



Annual Report 2003



ANNUAL REPORT 2003

1	Financial highlights	
2	Success in the Heart of Europe	
4	STATEMENT OF THE MANAGING BOARD	
8	REPORT OF THE SUPERVISORY BOARD	
10	NON-CONSOLIDATED FINANCIAL STATEMENTS	
11	Balance sheet	
14	Profit and loss account	
15	Summary of changes in equity for the year ended 31 December 2003	
16	Notes to the Financial statements	
48	AUDITOR'S REPORT ON THE NON-CONSOLIDATED ANNUAL REPORT	
50	SUPPLEMENTARY INFORMATION	
58	REPORT ON RELATIONS BETWEEN THE CONTROLLING AND CONTROLLED ENTITY	
62	MANAGING BOARD, SUPERVISORY BOARD	
66	BRANCHES	
68	FINANCIAL GROUP HVB BANK CZECH REPUBLIC A.S.	
70	KEY FINANCIAL INDICATORS OF HVB BANK CZECH REPUBLIC A.S. ON CONSOLIDATED BASIS	
72	CONSOLIDATED FINANCIAL STATEMENTS	
73	Consolidated balance sheet	
76	Consolidated income statement	
77	Statement of changes in equity for the year 2003	
78	Notes to the Financial statements (consolidated)	
114	AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL REPORT	
116	DATA FROM THE FINANCIAL STATEMENTS OF THE ENTITIES NOT INCLUDED IN THE CONSOLIDATION	
118	SUBSEQUENT EVENT	

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS 2003/2002		
HVB Bank Czech Republic a.s.	2003	2002
Operating performance (in TCZK)		
Net interest income	2,327,598	2,835,132
Profit from ordinary activities before adjustments and reserves for loans and investments	1,744,140	2,254,532
Profit from ordinary activities before taxes	2,333,322	2,407,213
Profit for the accounting period	1,706,605	1,665,671
Key indicators		
Return on equity after taxes	17.8 %	18.6 %
Cost-income ratio	57.3 %	50.4 %
Ratio of net commission income to operating revenues	21.1 %	18.1 %
Balance sheet figures (in TCZK)		
Total assets	132,199,126	124,811,833
Total net customer lending volume	81,273,276	69,470,464
Registered capital	5,124,716	5,047,000
Other regulatory indicators compliant with the regulations of the Czech National Bank (in TCZK)		
Core capital	10,301,438	8,767,153
Total equity	11,741,317	10,416,533
Risk weighted assets (banking portfolio)	79,843,838	71,037,426
Capital adequacy ratio	13.7 %	13.7 %
Employees at year-end	1,215	1,163
Branch offices	23	23

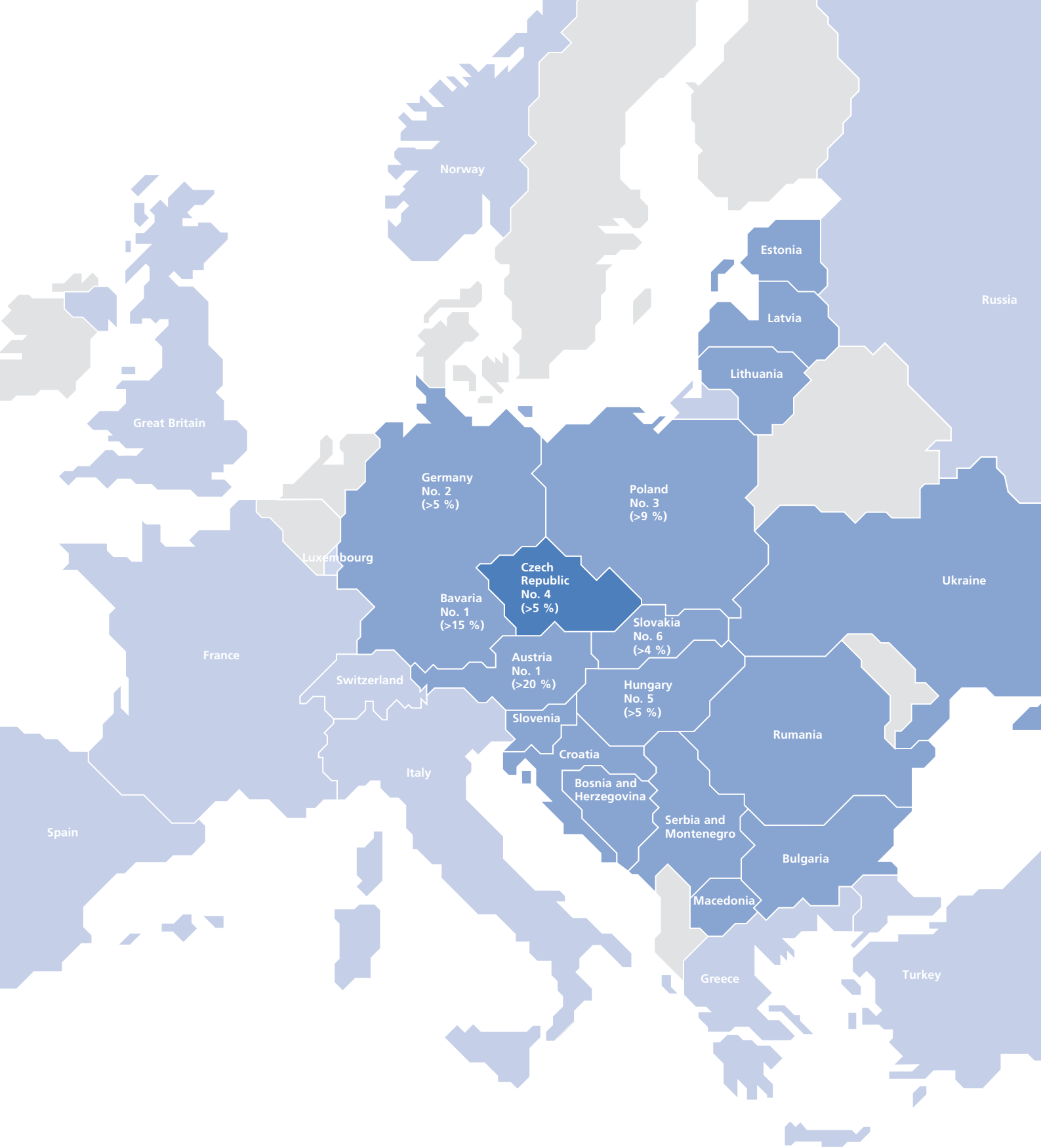


Success in the Heart of Europe

The year 2004 is one of the most important years in the modern history of Europe, being marked by the enlargement of the European Union. Eight countries of the region of Central and Eastern Europe joined the EU and several other countries are currently in the process of intense preparation for their accession. A few years ago such developments would have been unimaginable. It is now essential to make the most of the opportunities opening up as a result of European integration. Bank Austria Creditanstalt is a prominent player in this process.

At present, Bank Austria Creditanstalt's banking network in the CEE countries represents approximately 850 offices with 17,000 employees, providing services to 4 million customers. Along with HVB Bank it is active in a market that has 200 million potential customers. Key factors for success in each country of the region include proximity to customers and local expertise. The network of Bank Austria Creditanstalt is not limited by state boundaries and a benefit for one member of the Group is a benefit for all.

The benefit of this to our customers is obvious: both international and local know-how provided from one location.



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. ("HVB Bank") is hereby pleased to present the Bank's Annual Report for 2003.

MACROECONOMIC ENVIRONMENT IN 2003

The macroeconomic environment of 2003 was characterised by a zero inflation rate. Prices were stagnating on the back of a sharp decline in the prices of agricultural products and weak external demand, but also due to the fact that price liberalisation in the area of rented accommodation was not implemented. Together with the sustained growth in nominal wages the zero inflation rate resulted in a significant increase in the real purchasing power of households. Low interest rates resulting in attractive loan products increased the propensity to consume in the household sector rather than to save, boosting private consumption which grew at its fastest rate in the last seven years.

During the whole year private consumption was the key driver of GDP growth (2.9 %). The second pillar of growth was fixed capital formation – in particular in H2. The development in fixed capital formation was stimulated by the approaching accession of the country to the EU, ongoing infrastructure projects and a shift in the investment cycle in the corporate sector. In contrast, weak external demand meant that foreign trade did not contribute to the growth of the economy – neither the trade in goods nor in services.

Monetary conditions remained loose both concerning interest rates and exchange rates. Fiscal economic policy continued to stimulate demand, further increasing the existing imbalance between public expenditure and revenue. Whilst the first phase of fiscal reform prepared by the cabinet, aimed at improving public finances, went through the legislative process, the measures adopted, effective from 2004, were focused mainly on the revenue side of the State budget, while the structure of expenditure – considered to be one of the main reasons for the economy's limited growth potential – remained practically untouched by the reform.

HVB BANK INCREASED ITS PROFIT Y-O-Y IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

HVB Bank posted a profit after tax of CZK 1,344 million for 2003 in accordance with International Financial Reporting Standards, which represents a 20 % increase in net profit compared to 2002 (CZK 1,123 million). The pre-tax profit of CZK 1,970 million also surpassed the result for 2002 amounting to CZK 1,934 million.

The net profit for 2003 compared with the 2002 figure was positively influenced, in particular, by the increase in net non-interest income and the reduction in adjustments, loan-loss provisions and tax expense provisions. The decline in net interest income – due, unlike in the previous year, to a continued YoY

reduction in market interest rates – affected the entire banking sector and is chiefly reflected in lower interest rates for loans. HVB Bank successfully compensated for the decline in interest rates through its low provisioning and an additional release of the adjustments to its loan portfolio, which resulted in a YoY growth in net interest income after the risk costs of the loan portfolio were taken into account.

The Bank's development activities, connected with its business expansion, required a slight increase in operational costs in 2003 compared to 2002 (increase of 2 %) but resulted in a 16% increase in loans to clients and a 4% increase in client deposits.

At the same time, the key indicators of the Bank's efficiency improved YoY: the return on equity after tax increased from 9.3 % to 11.6 %, the return on assets after tax from 0.9 % to 1.1 % and the ratio of net non-interest income to total income from ordinary activities from 37.0 % to 40.5 %. The Bank maintains a safe level of capital adequacy of more than 13.6 %.

The Bank's credit portfolio remains well diversified and its quality is constantly improving – the volume of standard loans to clients grew by 20 % while the volume of classified claims dropped significantly, by 23 %. This positive development enabled the Bank to release CZK 144 million of adjustments in 2003 compared with a creation of adjustments in 2002 totalling CZK 296 million.

In 2003 HVB Bank recorded significant growth in the volume of its Majordomus mortgage loan, granting loans in an aggregate amount of CZK 2,120 million last year. HVB Bank is a key player in the market for structured bonds placing a total of CZK 512 million on the market in Q4 of 2003. In the last year HVB Bank also maintained its dominant position in the market for commercial real estate financing.

With its balance sheet total of CZK 132,000 million, HVB Bank has been the fourth largest bank in the Czech Republic over a sustained period of time. It has the potential for further expansion, stemming, primarily, from its capital base.

HVB Bank is a subsidiary of the Austrian company Bank Austria Creditanstalt (BACA), which is responsible for the CEE markets in the HVB Group. Bank Austria Creditanstalt operates a leading banking network in Central and Eastern Europe having 850 branch offices in 11 countries that provide services to 4 million clients.

CORPORATE CLIENTS

In 2003 HVB Bank retained its position as one of the prominent banks in the Czech market delivering complex services to corporate clients. Our experience proves that customer service, based on individual care,

detailed knowledge of the customers' needs and delivery of "tailored" solutions, represents a significant competitive advantage.

In the area of services to corporate clients in 2003, we focused on alternative preferential forms of refinancing for SMEs – where we were able to take advantage of our co-operation with the European Investment Bank, Kreditanstalt für Wiederaufbau or Deutsche Ausgleichsbank – and also on financing medium-sized corporate clients and support to institutions and authorities operating in the public sector. We continued to benefit from our traditionally strong position in financing and structuring of foreign trade transactions and in project and structured financing.

Commercial real estate financing is another of our core competencies. In recent years, we have succeeded in acquiring a significant share in the Czech market as a result of the know-how and expertise of our parent company. We concentrated primarily on the financing of real estate for lease – i.e. office premises – and big shopping centres. In 2003 we also implemented a new strategy for the financing of residential projects.

PRIVATE AND BUSINESS CLIENTS

The Bank's retail banking strategy is aimed at high quality performance, delivery of services and products corresponding to individual client's needs and competent advisory services.

In 2003 we introduced several new products and our plan is to continue to expand our activities in this market segment. In 2003 HVB Bank recorded substantial growth in sales of its mortgage loan Majordomus – a product which is the flagship of the Bank's services. We are also a leading innovator in the market for structured bonds.

In the Private Banking Department, private investors who invest amounts in excess of CZK 4 million receive a first-class service based on proposing top-quality individual solutions.

We understand that different groups of customers have distinct and specific needs. In order to satisfy these needs, we have set up competence centres for notaries, bankruptcy administrators, lawyers and individuals carrying out activities in the healthcare sector.

Apart from our network of branch offices offering services through 23 business outlets in the most important regions of the Czech Republic we offer customers the choice of several channels for obtaining information and a range of tools for the administration of their accounts.

HVB is perceived by business clients as a banking institution that has extraordinary potential and

is growing dynamically. In 2003 we emphasised the development of services to business clients and a pro-active approach to the solution of their needs.

TREASURY

As in previous years, the International Markets Division (INM) attained excellent results and made a significant contribution to the Bank's profitability. The pivotal strategy is a systematic customer orientation and satisfaction of customers' financial needs through "tailored" solutions. The INM Division maintains its lead position in the local market thanks to its ability to offer a wide range of exchange rate and interest rate risk management products.

CREDIT RISK MANAGEMENT

The rating structure of HVB Bank's loan portfolio further improved in 2003 in compliance with the Bank's strategy of cautious credit risk management. The net creation of loan-loss provisions and adjustments thus remained below expectations.

ACKNOWLEDGEMENT TO STAFF

The Supervisory Board and the Managing Board would like to thank all the staff of HVB Bank Czech Republic a.s. for their exceptional dedication in meeting the set goals. The results for 2003 clearly prove that we are going in the right direction and that it is necessary to continue developing a friendly and motivating work environment in which we can all work well together.



Ing. David Grund

A handwritten signature in black ink, appearing to read "Grund".



Dr. Udo Szekulics

A handwritten signature in black ink, appearing to read "Udo Szekulics".



Ing. Věslav Michalík, CSc.

A handwritten signature in black ink, appearing to read "Věslav Michalík".



Christian Bruckner

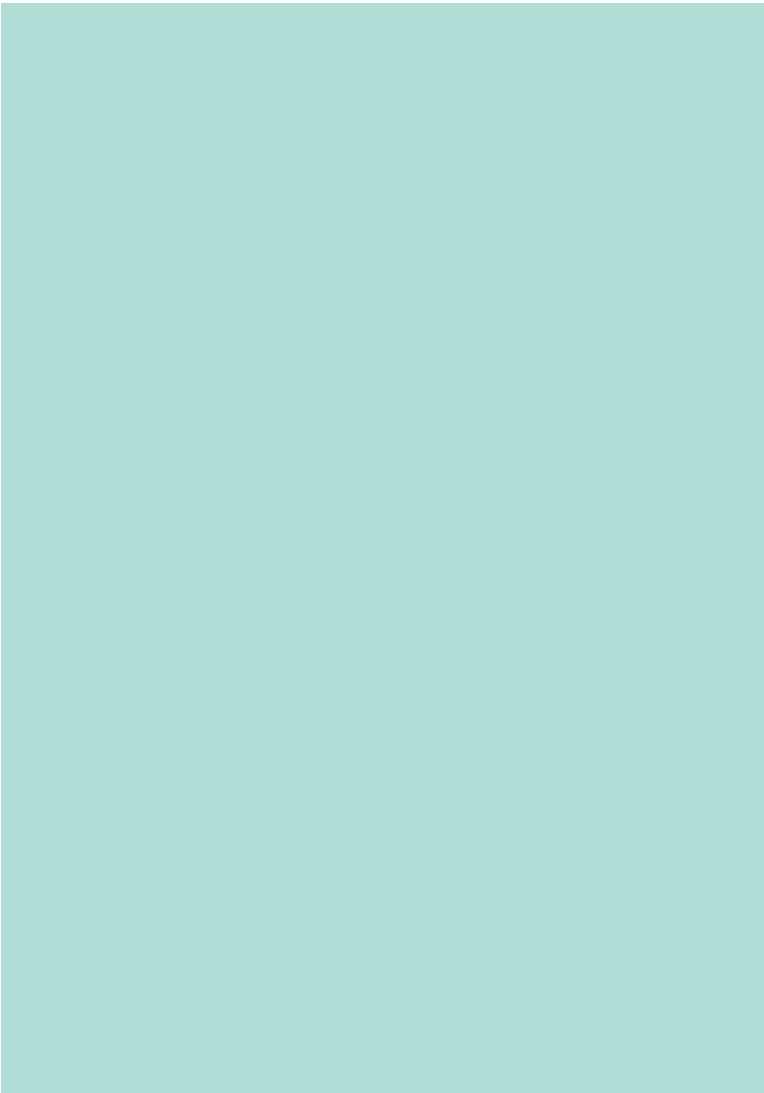
A handwritten signature in black ink, appearing to read "Bruckner".



Ing. Petr Brávek

A handwritten signature in black ink, appearing to read "Petr Brávek".

**REPORT OF THE SUPERVISORY
BOARD**



Report of the Supervisory Board

The Supervisory Board of HVB Bank Czech Republic a.s. was regularly informed of the progress of the Bank's business during the 2003 business year through meetings and discussions with the Managing Board and has performed all its tasks prescribed by Czech law or by the Articles of Association of the bank.

The financial statements as at 31 December 2003 and the Annual Report, which are hereby presented, have been examined by the Supervisory Board and deemed to be correct. The financial statements and the Annual Report were audited by the Bank's auditor, KPMG Česká republika Audit, spol. s r.o.

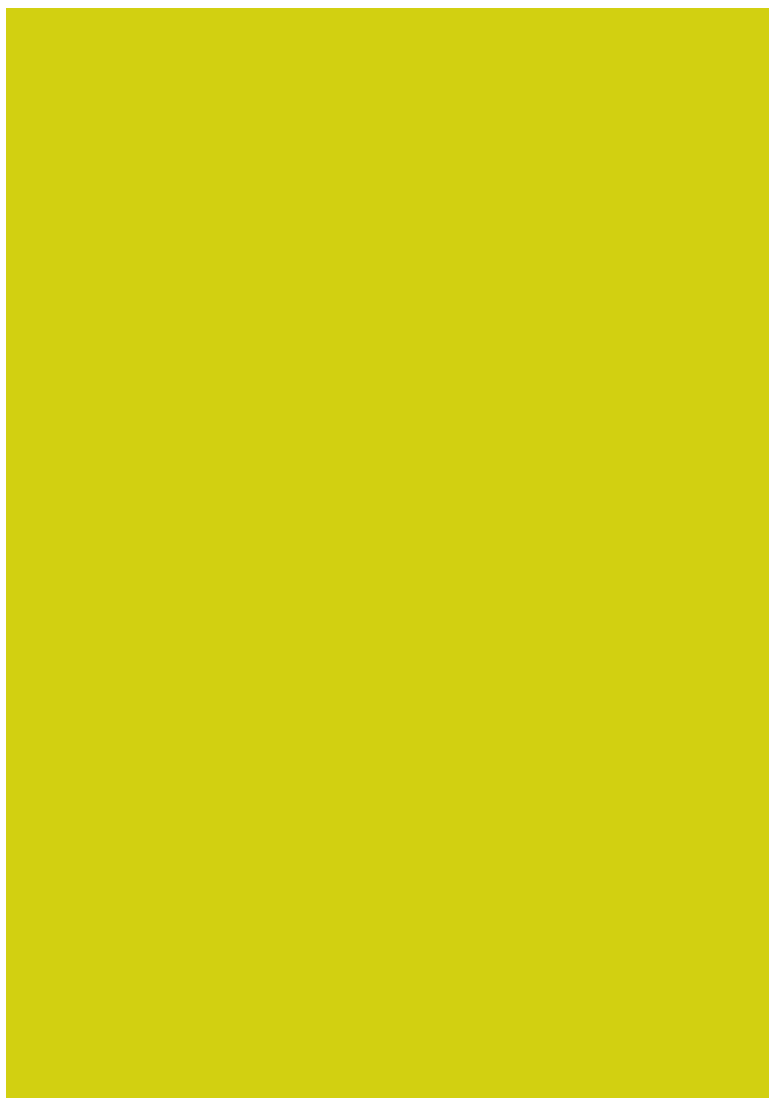
The Supervisory Board endorses the findings of the auditor's report on the 2003 financial statements.

The Supervisory Board would like to thank the members of the Managing Board and all the staff of HVB Bank Czech Republic a.s. who have contributed to the results achieved by the Bank in its business year 2003.



Mag. Martin Grill

NON-CONSOLIDATED FINANCIAL STATEMENTS



BALANCE SHEET

AS AT 31 DECEMBER 2003

ASSETS					
CZK 000	Note	2003 Gross amount	2003 Adjustment	2003 Net amount	2002 Net amount
1 Cash in hand and balances with central banks		929,759		929,759	545,476
2 State zero coupon bonds and other securities eligible for refinancing with central bank	14	10,193,371		10,193,371	7,800,806
thereof: a) securities issued by the government institutions		10,193,371		10,193,371	7,800,806
b) others					
3 Receivables from banks and cooperative savings associations	12	20,171,313		20,171,313	32,991,472
thereof: a) repayable on demand		410,334		410,334	303,303
b) other receivables		19,760,979		19,760,979	32,688,169
4 Receivables from customers – cooperative savings association's members	13	82,229,424	956,148	81,273,276	69,470,464
thereof: a) repayable on demand		799,478	557,358	242,120	172,714
b) other receivables		81,429,946	398,790	81,031,156	69,297,750
5 Debt securities	15	16,425,868		16,425,868	10,108,040
thereof: a) issued by government institutions		5,633,087		5,633,087	57,671
b) issued by other entities		10,792,781		10,792,781	10,050,369
6 Shares, mutual fund certificates and other investments	16	3,044		3,044	3,000
7 Participation interests with substantial influence	17	240		240	
thereof: in banks					
8 Participation interests with controlling influence	17	437,716	3,500	434,216	360,000
thereof: in banks		360,000		360,000	360,000
9 Intangible fixed assets	18	417,866	274,576	143,290	162,155
thereof: a) establishment costs					
b) goodwill					
10 Tangible fixed assets	19	2,206,534	1,788,458	418,076	497,322
thereof: land and buildings for operating activities		947,582	738,706	208,876	252,553
11 Other assets	20	1,939,358	7,384	1,931,974	2,795,121
12 Receivables from subscribed registered capital					
13 Prepaid expenses and accrued income		274,699		274,699	77,977
Total assets		135,229,192	3,030,066	132,199,126	124,811,833

The notes set out on pages 16 to 47 form part of these financial statements.

LIABILITIES

CZK 000	Note	2003	2002
1 Due to banks and cooperative savings associations	21	23,872,453	23,042,562
thereof: a) repayable on demand		1,690,056	2,168,644
b) other payables		22,182,397	20,873,918
2 Due to customers – cooperative savings association's members	22	70,902,421	66,968,852
thereof: a) repayable on demand		35,909,045	31,164,821
b) other payables		34,993,376	35,804,031
3 Payables from debt securities	23	16,096,816	14,389,725
thereof: a) debt securities issued		15,480,559	14,389,725
b) other payables from debt securities		616,257	
4 Other liabilities	25	6,373,286	7,110,825
5 Deferred income and accrued expenses		674,538	374,540
6 Reserves	28	934,235	1,364,939
thereof: a) reserve for pensions and similar obligations			
b) reserve for taxes		147,000	200,000
c) other		787,235	1,164,939
7 Subordinated liabilities	24	1,156,051	1,127,373
8 Registered capital	26	5,124,716	5,047,000
thereof: a) registered paid up capital		5,124,716	5,047,000
b) own shares			
9 Share premium		1,996,920	1,996,920
10 Reserve funds and other funds from profit	29	1,662,387	1,576,632
thereof: a) statutory reserve funds and risk funds		648,218	563,121
b) other reserve funds		1,013,319	1,013,319
c) other funds from profit		850	192
11 New valuation reserve fund			
12 Capital funds	29	37,142	
13 Gains (losses) from revaluation			
thereof: a) assets and liabilities			
b) hedging derivatives			
c) participation interests			
14 Retained earnings (or accumulated losses) from previous years	29	1,661,556	146,794
15 Profit (loss) for the accounting period		1,706,605	1,665,671
Total liabilities		132,199,126	124,811,833

OFF-BALANCE SHEET

CZK 000	Note	2003	2002
Off-balance sheet assets			
1 Commitments and guarantees granted	31	41,354,182	39,462,867
2 Collaterals granted		92,200	122,188
3 Receivables from spot transactions		3,238,799	8,997,615
4 Receivables from fixed term transactions	31	284,596,387	252,585,196
5 Receivables from options	31	2,700,522	
6 Receivables written-off		1,052,395	630,503
7 Values placed into custody, administration and deposit			
8 Values placed under management			
Off-balance sheet liabilities			
9 Commitments and guarantees received		18,104,359	16,659,815
10 Collaterals and pledges received		52,628,917	59,828,634
11 Payables from spot transactions		3,231,657	9,140,029
12 Payables from fixed term transactions	31	284,917,147	252,437,739
13 Payables from options	31	2,700,522	
14 Values taken into custody, administration and deposit	32	89,146,933	47,353,793
15 Values taken under management	32	840,333	831,186

The notes set out on pages 16 to 47 form part of these financial statements.

**PROFIT AND LOSS ACCOUNT FOR
THE YEAR ENDED 31 DECEMBER 2003**

CZK 000		Note	2003	2002
1	Interest income and similar income	4	4,436,802	6,281,254
	thereof: interest income from debt securities		775,859	758,705
2	Interest expense and similar expense	4	(2,109,204)	(3,446,122)
	thereof: interest expense from debt securities		(375,300)	(535,011)
3	Income from shares and participation interests:		124,007	25,500
	thereof: a) income from participation interests with substantial influence			
	b) income from participation interests with controlling influence		45,900	25,500
	c) income from other shares and participation interests		78,107	
4	Commission and fee income	5	1,052,972	999,959
5	Commission and fee expense	5	(189,681)	(178,491)
6	Net gains (losses) from financial operations	6	842,431	912,616
7	Other operating income	7	31,522	82,566
8	Other operating expenses	7	(104,908)	(129,175)
9	Administrative expenses	8	(2,049,962)	(1,914,089)
	thereof: a) employee expenses		(1,043,898)	(905,393)
	thereof: aa) wages and salaries		(775,915)	(668,316)
	ab) social and health insurance		(267,983)	(237,077)
	b) other administrative expenses		(1,006,064)	(1,008,696)
10	Release of reserves and adjustments to tangible and intangible fixed assets			
11	Depreciation, creation and use of reserves and adjustments to tangible and intangible FA		(289,839)	(379,486)
12	Release of adjustments and reserves for receivables and guarantees, income from written-off receivables		791,392	860,051
13	Write-offs, creation and use of adjustments and reserves for receivables and guarantees		(198,561)	(692,152)
14	Release of adjustments to participation interests with controlling and substantial influence		240	
15	Losses from transfer of participation interests with controlling and substantial influence, creation and use of adjustments to participation interests with controlling and substantial influence		(3,500)	(15,947)
16	Release of other reserves		4,794	
17	Creation and use of other reserves		(5,183)	729
18	Share of profits or losses from participation interests with controlling and substantial influence			
19	Current year profit (loss) from ordinary activities before tax		2,333,322	2,407,213
20	Extraordinary income	9		258,624
21	Extraordinary expenses	9		(158,204)
22	Current year profit (loss) from extraordinary activities before tax			100,420
23	Income tax	30	(626,717)	(841,962)
24	Net profit (loss) for the accounting period		1,706,605	1,665,671

The notes set out on pages 16 to 47 form part of these financial statements.

SUMMARY OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

CZK 000	Registered capital	Own shares	Share premium	Reserve funds	Capital funds	Other funds from profit	Revaluation gains (losses)	Profit (loss)	Total
Balance as at 1 January 2001	5,047,000		1,996,920	1,791,996		2,020	(1,994)	1,542,741	10,378,683
Change in accounting methods							(221,755)		(221,755)
Corrections of fundamental errors									
FX gains (losses) and gains (losses) not included in the profit and loss statement									
Net profit (loss) for accounting period								1,128,757	1,128,757
Dividends								(985,000)	(985,000)
Transfers to funds				478,006				(478,006)	
Use of funds						(2,538)			(2,538)
Issue of shares									
Reduction in registered capital									
Own shares purchased									
Other changes						1,433		(1,260)	173
Balance as at 31 December 2001	5,047,000		1,996,920	2,270,002		915	(223,749)	1,207,232	10,298,320
Balance as at 1 January 2002	5,047,000		1,996,920	2,270,002		915	(223,749)	1,207,232	10,298,320
Change in accounting methods									
Corrections of fundamental errors									
FX gains (losses) and gains (losses) not included in the profit and loss statement									
Net profit (loss) for accounting period								1,665,671	1,665,671
Dividends				(750,000)				(1,000,000)	(1,750,000)
Transfers to funds				56,438		4,000		(60,438)	
Use of funds						(4,921)			(4,921)
Issue of shares									
Reduction in registered capital									
Own shares purchased									
Other changes						198	223,749		223,947
Balance as at 31 December 2002	5,047,000		1,996,920	1,576,440		192		1,812,465	10,433,017
Takeover of equity of BAPS s.r.o. as at 1.1.2003				1,858	37,142			(63,170)	(24,170)
Balance as at 1 January 2003	5,047,000		1,996,920	1,578,298	37,142	192		1,749,295	10,408,847
Change in accounting methods									
Corrections of fundamental errors									
FX gains (losses) and gains (losses) not included in the profit and loss statement									
Net profit (loss) for accounting period								1,706,605	1,706,605
Dividends									
Transfers to funds				83,239		4,500		(87,739)	
Use of funds						(4,942)			(4,942)
Issue of shares	77,716								77,716
Reduction in registered capital									
Own shares purchased									
Other changes						1,100			1,100
Balance as at 31 December 2003	5,124,716		1,996,920	1,661,537	37,142	850		3,368,161	12,189,326

The notes set out on pages 16 to 47 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 have been prepared 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 6 November 2002 (N. 501).

Numbers in brackets represent negative amounts.

These financial statements are non consolidated financial statements.

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

Depending on the type of transaction 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 commitment; 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, held for trading 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 securities which have a residual maturity shorter than 1 year and are included in the portfolio held to maturity, the premium and the discount are amortized/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 (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 measurement, 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 if the fair value is the market value (i.e. the Bank does not prove that it is possible to sell securities for such a 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, the share proportion on a fund's net assets value for units, and the 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 and cooperative savings associations" or "Due to customers – cooperative savings association's members". Securities received under a resale commitment are recorded in off-balance sheet accounts in "Collaterals and pledges received". The lending granted under a resale commitment is recorded in "Receivables from banks and cooperative savings associations" or "Receivables from customers – cooperative savings association's members". 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 from 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 taken 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 resulting from the cash received for the purchase of securities or the cash to be refunded to customers, etc., 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 a subject'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 created before 1 January 2002 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 and use 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. Adjustments to accrued interest income are established in accordance with the appropriate notice of the ČNB.

The write off of unrecoverable receivables is accounted for as "Write-offs, creation and use 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 on the same account in the profit and loss account. Recoveries on loans previously written off are included in the profit and loss account in "Release of adjustments and reserves for receivables and guarantees, income from written-off receivables".

(f) Creation of reserves

A reserve represents a probable cash outflow of uncertain timing and amount. Reserves are established if 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" meaning the probability exceeding 50%
- the amount of such performance can be reliably estimated.

The Act on Reserves N. 593/1992 Coll. requires reserves for standard credits to 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. Beginning 1 January 2002 the Bank releases proportionally the general reserves for standard loans to be fully released until 31 December 2005.

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 lease term or their remaining useful life, whichever is shortest.

Intangible fixed assets costing less than CZK 60,000 and tangible fixed assets costing less than CZK 40,000 having a useful life of 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 net investments in foreign entities and items that hedge currency risk resulting from the agreements not yet recorded in the Bank's balance sheet or as a result of the expected future transactions, 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, which is further adjusted by tax allowances and relevant credits.

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 expected income tax rate for the next period. A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

(k) Prior period items and changes in accounting policies

Prior period items and the effects of changes in the accounting policies 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, which are reported in "Retained earnings (or accumulated losses) from previous years" in the Bank's balance sheet.

4. NET INTEREST INCOME

CZK 000	2003	2002
Interest income		
from deposits	49,977	383,867
from loans	3,362,315	4,778,110
other	1,024,510	1,119,277
Interest expense		
from deposits	(1,176,356)	(1,711,211)
from loans	(292,226)	(807,833)
other	(640,622)	(927,078)
Net interest income	2,327,598	2,835,132

The Bank did not claim or waive default interest of CZK 8,442 thousand (2002: CZK 3,539 thousand). The Bank also did not apply the accrual principle for the default interest relating to endangered receivables of CZK 345,185 thousand (2002: CZK 627,581 thousand).

5. FEES AND COMMISSIONS

CZK 000	2003	2002
Fee and commission income from		
securities transactions	31,092	22,957
management, administration, deposit and custody	64,120	60,086
other	957,760	916,916
Total	1,052,972	999,959
Fee and commission expense from		
securities transactions	(2,586)	(4,994)
management, administration, deposit and custody	(10,993)	(4,601)
other	(176,102)	(168,896)
Total	(189,681)	(178,491)

6. NET GAINS OR LOSSES FROM FINANCIAL OPERATIONS

CZK 000	2003	2002
Gains/losses from securities transactions	28,546	176,767
Gains/losses from derivative transactions	(98,128)	(252,909)
Gains/losses from foreign exchange transactions	912,013	988,758
Total	842,431	912,616

7. OTHER OPERATING INCOME AND EXPENSES

CZK 000	2003	2002
Release of estimated payables	2,268	40,337
Income from transfer (sale) of fixed assets	3,721	17,561
Income from rent	12,464	8,276
Contractual fines received	2,485	6,387
Income of the prior year	–	2,946
Other	10,584	7,059
Total other operating income	31,522	82,566
Residual value of sold assets	(19,886)	(54,107)
Deposit insurance fund	(62,099)	(59,877)
Losses and damages	(12,722)	(7,982)
Expenses of the prior year	–	(6,126)
Paid fines and penalties	(9,940)	(1,083)
Other	(261)	–
Total other operating expense	(104,908)	(129,175)

8. ADMINISTRATIVE EXPENSES

CZK 000	2003	2002
Personnel expenses		
Wages and salaries paid to employees	775,915	668,316
Social and health insurance	267,983	237,077
	1,043,898	905,393
Including wages and salaries paid to:		
Members of the Board of Directors	13,394	14,799
Other executives	62,802	61,018
Other administrative expenses	1,006,064	1,008,696
thereof expenses for audit, legal and tax advisory	28,777	26,470
Total administrative expenses	2,049,962	1,914,089

Information on bonuses tied to equity is included in Note 27.

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

	2003	2002
Employees	1,157	1,134
Members of the Board of Directors	5	5
Members of the Supervisory Board	9	9
Other executives	29	28

9. EXTRAORDINARY INCOME AND EXPENSES

CZK 000	2003	2002
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
Total extraordinary income	–	258,624
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)

10. INCOME AND EXPENSES RESULTING FROM PARTICIPATION INTERESTS WITH CONTROLLING AND SUBSTANTIAL INFLUENCE

CZK 000	2003	2002
Interest income	6	3,970
Interest expense	(16,193)	(14,281)
Fee and commission income	3,938	2,380
Fee and commission expense	(4)	–

11. INCOME AND EXPENSE ACCORDING TO SEGMENTS

(a) Business segments

	Retail Banking		Corporate Banking		Investment Banking		Other	
CZK 000	2003	2002	2003	2002	2003	2002	2003	2002
Interest income	391,395	392,724	2,732,846	3,201,111	1,312,561	2,687,419	–	–
Interest expense	(320,435)	(570,277)	(681,653)	(863,581)	(1,107,116)	(2,012,264)	–	–
Income from shares and participation interests	–	–	–	–	78,107	–	45,900	25,500
Fee and commission income	626,232	586,412	333,287	329,352	93,453	84,195	–	–
Fee and commission expense	(121,025)	(109,357)	(43,983)	(47,524)	(24,673)	(21,610)	–	–
Net gains (losses) from financial operations	158,706	174,161	715,827	712,918	(35,313)	21,638	3,211	3,899

(b) Geographical segments

The bank's accounting system does not automatically separate income and expenses according to different geographical segments. In 2003, the Bank operated in particular in the Czech republic and European Union.

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 (2002: CZK 0 thousand).

(a) Classification of receivables from banks

CZK 000	2003	2002
Standard	20,171,313	32,991,472
Adjustments to potential losses from receivables	–	–
Net receivables from banks	20,171,313	32,991,472

In 2003 the Bank did not carry out any restructuring of receivables from banks (2002: CZK 0 thousand).

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

CZK 000	2003	2002
Bank guarantee	106,075	–
Security held by the Bank	17,976,493	27,549,027
Unsecured	2,088,745	5,442,445
Net receivables from banks	20,171,313	32,991,472

No receivables from banks secured by tangible movable assets are included in “Security held by the Bank” (2002: 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 2003 and 2002.

(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 2003 and 2002.

(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 as at 31 December 2003 or as at 31 December 2002.

The summary of participation interests with controlling and substantial influence is presented in Note 17.

(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 627,011 thousand as at 31 December 2003 (2002: CZK 607,824 thousand).

13. RECEIVABLES FROM CUSTOMERS

(a) Classification of receivables from customers

CZK 000	2003	2002
Standard	75,813,072	63,659,608
Special mentioned	4,445,728	3,898,308
Sub-standard	939,332	1,609,584
Doubtful	229,137	681,550
Loss	802,155	1,204,930
Adjustment to potential losses from receivables	(956,148)	(1,583,516)
Net receivables from customers	81,273,276	69,470,464

Receivables from customers include CZK 761,678 thousand, which represents receivables from securities that have been acquired from primary auctions and are not intended for trading (2002: CZK 742,756 thousand).

In 2003 the Bank carried out a restructuring of receivables from customers in the total amount of CZK 1,392,635 thousand (2002: CZK 174,874 thousand).

(b) Analysis of receivables from customers by sector

CZK 000	2003	2002
Financial institutions	9,164,583	8,246,373
Non-financial institutions	53,463,086	52,380,569
Insurance institutions	–	2
Government sector	11,014,593	3,754,672
Non-profit organisations	180,799	173,127
Self-employed	571,902	491,200
Resident individuals	4,937,398	3,856,855
Non-resident	2,897,063	1,871,572
Companies without ICO	–	279,610
Total	82,229,424	71,053,980

(c) Subordinated receivables from customers

The Bank has not provided any loan with stipulations on subordination to customer in the years 2003 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 2003								
Financial institutions	–	88,901	223,452	–	–	5,400,611	3,451,619	9,164,583
Non-financial institutions	19,911	6,082,908	17,118,673	3,319,109	–	3,637,252	23,285,233	53,463,086
Insurance institutions	–	–	–	–	–	–	–	–
Government sector	–	–	721	–	–	–	11,013,872	11,014,593
Non-profit organisations	–	–	123,377	296	–	26,192	30,934	180,799
Self-employed	550	18,431	327,059	–	–	17,170	208,692	571,902
Resident individuals	42,007	1,657	3,882,444	8,479	33	84,158	918,620	4,937,398
Non-resident	–	705,507	83,213	–	–	345,008	1,763,335	2,897,063
Companies without ICO	–	–	–	–	–	–	–	–
Total	62,468	6,897,404	21,758,939	3,327,884	33	9,510,391	40,672,305	82,229,424
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
Total	730,699	7,845,703	17,595,040	4,133,603	195	9,613,111	31,135,629	71,053,980

No receivables from customers secured by tangible movable assets are included in “Security held by the Bank” (2002: CZK 0 thousand).

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

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

CZK 000	2003	2002
Write-offs		
Non-financial institutions	378,289	2,833
Self-employed	41,449	100
Resident individuals	1,473	50,945
Non-residents	859	20
Total	422,070	53,898
Recoveries		
Non-financial institutions	12,064	30
Self-employed	6,779	11,370
Total	18,843	11,400

Part of the profit and loss account line “Write-offs, creation and use 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 2003

Loan	Banks involved	Amount in 000 CZK	Split of risk	Split of interest
I.	HVB Bank Czech Republic a.s.	442,340	38.89 %	38.89 %
	Westdeutsche Landesbank Dueseldorf	236,968	20.83 %	20.83 %
	IKB Deutsche Industriebank	205,372	18.06 %	18.06 %
	Živnostenská banka a.s.	252,766	22.22 %	22.22 %
	Total	1,137,446	100.00 %	100.00 %
II.	HVB Bank Czech Republic a.s.	34,773	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	197,046	85.00 %	85.00 %
	Total	231,819	100.00 %	100.00 %
III.	HVB Bank Czech Republic a.s.	33,161	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	187,912	85.00 %	85.00 %
	Total	221,073	100.00 %	100.00 %
IV.	HVB Bank Czech Republic a.s.	45,875	15.00 %	15.00 %
	Bayerische Hypo und Vereinsbank AG	259,955	85.00 %	85.00 %
	Total	305,830	100.00 %	100.00 %
V.	HVB Bank Czech Republic a.s.	33,197	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	188,115	85.00 %	85.00 %
	Total	221,312	100.00 %	100.00 %

Syndicated loans as at 31 December 2003

Loan	Banks involved	Amount in 000 CZK	Split of risk	Split of interest
VI.	HVB Bank Czech Republic a.s.	29,888	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	169,364	85.00 %	85.00 %
	Total	199,252	100.00 %	100.00 %
VII.	HVB Bank Czech Republic a.s.	22,762	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	128,988	85.00 %	85.00 %
	Total	151,750	100.00 %	100.00 %
VIII.	HVB Bank Czech Republic a.s.	22,416	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	127,023	85.00 %	85.00 %
	Total	149,439	100.00 %	100.00 %
IX.	HVB Bank Czech Republic a.s.	22,012	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	124,732	85.00 %	85.00 %
	Total	146,744	100.00 %	100.00 %
X.	HVB Bank Czech Republic a.s.	29,840	15.00 %	15.00 %
	Bayerische Hypo und Vereinsbank AG	169,093	85.00 %	85.00 %
	Total	198,933	100.00 %	100.00 %
XI.	HVB Bank Czech Republic a.s.	110,183	67.20 %	67.20 %
	Voralberger Landes und Hypothekenbank AG	53,780	32.80 %	32.80 %
	Total	163,963	100.00 %	100.00 %
XII.	HVB Bank Czech Republic a.s.	519,674	50.00 %	50.00 %
	Bayerische Hypo – und Vereinsbank AG	519,674	50.00 %	50.00 %
	Total	1,039,348	100.00 %	100.00 %
XIII.	HVB Bank Czech Republic a.s.	308,172	47.45 %	47.45 %
	Bayerische Hypo- und Vereinsbank AG	341,322	52.55 %	52.55 %
	Total	649 494	100.00 %	100.00 %
XIV.	HVB Bank Czech Republic a.s.	212,429	50.00 %	50.00 %
	Bayerische Hypo- und Vereinsbank AG	212,430	50.00 %	50.00 %
	Total	424,859	100.00 %	100.00 %
XV.	HVB Bank Czech Republic a.s.	12,445	33.33 %	33.33 %
	Dresdner Bank a.s. Praha	12,445	33.33 %	33.33 %
	Komerční banka a.s. Praha	12,445	33.33 %	33.33 %
	Total	37,335	100.00 %	100.00 %

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 Hypothekbank 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 %

Syndicated loans as at 31 December 2002

Loan	Banks involved	Amount in 000 CZK	Split of risk	Split of interest
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

	Management bodies		Other
CZK 000	Board of Directors	Other executives	
At 31 December 2003	2,866	19,140	4,883,753
At 31 December 2002	2,842	24,491	1,394,752

The above presented loans and advances were provided based on “arm’s length” conditions.

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

CZK 000	Controlling influence	Substantial influence
At 1 January 2002	66,940	–
Additions	238	–
Disposals	–	–
At 31 December 2002	67,178	–
Interest income	82	–
At 1 January 2003	67,178	–
Additions	–	–
Disposals	(67,178)	–
At 31 December 2003	–	–
Interest income	–	–

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	2003	2002
State treasury bills	6,149,766	6,394,763
State bonds	3,362,120	1,406,043
Other	681,485	–
Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB	10,193,371	7,800,806

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 121,352 thousand (2002: CZK 22,399 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	2003	2002
State zero coupon bonds and other trading securities	7,890,557	2,725,394
State zero coupon bonds and other available-for-sale securities	2,302,814	5,075,412
State zero coupon bonds and other held-to-maturity securities	–	–
Net book value	10,193,371	7,800,806

(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 17,687,768 thousand (2002: CZK 27,005,579 thousand), which are reported in the off-balance sheet in “Collaterals and pledges received”. Subsequently the Bank provided under repurchase commitments securities received under the above-mentioned resale commitments in the market value of CZK 92,200 thousand (2002: CZK 122,188 thousand) which are reported in the off-balance sheet in “Collaterals granted”.

Included in the value of state zero coupon bonds and other securities are the securities of CZK 817,197 thousand (2002: CZK 1,724,436 thousand), which have been transferred under repurchase commitments.

15. DEBT SECURITIES

(a) Repurchase and resale commitments

No debt securities, which are reported in the off-balance sheet in “Collaterals and pledges received”, have been acquired by the Bank under resale commitments (2002: CZK 0 thousand).

No debt securities, which have been transferred under repurchase commitments, are included in the value of the debt securities (2002: CZK 0 thousand).

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

CZK 000	2003	2002
Debt securities held for trading	1,088,492	2,478,862
Available-for-sale debt securities	14,586,070	7,005,752
Held-to-maturity debt securities	751,306	623,426
Net book value	16,425,868	10,108,040

(c) Analysis of debt securities held for trading

	2003 Market value	2002 Market value
CZK 000		
Issued by financial institutions		
– Listed on a recognised CR exchange	661,873	1,378,896
– Listed elsewhere	11,716	370
	673,589	1,379,266
Issued by non-financial institutions		
– Listed on a recognised CR exchange	414,903	759,938
– Listed elsewhere	–	339,658
	414,903	1,099,596
Total	1,088,492	2,478,862

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 2,962,298 thousand (2002: CZK 2,554,115 thousand) that are held for trading. These securities decrease “Payables from debt securities” (see Note 23(b)).

(d) Analysis of available for sale debt securities

	2003 Market value	2002 Market value
CZK 000		
Issued by financial institutions		
– Listed on a recognised CR exchange	1,416,905	798,727
– Listed elsewhere	4,460,264	3,165,717
	5,877,169	3,964,444
Issued by non-financial institutions		
– Listed on a recognised CR exchange	292,116	–
– Listed elsewhere	2,783,698	2,983,637
	3,075,814	2,983,637
Issued by government sector		
– Listed on a recognised CR exchange	47,194	57,671
– Listed elsewhere	5,585,893	–
	5,633,087	57,671
Total	14,586,070	7,005,752

The Bank has purchased no debt securities issued by the Bank that are classified as available for sale (2002: CZK 0 thousand).

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

(e) Analysis of debt securities held to maturity

	2003 Book value	2002 Book value
CZK 000		
Issued by financial institutions		
– Unlisted	168,998	–
	168,998	–
Issued by non-financial institutions		
– Listed on a recognised CR exchange	498,415	498,732
– Unlisted	83,893	124,694
	582,308	623,426
Total	751,306	623,426

The proportion of debt securities with residual maturity up to 1 year to the total balance of debt securities is 33.41 % (2002: 17.66 %).

16. SHARES, UNITS AND OTHER INVESTMENTS**(a) Classification of shares, units and other investments into individual portfolios based on the Bank's intention**

	2003	2002
CZK 000		
Shares, units and other investments held for trading	44	–
Shares, units and other investments available for sale	3,000	3,000
Total	3,044	3,000

(b) Repurchase and resale commitments

Under resale commitments the Bank has acquired shares, units and other investments with a market value of CZK 5,750 thousand (2002: CZK 0 thousand), which are reported on the off-balance sheet in “Collaterals and pledges received”.

No securities are included in the value of shares, units and other investments (2002: CZK 0 thousand) that have been transferred under repurchase commitments.

(c) Analysis of shares, units and other investments available for trading

	2003 Market value	2002 Market value
CZK 000		
Issued by non-financial institutions		
– Listed on a recognised CR exchange	44	–
	44	–
Total	44	–

The Bank has not purchased any of its own shares for the purpose of trading (2002: CZK 0 thousand).

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

	2003 Adjusted value	2002 Adjusted value
CZK 000		
Issued by non-financial institutions		
– Unlisted	3,000	3,000
	3,000	3,000
Total	3,000	3,000

The Bank has not purchased any of its own shares for the purpose of future sale (2002: CZK 0 thousand).

17. PARTICIPATION INTERESTS WITH CONTROLLING AND SUBSTANTIAL INFLUENCE

(a) Participation interests with controlling 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 2003							
HYPO stavební spořitelna a.s.	Praha 1, Senovážné nám. 27	real estate agency	500,000	330,791	60 %	60 %	360,000
CA IB Securities, a.s.	Praha 5, nám. Kinských 602	broker	100,000	(25,043)	100 %	100 %	74,216
			600,000	305,748			434,216
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

(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 2003							
CBCB – Czech Banking Credit Bureau, a.s.	Praha 1, Na Příkopě 21	running of bank register	1,200	51	20 %	20 %	240
			1,200	51			240
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)			–

18. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets

		Software		
CZK 000	Software	acquisition	Other	Total
Cost				
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
At 1 January 2003	534,781	16,333	5,123	556,237
Additions	82,427	50,896	3,874	137,197
Disposals	(235,005)	(38,606)	(1,957)	(275,568)
At 31 December 2003	382,203	28,623	7,040	417,866
Amortisation and adjustments				
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
At 1 January 2003	390,701	–	3,381	394,082
Charge for the year	100,744	–	887	101,631
Disposals	(221,137)	–	–	(221,137)
At 31 December 2003	270,308	–	4,268	274,576
Net book value				
At 31 December 2002	144,080	16,333	1,742	162,155
At 31 December 2003	111,895	28,623	2,772	143,290

19. 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 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
At 1 January 2003	874,903	1,077,319	309,611	4,269	379	2,266,481
Additions	96,256	69,091	8,316	–	95,175	268,838
Disposals	(23,577)	(184,894)	(45,106)	(3,571)	(93,105)	(350,253)
Other changes	–	21,468	–	–	–	21,468
At 31 December 2003	947,582	982,984	272,821	698	2,449	2,206,534
Depreciation and adjustment						
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
At 1 January 2003	622,350	913,397	229,653	3,759	–	1,769,159
Charge for the year	92,150	79,644	16,376	38	–	188,208
Disposals	(23,541)	(96,025)	(37,433)	(3,491)	–	(160,490)
Other changes	47,747	(61,261)	5,095	–	–	(8,419)
At 31 December 2003	738,706	835,755	213,691	306	–	1,788,458
Net book value						
At 31 December 2002	252,553	163,922	79,958	510	379	497,322
At 31 December 2003	208,876	147,229	59,130	392	2,449	418,076

(b) Tangible fixed assets held under finance leases

The Bank uses assets at acquisitions cost 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 2003	Due within 1 year	Due from 1 year to 5 years	Due in following years	Total payments remaining
Office equipment	39	39	–	–	39
Total	39	39	–	–	39

20. OTHER ASSETS

CZK 000	2003	2002
Other debtors	20,585	35,495
Collections accepted from customers	32,130	32,462
Fair value of derivatives (positive)	1,690,156	2,624,757
Margin of listed derivatives	31,285	–
Deferred tax asset	24,398	14,315
Other	140,804	91,734
Total other assets	1,939,358	2,798,763
Less:		
Adjustments	(7,384)	(3,642)
Total	1,931,974	2,795,121

21. DUE TO BANKS

(a) Analysis of due to banks by residual maturity

CZK 000	2003	2002
Repayable on demand	1,690,056	2,168,644
Up to 3 months	13,876,534	12,751,289
From 3 months to 1 year	1,294,776	2,578,753
From 1 to 5 years	3,301,262	3,006,288
Over 5 years	3,709,825	2,537,588
Total	23,872,453	23,042,562

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

CZK 000	Controlling influence	Substantial influence
At 1 January 2002	206,592	–
Additions	1,368	–
Disposals	–	–
At 31 December 2002	207,960	–
At 1 January 2003	207,960	–
Additions	73,445	–
Disposals	–	–
At 31 December 2003	281,405	–

(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 9,398,989 thousand as at 31 December 2003 (2002: CZK 7,403,718 thousand).

22. 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 2003						
Financial institutions	205,621	–	–	3,495,492	73,522	3,774,635
Non-financial institutions	22,913,062	–	–	9,004,571	306,872	32,224,505
Insurance institutions	203,526	–	–	878,955	798,384	1,880,865
Government sector	1,702,148	–	–	550,649	–	2,252,797
Non-profit organisations	352,530	–	–	154,550	80	507,160
Self-employed	5,202,449	–	–	3,222,477	2,649	8,427,575
Resident individuals	3,903,960	2,131,515	3,438	12,530,663	495,399	19,064,975
Non-residents	1,422,717	–	–	1,276,967	63,620	2,763,304
Companies without IČO	3,032	–	–	–	3,573	6,605
Total	35,909,045	2,131,515	3,438	31,114,324	1,744,099	70,902,421
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

No due to customers that relate to the provision of investment services to customers are included (2002: CZK 0 thousand).

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

CZK 000	Controlling influence	Substantial influence
At 1 January 2002	–	–
Additions	–	–
Disposals	–	–
At 31 December 2002	–	–
At 1 January 2003	–	–
Additions	69,710	–
Disposals	–	–
At 31 December 2003	69,710	–

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

CZK 000	Management Board of Directors	Other executives	Other
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
At 1 January 2003	14,848	18,909	111,396
Additions	4,184	16,661	–
Disposals	(6,127)	(8,340)	(109,296)
At 31 December 2003	12,905	27,230	2,100

23. PAYABLES FROM DEBT SECURITIES

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

CZK 000	2003	2002
Financial institutions	22,785	44,757
Non-financial institutions	5,706,266	6,246,293
Insurance institutions	10,027	–
Government sector	19,602	60,721
Non-profit organisations	17,920	19,494
Self-employed	316,498	448,032
Resident individuals	1,861,392	1,560,431
Non-residents	622,670	758,313
Companies without IČO	–	1,913
Unallocated	1,470	323
Total	8,578,630	9,140,277

(b) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Amount CZK 000	Amount due within 1 year
10. 6. 1999	10. 6. 2004	CZK	2,400,000	2,400,000
4. 2. 2002	4. 2. 2009	CZK	4,155,123	–
Total			6,555,123	2,400,000
Accrued interest expense			346,806	
Total			6,901,929	2,400,000

The proportion of issued debt securities with residual maturity up to 1 year to the total balance of issued debt securities is 28.15 % (2002: 13.43 %).

The Bank has purchased its own debt securities for the purpose of trading or sale in the total amount of CZK 2,962,298 thousand (2002: CZK 2,554,115 thousand), see Note 15 (c).

(c) Other payables from debt securities

Other payables from debt securities as at 31 December 2003 include securities received under resale commitments totalling CZK 616,257 thousand, which were sold in short sells.

24. SUBORDINATED LIABILITIES

CZK 000	2003	2002
Subordinated debt, Bank Austria AG, Vienna	758,382	739,576
Subordinated debt, Bayerische Hypo- und Vereinsbank AG, Munich	397,669	387,797
Total	1,156,051	1,127,373

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 debt was issued in the notional amount of EUR 23,400 thousand and matures in March 2010. Interest payment period is optional within 1 to 12 months. The interest rate is derived from market rates.

The amount of CZK 397,669 thousand (2002: 387,797 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.

25. OTHER LIABILITIES

CZK 000	2003	2002
Other short term payables to customers	3,036,054	2,396,787
Estimated payables	477,119	430,216
Other creditors	79,120	95,561
Fair value of derivatives (negative)	2,614,341	3,664,016
Taxes payable	55,476	290,285
Other	111,176	233,960
Total	6,373,286	7,110,825

26. REGISTERED CAPITAL

The registered capital of the Bank was CZK 5,124,716 thousand as at 31 December 2003.

The sole shareholder, Bank Austria Creditanstalt AG Vienna, executing the powers of the general meeting decided on an increase in the registered capital of CZK 77,716 thousand in relation to the transfer of a participation interest in CAIB Securities, a.s. to the Bank. It subscribed 10 unregistered ordinary shares each with a nominal value of CZK 7,771,600. The increase of registered capital was recorded on 11 July 2003 in the Companies Register.

The shareholders of the Bank at 31 December 2003 are:

Name	Registered office	Notional amount of shares in CZK thousands	Share in registered capital %
Bank Austria Creditanstalt AG, Vienna	Austria	5,124,716	100.00
Total		5,124,716	100.00

27. 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.

28. 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 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
Balance at 1 January 2003		1,096,210
Creation during current year		–
Guarantees	–	
Use during current year		(1,515)
Write-off of loans	(1,515)	
Release of reserves no longer considered necessary		(376,578)
Balance of tax deductible reserves at 31 December 2003		718,117
Total reserves for possible credit and guarantee losses at 31 December 2002		1,096,210
Total reserves for possible credit and guarantee losses at 31 December 2003		718,117

(b) Adjustments to classified receivables

CZK 000		
Adjustments to classified receivables (tax deductible)		
Balance at 1 January 2002		1,248,519
Creation during the year		671,976
Special mentioned loans	114,912	
Sub-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
Additional transfer to tax non-deductible adjustments		(121,131)
Balance at 1 January 2003		1,462,385
Creation during current year		187,841
Special mentioned loans	85,508	
Sub-standard loans	29,022	
Doubtful loans	27,030	
Loss loans	35,065	
Receivables from debtors subject to bankruptcy and composition proceedings	11,216	
Use during current year		(419,902)
Write-off of loans	(419,902)	
Release of adjustments no longer considered necessary		(298,091)
FX differences		(7,290)
Balance of tax deductible adjustments at 31 December 2003		924,943
Other adjustments to losses from receivables (tax non-deductible)		
Balance at 1 January 2002		225,137
Creation during the year		–
Use during current year		–
Release of adjustments no longer considered necessary		(224,839)
FX differences		(298)
Balance of tax non-deductible adjustments at 31 December 2002		–

Adjustments to classified receivables (continue)

Additional transfer from tax deductible adjustments	121,131
Balance at 1 January 2003	121,131
Creation during current year	7,955
Use during current year	–
Release of adjustments no longer considered necessary	(97,881)
FX differences	–
Balance of tax non-deductible adjustments at 31 December 2003	31,205
Total adjustments to credit losses at 31 December 2002	1,583,516
Total adjustments to credit losses at 31 December 2003	956,148

(c) Other reserves

CZK 000	
Balance at 1 January 2002	69,460
Creation during the year	43,710
Use during current year	(44,441)
Balance of other reserves at 31 December 2002	68,729
Balance at 1 January 2003	68,729
Creation during current year	21,650
Use during current year	(16,467)
Release of reserves no longer considered necessary	(4,794)
Balance of other reserves at 31 December 2003	69,118

The Bank additionally transferred CZK 121,131 thousand from tax deductible adjustments to tax non-deductible adjustments during 2003.

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

The Bank has allocated the 2002 profit and proposes to allocate the 2003 profit as follows:

CZK 000	Profit	Retained earnings	Statutory reserve funds	Other reserve funds	Capital funds	Other funds from profit
Balance at 1 January 2003	–	146,794	563,121	1,013,319	–	192
Takeover of equity of BAPS s.r.o.	(39,877)	(23,293)	1,858	–	37,142	–
Profit for 2002	1,665,671					
Allocation of profit for 2002 approved by the Supervisory Board:						
Transfer to reserve funds	(87,739)	–	83,239			4,500
Transfer to retained earnings	(1,538,055)	1,538,055				
Other creation of funds		–	–	–	–	1,100
Use of funds		–	–	–	–	(4,942)
Balance at 31 December 2003 before allocation of the 2003 profit	–	1,661,556	648,218	1,013,319	37,142	850
Profit for 2003	1,706,605					
Proposed allocation of profit for 2003:						
Transfer to reserve funds	(87,630)	–	85,330	–	–	2,300
Transfer to retained earnings	(1,618,975)	1,618,975				
	–	3,280,531	733,548	1,013,319	37,142	3,150

30. INCOME TAX AND DEFERRED TAX ASSET/LIABILITY

(a) Current income tax

CZK 000	2003	2002
Current year profit (loss) before tax	2,333,322	2,507,663
Income not liable to tax	(473,440)	(549,061)
Tax non-deductible expenses	245,189	263,952
Subtotal	2,105,071	2,222,554
Income tax calculated using the 31 % tax rate	652,572	688,991
Tax discounts and offsets used	(20,809)	(87,500)
Income tax for the year	631,763	601,491

(b) Deferred tax liability/asset

Deferred income tax is calculated on all temporary differences using an appropriate tax rate. Deferred income tax assets and liabilities are attributable to the following items:

CZK 000	2003	2002
Deferred tax assets		
Reserves for litigations	13,389	21,306
Social and health insurance for bonuses	19,972	17,207
Other	–	1,240
	33,361	39,753
Deferred tax liabilities		
Differences in net book value of fixed assets	8,963	25,438
Deferred tax assets	24,398	14,315

The Bank reported tax revenue as a result of deferred tax amounting to CZK 10,083 thousand (2002 – tax expense: CZK 60,138 thousand).

Bank management believes that it is highly probable that the Bank will fully realise its deferred tax asset as at 31 December 2003 based upon the Bank's current and expected future level of taxable profits.

(c) Income tax reserve

As at 31 December 2003 the Bank created income tax reserve totalling CZK 147,000 thousand. This reserve was recognised based on expected increase in taxable expenses for next two 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 N. 593/1992 Coll. (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	2003	2002
Banks		
Letters of credit and financial guarantees	490,951	413,095
Other contingent liabilities	514,179	518,988
	1,005,130	932,083
Clients		
Letters of credit and financial guarantees	7,911,858	7,278,793
Other contingent liabilities	32,437,194	31,251,991
Collaterals provided	92,200	122,188
	40,441,252	38,652,972
Total	41,446,382	39,585,055

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

CZK 000	Executives
At 31 December 2003	647
At 31 December 2002	647

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

CZK 000	2003	2002
Controlling influence	17	17
Substantial influence	–	–
Total	17	17

(d) Guarantees received from the participation interests with substantial and controlling interest

The Bank had not received any guarantee in respect of its participation interests with either a controlling or a substantial interest as at 31 December 2003 or as at 2002.

(e) Off-balance sheet financial instruments**Financial derivatives from OTC market (OTC derivatives)**

	Contractual amounts		Fair value	
	2003	2002	2003	2002
CZK 000				
Hedging instruments				
Interest rate swap contracts	5,341,290	13,605,070	(12,286)	(890,615)
Cross currency swap contracts	–	166,550	–	(4,785)
Trading instruments				
Forward rate agreements (FRA)	173,769,350	161,029,200	1,297	(4,264)
Interest rate swap contracts	78,436,333	63,010,332	(578,071)	(274,610)
Forward foreign exchange contracts			(42,634)	135,949
Purchase	9,604,540	13,835,786		
Sale	9,648,672	13,704,174		
Forward transactions with securities	–	547,981	–	(1,189)
Option contracts	2,700,522	–	189	–
Cross currency swap contracts	17,250,444	390,277	(292,680)	255

Listed financial derivatives

	Contractual amounts		Fair value	
	2003	2002	2003	2002
CZK 000				
Trading instruments				
Interest rate futures	194,430	–	31,285	–

(f) 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 2003					
Hedging instruments					
Interest rate swap contracts	–	300,000	4,717,240	324,050	5,341,290
Trading instruments					
Forward rate agreements (FRA)	66,074,450	102,694,900	5,000,000	–	173,769,350
Interest rate swap contracts	11,679,825	13,860,349	28,695,751	24,200,408	78,436,333
Forward foreign exchange contracts					
Purchase	4,413,161	5,191,379	–	–	9,604,540
Sale	4,413,277	5,235,395	–	–	9,648,672
Option contracts	33,362	933,264	1,733,626	–	2,700,522
Interest rate futures	194,430	–	–	–	194,430
Cross currency swap contracts	3,546,684	7,586,432	5,950,778	166,550	17,250,444
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	–	–	–	166,550	166,550
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
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

(g) Refinancing agreements

The Bank was allowed to draw following loan facilities as at 31 December 2003:

Loan facility granted by Bank Austria Creditanstalt AG, Vienna amounting CZK 2,774,192 thousand (EUR 85,610 thousand) with final maturity in December 2006.

Credit line granted by European Investment Bank (EIB) amounting CZK 1,957,813 thousand (EUR 60,417 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.

32. VALUES TAKEN INTO ADMINISTRATION AND MANAGEMENT

CZK 000	2003	2002
Bonds	35,962,602	22,268,287
Shares and open-end funds certificates	43,786,654	16,374,877
Total	79,749,256	38,643,164

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.

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) Risk management

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 methods" in Note 33 (c).

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 not 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 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 2003						
Cash	474,400	–	–	–	455,359	929,759
State zero coupon bonds	5,925,648	1,750,341	1,553,225	964,157	–	10,193,371
Receivables from banks	18,958,373	1,138,364	48,031	–	26,545	20,171,313
Receivables from customers	7,571,239	24,015,425	24,008,541	19,749,200	5,928,871	81,273,276
Debt securities	1,877,360	917,962	7,354,961	6,275,585	–	16,425,868
Shares, units and other investments	–	–	–	–	3,044	3,044
Participation interests with substantial influence	–	–	–	–	240	240
Participation interests with controlling influence	–	–	–	–	434,216	434,216
Other assets	–	24,398	–	–	2,468,942	2,493,340
Prepaid expenses and accrued income	274,699	–	–	–	–	274,699
Total	35,081,719	27,846,490	32,964,758	26,988,942	9,317,217	132,199,126
Due to banks	15,566,590	1,294,776	3,301,262	3,709,825	–	23,872,453
Due to customers	69,876,499	783,693	241,203	1,026	–	70,902,421
Payables from debt securities	6,764,346	3,064,662	1,586,349	4,681,459	–	16,096,816
Other liabilities	–	–	–	–	19,496,847	19,496,847
Accrued expenses and deferred income	674,538	–	–	–	–	674,538
Subordinated liabilities	–	132	397,642	758,277	–	1,156,051
Total	92,881,973	5,143,263	5,526,456	9,150,587	19,496,847	132,199,126
Gap	(57,800,254)	22,703,227	27,438,302	17,838,355	(10,179,630)	–
Cumulative gap	(57,800,254)	(35,097,027)	(7,658,725)	10,179,630	–	–
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	–	–

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.

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.

Equity risk

The equity risk is the risk of a movement of prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of this risk is trading with equity instruments, even though a certain part of equity risk also arises as a result of non-trading activities of the Bank. The risks associated with equity instruments are managed through trading limits. The methods used for the management of these risks are described in "Risk management methods" in Note 33 (c).

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.

(c) Risk management methods

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, which 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.

Value at Risk

Value at risk represents main method for managing the market risks arising from the Bank's activities. 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	At 31 December 2003	Average 2003	At 31 December 2002	Average 2002
VaR of interest rate instruments	19,392	17,068	13,010	16,723
VaR of currency instruments	1,479	1,897	1,241	1,000

At 31 December 2003 the total VaR for all market risks was CZK 18,711 thousand (2002: CZK 12,965 thousand), which is lower than the aggregate of VaR values relating to individual risks due to the correlation between individual risks.

Interest rate risks

The Bank applies a “Basis Point Value – BPV” approach for the measurement of interest sensitivity of 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.

Stress testing

The Bank carries out a weekly stress testing of interest rate by applying historical scenarios of significant movements on the financial markets and internally defined improbable scenarios and simulates their impact on the Bank’s financial results. The Bank has set the limits for these stress scenarios, which is part of the Bank’s risk management process.

for the treatment of receivables arising from financial activities, the creation of adjustments and reserves and rules for the acquisition of certain types of assets. The classification is as follows:

Standard receivables

A standard receivable is a receivable in which there is no doubt that it will be fully repaid. Principal, interest and fees are consistently paid and are not more than 30 days past the due payment date. None of the receivables from the debtor has been restructured in the last two years due to any deterioration in its financial situation. The following can also be considered as standard receivables:

- a receivable from a debtor who has, pursuant to a special regulation of the Czech National Bank, been assigned a zero risk weight and where no payment of principal, interest or fees is more than 540 days past the due payment date;
- a receivable supported in full by high-quality security and where no payment of principal, interest or fees is more than 540 days past the due payment date.

Receivables to be included in this category must fulfill the following additional criteria:

- the loan agreement has not been cancelled/ /withdrawn and no part of the loan has been called in by the Bank;
- the debtor is not involved in any lawsuit with possible consequences for his solvency.

Special mentioned receivables

A special mentioned receivable is a receivable which, given the financial and economic condition of the debtor, is likely to be fully repaid. Principal, interest and fees are paid, with some problems, but are no more than 90 days past the due date of payment. None of the receivables from the debtor has been restructured in the last six months due to any deterioration in its financial situation. The following can also be considered as special mentioned receivables:

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 No. 9 issued on 6 November 2002. This sets out the rules

- a receivable from a debtor who has, pursuant to a special regulation of the Czech National Bank, been assigned a zero risk weight and where one or more payment of principal, interest or fees is more than 540 days past the due payment date;
- a receivable fully secured by a person who has, pursuant to a special regulation of the Czech National Bank, been assigned a zero risk weight and where one or more payments of principal, interest or fees is more than 540 days past the due payment date.

Substandard receivables

A substandard receivable is a receivable which, given the financial and economic condition of the debtor, might not be fully repaid, but is most likely to be repaid in part. Principal, interest and fees are paid, with some problems, but are no more than 180 days past the due payment date.

Doubtful receivables

A doubtful receivable is a receivable which, given the financial and economic condition of the debtor, is unlikely to be fully repaid, but may be, and is likely to be, repaid in part. Principal, interest and fees are paid, with some problems, but are no more than 360 days past the due payment date.

Loss receivables

A loss receivable is a receivable which, given the financial and economic condition of the debtor, cannot be fully repaid. The expectation is that such a receivable will not be recovered or will be recovered in part only, in a very small amount. Principal, interest and fees are more than 360 days past the due payment date. The following are also considered as loss receivables:

- a receivable from a debtor in composition proceedings;
- a receivable from a debtor who has been declared bankrupt, except in the case of a receivable against estate arising after the declaration of bankruptcy.

This classification is maintained on a monthly basis. The main criteria for classification are the following:

- financial condition of the debtor and the fulfilling of agreed upon repayment schedules
- providing requested information by the debtor
- restructuring (or non restructuring) the receivable
- declaration of bankruptcy or compensation proceedings

In addition to the classification in line with the above-mentioned special regulation of the Czech National Bank, the Bank uses an internal rating system

comprising 28 separate categories to rate the financial standing of its clients. This system assesses not only the overdue period, but also the financial ratios and indicators (such as the balance sheet structure, profit and loss structure, cash-flow structure) 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 in the assessment of the debtor. However, this rating does not replace the Bank's internal rating system.

The Bank does not include receivables from individuals in the above system.

(b) Evaluation of collateral

In line with its strategy for managing interest rate risks, the Bank 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 conservative and an expert appraisal, based in particular on the financial standing of the collateral provider as well as the nominal value of the collateral, is prepared by the Bank's specialist 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. The Bank performs regular updates of the collateral's value and correction coefficients.

(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 in accordance with the ČNB decree No. 9 issued on 6 November 2002, the Bank creates the following adjustments:

Standard	0 %
Special mentioned	1–19.9 %
Sub-standard	20–49.9 %
Doubtful	50–99.9 %
Loss	100 %

(d) Credit risk measurement

The Bank monitors credit risks by setting the expected loss (standard risk expenses) in respect of individual loans within a one-year period. The Bank also allocate to the individual loans, on the basis of the Value at Risk model, an appropriate amount of risk capital covering an unexpected loss of the loan portfolio.

(e) 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 Bank treats a receivable from a debtor or an economically connected group of debtors that exceeds 10 % of the Bank's capital as a significant exposure. 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 (c), 15 (d) and 15 (e).

(f) Receivables recovery

The Bank has established a department for restructuring and recovery of loans in respect of receivables considered to be at risk. This department aims to achieve one or more of following goals:

- restructuring of the credit relationship with potential reclassification to standard receivables;
- full repayment of the loan;
- minimization of the loss from the loan (realisation of collateral, sale of receivable with a discount etc.);
- prevention of further losses from the loan (comparison between future income and expenses).

(g) Securitisation and use of credit derivatives

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

(h) Quality of the credit portfolio

On the basis of the structure of its debtors' financial standing, the credit portfolio of the Bank can be considered as high quality; as at 31 December 2003 52 % of the credit exposure of the Bank is represented by credits to clients rated 1+ to 3- (the annual probability of default by these clients is between 0.02 % and 0.39 %) and approximately 85 % is represented by credit to clients rated 1+ to 5- (annual probability of default between 0.02 % and 1.86 %).

35. FINANCIAL INSTRUMENTS – 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 department;
- 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 22 March 2004 we issued an auditor's report on the Bank's 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 2003. 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 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 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 2003 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 respects 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
8 June 2004

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

Pavel Závitkovský
Licence number 69

SUPPLEMENTARY INFORMATION

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

Supplementary information

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

1.1. BASIC DATA

Business name:	HVB Bank Czech Republic a.s.
Company id. No.:	64948242
Registered office:	Prague 1, nám. Republiky 3a/2090

HVB Bank Czech Republic a.s. (“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 period.

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, decision ref. no. V 40/9-95 dated September 14, 1995 effective from January 1, 1996.

There have been no interruptions to the issuer’s business.

1.2. DIVIDENDS AND DIRECTORS' FEES

In 2003, HVB Bank did not pay any dividends or directors' fees.

1.3. SCOPE OF THE BUSINESS ACTIVITIES ACCORDING TO THE ARTICLES OF ASSOCIATION

The scope of HVB Bank's business activities includes banking transactions and the provision of a full range 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 the Bank's own account and on the account of third parties 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 issue of mortgage bonds pursuant to § 1 para. 4 of the Act on Banking 21/1992 Coll., as amended,
- (c) trading in securities (in the Bank's own name and on its own account, in its own name and on account of a third party, in a third party's name and on account of the third party) 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 5,124,716,000 that consists of:

- (a) 100 registered booked common shares each with a nominal value of CZK 16,320,000;
- (b) 200 registered booked common shares each with a nominal value of CZK 13,375,000;
- (c) 74,000 registered booked common shares each with a nominal value of CZK 10,000;
- (d) 10 registered booked common shares each with a nominal value of CZK 7,771,600.

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 giving their holders 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
2003			CZK 12,189,326,000

*) always as of December 31

2.3. LIST OF UNPAID BOND ISSUES

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	June 10, 1999
Maturity date	June 10, 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 4,273,510,000
Date	February 4, 2002
Maturity date	February 4, 2009
Collateral	Package of mortgage loans
Issuer	HVB Bank Czech Republic a.s.
Bond/stock exchange name	30-year bond program
Revenue	2nd issue/HVB zero/05
ISIN	Discount bonds with revenues on discount basis
ISIN	CZ0003700650
Volume	CZK 1,500,000,000
Date	September 12, 2002
Maturity date	December 31, 2005
Bond/stock exchange name	3rd issue/HVB zero/07
Revenue	Discount bonds with revenues on discount basis
ISIN	CZ0003700668
Volume	CZK 2,000,000,000
Date	September 12, 2002
Maturity date	December 31, 2007
Bond/stock exchange name	4th issue/HVB eurozero/05
Revenue	Bonds with revenues on discount basis
ISIN	CZ0003700676
Volume	EUR 30,000,000
Date	February 7, 2003
Maturity	December 31, 2005
Bond/stock exchange name	5th issue /HVB struct. bond 100/08
Revenue	Bonds with interest revenue stemming from index basket
ISIN	CZ0003700718
Volume – planned	CZK 350,000,000
Volume – subscribed as at Dec. 31, 2003	CZK 176,310,000
Date	December 15, 2003
Maturity date	December 29, 2008
Bond/stock exchange name	6th issue/HVB struct. bond 108/08
Revenue	Bonds with interest revenue consisting of a fixed revenue segment and revenue stemming from index basket
ISIN	CZ0003700726
Volume – planned	CZK 650,000,000
Volume – subscribed as at Dec. 31, 2003	CZK 336,400,000
Date	December 15, 2003
Maturity date	December 29, 2008

2.3. LIST OF UNPAID BOND ISSUES

Bond/stock exchange name	7th issue /HVB superfloater/08
Revenue	Bond with floating interest revenue
ISIN	CZ0003700742
Volume – planned	EUR 3,000,000
Volume – subscribed as at Dec. 31, 2003	CZK 0
Date	December 22, 2003
Maturity date	December 22, 2008
Total volume of unpaid bonds	CZK 11,658,370,000

All issues except the bond program issues are registered on the open market of the Prague Stock Exchange (Burza cenných papírů Praha, a.s.)

2.4. GROUP STRUCTURE

A/ HVB Bank shareholders

Shareholder:	Share in CZK	% Share
Bank Austria AG, Vienna, Austria	5,124,716,000	100 %

B/ Affiliate companies and other companies on an equal footing

Company	Address	Partner/Shareholder (% share)
HVB Reality CZ, s.r.o.	Prague 5, Elišky Peškové 15	Bank Austria Creditanstalt AG, Vienna (100 %)
HVB Leasing Czech Republic, 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	Bank Austria Creditanstalt Leasing GmbH, Vienna (100 %)

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 %)
CAE PRAHA, a.s. (CA IB Securities)	Prague 2, Italská 24	HVB Bank Czech Republic a.s. (100 %)

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 Savings accounts, savings 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. REGISTERED OFFICE OF THE ISSUER'S ORGANISATIONAL UNIT AND DESCRIPTION OF ESTATES OWNED BY THE ISSUER

HVB Bank Czech Republic a.s. has neither any branch operations nor any separate organisational units.

HVB Bank owns real estate only 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 remains valid subsequent to the change of the business company name to 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 the decision of the Securities Commission dated June 14, 1999, ref. nr. 521/2703-k/99). This permit remains valid after the change of the business company name to Hypovereinsbank CZ a.s. and subsequently to HVB Bank. HVB Bank requested an extension of the granted permit to cover other investment services. The Securities Commission granted its permit by a resolution dated October 9, 2002, ref. Nr. 43/N/224/2001, legally valid and effective from November 13, 2002.

3.4. JUDICIAL, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

HVB Bank is 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	2003	2002	2001
Information technologies	CZK 140,518,000	CZK 160,413,000	CZK 286,843,000
Securities (aggregate*)	CZK 27,056,739,000	CZK 18,271,846,000	CZK 11,863,648,000

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

All HVB Bank investments, with the exception of financial investments, are of an operating nature and are funded from HVB Bank's own resources. All information is valid as of December 31 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	June 15, 1999
Maturity date	March 15, 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	December 15, 2000
Maturity date	March 15, 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	June 20, 2000
Maturity date	June 15, 2005
Collateral	No collateral*
Creditor	European Investment Bank, Luxembourg
Debtor	Bank Austria Creditanstalt Czech Republic, a.s.
Loan amount	EUR 5,862,639.64
Interest rate	EIB POOL RATE**
Loan date	April 26, 2001
Maturity date	December 15, 2006
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	June 15, 2001
Maturity date	June 15, 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	December 4, 2001
Maturity date	December 4, 2009
Collateral	No collateral*

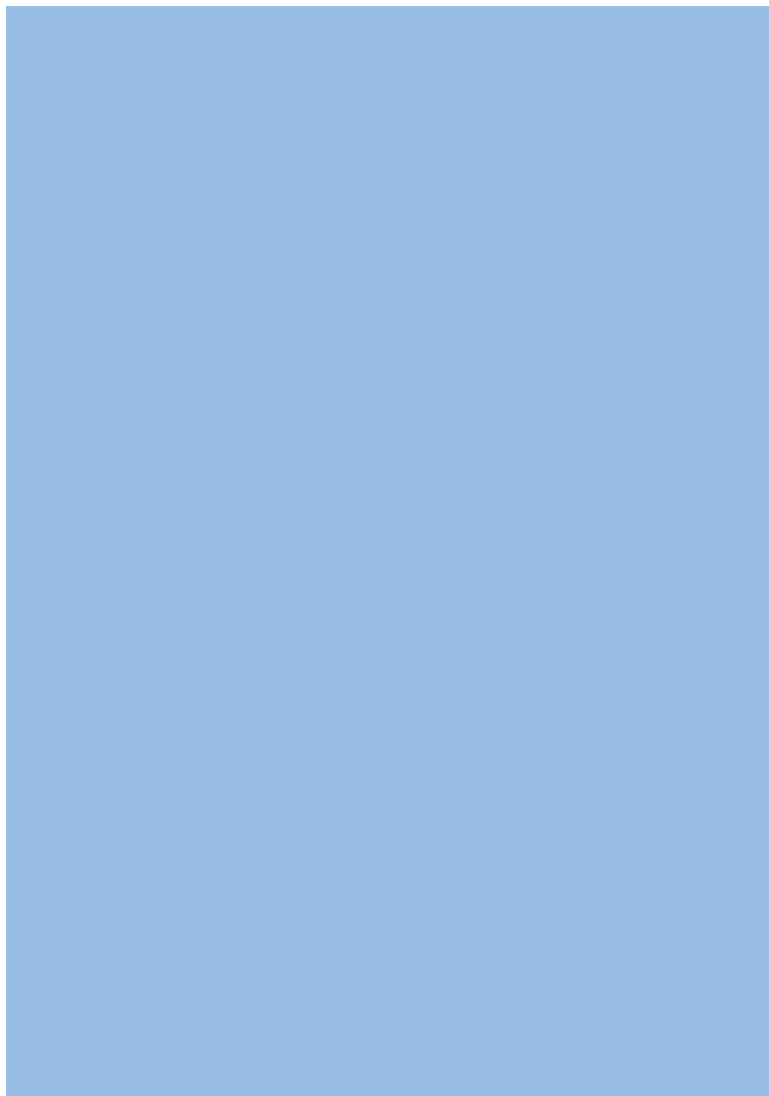
*) Bayerische Hypo- und Vereinsbank AG Munich issued a guarantee for all loans granted by EIB and accepted by HypoVereinsbank CZ a.s., and Bank Austria AG Vienna issued a guarantee for all loans granted by EIB and accepted by Bank Austria Creditanstalt Czech Republic, a.s. and HVB Bank Czech Republic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

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

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

The Managing Board hereby declares that the data included in the Annual Report reflect the real position and that no substantial circumstances that might affect the accurate and correct assessment of the Bank as an issuer of securities have been 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” or “HVB Bank”) and the company Bank Austria Creditanstalt AG having its registered office at Vordere Zollamtsstrasse 13, 1030 Vienna, Austria (“the controlling entity”) and on the relations between the controlled entity and other entities controlled by the controlling entity (“the associated entities”).

As 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 HVB Bank.

Within the scope of their business activities in the last year HVB Bank entered into the following contractual relations with the controlling entity and with other entities controlled by the controlling entity.

1. BANK GUARANTEES

Contractual relations established in connection with the provision of bank guarantees by the controlling entity and associated entities in favour of the controlled entity. 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.

2. COUNTER-GUARANTEES

Relations arising from accepted or issued counter-guarantees are of a similar nature. On the basis of an 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 in favour of the controlled entity. The controlled entity paid aval commissions to the controlling entity in the event that the beneficiaries of these guarantees were not associated entities. The controlled entity did not incur any loss on the basis of such relations.

3. PLEDGE AGREEMENTS

Pledge agreements represent another form of loan collateral. Pursuant to the Measure of the Czech National Bank No. 3/1999, on Capital Adequacy of Banks Including Credit and Market Risks, in 2002 the controlling entity and the controlled entity concluded a pledge agreement, incl. the amendment, pursuant to § 39 et seq. Act No. 591/1992 Coll., on Securities, and pursuant to § 152 of the Civil Code, on the basis of which the controlling entity as the pledgor pledged the right to bonds and its receivables from bank accounts in favour of the controlled entity (the pledgee) as a guarantee for the obligations of the controlled entity’s debtors. The annexes to the agreement identifying the bonds and receivables and containing the list of debtors were amended

in the reporting period. The controlled entity did not incur any loss on the basis of such relation.

4. IT AGREEMENTS

Relations to the associated entities are also created by the agreements that provide the controlled entity with services in the field of information technologies. Here, an agreement on the provision of software services was concluded with the company Bank Austria Creditanstalt AG, the Site Framework Contract with the company Informations-Technologie Austria GmbH and an amendment regulating the performance and payments under the previously concluded agreement with the company WAVE Solutions Information Technology GmbH. The services provided were in accordance with the contract conditions, which corresponded with standard market conditions. The controlled entity did not incur any loss on the basis of these relations.

5. LEASE AGREEMENTS

For the purpose of carrying out its activities the controlled entity has entered into a number of contractual relations, both as lessee and lessor. In the last year no new lease agreements were concluded with associated entities (except for amendments stipulating the currency of rent payment). Services provided were in accordance with the agreements previously concluded, and corresponded with standard market conditions. The controlled entity did not incur any loss on the basis of these relations.

6. ENTRY OF THE SHARES OF THE COMPANY CA IB SECURITIES, A.S. IN THE REGISTERED CAPITAL OF THE CONTROLLED ENTITY

In 2003 the registered capital of the controlled entity was increased via a subscription of new shares by a non-monetary contribution. The subject of the non-monetary contribution was the shares of the company CA IB Securities, a.s., having its registered office at Praha 5, nám. Kinských 602, 150 00, company id. no. (IČ): 43 00 45 80, under the ownership of the controlling entity. Within the scope of this transaction, the controlling entity and the controlled entity concluded an agreement on the subscription of shares on the basis of which the controlling entity subscribed new shares of the controlled entity, and further an agreement on the basis of which the controlling entity transferred the ownership of the shares of the company CA IB Securities, a.s. to the controlled entity. The controlled entity did not incur any loss as a result of this transaction.

7. OTHER AGREEMENTS

The controlled entity also entered into contractual relations with the associated entities in the reporting

period, which may not be unambiguously classified in any of the above-defined groups.

The Silent Risk Participation Agreement was concluded with the controlling entity on the basis of which the controlling entity undertakes to participate in the risk of non-repayment of loans to be granted by the controlled entity to third parties. An agreement on investment management was concluded with the company Capital Invest die Kapitalanlagegesellschaft der Bank Austria Creditanstalt Gruppe GmbH. Agreements on co-operation in processing and settling of VISA credit card transactions and provision of client centre services to the holders of VISA credit cards issued by HVB Bank Slovakia a.s. were concluded with the Slovak company HVB Bank Slovakia a.s. An agreement governing the mutual exchange of business cases in the area of corporate client finance was concluded with the company CAC Leasing, a.s. An auditing agreement was concluded with the controlling entity, the subject of which is co-operation in internal audit of the controlled entity, and further an agreement on co-operation in the area of compliance, based on which the controlled entity implemented a standard compliance system for securities. The controlled entity provided the controlling entity with corresponding reimbursement for the activity of foreign managers. The controlled entity did not incur any loss on the basis of any of the said agreements.

CONCLUSION

All services and counter-services were provided in compliance with standard business conditions in the market. The Managing Board declares that HVB Bank did not incur any loss due to the conclusion of the above-mentioned agreements, services provided or counter-services accepted.



Ing. Věslav Michalik, CSc.



Christian Bruckner

MANAGING BOARD, SUPERVISORY BOARD



Managing Board, Supervisory Board

MEMBERS OF THE MANAGING BOARD AS OF DECEMBER 31, 2003:

ING. DAVID GRUND

Born: February 24, 1955
Chairman of the Managing Board
and Chief Executive Officer
Date of appointment to the office:
February 4, 2003
Date of appointment as a Member
of the Managing Board: October 1,
2001
Klukám 702, Šestajovice
University of Economics, Prague
24 years' experience in banking

DR. UDO AMADEUS SZEKULICS

Born: December 19, 1958
Member of the Managing Board
and Executive Director
Date of appointment to the office:
September 1, 2002
Nad údolím 62/338, Prague 4
University of Salzburg
18 years' experience in risk
management and law

ING. PETR BRÁVEK

Born: August 4, 1961
Member of the Managing Board
and Executive Director
Date of appointment to the office:
December 12, 2001
Dykova 19, Prague 10

Technical University, Prague
10 years' experience in bank
operations and project management

ING. VĚSLAV MICHALIK, CSC.

Born: March 1, 1963
Member of the Managing Board
and Executive Director
Date of appointment to the office:
February 1, 2003
Šípková 405
252 41 Dolní Břežany
Technical University, Prague
9 years' experience in corporate
finance and investment banking

CHRISTIAN FRANZ BRUCKNER

Born: February 19, 1971
Member of the Managing Board
and Executive Director
Date of appointment to the office:
August 15, 2003
Hellwagstrasse 12
Vienna, Austria
Danube University, Krems
10 years' experience in banking

**MEMBERS OF THE MANAGING BOARD
WHO RESIGNED FROM THEIR OFFICE
DURING 2003:**

JUDR. KAREL KRATINA

Born: May 25, 1951
Chairman of the Managing Board
and Chief Executive Officer
Date of resignation from the office:
January 31, 2003
Pražského povstání 675/42, Prague 4
Faculty of Law, Charles University,
Prague
14 years' experience in banking

HARTMUT ADOLF HAGEMANN

Born: August 1, 1957
Member of the Managing Board
and Executive Director
Date of resignation from the office:
January 31, 2003
Na Fialce I. 1555/67, Prague 6
Several years' experience as a
Member of the Managing Board
of HypoVereinsbank CZ, a.s.

**MEMBERS OF THE SUPERVISORY
BOARD AS OF DECEMBER 31, 2003:**

MAG. MARTIN GRÜLL

Born: October 25, 1959
Date of appointment to the office:
July 30, 2001
Dr. Hans Schürff Gasse 21, 2340
Mödling, Austria
University of Economics, Vienna
22 years' experience in international
banking

MAG. FRIEDRICH KADRNOŠKA

Born: June 28, 1951
Date of appointment to the office:
May 19, 2003
University of Economics, Vienna
27 years' experience in banking

HEINZ MEIDLINGER

Born: September 6, 1955
Date of appointment to the office:
July 30, 2001
Kalmusweg 46/Haus 107,
1220 Vienna, Austria
Academy of Commerce and Trade
34 years' experience in treasury

HARALD NOGRASEK

Born: October 5, 1958
Date of appointment to the office:
March 21, 2002
Leopold Moser Gasse 4/1/158
1020 Vienna, Austria
University of Economics, Vienna
17 years' experience in capital
markets and portfolio management

MAG. FRIEDERIKE KOTZ

Born: November 22, 1962
Date of appointment to the office:
March 21, 2002
Dobliger Hauptstrasse 11, DG 29
1190 Vienna, Austria
University of Economics, Vienna
18 years' experience in commercial
banking, internal audit and quality
management

RALF CYMANEK

Born: February 13, 1969
Date of appointment to the office:
December 4, 2003

ING. JIŘÍ DRBOHLAV

Born: April 7, 1970
Date of appointment to the office:
March 11, 2002
K Haltýři 687/15
181 00 Prague 8
University of Economics, Prague
12 years' experience in corporate
client business and strategy and
product development

JUDR. JAROSLAVA LAUROVÁ

Born: September 2, 1959
Date of appointment to the office:
June 3, 2003
Amforová 1886
155 00 Prague 5
Faculty of Law, Charles University,
Prague
21 years' experience in banking law

HELENA ŠRÁMKOVÁ

Born: May 18, 1954
Date of appointment to the office:
March 11, 2002
Liškova 633/8
140 00 Prague 4
Secondary school of economics,
Prague
13 years' experience in banking and
payments

**MEMBERS OF THE SUPERVISORY
BOARD WHO RESIGNED FROM THEIR
OFFICE DURING 2003:**

WILLIBALD CERNKO

Born: July 7, 1956
Date of resignation from the office:
May 19, 2003
Freyung 3/3/7
1010 Vienna, Austria
University of Economics and Business
Administration, Vienna
21 years' experience in corporate
banking

MAG. WOLFGANG HALLER

Born: May 23, 1951
Date of resignation from the office:
May 19, 2003
Rudolfplatz 3/16, 1010 Vienna,
Austria
University of Linz
30 years' experience in banking

JUDR. PETR DUŠEK

Born: January 26, 1962
Date of resignation from the office:
April 24, 2003
Děčínská 9
190 00 Prague 9
Faculty of Law, Charles University,
Prague
16 years' experience in law
and banking law

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 221 119 706
Fax: 00420 221 119 702

PRAGUE – VINOHRADY
Italská 24
121 49 Prague 2
Tel.: 00420 221 119 671
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 – DEJVICE
Vítězné nám. 10
160 00 Prague 6
Tel.: 00420 233 089 511
Fax: 00420 233 089 520

BRNO – KOBLIŽNÁ
Kobližná 2
601 80 Brno
Tel.: 00420 542 422 411
Fax: 00420 542 215 561

BRNO – LIDICKÁ

Lidická 59
602 00 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 495 000 127
Fax: 00420 495 512 550

CHOMUTOV

Blatenská 802
430 01 Chomutov
Tel.: 00420 474 686 832
Fax: 00420 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 BOLESLAV

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

OLMOUC

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 466 614 092
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

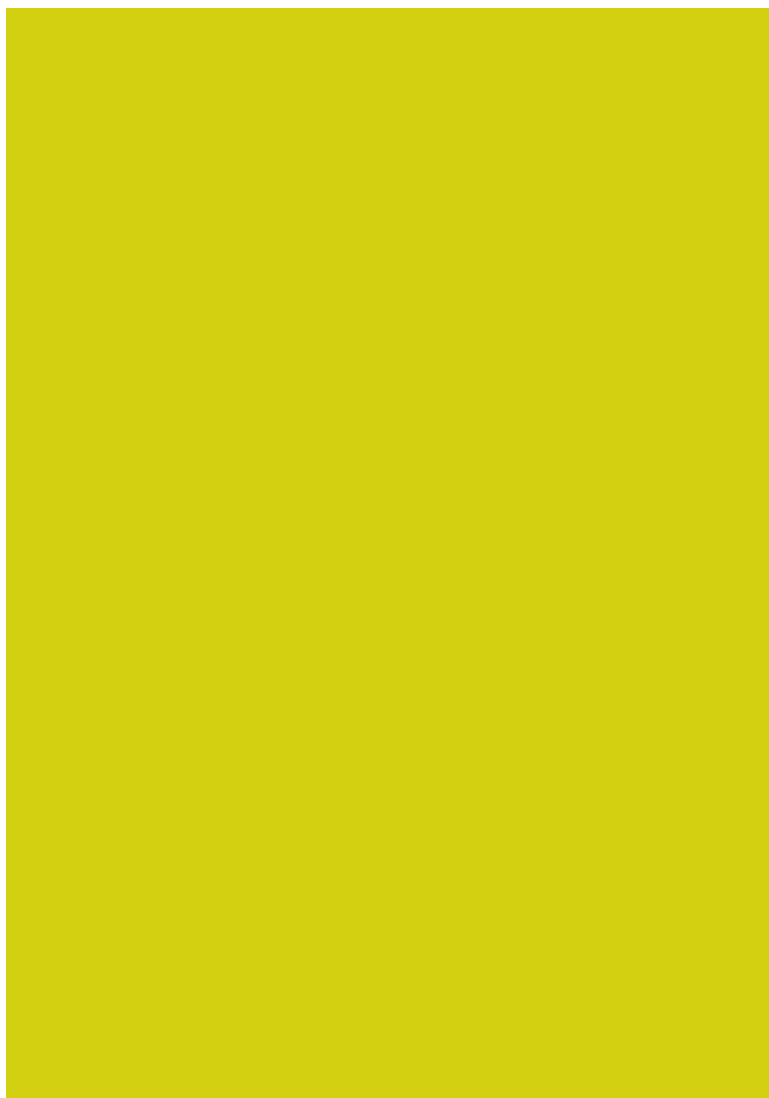
ÚSTÍ NAD LABEM

Mírové nám. 37
400 01 Ústí nad Labem
Tel.: 00420 477 011 401
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Financial Group HVB Bank Czech Republic a.s.

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

The strong position of the Financial Group HVB Bank Czech Republic a.s. (HVB Bank) in the Czech banking market is supported, apart from the parent Bank, also by the company HYPO stavební spořitelna a.s., which extends the Group's range of financial services by buildings savings products.

HYPO STAVEBNÍ SPOŘITELNA A.S.

The subsidiary company HYPO stavební spořitelna a.s. controlled by HVB Bank is included within the consolidation unit of HVB Bank, being the only other entity.

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

During 2003 the company HYPO stavební spořitelna a.s. concluded over 144 thousand contracts, which represents growth of 31.5% compared to 2002. Measured by volume, the growth was even more substantial (73.3%). As at the end of 2003 the savings company had registered almost 467 thousand duly concluded buildings savings contracts, with an aggregate target amount of CZK 87,300 million. The average target amount under new buildings savings contracts increased from CZK 162,400 in 2002 to CZK 214,300.

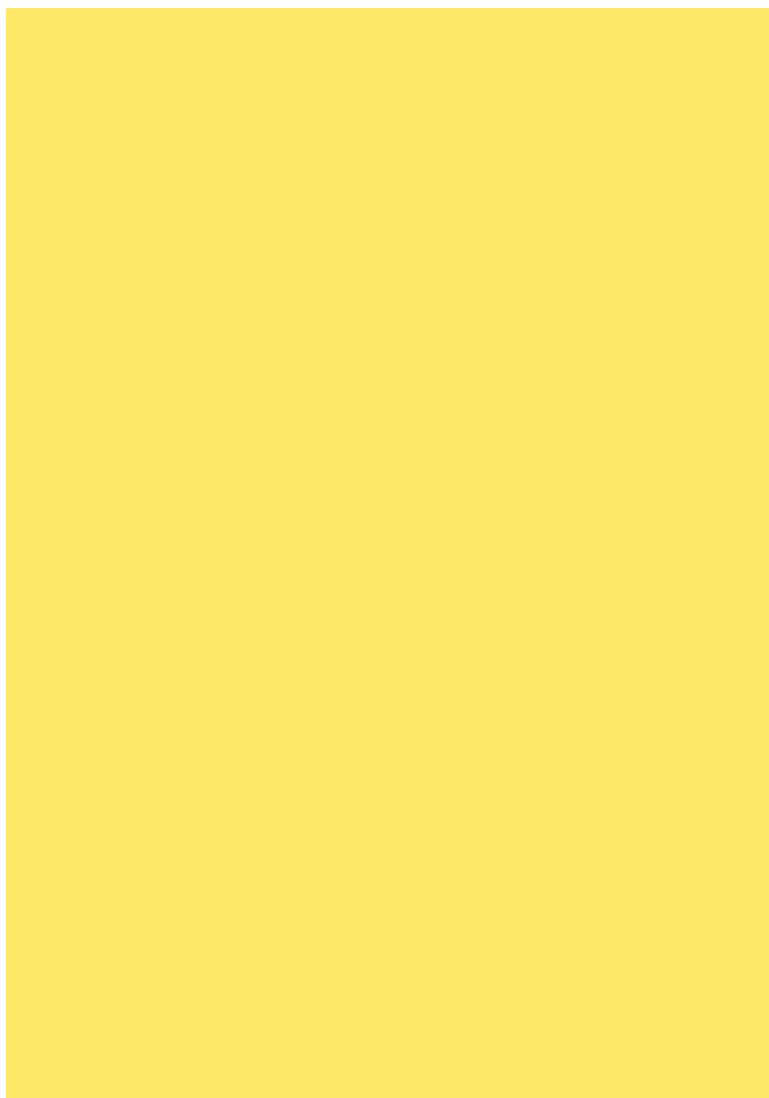
In terms of the new target amount written in 2003, HYPO stavební spořitelna a.s. ranked 6th in the Czech buildings savings market with a 7.7% share in the total target amount written. Building loans granted, including bridging loans, totalled CZK 1,760 million at the end of 2003, which represents growth of 189% compared to 2002.

In the upcoming period HYPO stavební spořitelna a.s. will focus primarily on extending its business activities in the area of building loans. Given the high number of new transactions in 2003, due mainly to a change in the state subsidy system, a decline in the number of new buildings savings contracts is expected in the next period.

KEY FINANCIAL CHARACTERISTICS OF THE COMPANY

(in thousands of CZK)	As at December 31, 2003
Registered capital	500,000
Equity	830,791
Total assets	18,990,703
Net profit/loss	151,707

**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**

		2003	2002
A. Capital and capital adequacy			
Capital adequacy ratio	%	13.6	14.0
Tier 1 (after taking into account deductible items)	TCZK	10,624,692	8,963,126
Tier 2	TCZK	1,478,635	1,814,058
Employed Tier 3	TCZK	–	–
Items deductible from the total of Tier 1 and Tier 2	TCZK	74,216	–
Total equity	TCZK	12,029,111	10,777,185
Capital requirements in accordance with specific regulations:			
Capital requirement A	TCZK	6,579,170	5,771,499
Capital requirement B	TCZK	497,203	384,723
Capital requirement for credit risk of trading portfolio	TCZK	101,411	153,080
Capital requirement for credit exposure risk of trading portfolio	TCZK	–	–
Capital requirement for general interest rate risk	TCZK	370,785	215,556
Capital requirement for general equity risk	TCZK	2,220	–
Capital requirement for foreign exchange risk	TCZK	22,788	16,088
Capital requirement for commodities risk	TCZK	–	–
B. Ratio indicators			
Return on average assets (ROAA)	%	1.2	1.3
Return on average equity (ROAE) after tax	%	18.1	18.4
Assets per employee	TCZK	118,202	111,530
Administrative expenses per employee	TCZK	1,791	1,681
Net profit per employee	TCZK	1,377	1,383

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED BALANCE SHEET **AS AT 31 DECEMBER 2003**

ASSETS					
CZK 000	Note	2003 Gross amount	2003 Adjustment	2003 Net amount	2002 Net amount
1 Cash in hand and balances with central banks		954,420		954,420	601,912
2 State zero coupon bonds and other securities eligible for refinancing with the central bank (CNB)	14	15,756,976		15,756,976	12,893,743
thereof: a) securities issued by the government institutions		15,756,976		15,756,976	12,893,743
b) others					
3 Receivables from banks and cooperative savings associations	12	25,803,811		25,803,811	36,485,130
thereof: a) repayable on demand		490,347		490,347	303,303
b) other receivables		25,313,464		25,313,464	36,181,827
4 Receivables from customers – cooperative savings associations' members	13	87,486,691	979,306	86,507,385	72,073,280
thereof: a) repayable on demand		799,478	557,358	242,120	172,714
b) other receivables		86,687,213	421,948	86,265,265	71,900,566
5 Debt securities	15	17,089,021		17,089,021	11,191,129
thereof: a) issued by government institutions		5,633,087		5,633,087	369,707
b) issued by other entities		11,455,934		11,455,934	10,821,422
6 Shares, units and other investments	16	3,044		3,044	3,000
7 Participation interests in associates	17	250		250	
8 Participation interests in non-consolidated subjects	18	77,716	3,500	74,216	
9 Goodwill (negative goodwill)					(53)
10 Intangible fixed assets	19	587,596	402,574	185,022	170,253
thereof: a) establishment costs					
b) goodwill					
11 Tangible fixed assets	20	2 327,732	1,819,119	508,613	505,213
thereof: land and buildings for operating activities		1,022,668	739,613	283,055	253,763
12 Other assets	21	3,099,763	12,002	3 087,761	3 719,052
13 Receivables from subscribed registered capital					
14 Prepaid expenses and accrued income		284,294		284,294	80,048
Total assets		153,471,314	3,216,501	150,254,813	137,722,707

The notes set out on pages 78 to 112 form part of these consolidated financial statements.

LIABILITIES

CZK 000	Note	2003	2002
1 Due to banks and cooperative savings associations	22	23,591,048	22,834,602
thereof: a) repayable on demand		1,662,258	2,154,215
b) other payables		21,928,790	20,680,387
2 Due to customers – cooperative savings associations' members	23	87,262,946	78,211,287
thereof: a) repayable on demand		35,930,343	31,181,799
b) other payables		51,332,603	47,029,488
3 Payables from debt securities	24	15,835,711	14,389,725
thereof: a) debt securities issued		15,219,454	14,389,725
b) other payables from debt securities		616,257	
4 Other liabilities	26	8,135,448	8,573,960
5 Deferred income and accrued expenses		677,113	375,468
6 Reserves	29	936,370	1,368,245
thereof: a) for pensions and similar obligations			
b) for taxes		147,453	200,782
c) other		788,917	1,167,463
7 Subordinated liabilities	25	1,156,051	1,127,373
8 Registered capital (excluding minority interests)	27	5,124,716	5,047,000
thereof: a) registered paid up capital		5,124,716	5,047,000
b) own shares			
9 Share premium		1,996,920	1,996,920
10 Reserve funds and other funds from profit (excluding minority interests)	30	1,662,387	1,576,632
thereof: a) statutory reserve funds and risk funds		648,218	563,121
b) other reserve funds		1,013,319	1,013,319
c) other funds from profit		850	192
11 Revaluation reserve fund			
12 Capital funds (excluding minority interests)	30	37,142	
13 Gains (losses) from revaluation			
thereof: a) assets and liabilities			
b) hedging derivatives			
c) participation interests			
14 Retained earnings (or accumulated losses) from previous years (excluding minority interests)	30	1,755,092	205,333
15 Consolidated reserve fund		(240)	
16 Profit (loss) for the accounting period (excluding minority interests)		1,751,543	1,708,768
17 Share on profit (loss) in associates		250	(240)
18 Minority interests		332,316	307,634
thereof: minority registered capital		200,000	200,000
minority capital funds			
minority funds from profit including retained earnings and		71,634	62,097
accumulated losses from previous periods			
minority profit (loss) for the accounting period		60,682	45,537
Total liabilities		150,254,813	137,722,707

OFF-BALANCE SHEET ITEMS

Off-balance sheet assets		Note	2003	2002
1	Commitments and guarantees provided	32	41,444,343	39,620,124
2	Collaterals provided	32	260,173	243 153
3	Receivables from spot transactions		3,318,799	9,389,172
4	Receivables from fixed term transactions	32	284,596,387	252,585,196
5	Receivables from options	32	2,700,522	–
6	Receivables written-off		1,052,395	630,503
7	Values placed into custody, administration and deposit		–	–
8	Values placed under management		–	–
Off-balance sheet liabilities				
9	Commitments and guarantees received		18,104,342	16,659,798
10	Collaterals and pledges received		55,528,613	60,919,841
11	Payables from spot transactions		3,231,657	9,140,029
12	Payables from fixed term transactions	32	284,917,147	252,437,739
13	Payables from options	32	2,700,522	–
14	Values taken into custody, administration and deposit	33	78,435,473	39,550,133
15	Values taken under management	33	840,333	831,186

The notes set out on pages 78 to 112 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2003

CZK 000		Note	2003	2002
1	Interest income and similar income	5	5,140,629	6,835,801
	thereof: debt securities interest income		1,255,621	1,076,388
2	Interest expense and similar expense	5	(2,553,931)	(3,758,161)
	thereof: debt securities interest expense		(369,800)	(504,330)
3	Income from shares and participation interests		78,107	
	thereof: a) income from participation interests with substantial influence			
	b) income from participation interests with controlling influence			
	c) income from other shares and participation interests		78,107	
4	Commission and fee income	6	1,715,431	1,350,256
5	Commission and fee expense	6	(637,686)	(442,571)
6	Net gains (losses) from financial operations	7	842,501	913,244
7	Other operating income	8	32,648	82,788
	thereof: negative goodwill		53	53
8	Other operating expenses	8	(112,181)	(134,075)
	thereof: goodwill			
9	Administrative expenses	9	(2,277,094)	(2,076,289)
	thereof: a) employee expenses		(1,100,205)	(950,895)
	thereof: aa) wages and salaries		(819,861)	(703,794)
	ab) social and health insurance		(280,344)	(247,101)
	b) other administrative expenses		(1,176,889)	(1,125,394)
10	Release of reserves and adjustments to tangible and intangible fixed assets			
11	Depreciation, creation and use of reserves and adjustments to tangible and intangible fixed assets	19, 20	(297,488)	(397,472)
12	Release of adjustments and reserves to receivables and guarantees, income from written-off receivables		799,264	866,184
13	Write-offs, creation and use of adjustments and reserves for receivables and guarantees		(228,462)	(702,571)
14	Release of adjustments to participation interests with controlling and substantial influence			
15	Losses from transfer of participation interests with controlling and substantial influence, creation and use of adjustments to participation interests with controlling and substantial influence		(3,500)	(15,707)
16	Release of other reserves		4,794	
17	Creation and use of other reserves		(5,183)	729
18	Current year profit (loss) on ordinary activities before tax		2,497,849	2,522,156
19	Extraordinary income	10		258,624
20	Extraordinary expenses	10		(158,204)
21	Current year profit (loss) on extraordinary activities before tax		–	100,420
22	Income tax		(685,624)	(868,271)
23	Profit or loss for the accounting period (excluding minority interests)		1,751,543	1,708,768
24	Share of profits (losses) of associates		250	(240)
25	Minority net profit or loss for the accounting period		60,682	45,537

The notes set out on pages 78 to 112 form part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2003

CZK 000	Registered capital	Own shares	Share premium	Reserve funds	Capital funds	Other funds from profit	Revaluation gains (losses)	Profit (loss)	Total
Balance as at 1 January 2001	5,047,000		1,996,920	1,791,996		2,020	(1,994)	1,575,189	10,411,131
Changes of accounting policies							(221,755)		(221,755)
Corrections of fundamental errors									
FX and revaluation gains (losses) not included in profit (loss)									
Net profit (loss) for the accounting period								1,162,048	1,162,048
Dividends								(985,000)	(985,000)
Transfers to funds				478,006				(478,006)	
Use of funds						(2,538)			(2,538)
Issue of shares									
Registered capital reduction									
Own shares purchases									
Other changes						1,433		(3 960)	(2 527)
Balance as at 31 December 2001	5,047,000		1,996,920	2,270,002		915	(223,749)	1,270,271	10,361,359
Balance as at 1 January 2002	5,047,000		1,996,920	2,270,002		915	(223,749)	1,270,271	10,361,359
Changes of accounting policies									
Corrections of fundamental errors									
FX and revaluation gains (losses) not included in profit (loss)									
Net profit (loss) for the accounting period								1,708,768	1,708,768
Dividends				(750,000)				(1,000,000)	(1,750,000)
Transfers to funds				56,438		4,000		(60,438)	
Use of funds						(4,921)			(4,921)
Issue of shares									
Registered capital reduction									
Own shares purchases									
Other changes						198	223,749	(4,500)	219,447
Balance as at 31 December 2002	5,047,000		1,996,920	1,576,440		192		1,914,101	10,534,653
Takeover of equity of BAPS s.r.o. as at 1 January 2003				1,858	37,142			(63,170)	(24,170)
Balance as at 1 January 2003	5,047,000		1,996,920	1,578,298	37,142	192		1,850,931	10,510,483
Changes of accounting policies									
Corrections of fundamental errors									
FX and revaluation gains (losses) not included in profit (loss)									
Net profit (loss) for the accounting period								1,751,543	1,751,543
Dividends									
Transfers to funds				83,239		4,500		(87,739)	
Use of funds						(4,942)			(4,942)
Issue of shares	77,716								77,716
Registered capital reduction									
Own shares purchases									
Other changes						1 100		(8,100)	(7,000)
Balance as at 31 December 2003	5,124,716		1,996,920	1,661,537	37,142	850		3,506,635	12,327,800

The notes set out on pages 78 to 112 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 in the registered capital and the change of other facts connected with the merger were recorded in the Companies Register of the District Court of Prague under reference number B 3608 on 1 October 2001. 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 mainly in the Czech Republic and also in European Union countries.

The main activities of the Bank 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 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 contracts
 3. with transferable securities;
- participation in share subscriptions 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;
- 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 schemes;
- granting loans to members of building savings schemes;
- granting state subsidy to individuals – members of building savings schemes;
- 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 selected financial instruments that are stated at fair value.

The financial statements have been prepared in accordance with the Czech Ministry of Finance decree No. 501 regulating the layout and definition of financial statements and consolidated financial statements and disclosure requirements of banks and certain financial institutions dated 6 November 2002.

Numbers in brackets represent negative amounts.

These financial statements are the consolidated financial statements.

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

Entities over which the Bank has a controlling influence ("the subsidiary") are consolidated using the direct method. An entity over which has the Bank a controlling influence is an entity, in which the Bank has a majority shareholding. In this case, the Bank has controlling influence over the entity's management and fully controls its activity. Such influence arises from participation in equity, or from an agreement or articles of association regardless of the percentage of the participation.

Entities over which the Bank has a substantial influence ("associated company") are consolidated using the equity method. Entities over which the Bank has

a substantial influence are entities where the Bank, directly or indirectly, owns between 20 % and 50 % of the registered capital. In this case, the Bank has substantial influence over the entity's management, which arises from participation in equity, or from an agreement or articles of association regardless of the percentage of the participation.

Participation interests in entities 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 a permanent decrease in participation value). The adjustments for participation interests in entities 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 entrance of building savings contracts into the accounting information system; the date of acceptance of values into custody; the day when a receivable or a liability arises or is changed; when a damage is determined, property moved, and other facts that are subject to accountancy and results from internal conditions and special regulations.

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 are classified into a portfolio which is held to maturity, for trading purposes or available for sale, based on the Bank's intention. Shares including units and other investments are classified into either a portfolio held for trading purposes or available for sale.

Treasury bills, bonds and other debt securities are carried at amortised 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 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 or available for sale and securities which have a residual maturity shorter than 1 year and are included in the portfolio held to maturity, 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 (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 the 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 set the fair value as the market value (i.e. the Bank cannot prove that it is possible to sell the securities for such market price), the fair value is estimated as the adjusted value of the securities.

The adjusted value of shares, units and debt securities means respectively the share proportion of equity, the share proportion of a fund's net assets value and the present value of the security.

Adjustments are established for debt securities held to maturity and for securities acquired in primary issues not held for trading purposes. Adjustments for these securities are created in an amount, which 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 upon 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 and cooperative savings associations" or "Due to customers – cooperative savings associations' members". Securities received under a resale commitment are recorded in off-balance sheet accounts in "Collaterals and pledges received". The lending granted under a resale commitment is recorded in "Receivables from banks and cooperative savings associations" or "Receivables from customers – cooperative savings associations' members". 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 into custody, administration or deposit by the Bank are accounted for at their market values and recorded in an off-balance sheet account "Values taken into custody, administration and deposit". Securities taken under management by the Bank are accounted for at their market values and recorded in an off-balance sheet account "Values taken under management". The Bank's payables to customers resulting from the cash received for the purchase of securities or the cash to be refunded to customers, etc., 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 created before 1 January 2002 are included in "Reserves" on the liability side of the balance sheet.

Receivables are reviewed for recoverability. Adjustments are created for specific receivables as considered appropriate. The methodology for the creation of adjustments in the appropriate accounting period is included in Note 35 (a), (b) and (c) of these notes. Adjustments created by debiting expenses are reported in "Write-offs, creation and use 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. Adjustments to accrued interest income are established in accordance with the appropriate notice of the ČNB.

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

(f) Creation of reserves

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

- a future potential liability (legal or factual) exists in respect of a specific event,
- it is probable that the event will occur and that it will require a cash outflow representing economic benefits; "probable" means the probability exceeds 50%,
- the amount of the cash outflow can be reliably estimated.

The Act on Reserves N. 593/1992 Coll. requires reserves for standard credits to be transferred to adjustments for 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 by 31 December 2005 at the latest. Since 1 January 2002 the Bank has been gradually releasing the general reserves for standard loans to be fully released by 31 December 2005.

General reserves for guarantees should be transferred to specific reserves for guarantees or adjustments for 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 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 after adjustments differs from the revaluation 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 20% of the original difference is released each year into other operating income/expenses in the row "Goodwill" or "Negative goodwill" in the consolidated profit and loss account under "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	30 to 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, items that hedge currency risk resulting from agreements not yet recorded in the Bank's balance sheet or as a result of expected future transactions, 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 "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.

(k) Taxation

Non tax-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.

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 expected income tax rate 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) Payables Due to customers

Deposits in building savings accounts are recorded as customer savings and are monitored and allocated into three basic deposit types with stated maturity.

The first type are deposits with a saving period of up to 5 years, which are classified as savings with a 5 year stipulated maturity in accordance with the period legally required for payment of the state subsidy. The second type is represented by deposits related to building savings contracts that continue after the 5 year saving period. 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 i.e. deposits received after concluding a loan agreement that enables the savings to be paid out before the loan is drawn. These deposits are classified as savings deposits repayable on demand without stated maturity. The State subsidy on building savings accounts is stated separately when the savings period ended before the legal period for payment

of the state subsidy as a result of the granting the non-purpose loan. This classification of deposits is in accordance with CNB decree N. 8 dated 25 September 2002.

(m) Prior period items and changes in accounting policies

Prior period items and the effects of changes in accounting policies are reported as income or expense in the current period profit and loss account, with the exception of corrections of fundamental 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)" in the Bank's balance sheet. There were no corrections of fundamental errors in 2003.

4. COMPANIES INCLUDED INTO CONSOLIDATION

The consolidated financial statements as at 31 December 2003 include the following subsidiary included in the Bank's consolidated entity:

CZK 000							
Name	Registered address	Business activity	Registered capital	Other equity elements	Consol. entity share in equity	in voting rights	Method of consolidation
HYPO stavební spořitelna a.s.	Prague 1, Senovážné nám. 27	building savings	500,000	330,791	60 %	60 %	direct

The audited financial statements of the subsidiary for the year ended 31 December 2003 were used for the preparation of these consolidated financial statements.

5. NET INTEREST INCOME

CZK 000	2003	2002
Interest income		
from deposits	196,188	600,743
from loans	3,440,327	4,798,059
from securities	1,255,621	1,076,388
other	248,493	360,611
Interest expense		
from deposits	(1,626,741)	(2,053,931)
from loans	(292,226)	(807,833)
from securities	(369,800)	(504,330)
other	(265,164)	(392,067)
Net interest income	(2,586,698)	(3,077,640)

The Bank did not claim or waive default interest of TCZK 9,088 (2002: TCZK 3,630). Furthermore, the Bank did not apply the accrual principle for the default interest relating to endangered receivables of TCZK 345,185 (2002: TCZK 627,581).

6. FEES AND COMMISSIONS

CZK 000	2003	2002
Fee and commission income		
from securities transactions	31,092	22,957
from management, administration, deposit and custody	64,120	60,086
from operations connected with building savings	665,988	350,499
other	954,231	916,714
Total	1,715,431	1,350,256
Fee and commission expenses		
from securities transactions	(2,872)	(5,164)
from management, administration, deposit and custody	(10,993)	(4,601)
from intermediation of building savings and loans	(447,618)	(263,699)
other	(176,203)	(169,107)
Total	(637,686)	(442,571)

7. NET GAINS OR LOSSES FROM FINANCIAL OPERATIONS

CZK 000	2003	2002
Gains/losses from securities transactions	28,546	176,767
Gains/losses from derivative transactions	(98,128)	(252,909)
Gains/losses from foreign exchange transactions	912,083	989,386
Total	842,501	913,244

8. OTHER OPERATING INCOME AND EXPENSES

CZK 000	2003	2002
Release of estimated payables	2,268	40,337
Income from transfer (sale) of fixed assets	3,721	17,561
Income from rent	12,464	8,276
Contractual fines received	2,485	6,387
Income of the prior year	–	2,946
Other	11,710	7,281
Total other operating income	32,648	82,788
Residual value of sold assets	(19,886)	(54,107)
Deposit insurance fund	(68,203)	(64,125)
Losses and damages	(12,722)	(7,982)
Expenses of the prior year	–	(6,126)
Other	(11,370)	(1,735)
Total other operating expense	(112,181)	(134,075)

9. ADMINISTRATIVE EXPENSES

CZK 000	2003	2002
Personnel expenses		
Wages and salaries paid to employees	819,861	703,794
Social and health insurance	280,344	247,101
	1,100,205	950,895
Including wages and salaries paid to:		
Members of the Board of Directors	14,834	15,339
Other executives	62,802	65,807
Other administrative expenses	1,176,889	1,125,394
of which expenses for audit, legal and tax advisory	34,802	29,414
Total administrative expenses	2,277,094	2,076,289

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

The average number of the consolidated entity's employees (including HVB Group expatriates) was as follows:

	2003	2002
Employees	1,250	1,205
Members of the Board of Directors	8	8
Members of the Supervisory Board	15	15
Other executives	43	30

10. EXTRAORDINARY INCOME AND EXPENSES

CZK 000	2003	2002
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
Total extraordinary income	–	258,624
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)

11. INCOME AND EXPENSES ACCORDING TO SEGMENTS

(a) Business segments

	Retail banking		Corporate banking		Investment banking		Other	
CZK 000	2003	2002	2003	2002	2003	2002	2003	2002
Interest income	469,407	412,712	2,717,852	3,186,830	1,952,971	3,236,204	399	55
Interest expense	(785,656)	(927,278)	(666,659)	(849,300)	(1,101,616)	(1,981,583)	–	–
Income from shares and participation interests	–	–	–	–	78,107	–	–	–
Fees and commissions income	1,288,970	936,910	333,008	329,151	93,453	84,195	–	–
Fees and commissions expense	(568,924)	(373,355)	(43,704)	(47,323)	(24,959)	(21,780)	(99)	(113)
Net gains (losses) from financial operations	158,706	174,161	715,827	712,918	(35,243)	22,266	3,211	3,899

(b) Geographical segments

The Bank's accounting system does not automatically separate income and expenses according to different geographical segments. In 2003, the Bank operated in the Czech republic and in the European Union.

12. RECEIVABLES FROM BANKS

Receivables from banks include receivables from securities that have been acquired from primary auctions and are not held for trading in the total amount of TCZK 1,554,163 (2002: TCZK 0).

(a) Classification of receivables from banks

CZK 000	2003	2002
Standard	25,803,811	36,485,130
Adjustments for potential losses from receivables	–	–
Net receivables from banks	25,803,811	36,485,130

In 2003 the Bank did not carry out any restructuring of receivables from banks (2002: TCZK 0).

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

CZK 000	2003	2002
Bank and similar guarantee	106,075	–
Security held by the Bank	17,976,493	31,250,645
Unsecured	7,721,243	5,234,485
Net receivables from banks	25,803,811	36,485,130

No receivables from banks secured by tangible movable assets are included in “Security held by the Bank” (2002: TCZK 0).

(c) Subordinated receivables from banks

The Bank did not provide any loans with stipulations on subordination to another bank in 2003 or 2002.

(d) Receivables from banks written-off and recovered

The Bank did not write-off any receivables from banks and reported no revenues from previously written-off receivables from banks in 2003 or 2002.

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

The amount of receivables from persons with a special relationship to the Bank totalled TCZK 627,011 as at 31 December 2003 (2002: TCZK 607,824).

13. RECEIVABLES FROM CUSTOMERS

(a) Classification of receivables from customers

CZK 000	2003	2002
Standard	80,967,956	66,253,933
Special mentioned	4,492,944	3,906,195
Substandard	960,469	1,610,556
Doubtful	262,152	681,865
Loss	803,170	1,205,483
Adjustment for potential losses from receivables	(979,306)	(1,584,752)
Net receivables from customers	86,507,385	72,073,280

Receivables from customers include TCZK 4,239,341, which represents receivables from securities that have been acquired from primary auctions and are not intended for trading (2002: TCZK 2,733,400).

In 2003 the Bank carried out a restructuring of receivables from customers in the total amount of TCZK 1,393,768 (2002: TCZK 174,874).

(b) Analysis of receivables from customers by sector

CZK 000	2003	2002
Financial institutions	9,164,583	8,246,373
Non-financial institutions	53,463,917	52,380,569
Insurance institutions	–	2
Government sector	14,495,098	5,748,334
Non-profit organisations	180,799	173,127
Self-employed	571,902	491,200
Resident individuals	6,699,069	4,463,606
Non-resident	2,897,063	1,871,572
Companies without ICO	–	279,610
Unallocated	14,260	3,639
Total	87,486,691	73,658,032

(c) Subordinated receivables from customers

The Bank did not provide any loans with stipulations on subordination to customers in 2003 or 2002.

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

CZK 000	Personal guarantee	Bank and similar guarantee	Mortgage	Corporate governance	Other types of security	Security held by the Bank	Unsecured	Total
At 31 December 2003								
Financial institutions	–	88,901	223,452	–	–	5,400,611	3,451,619	9,164,583
Non-financial institutions	19,911	6,082,908	17,119,504	3,319,109	–	3,637,252	23,285,233	53,463,917
Insurance institutions	–	–	–	–	–	–	–	–
Government sector	–	–	3,563	–	–	–	14,491,535	14,495,098
Non-profit organisations	–	–	123,377	296	–	26,192	30,934	180,799
Self-employed	550	18,431	327,059	–	–	17,170	208,692	571,902
Resident individuals	42,007	1,657	3,958,288	8,479	1,550,375	105,837	1,032,426	6,699,069
Non-resident	–	705,507	83,213	–	–	345,008	1,763,335	2,897,063
Companies without ICO	–	–	–	–	–	–	–	–
Unallocated	–	–	–	–	–	–	14,260	14,260
Total	62,468	6,897,404	21,838,456	3,327,884	1,550,375	9,532,070	44,278,034	87,486,691
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

No receivables from customers secured by tangible movable assets are included in “Security held by the Bank” (2002: TCZK 0).

(e) Receivables from customers written-off and recovered

Summary of receivables from customers written-off and recovered by sector:

CZK 000	2003	2002
Write-offs		
Non-financial institutions	378,289	2,833
Self-employed	41,449	100
Resident individuals	5,977	58,699
Non-residents	859	20
Unallocated	–	80
Total	426,574	61,732
Recoveries		
Non-financial institutions	12,064	30
Self-employed	6,779	11,370
Resident individuals	5,382	2,481
Total	24,225	13,881

Part of the profit and loss account line “Write-offs, creation and use of adjustments and reserves for receivables and guarantees” represents charges from the write-off of operational receivables, which are stated in the balance sheet in “Other assets”.

(f) Syndicated loans as at 31 December 2003

Loan	Banks involved	Loan amount in CZK 000	Split of risk	Split of interest
I.	HVB Bank Czech Republic a.s.	442,340	38.89 %	38.89 %
	Westdeutsche Landesbank Dueseldorf	236,968	20.83 %	20.83 %
	IKB Deutsche Industriebank	205,372	18.06 %	18.06 %
	Živnostenská banka a.s.	252,766	22.22 %	22.22 %
	Total	1,137,446	100.00 %	100.00 %
II.	HVB Bank Czech Republic a.s.	34,773	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	197,046	85.00 %	85.00 %
	Total	231 819	100.00 %	100.00 %
III.	HVB Bank Czech Republic a.s.	33,161	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	187,912	85.00 %	85.00 %
	Total	221,073	100.00 %	100.00 %

Syndicated loans as at 31 December 2003

Loan	Banks involved	Loan amount in CZK 000	Split of risk	Split of interest
IV.	HVB Bank Czech Republic a.s.	45,875	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	259,955	85.00 %	85.00 %
	Total	305,830	100.00 %	100.00 %
V.	HVB Bank Czech Republic a.s.	33,197	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	188,115	85.00 %	85.00 %
	Total	221,312	100.00 %	100.00 %
VI.	HVB Bank Czech Republic a.s.	29,888	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	169,364	85.00 %	85.00 %
	Total	199,252	100.00 %	100.00 %
VII.	HVB Bank Czech Republic a.s.	22,762	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	128,988	85.00 %	85.00 %
	Total	151,750	100.00 %	100.00 %
VIII.	HVB Bank Czech Republic a.s.	22,416	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	127,023	85.00 %	85.00 %
	Total	149,439	100.00 %	100.00 %
IX.	HVB Bank Czech Republic a.s.	22,012	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	124,732	85.00 %	85.00 %
	Total	146,744	100.00 %	100.00 %
X.	HVB Bank Czech Republic a.s.	29,840	15.00 %	15.00 %
	Bayerische Hypo- und Vereinsbank AG	169,093	85.00 %	85.00 %
	Total	198,933	100.00 %	100.00 %
XI.	HVB Bank Czech Republic a.s.	110,183	67.20 %	67.20 %
	Voralberger Landes und Hypothekbank AG	53,780	32.80 %	32.80 %
	Total	163,963	100.00 %	100.00 %
XII.	HVB Bank Czech Republic a.s.	519,674	50.00 %	50.00 %
	Bayerische Hypo- und Vereinsbank AG	519,674	50.00 %	50.00 %
	Total	1,039,348	100.00 %	100.00 %
XIII.	HVB Bank Czech Republic a.s.	308,172	47.45 %	47.45 %
	Bayerische Hypo- und Vereinsbank AG	341,322	52.55 %	52.55 %
	Total	649,494	100.00 %	100.00 %
XII.	HVB Bank Czech Republic a.s.	212,429	50.00 %	50.00 %
	Bayerische Hypo- und Vereinsbank AG	212,430	50.00 %	50.00 %
	Total	424,859	100.00 %	100.00 %
XVI.	HVB Bank Czech Republic a.s.	12,445	33.33 %	33.33 %
	Dresdner Bank a.s. Praha	12,445	33.33 %	33.33 %
	Komerční Banka a.s. Praha	12,445	33.33 %	33.33 %
	Total	37,335	100.00 %	100.00 %

Syndicated loans as at 31 December 2002

Loan	Banks involved	Loan amount in CZK 000	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 Hypothekenbank 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 %

Syndicated loans as at 31 December 2002

Loan	Banks involved	Loan amount in CZK 000	Split of risk	Split of interest
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	
As at 31 December 2003	2,866	19,140	4,887,320
As at 31 December 2002	2,842	24,491	1,398,323

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	2003	2002
Controlling influence		
From 3 months to 1 year	–	3,903
From 1 year to 5 years	–	18,127
Over 5 years	–	45,148
Total	–	67,178

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	2003	2002
State treasury bills	6,149,766	6,394,763
State bonds	8,925,725	6,498,980
Other	681,485	–
Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB	15,756,976	12,893,743

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 TCZK 262,207 (2002: TCZK 160,202).

(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	2003	2002
State zero coupon bonds and other trading securities	7,890,557	2,725,394
State zero coupon bonds and other available-for-sale securities	2,302,814	5,075,412
State zero coupon bonds and other held-to-maturity securities	5,563,605	5,092,937
Net book value	15,756,976	12,893,743

(c) Repurchase and resale commitments

Under resale commitments the Bank has acquired state zero coupon bonds and other securities in the market value of TCZK 17,687,768 (2002: TCZK 27,005,579), which are reported in the off-balance sheet in "Collaterals and pledges received". Subsequently the Bank provided under repurchase commitments securities received under the above-mentioned resale commitments in the market value of TCZK 92,200 (2002: TCZK 122,188) which are reported in the off-balance sheet in "Collaterals provided".

Included in the value of state zero coupon bonds and other securities are securities with a value of TCZK 817,197 (2002: TCZK 1,724,436), which have been transferred under repurchase commitments.

15. DEBT SECURITIES

(a) 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 (2002: TCZK 0).

No debt securities, which have been transferred under repurchase commitments, are included in the value of the debt securities (2002: TCZK 0).

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

CZK 000	2003	2002
Debt securities held for trading	1,088,492	2,478,862
Available-for-sale debt securities	14,586,070	7,005,752
Held-to-maturity debt securities	1,414,459	1,706,515
Net book value	17,089,021	11,191,129

(c) Analysis of debt securities held for trading

CZK 000	2003 Market value	2002 Market value
Issued by financial institutions		
– Listed on a recognised CR exchange	661,873	1,378,896
– Listed elsewhere	11,716	370
	673,589	1,379,266
Issued by non-financial institutions		
– Listed on a recognised CR exchange	414,903	759,938
– Listed elsewhere	–	339,658
	414,903	1,099,596
Total	1,088,492	2,478,862

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

The Bank has purchased debt securities issued by the Bank with a book value of TCZK 2,962,298 (2002: TCZK 2,554,115) that are held for trading. These securities decrease "Payables from debt securities" (see Note 24 (b)).

(d) Analysis of available for sale debt securities

CZK 000	2003 Market value	2002 Market value
Issued by financial institutions		
– Listed on a recognised CR exchange	1,416,905	–
– Listed elsewhere	4,460,264	3,165,717
– Unlisted	–	798,727
	5,877,169	3,964,444
Issued by non-financial institutions		
– Listed on a recognised CR exchange	292,116	–
– Listed elsewhere	2,783,698	2,983,637
	3,075,814	2,983,637
Issued by government sector		
– Listed on a recognised CR exchange	47,194	57,671
– Listed elsewhere	5,585,893	–
	5,633,087	57,671
Total	14,586,070	7,005,752

The Bank has purchased no debt securities issued by the Bank that are classified as available for sale (2002: TCZK 0).

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

(e) Analysis of debt securities held to maturity

	2003 Book value	2002 Book value
CZK 000		
Issued by financial institutions		
– Listed on a recognised CR exchange	663,153	771,053
– Unlisted	168,998	–
	832,151	771,053
Issued by non-financial institutions		
– Listed on a recognised CR exchange	498,415	498,732
– Unlisted	83,893	124,694
	582,308	623,426
Issued by government sector		
– Listed on a recognised CR exchange	–	312,036
	–	312,036
Total	1,414,459	1,706,515

The proportion of the total balance of debt securities that relates to debt securities with residual maturity up to 1 year is 17.74 % (2002: 15.23 %).

16. SHARES, UNITS AND OTHER INVESTMENTS

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

	2003	2002
CZK 000		
Shares, units and other investments held for trading	44	–
Shares, units and other investments available for sale	3,000	3,000
Total	3,044	3,000

(b) Repurchase and resale commitments

Under resale commitments the Bank has acquired shares, units and other investments in the market value of TCZK 5,750 (2002: CZK 0), which are reported in the off-balance sheet in “Collaterals and pledges received”.

(c) Analysis of shares, units and other investments held for trading

	2003 Market value	2002 Market value
CZK 000		
Issued by non-financial institutions		
– Listed on a recognised CR exchange	44	–
	44	–
Total	44	–

The Bank has not purchased any of its own shares for the purpose of future sales (2002: TCZK 0).

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

	2003 Adjusted value	2002 Adjusted value
CZK 000		
Issued by non-financial institutions		
– Unlisted	3,000	3,000
	3,000	3,000
Total	3,000	3,000

The Bank has not purchased any of its own shares for the purpose of future sales (2002: TCZK 0).

17. PARTICIPATION INTERESTS WITH SUBSTANTIAL INFLUENCE

Analysis of participation interests with substantial influence

CZK 000				Other	Consol. entity share		Net
Name	Registered office	Business activity	Registered capital	equity elements	in equity	in voting rights	book value
As at 31 December 2003							
CBCB-Czech Banking Credit Bureau, a.s.	Prague 1, Na Příkopě 21	running of bank register	1,200	51	20 %	20 %	250
			1,200	51			250
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)			–

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	equity elements	in equity	in voting rights	book value
As at 31 December 2003							
CA IB Securities, a.s.	Prague 5, nám. Kinských 602	broker	100,000	(25,043)	100 %	100 %	74,216
			100,000	(25,043)			74,216
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)			–

In the opinion of the management of the parent company, the consolidation of CA IB Securities's financial statements would not have a material impact on the consolidated financial statements, therefore the management of the parent company decided not to include the company in the consolidated group.

19. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets

CZK 000	Software	Software acquisition	Other	Total
Cost				
As at 1 January 2002	973,868	43,914	4,278	1,022,060
Additions	40,647	47,727	845	89,219
Transfers	(349,623)	(68,622)	–	(418,245)
Disposals	–	(1,645)	–	(1,645)
As at 31 December 2002	664,892	21,374	5,123	691,389
As at 1 January 2003	664,892	21,374	5,123	691,389
Additions	85,559	83,171	3,874	172,604
Disposals	(235,834)	(38,606)	(1,957)	(276,397)
As at 31 December 2003	514,617	65,939	7,040	587,596
Amortisation and adjustments				
As 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)
As at 31 December 2002	517,755	–	3,381	521,136
As at 1 January 2003	517,755	–	3,381	521,136
Charge for the year	102,517	–	887	103,404
Disposals	(221,966)	–	–	(221,966)
As at 31 December 2003	398,306	–	4,268	402,574
Net book value				
As at 31 December 2002	147,137	21,374	1,742	170,253
As at 31 December 2003	116,311	65,939	2,772	185,022

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						
As 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)
As at 31 December 2002	876,223	1,116,253	315,734	4,269	379	2,312,858
As at 1 January 2003	876,223	1,116,253	315,734	4,269	379	2,312,858
Additions	170,022	77,633	10,133	–	99,572	357,360
Disposals	(23,577)	(198,538)	(45,163)	(3,571)	(93,105)	(363,954)
Other changes	–	21,468	–	–	–	21,468
As at 31 December 2003	1,022,668	1,016,816	280,704	698	6,846	2,327,732
Depreciation and adjustment						
As 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	–	–	–
As at 31 December 2002	622,460	946,082	235,344	3,759	–	1,807,645
As at 1 January 2003	622,460	946,082	235,344	3,759	–	1,807,645
Charge for the year	92,947	84,499	16,600	38	–	194,084
Disposals	(23,541)	(109,669)	(37,490)	(3,491)	–	(174,191)
Other changes	47,747	(61,261)	5,095	–	–	(8,419)
As at 31 December 2003	739,613	859,651	219,549	306	–	1,819,119
Net book value						
As at 31 December 2002	253,763	170,171	80,390	510	379	505,213
As at 31 December 2003	283,055	157,165	61,155	392	6,846	508,613

(b) Tangible fixed assets held under finance leases

The Bank uses tangible fixed assets totalling TCZK 2,101 which are subject to leasing agreements 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 2003	Due within 1 year	Due from 1 year to 5 years	Due in following years	Total payments remaining
Office equipment	517	198	–	–	198
Total	517	198	–	–	198

21. OTHER ASSETS

CZK 000	2003	2002
Other debtors	36,601	41,996
Collections accepted from customers	32,130	32,462
Fair value of derivatives (positive)	1,690,156	2,624,757
Deferred tax asset	28,940	26,639
Estimated receivables (expected claim for state subsidy)	1,112,393	870,000
Other	199,543	129,632
Total other assets	3,099,763	3,725,486
Less: Adjustments	(12,002)	(6,434)
Total	3,087,761	3,719,052

The expected claim by the subsidiary for a state subsidy from the Ministry of Finance for the year 2003 was calculated based on the volume of the client's deposits that qualify for state subsidy for the year 2003 and is limited to CZK 4,500 per individual. The estimated receivable in respect of the state subsidy was calculated and is included in the accounting evidence and presented in the balance sheet as "Other assets" and "Other liabilities" as at 31 December 2003 (see Note 26).

22. PAYABLES DUE TO BANKS

(a) Analysis of payables due to banks by residual maturity

CZK 000	2003	2002
Repayable on demand	1,662,258	2,154,215
Up to 3 months	13,816,458	12,751,289
From 3 months to 1 year	1,101,245	2,385,222
From 1 to 5 years	3,301,262	3,006,288
Over 5 years	3,709,825	2,537,588
Total	23,591,048	22,834,602

(b) Payables due to persons with a special relationship to the Bank

As at 31 December 2003, the volume of payables due to persons with a special relationship to the Bank totalled TCZK 9,117,584 (2002: TCZK 7,195,758).

23. PAYABLES DUE TO CUSTOMERS

(a) Analysis of payables 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	205,621	–	–	3,495,492	73,522	3,774,635
Non-financial institutions	22,913,062	31,416	1,844	9,004,571	306,872	32,257,765
Insurance institutions	203,526	–	–	878,955	798,384	1,880,865
Government sector	1,702,148	20,029	1,982	550,649	–	2,274,808
Non-profit organisations	352,530	440	–	154,550	80	507,600
Self-employed	5,202,449	1	–	3,222,477	2,649	8,427,576
Resident individuals	3,925,258	16,783,137	1,298,230	12,530,663	495,399	35,032,687
Non-residents	1,422,717	–	–	1,276,967	63,620	2,763,304
Companies without IČO	3,032	–	–	–	3,573	6,605
Unallocated	–	–	–	–	337,101	337,101
Total	35,930,343	16,835,023	1,302,056	31,114,324	2,081,200	87,262,946
As 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

There are no payables due to customers that relate to the provision of investment services (2002: TCZK 0).

(b) Payables due to participation interests in non-consolidated subjects

As at 31 December 2003, the Bank reported payables due to participation interests in non-consolidated subjects in the total amount of TCZK 69,710 (2002: TCZK 0).

(c) Payables due to persons with a special relationship to the Bank

CZK 000	Management Board of Directors	Other executives	Other
At 31 December 2002	14,848	18,909	113,003
As at 1 January 2003	14,848	18,909	113,003
Additions	4,184	16,661	174
Disposals	(6,127)	(8,340)	(109,296)
As at 31 December 2003	12,905	27,230	3,881

24. PAYABLES FROM DEBT SECURITIES

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

CZK 000	2003	2002
Financial institutions	22,785	44,757
Non-financial institutions	5,706,266	6,246,293
Insurance institutions	10,027	–
Government sector	19,602	60,721
Non-profit organisations	17,920	19,494
Self-employed	316,498	448,032
Resident individuals	1,861,392	1,560,431
Non-residents	622,670	758,313
Companies without IČO	–	1,913
Unallocated	1,470	323
Total	8,578,630	9,140,277

(b) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Amount CZK 000	Amount due within 1 year
10/6/1999	10/6/2004	CZK	2,400,000	2,400,000
4/2/2002	4/2/2009	CZK	3,894,018	–
Total			6,294,018	2,400,000
Accrued interest expense			346,806	–
Total			6,640,824	2,400,000

The proportion of the total balance of issued debt securities that relates to issued debt securities with residual maturity up to 1 year to is 29.04% (2002: 13.43 %).

The Bank has purchased its own debt securities for the purpose of trading in the total amount of TCZK 2,962,298 (2002: TCZK 2,554,115), see Note 15 (d).

(c) Other payables from debt securities

Other payables from debt securities as at 31 December 2003 include securities received under resale commitments totalling TCZK 616,257, which were sold in short sells.

25. SUBORDINATED LIABILITIES

CZK 000	2003	2002
Subordinated debt, Bank Austria AG, Vienna	758,382	739,576
Subordinated debt, Bayerische Hypo- und Vereinsbank AG, Munich	397,669	387,797
Total	1,156,051	1,127,373

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 contracts. 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 TEUR 23,400 at market rates of interest and matures in March 2010. The interest payment frequency is optional (from 1 month to 1 year). The interest rate is derived from market rates.

The amount of TCZK 397,669 (2002: TCZK 387,797) represents the subordinated loan granted by Bayerische Hypo- und Vereinsbank AG, Munich totalling TEUR 12,271 with an interest rate of 6-month EURIBOR +0.25%. The loan matures on 31 December 2005.

Both loans fulfil the CNB requirements for subordinated liabilities.

27. REGISTERED CAPITAL

The registered capital of the Bank was TCZK 5,124,716 as at 31 December 2003.

The Bank's sole shareholder, Bank Austria Creditanstalt AG Vienna, executing the powers of the general meeting decided on an increase in the registered capital of TCZK 77,716 in relation to the transfer of a participation interest in CA IB Securities, a.s. to the Bank. It subscribed 10 unregistered ordinary shares each with a nominal value of CZK 7,771,600. The increase in the registered capital was recorded on 11 July 2003 in the Companies Register.

The shareholders of the Bank as at 31 December 2003 are:

Name	Registered office	Nominal value of shares in thousands of CZK	Share of ownership %
Bank Austria Creditanstalt AG, Vienna	Austria	5,124,716	100.00
Total		5,124,716	100.00

26. OTHER LIABILITIES

CZK 000	2003	2002
Other short term payables to customers	3,095,537	2,548,886
Estimated payables	1,064,907	840,106
Other creditors	100,002	117,761
Fair value of derivatives (negative)	2,614,341	3,664,016
Taxes payable	56,574	290,802
Other payables to customers (expected claim for state subsidy)	1,112,393	870,000
Other	91,694	242,389
Total	8,135,448	8,573,960

The current year creation of estimated payables for interest bonuses had an impact on the estimated payables as at 31 December 2003. These interest bonuses are credited to the clients' building saving accounts after the end of the saving cycle in accordance with the subsidiary's business terms and conditions. In 2003, an estimated payable was created for these future expenditures amounting to TCZK 200,000 (2002: TCZK 167,000).

28. BONUSES TIED TO EQUITY

The Bank has not implemented any programmes for the purchase of own shares or remuneration in the form of options for own shares.

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 2002		1,439,609
Creation during current year		19,026
Guarantees	19,026	
Used during current year		(994)
Write-off of loans	(994)	
Release of reserves		(358,908)
Balance of tax-deductible reserves at 31 December 2002		1,098,733
Balance at 1 January 2003		1,098,733
Creation during current year		–
Guarantees	–	
Used during current year		(1,515)
Write-off of loans	(1,515)	
Release of reserves		(377,419)
Balance of tax-deductible reserves at 31 December 2003		719,799
Total reserves for possible credit and guarantee losses at 31 December 2002		1,098,733
Total reserves for possible credit and guarantee losses at 31 December 2003		719,799

(b) Adjustments to classified receivables

CZK 000		
Adjustments to classified receivables (tax-deductible)		
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	
Used during current year		(53,276)
Write-off of loans	(53,276)	
Release of adjustments		(265,270)
Foreign Exchange differences		(18,866)
Balance of tax-deductible adjustments at 31 December 2002		1,584,752
Additional transfer to non tax-deductible adjustments		(121,131)
Balance at 1 January 2003		1,463,621
Creation during current year		210,331
Special mentioned loans	85,943	
Substandard loans	33,575	
Doubtful loans	44,126	
Loss loans	35,471	
Receivables from debtors subject to bankruptcy and Composition proceedings	11,216	
Used during current year		(419,903)
Write-off of loans	(419,903)	
Release of adjustments		(298,658)
Foreign Exchange differences		(7,290)
Balance of tax-deductible adjustments at 31 December 2003		948,101

Adjustments to classified receivables (continue)

CZK 000	
Other adjustments to losses from receivables (non tax-deductible)	
Balance at 1 January 2002	226,282
Creation during current year	–
Used during current year	–
Release of adjustments	(225,984)
Foreign Exchange differences	(298)
Balance of non tax-deductible adjustments at 31 December 2002	–
Additional transfer from tax-deductible adjustments	121,131
Balance at 1 January 2003	121,131
Creation during current year	7,955
Used during current year	–
Release of adjustments	(97,881)
Foreign Exchange differences	–
Balance of non tax-deductible adjustments at 31 December 2003	31,205
Total adjustments to credit losses at 31 December 2002	1,584,752
Total adjustments to credit losses at 31 December 2003	979,306

(c) Other reserves

CZK 000	
Balance at 1 January 2002	69,460
Creation during current year	43,710
Used during current year	(44,441)
Balance of other reserves at 31 December 2002	68,729
Balance at 1 January 2003	68,729
Creation during current year	21,650
Used during current year	(16,467)
Release of adjustments	(4,794)
Balance of other reserves at 31 December 2003	69,118

The Bank additionally transferred TCZK 121,131 from tax-deductible adjustments to non tax-deductible adjustments during 2003.

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

The Bank has allocated the 2002 profit and proposes to allocate the 2003 profit as follows:

CZK 000	Profit	Retained earnings	Statutory reserve funds	Other reserve funds	Capital funds	Other funds from profit
Balance at 1 January 2003	–	205,333	563,121	1,013,319	–	192
Take-over of equity of BAPS s.r.o.	(39,877)	(23,293)	1,858	–	37,142	–
Profit for 2002	1,708,768					
Allocation of the 2002 profit:						
Transfer to reserve funds	(87,739)	–	83,239			4,500
Transfer to retained earnings	(1,573,052)	1,573,052				
Withholding tax paid from intra-group dividends	(8,100)					
Other creation of funds	–	–	–		–	1,100
Use of funds	–	–	–		–	(4,942)
Balance at 31 December 2003 before allocation of the 2003 profit	–	1,755,092	648,218	1,013,319	37,142	850
Profit for 2003	1,751,543					
Proposed allocation of the 2003 profit:						
Transfer to reserve funds	(87,630)	–	85,330	–	–	2,300
Transfer to retained earnings	(1,663,913)	1,663,913	–	–	–	
	–	3,419,005	733,548	1,013,319	37,142	3,150

31. INCOME TAX AND DEFERRED TAX ASSET/LIABILITY

(a) Current income tax

CZK 000	Bank	2003 Subsidiary	Bank	2002 Subsidiary
Current year profit (loss) before tax	2,333,322	210,614	2,507,663	140,151
Income not liable to tax	(473,440)	(39,530)	(549,061)	(58,952)
Non tax-deductible expenses	245,189	6,775	263,952	(3,388)
Subtotal	2,105,071	177,859	2,222,554	77,811
Deduction of tax losses, 10% reinvestment allowance	–	(497)	–	(13,374)
Adjusted tax base	2,105,071	177,362	2,222,554	64,437
Income tax calculated using the 31% tax rate	652,572	54,982	688,991	19,975
Tax discounts and offsets used	(20,809)	(4,450)	(87,500)	(2,750)
Income tax for the year	631,763	50,532	601,491	17,225

(b) Deferred tax liability/asset

Deferred income tax is calculated on all temporary differences using the appropriate tax rate. Deferred income tax assets and liabilities are attributable to the following items:

CZK 000	2003	2002
Deferred tax assets		
Non tax-deductible reserves	13,389	21,306
Social and health insurance for bonuses	20,349	17,651
Other	1,852	1,240
	35,590	40,197
Deferred tax liabilities		
Differences in net book value of fixed assets	6,650	13,558
Deferred tax assets	28,940	26,639

The Bank management believes that it is highly probable that the Bank will fully realise its deferred tax asset as at 31 December 2003 based upon the Bank's current and expected future level of taxable profits.

(c) Income tax reserve

As at 31 December 2003 the Bank reported an income tax reserve totalling TCZK 147,453 (2002: TCZK 200,782). This reserve was recognised based on the expected increase in taxable expenses in the next two accounting periods, which will not be a result of the Bank's current activities but which will relate solely to the amendment to the Act on Reserves No. 593/1992 Coll. (see Note 3 (f)).

32. OFF-BALANCE SHEET ITEMS**(a) Irrevocable contingent liabilities arising from acceptances and endorsements, other written contingent liabilities and assets pledged as collateral**

CZK 000	2003	2002
Banks		
Letters of credit and financial guarantees	490,951	413,095
Other contingent liabilities	514,162	518,972
Collateral provided	3,117	3,495
	1,008,230	935,562
Customers		
Letters of credit and financial guarantees	7,911,858	7,278,793
Other contingent liabilities	32,527,372	31,409,264
Collateral provided	257,056	239,658
	40,696,286	38,927,715
Total	41,704,516	39,863,277

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

CZK 000	Executives
At 31 December 2002	647
At 31 December 2003	647

(c) Off-balance sheet financial instruments**Financial derivatives from OTC market (OTC derivatives)**

	Contractual amounts		Fair value	
	2003	2002	2003	2002
CZK 000				
Hedging instruments				
Interest rate swap contracts	5,341,290	13,605,070	(12,286)	(890,615)
Cross currency swap contracts	–	166,550	–	(4,785)
Trading instruments				
Forward rate agreements (FRA)	173,769,350	161,029,200	1,297	(4,264)
Interest rate swap contracts	78,436,333	63,010,332	(578,071)	(274,610)
Forward foreign exchange contracts			(42,634)	135,949
Purchase	9,604,540	13,835,786		
Sale	9,648,672	13,704,174		
Forward transactions with securities	–	547,981	–	(1,189)
Option contracts	2,700,522	–	189	–
Cross currency swap contracts	17,250,444	390,277	(292,680)	255

Exchange traded derivatives

	Contractual amounts		Fair value	
	2003	2002	2003	2002
CZK 000				
Trading instruments				
Interest rate futures	194,430	–	31,285	–

(d) Residual maturity of financial derivatives

The residual maturity of the individual types of financial derivatives 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 2003					
Hedging instruments					
Interest rate swap contracts	–	300,000	4,717,240	324,050	5,341,290
Trading instruments					
Forward rate agreements (FRA)	66,074,450	102,694,900	5,000,000	–	173,769,350
Interest rate swap contracts	11,679,825	13,860,349	28,695,751	24,200,408	78,436,333
Forward foreign exchange contracts (purchase)	4,413,161	5,191,379	–	–	9,604,540
Forward foreign exchange contracts (sale)	4,413,277	5,235,395	–	–	9,648,672
Option contracts	33,362	933,264	1,733,626	–	2,700,522
Interest rate futures	194,430	–	–	–	194,430
Cross currency swap contracts	3,546,684	7,586,432	5,950,778	166,550	17,250,444
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	–	–	–	166,550	166,550
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

(e) Refinancing agreements

The Bank was allowed to draw down the following loan facilities as at 31 December 2003:

A loan facility granted by Bank Austria Creditanstalt AG, Vienna amounting to TCZK 2,774,192 (TEUR 85,610) with final maturity in December 2006.

A credit line granted by the European Investment Bank (EIB) amounting to TCZK 1,957,813 (TEUR 60,417) with final maturity in December 2009. This facility is a special-purpose credit line strictly for the purpose of refinancing of loans fulfilling the terms and conditions of EIB.

33. VALUES TAKEN INTO ADMINISTRATION AND MANAGEMENT

CZK 000	2003	2002
Bonds	25,251,142	14,464,627
Shares and units	43,786,654	16,374,877
Total	69,037,796	30,839,504

34. 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 contact with the financial markets through the quoting of bid and offer 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 the risks associated with its trading activities at 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 methods" in Note 34 (c).

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

(b) Risk management

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 methods" in Note 34 (c).

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 the ability of the Bank to finance its assets using instruments with appropriate maturity and the Bank's ability to dispose of 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 the 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 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	Unspecified	Total
At 31 December 2003						
Cash	480,860	–	–	–	473,560	954,420
State zero coupon bonds	5,971,427	1,845,416	3,295,543	4,644,590	–	15,756,976
Receivables from banks	21,429,007	1,928,072	1,224,527	1,195,660	26,545	25,803,811
Receivables from customers	7,628,120	24,148,595	25,724,645	22,983,669	6,022,356	86,507,385
Debt securities	1,879,884	936,885	7,354,961	6,917,291	–	17,089,021
Shares, units and other investments	–	–	–	–	3,044	3,044
Participation interests in associates	–	–	–	–	250	250
Participation interests in non-consol. subjects	–	–	–	–	74,216	74,216
Other assets	–	1,136,791	–	–	2,644,605	3,781,396
Prepaid expenses and accrued income	274,699	–	–	–	9,595	284,294
Total	37,663,997	29,995,759	37,599,676	35,741,210	9,254,171	150,254,813
Payables due to banks	15,478,716	1,101,245	3,301,262	3,709,825	–	23,591,048
Payables due to customers	72,312,563	3,179,725	11,769,632	1,026	–	87,262,946
Payables from debt securities	6,764,346	3,064,662	1,325,244	4,681,459	–	15,835,711
Other liabilities	–	1,112,393	–	–	20,619,551	21,731,944
Accrued expenses and deferred income	674,538	–	–	–	2,575	677,113
Subordinated liabilities	–	132	397,642	758,277	–	1,156,051
Total	95,230,163	8,458,157	16,793,780	9,150,587	20,622,126	150,254,813
Gap	(57,566,166)	21,537,602	20,805,896	26,590,623	(11,367,955)	–
Cumulative gap	(57,566,166)	(36,028,564)	(15,222,668)	11,367,955	–	–
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 in associates	–	–	–	–	–	–
Participation interests in non-consol. subjects	–	–	–	–	–	–
Other assets	–	884,314	–	–	3,510,151	4,394,465
Prepaid expenses and accrued income	77,977	–	–	–	2,071	80,048
Total	46,254,353	20,876,285	33,504,454	26,914,244	10,173,371	137,722,707
Payables due to banks	14,905,503	2,578,753	2,812,757	2,537,589	–	22,834,602
Payables 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	–	–	19,807,330	20,784,252
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	19,808,258	137,722,707
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	–	–

Interest rate risk

The Bank is exposed to an interest rate risk since interest-bearing assets and liabilities have different maturity dates, periods for interest rates and volumes during these periods. In the case of variable interest rates, the Bank is exposed to a 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 rate sensitive on the side of its liabilities, which means that the interest rates in respect of its interest sensitive assets are fixed for a longer period than its liabilities. When interest rates increase, net interest income decreases.

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 targetted incongruity between the interest sensitive assets and liabilities.

Equity risk

Equity risk is the risk of a movement in the prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of this risk is trading with equity instruments, even though a certain part of equity risk arises as a result of the non-trading activities of the Bank. The risks associated with equity instruments are managed through trading

limits. The methods used for the management of these risks are described in "Risk management methods" in Note 34 (c).

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.

(c) Risk management methods

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, which is expressed by the change in the present values of assets and liabilities if interest rates increase by 1 basis point (BPV). For hedge accounting purposes the Bank identifies the specific assets/liabilities causing this incongruity in order to meet the accounting criteria for the application of hedge accounting.

Value at Risk

Value at Risk represents the main method for managing the market risks arising from the Bank's activities. Value at Risk represents a potential loss from an unfavourable movement in the market within a certain time period at a certain confidence level. The Bank determines the Value at Risk using the stochastic simulation of a large number of scenarios of potential developments in the financial markets. The Value at Risk is measured based on a one-day holding period and a confidence level of 99%. The results of this model are back-tested and compared with the results corresponding to the actual changes in interest rates achieved in the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with current development in the financial markets.

The following Value at Risk values of the consolidated entity relating to individual types of risks are calculated on the assumption that there is no correlation between the risks of the Bank and its subsidiary.

CZK 000	At 31 December 2003	Average 2003	At 31 December 2002	Average 2002
VaR of interest rate instruments	20,357	17,587	13,223	17,150
VaR of currency instruments	1,479	1,897	1,241	1,000

At 31 December 2003 the total VaR for all market risks was TCZK 20,411 (2002: TCZK 13,281), which is lower than the aggregate of the VaR values relating to individual risks due to the correlation between individual risks.

Interest rate risks

The Bank applies a “Basis Point Value – BPV” approach for the measurement of the interest rate sensitivity of assets and liabilities. BPV represents the change in the 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 created the interest rate risk limits to restrict the oscillation of the net interest income resulting from changes in the interest rates of 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 TEUR 20,000 (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 the remaining currencies the valid limits range from TEUR 200 to TEUR 5,000 according to the risk profile of the particular currency.

Stress testing

The Bank carries out a weekly stress testing of the interest rate by applying historical scenarios of significant movements in the financial markets and internally defined improbable scenarios and simulates their impact on the Bank’s financial results. The Bank has set the limits for these stress scenarios, which is part of the Bank’s risk management process.

35. FINANCIAL INSTRUMENTS – CREDIT RISK

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

(a) Classification of receivables

The Bank classifies receivables into individual categories in accordance with the ČNB decree No. 9 issued on 6 November 2002, which sets the rules for the treatment of receivables from financial activities, creation of adjustments and reserves and rules for the acquisition of certain types of assets. The classification is as follows:

Standard receivables

A standard receivable is a receivable about which there is no doubt that it will be fully repaid. Principal, interest and fees are consistently paid and are not more than 30 days overdue. No receivables have been restructured in the last two years due to any deterioration in the debtor’s financial situation. The following can also be considered as standard receivables:

- a receivable from a debtor who has, pursuant to a special regulation of the Czech National Bank,

been assigned a zero risk weight and where no payment of principal, interest or fees is more than 540 days overdue;

- a receivable fully collateralized by high-quality security and where no payment of principal, interest or fees is more than 540 days overdue.

To be considered as a standard receivable, it has to fulfill the additional criteria as follows:

- the loan agreement of the debtor has not been cancelled/withdrawn and no part of the loan has been made due by the Bank;
- the debtor is not involved in any lawsuit with possible consequences for his solvency.

Special mentioned receivables

A special mentioned receivable is a receivable which, given the financial and economic condition of the debtor, is likely to be fully repaid. Principal, interest and fees are paid, with some difficulty, but are not more than 90 days overdue. Noreceivables have been restructured in the last six months due to any deterioration in the debtor’s financial situation. The following can also be considered as special mentioned receivables:

- a receivable from a debtor who has, pursuant to a special regulation of the Czech National Bank, been assigned a zero risk weight and where one or more payments of principal, interest or fees is more than 540 days overdue;
- a receivable fully secured by a person who has, pursuant to a special regulation of the Czech National Bank, been assigned a zero risk weight and where one or more payments of principal, interest or fees is more than 540 days overdue.

Substandard receivables

A substandard receivable is a receivable which, given the financial and economic condition of the debtor, might not be fully repaid, but is likely to be repaid in part. Principal, interest and fees are paid, with some difficulty, but are not more than 180 days overdue.

Doubtful receivables

A doubtful receivable is a receivable which, given the financial and economic condition of the debtor, is unlikely to be fully repaid, but may be, and is likely to be, repaid in part. Principal, interest and fees are paid, with some difficulty, but are not more than 360 days overdue.

Loss receivables

A “loss receivable” is a receivable which, given the financial and economic condition of the debtor, cannot be fully repaid. The expectation is that such a receivable

will not be recovered or will be recovered only in part and only in a very small amount. Principal, interest and fees are more than 360 days overdue. The following are also considered as loss receivables:

- a receivable from a debtor in composition proceedings;
- a receivable from a debtor who has been declared bankrupt, except in the case of a receivable from the estate arising after the declaration of bankruptcy.

This classification is maintained on a monthly basis. The main criteria for classification are the following:

- the financial condition of the debtor and the fulfillment of agreed upon repayment schedules
- the provision of requested information by the debtor
- the restructuring (or non restructuring) of the receivable
- a declaration of bankruptcy or compensation proceedings

In addition to the classification in line with the above-mentioned special regulation of the Czech National Bank, the Bank uses an internal rating system comprising 28 separate categories to rate the financial standing of the client. The system assesses not only the overdue period, but also the financial ratios and indicators (such as the balance sheet structure, profit and loss structure, cash flow structure), 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 respected rating agency is available, the rating results are also taken into account in the assessment of the relevant debtor. However, this rating does not replace the internal evaluation prepared using the Bank's internal rating system.

The Bank does not include receivables from private individuals in the above system of categorisation.

(b) Evaluation of collateral

In line with its credit risk management strategy, the Bank generally requires collateral for loans granted to certain debtors before the provision of these loans. As acceptable collateral, which reduces the gross credit exposure for the purpose of the calculation of adjustments, the Bank considers the following types of collateral:

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

The Bank's assessment of the net realisable value of the collateral is conservative and an expert appraisal, based in particular on the financial standing of the collateral provider, as well as the nominal value of the collateral, is prepared by the Bank's specialist 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 purpose of the calculation of adjustments, the net realisable value of the collateral is determined on an individual basis for each receivable. The Bank performs regular updates of the collateral's value and correction coefficients.

(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 in accordance with the ČNB decree No. 9 issued on 6 November 2002, the Bank creates the following adjustments:

Standard	0 %
Special mentioned	1–19.9 %
Substandard	20–49.9 %
Doubtful	50–99.9 %
Loss	100 %

(d) Credit risk measurement models

The Bank monitors credit risks by setting the expected loss (standard risk expenses) in respect of individual loans within a one-year period. The Bank also allocates to the individual loans, on the basis of the Value at Risk model, the appropriate amount of risk capital covering the unexpected loss of the loan portfolio.

(e) Concentration of credit risk

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

Sector analysis

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

(f) Recovery of receivables

The Bank has established a department for the restructuring and recovery of loans in respect

of receivables considered to be at risk. This department aims to achieve one or more of the following goals:

- restructuring of the credit relationship with potential reclassification to standard receivables;
- full repayment of loan;
- minimization of the loss from the loan (realisation of collateral, sale of receivable with a discount etc.);
- prevention of further losses from the loan (estimation between future income and expenses).

(g) Securitisation and use of credit derivative

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

(h) Quality of the credit portfolio

On the basis of the structure of its debtors' financial standing, the credit portfolio of the Bank can be considered as high quality; as at 31 December 2003, c. 52 % of the credit exposure of the Bank is represented by credit to clients rated 1+ to 3- (the annual probability of failure of these rating classes is between 0.02 % and 0.39 %), approximately 85 % is represented by credit to clients rated 1+ to 5- (the annual probability of failure of these rating classes is between 0.02 and 1.86 %).

36. OPERATIONAL, LEGAL AND OTHER RISKS

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

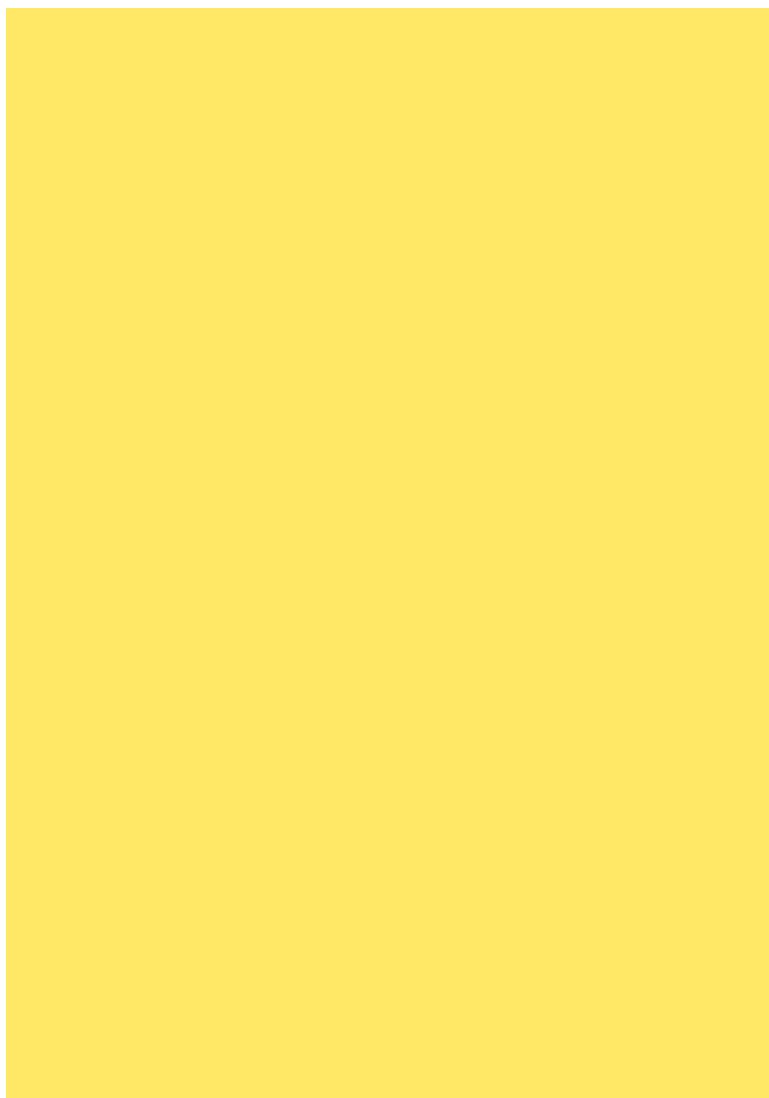
The system of internal rules and regulation also comprises a "Disaster Recovery Plan" and a "Business Continuity Plan" that are of great importance considering the operational risks. Internal and external auditors review the validity of these documents regularly. Moreover, the Bank verified the effectiveness 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 system of internal rules and regulations.

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

- transactions that result in cash in- or outflow (payment system and clearing transactions, settlement of interbank transactions, loan administration) are performed based on the four eyes principle (one person performing data entry – one person authorising);
- daily nostro accounts reconciliation;
- daily and monthly internal accounts reconciliation within the responsibility of particular departments;
- evidence, processing and escalation of clients' 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 6 May 2004 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 2003. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and 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 2003 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 consolidated financial statements. In our opinion, the information is consistent in all material respects with the audited consolidated financial statements.

Prague
8 June 2004

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 INCLUDED
IN THE CONSOLIDATION**

Data from the financial statements of the entities not included in the consolidation

CA IB SECURITIES, A.S.

Key financial characteristics of the company
(in thousands of CZK):

	December 31, 2003
Registered capital	100,000
Equity	74,957
Total assets	76,540
Net profit/loss	(4,297)

As of December 31, 2003, HVB Bank and its consolidation unit had a 100% share in the registered capital of this company. During 2003 the company was active as a securities trader; in middle of the year this business activity was transferred to HVB Bank.

In the second half of 2003 the company gradually wound down its active operations as a securities trader and its licence for carrying on the activities of a securities trader was revoked by the Securities Committee at the end of 2003, at the company's own request. Currently the company operates in the area of real estate leasing. Effective from April 7, 2004 the business name of the company is CAE PRAHA, a.s.

CBCB – CZECH BANKING CREDIT BUREAU, A.S.

Key financial characteristics of the company
(in thousands of CZK):

	December 31, 2003
Registered capital	1,200
Equity	1,202
Total assets	12,096
Net profit/loss	3,406

As of December 31, 2003, HVB Bank and its consolidation unit had a 20% share in the registered capital of this company. The main business activity of the company is the operation of the banking register.

SUBSEQUENT EVENT



Subsequent event

Following a decision of the Bank's Managing Board and Supervisory Board, the amount of the employees' bonus paid for 2003 was lower than the amount planned, specifically by CZK 122 million. This created additional revenue to the Bank in 2004.

