454 | 26,914,244 | 10,190,596 | 137,739,932 |
| Due to banks | 14,905,503 | 2,578,753 | 2,812,757 | 2,537,589 | - | 22,834,602 |
| Due to customers | 67,126,619 | 2,194,581 | 8,888,369 | 1,718 | - | 78,211,287 |
| Payables from debt securities | 8,001,781 | 822,201 | 3,448,683 | 2,117,060 | - | 14,389,725 |
| Other liabilities | 106,922 | 870,000 | - | - | 19,824,555 | 20,801,477 |
| Accrued expenses and deferred income | 374,540 | - | - | - | 928 | 375,468 |
| Subordinated liabilities | 135 | 34 | 387,764 | 739,440 | - | 1,127,373 |
| Total | 90,515,500 | 6,465,569 | 15,537,573 | 5,395,807 | 19,825,483 | 137,739,932 |
| Gap | (44,261,147) | 14,410,716 | 17,966,881 | 21,518,437 | (9,634,887) | - |
| Cumulative gap | (44,261,147) | (29,850,431) | (11,883,550) | 9,634,887 | - | - |
| At 31 December 2001 | | | | | | |
| Cash | 1,721,660 | - | - | - | 482 | 1,722,142 |
| State zero coupon bonds | 1,892,631 | 5,546,035 | 872,097 | 2,242,441 | - | 10,553,204 |
| Receivables from banks | 40,541,105 | 1,346,982 | 1,992,317 | - | 1,559,522 | 45,439,926 |
| Receivables from customers | 10,196,438 | 12,540,687 | 19,745,569 | 16,854,438 | 7,118,018 | 66,455,150 |
| Debt securities | 381,560 | 596,421 | 1,789,316 | 1,953,712 | - | 4,721,009 |
| Shares, units and other investments | - | - | - | - | 3,000 | 3,000 |
| Participation interests with substantial influence | - | - | - | - | 300 | 300 |
| Participation interests in non-consol. subjects | - | - | - | - | 15,707 | 15,707 |
| Other assets | 123,054 | 74,451 | v | - | 4,392,150 | 4,589,655 |
| Prepaid expenses and accrued income | 106,663 | 90,467 | 152,032 | 190,070 | 35,428 | 574,660 |
| Total | 54,963,111 | 20,195,043 | 24,551,331 | 21,240,661 | 13,124,607 | 134,074,753 |
| Due to banks | 14,219,066 | 2,889,391 | 1,986,205 | 751,491 | - | 19,846,153 |
| Due to customers | 62,927,839 | 2,276,762 | 5,842,841 | 10,461 | - | 71,057,903 |
| Payables from debt securities | 16,534,282 | 1,590,555 | 3,287,711 | - | - | 21,412,548 |
| Other liabilities | 2,652,122 | 114,336 | - | - | 17,099,566 | 19,866,024 |
| Accrued expenses and deferred income | 234,355 | 75,828 | 96,809 | 674 | 343,700 | 751,366 |
| Subordinated liabilities | - | - | 392,427 | 748,332 | - | 1,140,759 |
| Total | 96,567,664 | 6,946,872 | 11,605,993 | 1,510,958 | 17,443,266 | 134,074,753 |
| Gap | (41,604,553) | 13,248,171 | 12,945,338 | 19,729,703 | (4,318,659) | - |
| Cumulative gap | (41,604,553) | (28,356,382) | (15,411,044) | 4,318,659 | - | - |

(bb) Interest rate risk

The Bank is exposed to an interest rate risk since the interest-bearing assets and liabilities have different maturity dates, periods of changes / adjustments of interest rates and volumes during these periods. In the case of variable interest rates, the Bank is exposed to a basis risk that is based on the difference in the mechanism of adjusting individual types of interest rates, such as PRIBOR, announced interest on deposits, etc. The Bank's interest rate risk management activities are aimed at optimising net interest income in accordance with the Bank's strategy approved by the board of directors.

The Bank is generally more interest sensitive on the side of its liabilities, which means that its interest sensitive assets have a longer duration or period of adjusting interest rates than its liabilities. When interest rates increase, net interest income decreases (negative BPV value – see below).

Interest rate derivatives are generally used to manage the incongruity between the interest sensitivity of assets and liabilities. These transactions are carried out in accordance with the Bank's strategy for the management of assets and liabilities approved by the board of directors.

Part of the Bank's income is generated by the aimed incongruity between the interest sensitive assets and liabilities. The table below is summarising the incongruity between the interest sensitive assets and liabilities, which is expressed by the change of present values of assets and liabilities if interest rates increase by 1 basis point (0.01%), so-called "Basis point value – BPV". Sensitivity (BPV) of instruments is recorded either in the period in which they are due or in the period in which the interest rate changes, i.e. in the period that occurs earlier. Certain assets or liabilities are allocated to individual periods on the basis of an expert appraisal due to the expected preliminary repayment or non-defined maturity dates.

Interest sensitivity BPV of the Bank's assets and liabilities

| CZK 000 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|--|-------------------|-----------------------|----------------------|-----------------|-----------------|
| At 31 December 2002 | | | | | |
| Cash | - | - | - | - | - |
| State zero coupon bonds | (46) | (209) | - | - | (255) |
| Receivables from banks | (75) | (25) | - | - | (100) |
| Receivables from customers | (422) | (733) | (4,606) | (2,595) | (8,356) |
| Debt securities | (15) | (173) | (1,605) | (1,268) | (3,061) |
| Other interest sensitive assets | - | (1) | - | (1) | (2) |
| Total | (558) | (1,141) | (6,211) | (3,864) | (11,774) |
| Due to banks | 93 | 140 | 1,166 | 477 | 1,876 |
| Due to customers | 341 | 395 | 123 | 1 | 860 |
| Payables from debt securities | 8 | 35 | 773 | 1,026 | 1,842 |
| Other interest sensitive liabilities | - | - | - | - | - |
| Subordinated liabilities | 18 | 19 | - | - | 37 |
| Total | 460 | 589 | 2,062 | 1,504 | 4,615 |
| Long positions of interest rate derivatives | 777 | 1,143 | 8,322 | 4,171 | 14,413 |
| Short positions of interest rate derivatives | (846) | (1,654) | (5,086) | (922) | (8,508) |
| Gap | (167) | (1,063) | (913) | 889 | - |
| Cumulative gap | (167) | (1,230) | (2,143) | (1,254) | - |
| At 31 December 2001 | | | | | |
| Cash | - | - | - | - | - |
| State zero coupon bonds | (32) | (227) | - | - | (259) |
| Receivables from banks | (110) | (62) | - | - | (172) |
| Receivables from customers | (500) | (693) | (2,913) | (3,447) | (7,553) |
| Debt securities | (10) | (75) | (589) | (916) | (1,590) |
| Other interest sensitive assets | (3) | - | - | - | (3) |
| Total | (655) | (1,057) | (3,502) | (4,363) | (9,577) |
| Due to banks | 135 | 173 | 961 | 892 | 2,161 |
| Due to customers | 135 | 92 | 50 | 4 | 281 |
| Payables from debt securities | - | 99 | 690 | - | 789 |
| Other interest sensitive liabilities | - | 942 | - | - | 942 |
| Subordinated liabilities | 18 | 19 | - | - | 37 |
| Total | 288 | 1,325 | 1,701 | 896 | 4,210 |
| Long positions of interest rate derivatives | 583 | 312 | 7,684 | 2,839 | 11,418 |
| Short positions of interest rate derivatives | (656) | (268) | (6,438) | (908) | (8,270) |
| Gap | (440) | 312 | (555) | (1,536) | - |
| Cumulative gap | (440) | (128) | (683) | (2,219) | - |

(bc) Equity risk

Due to fact that the Bank does not trade with equity instruments, no exposure to equity risk exists.

(bd) Currency risk

Assets and liabilities denominated in foreign currency including off-balance sheet exposures represent the Bank's exposure to currency risks. Both realised and unrealised foreign exchange gains and losses are reported directly in the profit and loss account. The Bank's foreign currency position in the most significant currencies is as follows:

Foreign currency position of the consolidated entity

| CZK 000 | EUR | USD | SKK | CZK | Other | Total |
|--|-------------------|------------------|---------------|--------------------|------------------|--------------------|
| At 31 December 2002 | | | | | | |
| Cash | 97,319 | 30,567 | 4,055 | 452,145 | 17,826 | 601,912 |
| State zero coupon bonds | - | - | - | 12,893,743 | - | 12,893,743 |
| Receivables from banks | 831,201 | 92,624 | 45,314 | 35,118,121 | 397,870 | 36,485,130 |
| Receivables from customers | 21,467,813 | 1,702,349 | 6 | 47,522,641 | 1,380,471 | 72,073,280 |
| Debt securities | 3,823,628 | 934,148 | - | 6,433,353 | - | 11,191,129 |
| Shares, units and other investments | - | - | - | 3,000 | - | 3,000 |
| Participation interests with substantial influence | - | - | - | - | - | - |
| Participation interests in non-consol. subjects | - | - | - | - | - | - |
| Other assets | 29,374 | 3,770 | 5 | 4,378,087 | 454 | 4,411,690 |
| Prepaid expenses and accrued income | 737 | 2,862 | - | 76,260 | 189 | 80,048 |
| Total | 26,250,072 | 2,766,320 | 49,380 | 106,877,350 | 1,796,810 | 137,739,932 |
| Due to banks | 10,279,428 | 920,624 | - | 11,634,550 | - | 22,834,602 |
| Due to customers | 10,192,248 | 4,218,164 | 14,122 | 63,470,216 | 316,537 | 78,211,287 |
| Payables from debt securities | 434,467 | 172,210 | 16,770 | 13,093,726 | 672,552 | 14,389,725 |
| Other liabilities | 631,297 | 49,843 | 3,971 | 20,104,539 | 11,827 | 20,801,477 |
| Accrued expenses and deferred income | 34,822 | 456 | - | 340,190 | - | 375,468 |
| Subordinated liabilities | 1,127,373 | - | - | - | - | 1,127,373 |
| Total | 22,699,635 | 5,361,297 | 34,863 | 108,643,221 | 1,000,916 | 137,739,932 |
| Long-positions of off-balance sheet instruments | - | 2,643,680 | - | 1,569,816 | 42,277 | 4,255,773 |
| Short-positions of off-balance sheet instruments | 3,432,727 | - | - | - | 818,003 | 4,250,730 |
| Net foreign currency position | 117,710 | 48,703 | 14,517 | (196,055) | 20,168 | 5,043 |

Foreign currency position of the consolidated entity (continued)

| CZK 000 | EUR | USD | SKK | CZK | Other | Total |
|--|-------------------|------------------|----------------|--------------------|------------------|--------------------|
| At 31 December 2001 | | | | | | |
| Cash | 191,720 | 39,623 | 3,688 | 1,338,713 | 148,398 | 1,722,142 |
| State zero coupon bonds | – | – | – | 10,553,204 | – | 10,553,204 |
| Receivables from banks | 2,612,753 | 6,666,748 | 3,644 | 35,269,149 | 887,632 | 45,439,926 |
| Receivables from banks | 21,557,542 | 2,247,156 | 5 | 42,073,860 | 576,587 | 66,455,150 |
| Debt securities | 635,956 | 35,345 | – | 4,049,708 | – | 4,721,009 |
| Shares, units and other investments | – | – | – | 3,000 | – | 3,000 |
| Participation interests with substantial influence | – | – | – | 300 | – | 300 |
| Participation interests in non-consol. subjects | – | – | – | 15,707 | – | 15,707 |
| Other assets | 184,439 | 66,903 | – | 4,271,208 | 67,105 | 4,589,655 |
| Prepaid expenses and accrued income | 121,361 | 14,616 | – | 434,135 | 4,548 | 574,660 |
| Total | 25,303,771 | 9,070,391 | 7,337 | 98,008,984 | 1,684,270 | 134,074,753 |
| Due to banks | 7,035,303 | 403,000 | – | 12,405,212 | 2,638 | 19,846,153 |
| Due to customers | 10,967,698 | 6,055,703 | 4,313 | 53,122,492 | 907,697 | 71,057,903 |
| Payables from debt securities | 2,152,152 | 444,902 | 3,107 | 17,988,758 | 823,629 | 21,412,548 |
| Other liabilities | 627,286 | 142,353 | 1,667 | 18,899,568 | 195,150 | 19,866,024 |
| Accrued expenses and deferred income | 62,175 | 8,612 | – | 666,005 | 14,574 | 751,366 |
| Subordinated liabilities | 1,140,759 | – | – | – | – | 1,140,759 |
| Total | 21,985,373 | 7,054,570 | 9,087 | 103,082,035 | 1,943,688 | 134,074,753 |
| Long-positions of off-balance sheet instruments | – | – | – | 4,718,266 | 63,928 | 4,782,194 |
| Short-positions of off-balance sheet instruments | 2,748,198 | 1,974,243 | – | – | 190,573 | 4,913,014 |
| Net foreign currency position | 570,200 | 41,578 | (1,750) | (354,785) | (386,063) | (130,820) |

(c) Risk management

The Bank's risk management concentrates on the management of the total net exposure resulting from the Bank's structure of assets and liabilities. The Bank monitors interest rate risks by monitoring the sensitivity of particular assets or liabilities in individual time periods. The sensitivity is expressed by the change of present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For the hedge accounting purposes the Bank identifies specific assets/liabilities causing this incongruity in a way to meet the accounting criteria for the application of the hedge accounting.

Interest rate risks

The Bank applies a "Basis Point Value – BPV" approach for the measurement of interest sensitivity of non-trading assets and liabilities. BPV represents the change of present value of cash flows derived from individual instruments if interest rates increase by 1 basis point (0.01%), i.e. represents the sensitivity of instruments towards interest rate risks.

The Bank set up the interest rate risk limits to restrict oscillation of net interest income resulting from changes of interest rates by 0.01% ("BPV limit").

Currency risk

The Bank has set the system of currency risk limits based on its net currency exposure in individual currencies. The Bank has determined a currency risk limit of EUR 20,000 thousand (approximately 7% of the Bank's capital) with respect to the total net currency exposure and to individual main currencies (CZK, EUR, and USD). For remaining currencies are valid limits ranging from EUR 200 thousand to EUR 5,000 thousand according to the risk profile of particular currency.

Value at Risk

Market risks arising from the Bank's trading activities are managed using the Value at Risk method. Value at Risk represents a potential loss from an unfavourable movement on the market within a certain time period on a certain confidence level. The Bank determines Value at Risk using the stochastic simulation of a large number of scenarios of potential development on the

financial markets. Value at Risk is measured based on a one-day holding period and confidence level of 99%. The results of this model are back-tested and compared with the results corresponding to the actual changes of interest rates achieved on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets. The following Value at Risk values of the consolidated entity relating to individual types of risks are calculated under the assumption that there is no correlation between the risks of the Bank and its subsidiary.

| CZK 000 | Average | | Average | |
|----------------------------------|---------|--------|---------|--------|
| | 2002 | 2002 | 2001 | 2001 |
| VaR of interest rate instruments | 13,223 | 17,150 | 15,383 | 17,561 |
| VaR of currency instruments | 1,241 | 1,000 | 864 | 813 |

At 31 December 2002 the total VaR for all market risks was CZK 13,281 thousand (2001: CZK 15,407 thousand), which is lower than the aggregate of VaR values relating to individual risks due to the correlation between individual risks.

36. FINANCIAL INSTRUMENTS – CREDIT RISK

The Bank is exposed to credit risks as a result of its trading activities, providing the loans, hedging transactions, investment and mediation activities.

(a) Classification of receivables

The Bank classifies receivables into individual categories in accordance with the ČNB decree issued on 9 July 1998. The classification is as follows:

Standard receivables

Receivables that are repaid within their due dates or are not overdue for more than 30 days from the contractual date of maturity. The Bank receives information on the financial position of the debtor within 30 days from the date when it should receive such information in accordance with the contract. Debtor's financial position is favourable and there is no doubt that the receivable will be repaid in time.

Special mentioned receivables

The principal amount, interests and fees from these receivables are expected to be fully repaid. The criteria influencing the repayment of principal amount, interests and fees have been worsened since the date of credit approval but at the review date there is no expectation of any loss or nothing is indicating that the Bank will be forced to apply its recovery rights at the court.

Receivables that are overdue for more than 31 days and less than 90 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 31 days and less than 90 days from the date when it should receive such information in accordance with the contract or the Bank has carried out the restructuring of repayment plan based on debtor's financial position more than six months ago and less than three years ago.

Substandard receivables

The Bank is exposed to a high credit risk; the full repayment of principal amount, interests and fees is uncertain. On the other hand, the partial repayment of the receivables is highly probable. Receivables that are overdue for more than 91 days and less than 180 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 91 days and less than 180 days from the date when it should receive such information in accordance with the contract or the Bank has carried out the restructuring of repayment plan based on debtor's financial position less than six months ago.

Doubtful receivables

The likelihood of full repayment of principal amount, interests and fees is low. The partial repayment of the receivables is possible and probable. Receivables that are overdue for more than 181 days and less than 360 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 181 days and less than 360 days from the date when it should receive such information in accordance with the contract.

Loss receivables

Receivables are assessed as irrecoverable or partially recoverable in a small amount. The Bank makes an effort on credit repayments till the moment when future repayments are considered 100% uncollectible. Receivables that are overdue for more than 361 days from the contractual date of maturity. The Bank does not have available information on the financial position of the debtor more than 361 days from the date when it should receive such information in accordance with the contract or the debtor is in the bankruptcy process.

In addition, the Bank uses an internal rating system of receivables. This system comprises 28 categories. The internal rating system also assesses, apart from the overdue period, the financial ratios and indicators (as the balance sheet and profit and loss structure, cash flow.), quality of management, ownership structure, market position of the debtor, quality of client's reporting, production equipment, etc.

If an external rating of the debtor prepared by a renowned rating agency is available, the rating results

are also taken into account upon the assessment of the appropriate debtor. However, this rating does not replace internal evaluation prepared using the Bank's internal rating system.

(b) Evaluation of collateral

The Bank generally requires collateral for loans granted to certain debtors before the provision of these loans. As acceptable collateral, which reduces gross credit exposure for the purpose of calculation of adjustments, the Bank considers the following types of collateral:

- Cash
- First-class securities
- Bank guarantee of reputable bank
- Guarantee provided by a reputable third party
- Real estates

The Bank's assessment of the net realisable value of the collateral is based on an expert appraisal or internal evaluation prepared by the Bank's special department. The net realisable value of the collateral is determined using this value and the correction coefficient, which reflects the Bank's ability to realise the collateral when necessary. For the purposes of the adjustments calculation the net realisable value of the collateral is determined on an individual basis for each receivable.

(c) Calculation of adjustments

When calculating adjustments, the Bank considers the gross book value of individual receivables reduced by the net realisable value of the collateral. To these net receivables, which are determined as described above, the Bank creates the following adjustments in accordance with the ČNB decree issued on 9 July 1998:

| | |
|-------------------|-------|
| Standard | 0 % |
| Special mentioned | 5 % |
| Substandard | 20 % |
| Doubtful | 50 % |
| Loss | 100 % |

For customer receivables resulting from credit cards, the adjustments are calculated for each category of receivables using higher percentage rates than determined according to ČNB requirement.

(d) Concentration of credit risk

The concentration of credit risks arises as a result of the existence of loans with similar economic characteristics affecting the debtor's (or group's of debtors) ability to meet his obligations. The significant exposure development, i.e. the receivable from a debtor or an economically bound group of debtors that exceeds 10% of the Bank's capital, is monitored by the Bank weekly. The Bank has created a system of internal limits for individual countries, industries and debtors in order to prevent significant concentration of credit risks and

the credit exposure of individual segments is regularly monitored.

Sector analysis

The analysis of concentration of credit risks according to individual industries / sectors is included in Notes 13 (b), 15 (d), 15 (e), and 15 (f).

(e) Securitisation and use of credit derivatives

The Bank did not carry out any securitisation of its receivables at the balance sheet date. The Bank did not trade with credit derivatives.

Operational, legal and other risks

The Bank has developed the complex of internal rules and regulations that organises and defines the working processes and related control activities.

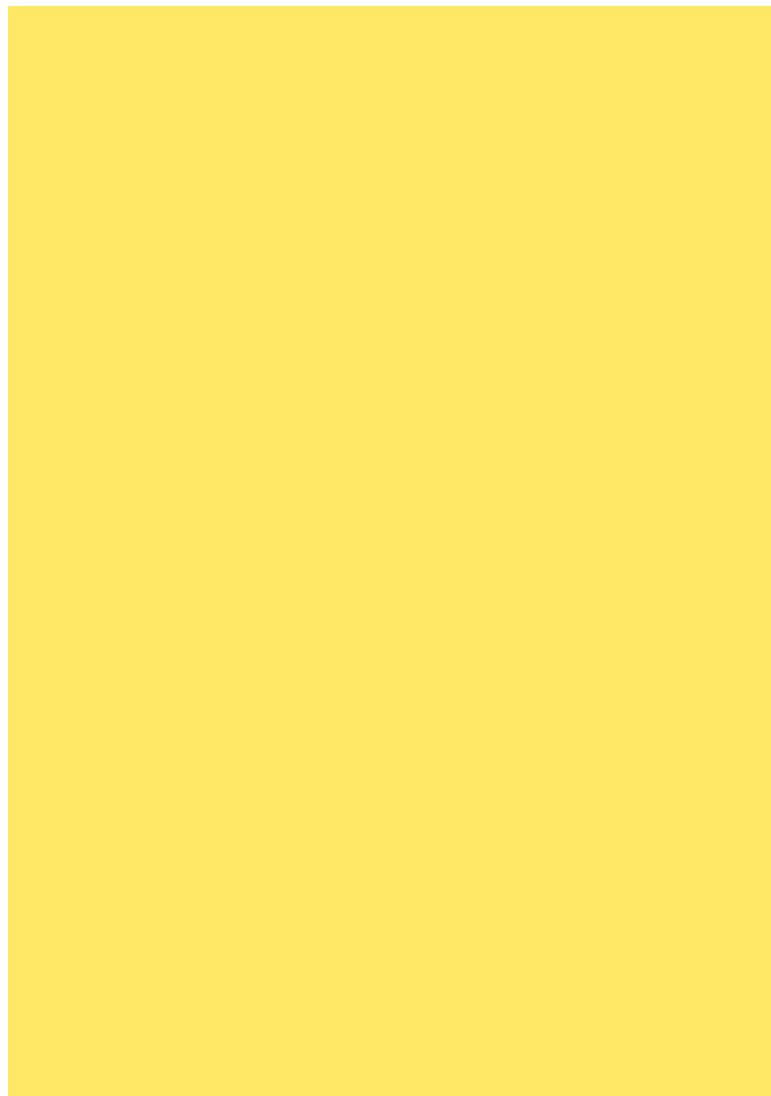
The complex of internal rules and regulation also comprises "Disaster Recovery Plan" and "Business Continuity Plan" that are of great importance considering operational risks. Internal and external auditors review the validity of these documents regularly. Moreover, the Bank verified the effectiveness and usefulness of these plans during the recoveries from failures that occurred for example in August 2002 when the Bank was affected by floods.

The obligations of employees and management together with related control activities are precisely defined in the complex of internal rules and regulations.

The Bank limits its operational risk in the payment and settlement systems adhering to the following principles:

- the transactions that result in cash in- or outflow (payment system and clearing transactions, settlement of interbank transactions, loan administration) are performed based on four eyes principle (person performing data entry – person authorising);
- daily nostro accounts reconciliation;
- daily and monthly internal accounts reconciliation that is in competence of particular departments;
- evidence, processing and escalation of client's complaints resulting from processing mistakes.

**AUDITOR'S REPORT ON THE
CONSOLIDATED ANNUAL REPORT**



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Auditor's report to the shareholders of HVB Bank Czech Republic a.s.

On the basis of our audit, on 12 May 2003 we issued an auditor's report on the Bank's consolidated statutory financial statements, which are included in this annual report, and our report was as follows:

“We have audited the accompanying consolidated financial statements of HVB Bank Czech Republic a.s. for the year ended 31 December 2002. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of HVB Bank Czech Republic a.s. as of 31 December 2002 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic.”

We have reviewed also other financial information in this part of annual report for consistency with the audited consolidated financial statements. In our opinion, the information is consistent in all material aspects with the audited consolidated financial statements.

Prague
21 May 2003

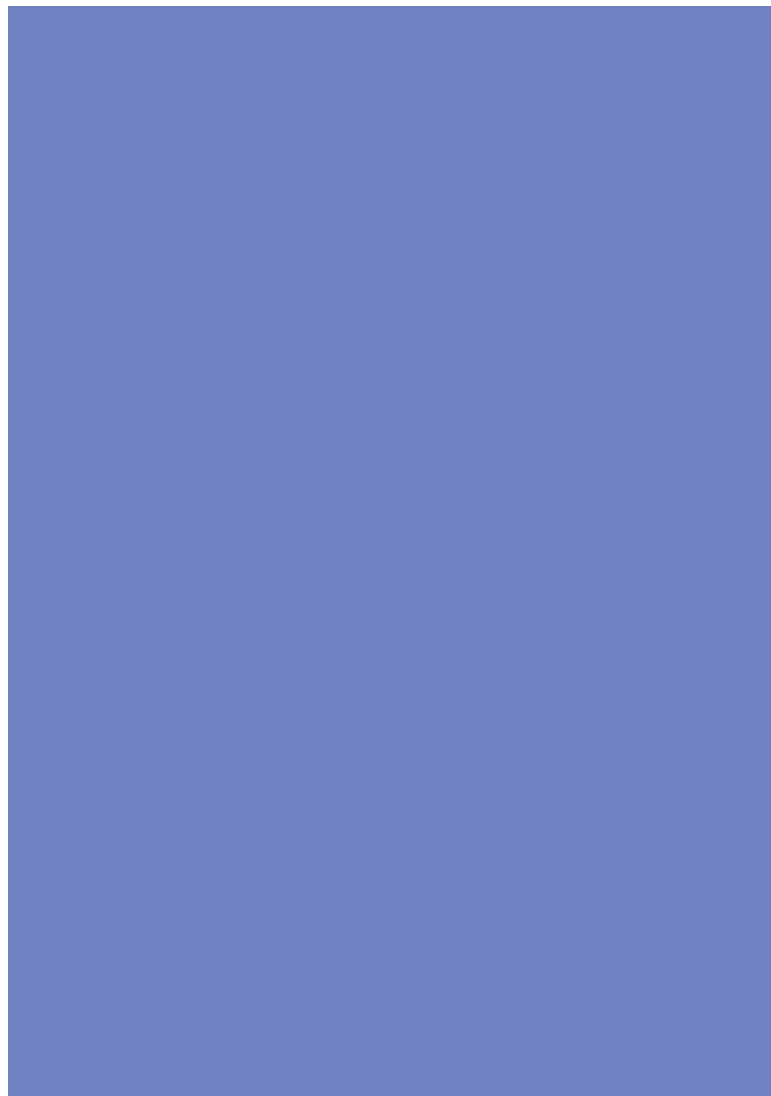


KPMG Česká republika Audit, spol. s r.o.
Licence number 71



Pavel Závitkovský
Licence number 69

**DATA FROM THE FINANCIAL
STATEMENTS OF THE ENTITIES NOT
SUBSUMED UNDER THE
CONSOLIDATION**



Data from the financial statements of the entities not subsumed under the consolidation

BAPS S.R.O.

Key financial characteristics of the company
(CZK thou.):

| | December 31, 2002 |
|--------------------|-------------------|
| Registered capital | 37,142 |
| Equity | (24,170) |
| Total assets | 43,553 |
| Net profit/loss | (39,877) |

As of December 31, 2002, HVB Bank and its consolidation unit had a 100% share in the registered capital of this company. The company BAPS s.r.o. operates as a real estate agency. In the course of 2003 HVB Bank intends to transfer the assets of the company BAPS s.r. o. to the Bank as its sole partner in accordance with § 69 b) of the Commercial Code.

CBCB – CZECH BANKING CREDIT BUREAU, A.S.

Key financial characteristics of the company
(CZK thou.):

| | December 31, 2002 |
|--------------------|-------------------|
| Registered capital | 1,200 |
| Equity | (2,028) |
| Total assets | 14,580 |
| Net profit/loss | (3,219) |

As of December 31, 2002, HVB Bank and its consolidation unit had a 20% share in the registered capital of this company. The main subject of the business of the company is the operating of a banking register.

SUBSEQUENT EVENT



Subsequent event

On May 20, 2003 the sole shareholder of the Bank – i.e. Bank Austria Creditanstalt AG – decided within the powers of its general meeting to increase the registered capital of the Bank. The registered capital of the Bank is to be increased by the amount of CZK 77,716,000 and the total amount of the registered capital will thus be CZK 5,124,716,000. The registered capital will be increased via subscription of new shares by a non-monetary contribution. Ten new ordinary registered book-entered shares in the nominal value of CZK 7,771,600 each will be subscribed. The subject of the non-monetary contribution is 100,000 ordinary shares of the company CAIB Securities, a.s. Id. No. 43004580.

