



Annual Report 2004



ANNUAL REPORT 2004

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FINANCIAL HIGHLIGHTS

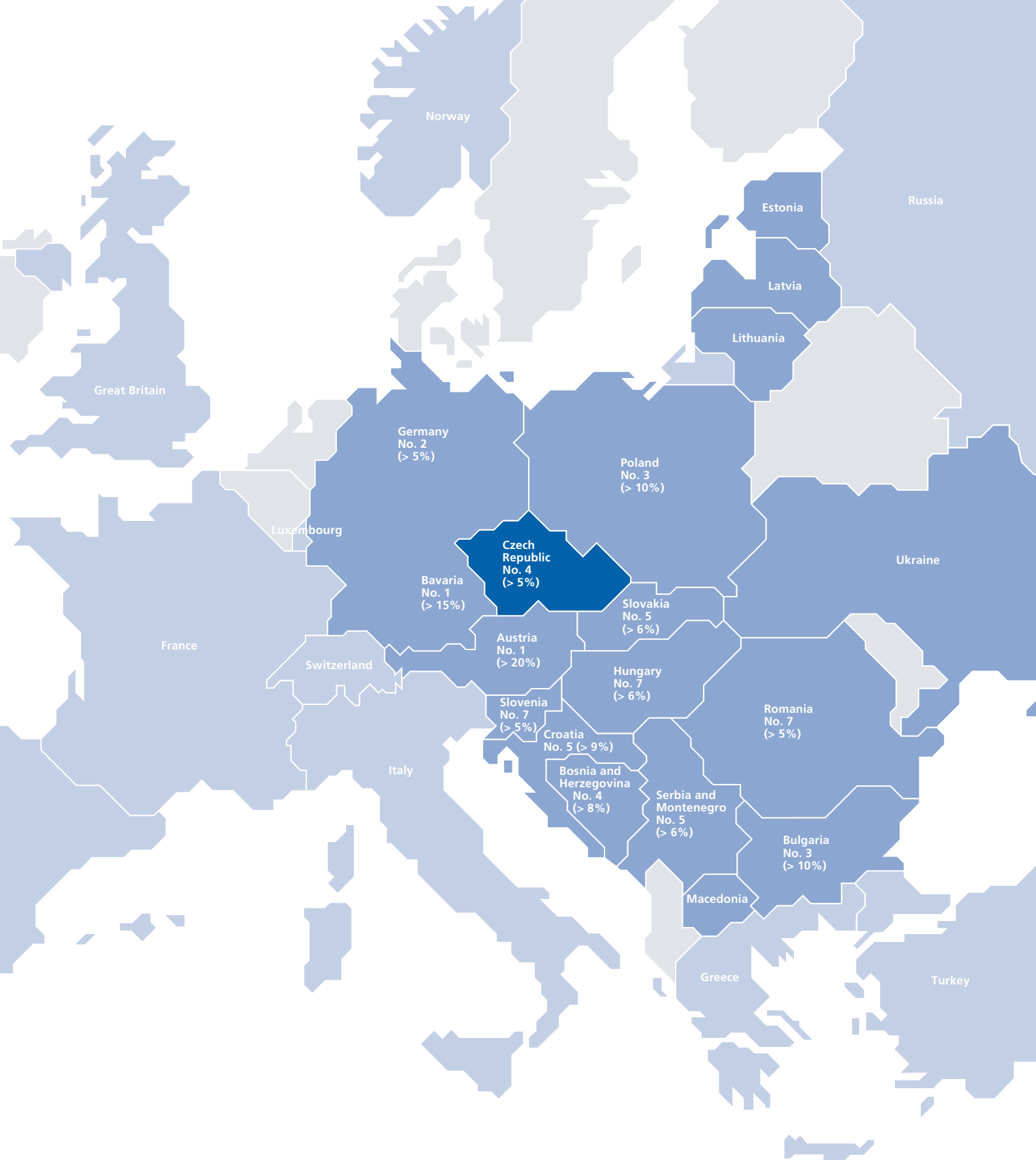
FINANCIAL HIGHLIGHTS		
HVB Bank Czech Republic a.s.	2004 in CZK 000	2003 in CZK 000
Operating performance		
Net interest income	2,460,278	2,327,598
Profit from ordinary activities before adjustments and reserves for loans and investments	2,370,295	1,744,140
Profit from ordinary activities before taxes	2,510,172	2,333,322
Profit for the accounting period	1,866,350	1,706,605
Key indicators		
Return on equity after taxes	17.2 %	17.8 %
Cost-income ratio	49.4 %	57.3 %
Ratio of net commission income to operating revenues	21.5 %	21.1 %
Balance sheet figures		
Balance sheet total	142,833,891	132,199,126
Total net customer lending volume	85,053,197	81,273,276
Registered capital	5,124,716	5,124,716
Other regulatory indicators compliant with the regulations of the Czech National Bank		
Tier 1	10,966,191	10,301,438
Total equity	11,902,427	11,741,317
Risk weighted assets (banking portfolio)	100,606,419	79,843,838
Capital adequacy ratio	10.3 %	13.7 %
Employees at year-end	1,258	1,215
Branch offices	24	23

Growth for success

The year 2004 was a successful one for the development of our entire banking group. The upswing in the countries of Central and Eastern Europe has been accelerating, and South-East Europe is also experiencing dynamic growth. International economic integration has further intensified. The economic reforms that have been implemented with great determination in the past few years are now beginning to bear fruit. The first round of EU accession in May 2004, in particular, attracted the world's attention to the achievements of this region and its promising growth prospects.

Within our banking group, the past few years saw the build-up of our network. In some countries, operations were merged to form more efficient units, while in other countries banking operations were newly established. In 2004, we focused our efforts on the growing market potential. We have launched a growth strategy, and we are expanding further. While taking into account local priorities and opportunities, we aim to become one of the leading universal banks in each country in the region.

The Bank Austria Creditanstalt Group regards itself within HVB Group as the bank for a growing Europe. Our network of more than 1,400 branch offices in 12 countries gives us an extensive presence. Some 30,000 employees are serving about 6.3 million customers. Our priority is to be a market leader, with modernised and innovated processes, products and services that meet international standards. Our corporate customers, wherever they are located, can use our services for their activities in international markets.



And our product specialists form a cross-regional network providing a link between local banking and global financial markets.

We want to create value on a sustainable basis - through growth, by offering efficient services to our clients, and through productivity. We want to be among the very best in the financial services industry and to use our know-how across the entire Group. Growth is our foremost and common objective.

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 2004.

MACROECONOMIC ENVIRONMENT IN 2004

The Czech Republic sailed into the European Union port with no major difficulties. While a part of the general public had had concerns about potential economic shocks connected with the country's accession to the EU, these turned out to be mostly unjustified. The general level of prices rose only moderately (both average and year-on-year inflation rates were 2.8% at year's end), which was mainly due to changes in indirect taxes that only partially related to Czech membership in the EU. Industrial production recorded growth of nearly one-tenth, and exports, when denominated in CZK, grew by a quarter. These figures were certainly influenced by the strong growth in the global economy as well as by the demand recovery in Europe. Appreciation of the Czech currency, which could be seen especially in the second half of the year, did not have any appreciable impact on the performance of the Czech economy.

Domestic demand was primarily driven by investments, while the growth rate in private consumption slowed in reaction to the inflation concerns. Full-year GDP growth nevertheless surpassed that of the previous year due to the foreign demand, and there was a substantial shift in the structure of the growth towards a more balanced -

and therefore more sound - representation of the individual demand segments.

The most important decision in terms of economic policy was that to reduce the basic value-added tax rate to 19%. Nevertheless, the aggregate tax burden on economic entities did not diminish and the complexity of the Czech tax system, often criticised, remained unchanged. In contrast to original goals for fiscal reform, there was likewise no reduction in welfare expenditures coming from the state budget. Fiscal policy was slightly restrictive due to growth in non-tax revenues and postponement of some expenditures. Monetary policy, by contrast, remained accommodative as the central bank increased its repo rate during the year from its historically lowest level by just a half percentage point in total.

SUBSTANTIAL GROWTH IN HVB BANK'S PROFIT

In 2004, HVB Bank recorded substantial improvement in its results in accordance with International Financial Reporting Standards compared to the same period of the previous year. Net income after taxes grew by 25.3% to CZK 1,684 million (2003: CZK 1,344 million). Pre-tax return on equity increased to 18% (2003: 17.0%) while the cost/income ratio was reduced to 50.3% (2003: 56.0%).

HVB Bank's net interest income grew to CZK 2,571 million in 2004, which represents 4.4% growth compared with the same period of the previous year (2003: CZK 2,462 million). Due to the continuously improving quali-

ty in its credit portfolio, the Bank's net charge for losses on loans and advances reflected further releases in 2004, as had occurred in the previous year, in a total amount of CZK 76 million.

Net fee and commission income also showed a positive trend, rising by 11.8% to CZK 1,947 million (2003: CZK 1,742 million). The net trading result was CZK 190 million, growing to more than three times the previous year's figure (2003: CZK 55 million). General administrative expenses were successfully reduced - despite the inflation rate of 2.8% and increased VAT expenses - by 1.1% to CZK 2,284 million (2003: CZK 2,310 million). The operating profit reached CZK 2,329 million, meaning that HVB Bank posted 18.8% growth compared with the previous year's CZK 1,960 million.

HVB Bank generated net income before taxes of CZK 2,313 million, which is up by 17.4% on the previous year's level (2003: CZK 1,970 million). Net income after taxes was CZK 1,684 million, an increase of 25.3% over the year before (2003: CZK 1,344 million).

As at 31 December 2004, HVB Bank's balance sheet totalled CZK 142,590 million, which represents an increase of 8.0% over the 2003 year-end figure of CZK 131,987 million. On the assets side, loans and advances to clients grew by 4.5% to a total of CZK 85,588 million, compared with the level of CZK 81,906 million at the end of the previous year. Financial assets rose by 64.0% to CZK 29,061 million. On the liabilities and owner's equity side, amounts due to clients rose by 8.3% to CZK 87,556 million (2003: CZK 80,869 million). Payables from debt securities increased by 32.9% to CZK 12,186 million (2003: CZK 9,171 million).

HVB Bank continued in its stable position as the fourth-largest bank in the Czech Republic. It is a subsidiary of the Austrian banking institution Bank Austria Creditanstalt (BA-CA), which is itself responsible for the CEE markets within the HVB Group. Bank Austria Creditanstalt operates a leading banking network in the region of Central and Eastern Europe that includes 1,400 branch offices in 12 countries and provides services to more than 6.3 million clients.

CORPORATE CLIENTS

The year 2004 was very successful for the Corporate Clients Division, not only in terms of operating income and profit but also due to the fact that the Bank was successful in all business segments. We succeeded in increasing our operating income by 12.3%, the average volume of loans by 19.3% and the average volume of deposits by 23%. Our growth was significantly more dynamic than

was the growth in the overall market, as is indicated by the Bank's increasing its share in the lending market to 13.3% at the end of 2004 from 12.3% as at the end of 2003. All the main goals set for 2004 were accomplished in all segments of the corporate business.

In corporate banking, we continue to focus on providing comprehensive services tailored to the clients' individual needs. On an ever-increasing basis, we make use of the potential stemming from cross-border client groups, for whom our bank is a unique partner given its extraordinarily strong presence in the CEE countries. In order to build a good position in one of the segments where we expect very dynamic growth in future, we launched a project whose aim is significantly to increase the volume of services and products delivered to small and medium-sized enterprises. This project is set to be fully implemented in summer 2005.

Our Bank maintained its strong position in financing and in structuring foreign trade transactions, in which area we support our clients' trade worldwide. In order to enhance our factoring services, in March 2005 we launched a subsidiary company, HVB Factoring a.s., that is dedicated to this business.

Last year, we also further strengthened our leading position on the market for commercial real estate financing. We helped in completing numerous large real estate transactions. We newly began to offer financing of residential projects, which is another area of real estate financing where our bank plans to expand in the near future.

In the corporate finance segment, we consolidated our leading position in structured financing, in particular in the area of mergers and acquisitions. We also set up a European Competence Centre, where we intend to provide our customers with consultancy and assistance corresponding to their individual needs to obtain financing from the EU Structural Funds and other development programs.

PRIVATE AND BUSINESS CLIENTS

The year 2004 was very successful for HVB Bank in the segment of private and business clients. We particularly succeeded in acquiring new customers, setting a new record in the Bank's history for a one-year increase in the number of new clients. HVB Bank is characterised by the great loyalty of its clients, which can be attributed to the high quality of services delivered by our relationship officers.

We were very active during 2004 in developing new products and expanding our distribution network. The aim was to offer our services to a wider range of clients than in the past.

A number of new products were introduced to the market: Konto POHODA, a package of day-to-day banking services; the two co-branded credit cards Credit Suisse and Škoda Club (issued in co-operation with partners); two new issues of structured bonds; and two new mortgage loans, known as MAJORDOMUS Hit and MAJORDOMUS Flexi. HVB Bank's great activity in innovating its product range was one of the reasons that it received three awards in the prestigious MasterCard "Bank of the Year" competition.

In 2004, HVB Bank focused on co-operating with its strategic partners thanks to which the Bank's distribution potential for selling retail products was substantially enhanced. At the same time, this co-operation enabled extending the product portfolio with joint bank-insurance products that are offered both to HVB clients and to the clients of its strategic partners.

HVB Bank established successful co-operation during 2004 with the insurance company Credit Suisse Life & Pensions (offering jointly a co-branded card and a product that combines a mortgage loan with life insurance) and with the insurance company Cardif Pro Vita (offering credit insurance for consumer loans). At the end of the year, co-operation was begun with the insurance company Generali.

In addition to extending its operations to new customer segments, HVB Bank wants to distinguish itself by the top quality of services that it delivers to all its clients. Of course, the principle of providing distinctive service to specific segments is preserved. This includes, for example, the segment of independent (freelance) professions, where the Bank has long been a market leader.

We continued our successful expansion in the business clients segment, which we believe to be extraordinarily promising and dynamically developing. There was significant increase during 2004 in both the client number and revenues from this segment compared to the previous year. We further developed the services designed for business clients and enhanced our pro-active approach to meeting their needs.

TREASURY

The International Markets Division (INM) contributed an important share in the Bank's profits in 2004, thereby continuing its past record in spite of ever more challenging conditions in the market.

The Division's core activities are client transactions and management of the Bank's financial risks and balance sheet.

In accordance with our strategy to deliver comprehensive solutions tailored to a client's specific situation, the traditional money and FX market products and methods are being complemented with new products and approaches. At the same time, the Division can often make use of the expertise from its other extremely important activity, which is management of the Bank's own risks and balance sheet. Sophisticated methods used in managing the balance sheet and market risks enable it to act in conformity with anticipated client behaviour. Further, the Bank takes an active approach by which, for example, it may issue bonds with guaranteed yields that create benefits both for the investor and for the Bank's balance sheet.

Not just HVB Bank's goods results, but also the quality and comprehensive character of the services delivered to its clients, reflect the Bank's long-term presence on all the Czech Republic's financial markets. We have been a reference bank for the PRIBOR rate from the beginning of its existence and we participate directly in auctions of government bonds, where our share in bonds subscribed regularly ranges around 15%.

During 2004, the Bank's market share was 15% for mortgage bonds issued, reflecting our innovations in the issued structures. We held a share of approximately 15% in the volume of stocks traded at the Prague Stock Exchange. As a result of continuous growth, HVB Bank's market share in custody services for foreign investors in the Czech Republic reached the level of 50%.

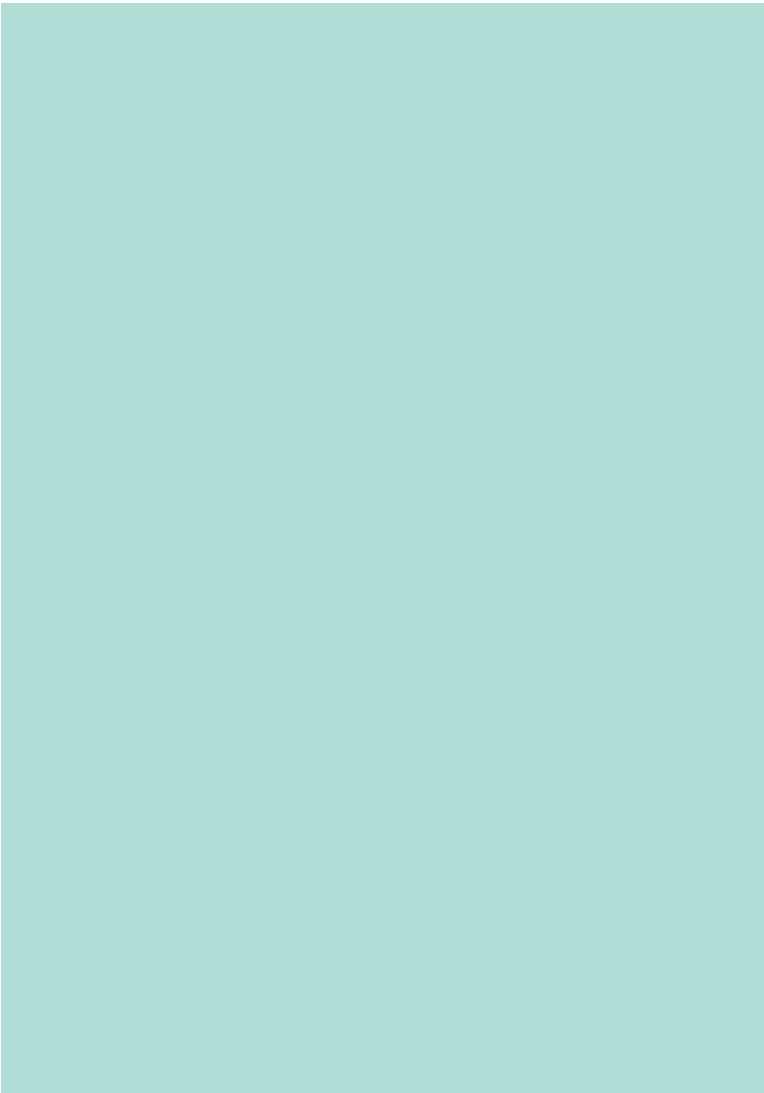
CREDIT RISK MANAGEMENT

Owing to the prudent strategy of credit risk management, and with regard to the structure of its debtors' financial standing, the Bank's credit portfolio may again for the year 2004 be considered as high quality. The net creation of loan-loss provisions and adjustments remained significantly below expectations in 2004, which had a positive impact on HVB Bank's overall profitability for the year.

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 established goals. The results for 2004 confirm that we are on the right track and that it is necessary to continue building a friendly and motivating work environment in which we can all work well together.

**REPORT OF THE SUPERVISORY
BOARD**



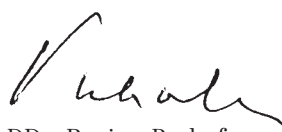
Report of the Supervisory Board

The Supervisory Board of HVB Bank Czech Republic a.s. was regularly informed of the progress of the Bank's business during the 2004 business year through meetings and discussions with the Managing Board, and it has performed all the tasks prescribed for it by Czech law and by the Bank's Articles of Association.

The financial statements as at 31 December 2004 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, s.r.o.

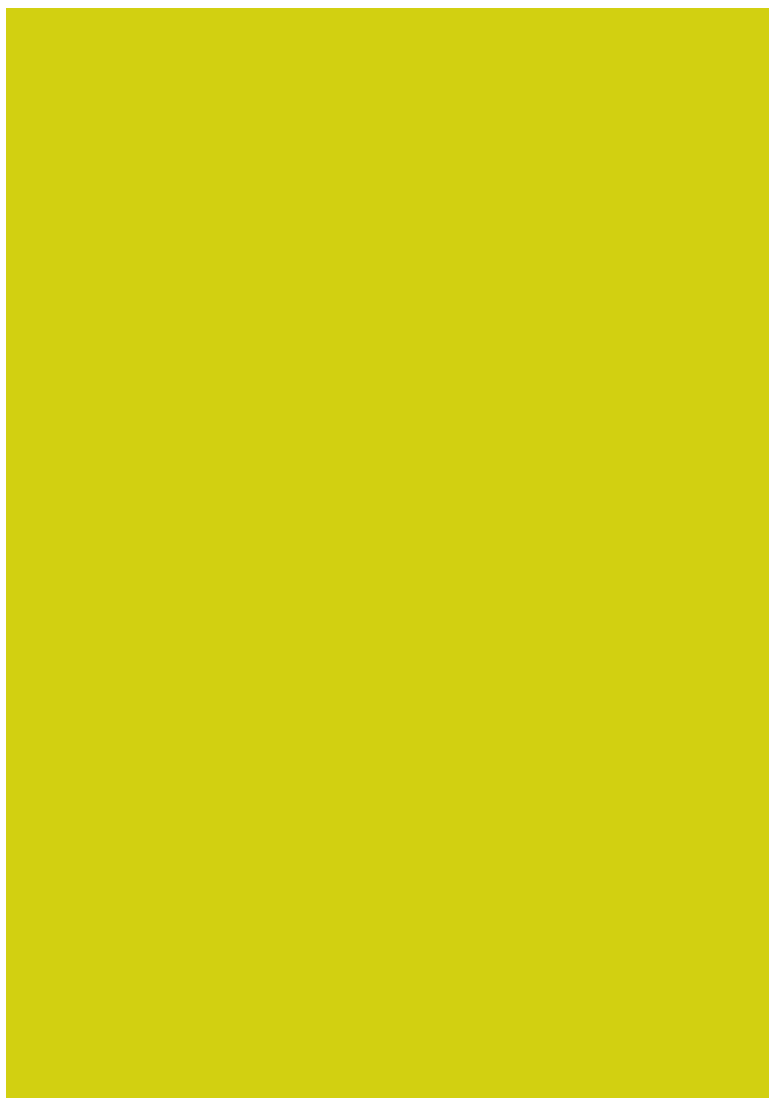
The Supervisory Board endorses the findings of the auditor's report on the 2004 financial statements.

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 2004.



DDr. Regina Prehofer

NON-CONSOLIDATED FINANCIAL STATEMENTS



BALANCE SHEET AS AT 31 DECEMBER 2004

ASSETS					
CZK 000	Note	2004 Gross amount	2004 Adjustment	2004 Net amount	2003 Net amount
1 Cash in hand and balances with central banks		543,394		543,394	929,759
2 State zero coupon bonds and other securities eligible for refinancing with central bank	15	10,893,126		10,893,126	10,193,371
thereof: a) securities issued by government institutions		10,893,126		10,893,126	10,193,371
b) others					
3 Receivables from banks and cooperative savings associations	13	19,967,113		19,967,113	20,171,313
thereof: a) repayable on demand		228,954		228,954	410,334
b) other receivables		19,738,159		19,738,159	19,760,979
4 Receivables from customers - cooperative savings association's members	14	85,879,000	825,803	85,053,197	81,273,276
thereof: a) repayable on demand		536,649	459,092	77,557	242,120
b) other receivables		85,342,351	366,711	84,975,640	81,031,156
5 Debt securities	16	20,383,713		20,383,713	16,425 868
thereof: a) issued by government institutions		5,369,237		5,369,237	5,633,087
b) issued by other entities		15,014,476		15,014,476	10,792,781
6 Shares, mutual fund certificates and other investments	17	2,323,574		2,323,574	3,044
7 Participation interests with substantial influence	18	240		240	240
thereof: in banks					
8 Participation interests with controlling influence	18	508,434	20,156	488,278	434,216
thereof: in banks		360,000		360,000	360,000
9 Intangible fixed assets	19	546,760	363,918	182,842	143,290
thereof: a) establishment costs					
b) goodwill					
10 Tangible fixed assets	20	1,974,149	1,640,302	333,847	418,076
thereof: land and buildings for operating activities		954,026	801,453	152,573	208,876
11 Other assets	21	2,554,877	7,439	2 547,438	1,931,974
12 Receivables from subscribed registered capital					
13 Prepaid expenses and accrued income		117,129		117,129	274,699
Total assets		145,691,509	2,857,618	142,833,891	132,199,126

LIABILITIES AND OWNER'S EQUITY			
CZK 000	Note	2004	2003
1 Due to banks and cooperative savings associations	22	24,095,284	23,872,453
thereof: a) repayable on demand		1,116,369	1,690,056
b) other payables		22,978,915	22,182,397
2 Due to customers - cooperative savings association's members	23	70,318,428	70,902,421
thereof: a) repayable on demand		38,659,815	35,909,045
b) other payables		31,658,613	34,993,376
3 Payables from debt securities	24	27,777,431	16,096,816
thereof: a) debt securities issued		27,004,748	15,480,559
b) other payables from debt securities		772,683	616,257
4 Other liabilities	26	5,888,231	6,373,286
5 Deferred income and accrued expenses		194,685	674,538
6 Reserves	29	792,776	934,235
thereof: a) reserve for pensions and similar obligations			
b) reserve for taxes		93,300	147,000
c) other		699,476	787,235
7 Subordinated liabilities	25	712,930	1,156,051
8 Registered capital	27	5,124,716	5,124,716
thereof: a) registered paid up capital		5,124,716	5,124,716
b) own shares			
9 Share premium		1,996,920	1,996,920
10 Reserve funds and other funds from profit	30	1,748,467	1,662,387
thereof: a) statutory reserve funds and risk funds		733,548	648,218
b) other reserve funds		1,013,319	1,013,319
c) other funds from profit		1,600	850
11 New valuation reserve fund			
12 Capital funds	30	37,142	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	30	2, 280,531	1,661,556
15 Profit (loss) for the accounting period		1,866,350	1,706,605
Total liabilities and owner's equity		142,833,891	132,199,126

BALANCE SHEET AS AT 31 DECEMBER 2004

OFF-BALANCE SHEET			
CZK 000	Note	2004	2003
Off-balance sheet assets			
1 Commitments and guarantees granted	32	51,996,390	41,354,182
2 Collaterals granted	32	2,849,020	92,200
3 Receivables from spot transactions		1,999,319	3,238,799
4 Receivables from fixed term transactions	32	224,906,580	284,596,387
5 Receivables from options	32	8,272,994	2,700,522
6 Receivables written-off		1,112,359	1,052,395
7 Values placed into custody, administration and deposit			
8 Values placed under management			
Off-balance sheet liabilities			
9 Commitments and guarantees received		24,335,859	18,104,359
10 Collaterals and pledges received		56,029,840	52,628,917
11 Payables from spot transactions		1,998,681	3,231,657
12 Payables from fixed term transactions	32	224,575,969	284,917,147
13 Payables from options	32	8,272,947	2,700,522
14 Values taken into custody, administration and deposit	33	139,162,852	89,146,933
15 Values taken under management	33	900,636	840,333

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2004

PROFIT AND LOSS ACCOUNT			
CZK 000	Note	2004	2003
1 Interest income and similar income	5	5,078,249	4,436,802
thereof: interest income from debt securities		1,104,575	775,859
2 Interest expense and similar expense	5	(2,617,971)	(2,109,204)
thereof: interest expense from debt securities		(466,271)	(375,300)
3 Income from shares and participation interests:		90,000	124,007
thereof: a) income from participation interests with substantial influence			
b) income from participation interests with controlling influence		90,000	45,900
c) income from other shares and participation interests			78,107
4 Commission and fee income	6	1,254,501	1,052,972
5 Commission and fee expense	6	(245,099)	(189,681)
6 Net gains (losses) from financial operations	7	1,246,160	842,431
7 Other operating income	8	35,496	31,522
8 Other operating expenses	8	(154,480)	(104,908)
9 Administrative expenses	9	(2,075,216)	(2,049,962)
thereof: a) employee expenses		(977,077)	(1,043,898)
thereof : aa) wages and salaries		(721,947)	(775,915)
ab) social and health insurance		(255,130)	(267,983)
b) other administrative expenses		(1,098,139)	(1,006,064)
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	(241,345)	(289,839)
12 Release of adjustments and reserves for receivables and guarantees, income from written-off receivables	14,29	453,048	791,392
13 Write-offs, creation and use of adjustments and reserves for receivables and guarantees		(263,609)	(198,561)
14 Release of adjustments to participation interests with controlling and substantial influence		180	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		(16,836)	(3,500)
16 Release of other reserves	29	5,150	4,794
17 Creation and use of other reserves	29	(38,056)	(5,183)
18 Share of profits or losses from participation interests with controlling and substantial influence			
19 <i>Current year profit (loss) from ordinary activities before tax</i>		2,510,172	2,333,322
20 Extraordinary income			
21 Extraordinary expenses			
22 <i>Current year profit (loss) from extraordinary activities before tax</i>			
23 Income tax	31	(643,822)	(626,717)
24 Net profit (loss) for the accounting period		1,866,350	1,706,605

STATEMENT OF CHANGES IN EQUITY IN 2004

CZK 000	Registered capital	Own shares	Share premium	Reserve funds	Capital funds	Other funds from profit	Net profit (loss)	Total
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
Balance as at 1 January 2004	5,124,716		1,996,920	1,661,537	37,142	850	3,368,161	12,189,326
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						1,866,350	1,866,350	
Dividends							(1,000,000)	(1,000,000)
Transfers to funds				85,330		2,300	(87,630)	
Use of funds								
Issue of shares								
Reduction in registered capital								
Own shares purchased								
Other changes						(1,550)		(1,550)
Balance as at 31 December 2004	5,124,716		1,996,920	1,746,867	37,142	1,600	4,146,881	13,054,126

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) are recorded in the appropriate account of assets or liabilities on the transaction date. Fixed term and option contracts are recorded in off-balance sheet accounts from the trade date until the settlement date.

A financial asset or its part is derecognized 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 if they are waived by the Bank.

(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 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 arising from this revaluation are charged to the profit and loss account in "Net gains (losses) from financial operations".

The fair value of securities is determined based on the market price published as at the date of the fair valuation, provided the Bank can prove that the securities could be sold for that market price.

For debt and equity securities traded on public markets, fair values are equal to the price reached on the public markets 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 pos-

sible 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% 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 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 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 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 fulfillment 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 shorter.

Intangible fixed assets costing less than CZK 60,000 and tangible fixed assets costing less than CZK 40,000 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 agreements not yet recorded in the Bank's balance sheet or as a result of the expected future transactions, are recognized 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 re-measured to fair value or it is re-measured to fair value but the changes arising from the 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. In the case of instruments sensitive to interest rate changes, 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 evaluation 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 arising 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.

od 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. CHANGES IN ACCOUNTING POLICY

Compared with 2003, the following change in accounting policy was made in 2004:

Transaction date

In 2003 accounting transactions involving the purchase or sale of financial assets with a usual term of delivery (spot transactions) were recorded in off-balance sheet accounts from the trade date until the settlement date. Since 2004 spot transactions have been recorded in the appropriate account of assets or liabilities on the transaction date. This change in accounting policy had no impact on the items "Retained earnings or accumulated losses from previous years" and "Net profit (loss) for the accounting period".

5. NET INTEREST INCOME

CZK 000	2004	2003
Interest income		
from deposits	95,320	49,977
from loans	3,573,408	3,362,315
other	1,409,521	1,024,510
Interest expense		
from deposits	(1,324,695)	(1,176,356)
from loans	(414,272)	(292,226)
other	(879,004)	(640,622)
Net interest income	2,460,278	2,327,598

The Bank did not claim or waive default interest of CZK 12,122 thousand (2003: CZK 8,442 thousand). The Bank also did not apply the accrual principle for the default interest relating to endangered receivables of CZK 351,212 thousand (2003: CZK 345,185 thousand).

6. FEES AND COMMISSIONS

CZK 000	2004	2003
Fee and commission income from		
securities transactions	43,756	31,092
management, administration, deposit and custody	89,065	64,120
clearing services	338,026	305,004
current account administration	164,373	161,163
payment card processing and administration	215,635	173,039
other	403,646	318,554
Total	1,254,501	1,052,972
Fee and commission expense from		
securities transactions	(3,071)	(2,586)
management, administration, deposit and custody	(23,318)	(10,993)
payment card issue and processing	(124,905)	(100,240)
other	(93,805)	(75,862)
Total	(245,099)	(189,681)

7. NET GAINS OR LOSSES FROM FINANCIAL OPERATIONS

CZK 000	2004	2003
Gains/losses from securities transactions	600,345	28,546
Gains/losses from derivative transactions	(415,890)	(98,128)
Gains/losses from foreign exchange transactions	1,061,705	912,013
Total	1,246,160	842,431

8. OTHER OPERATING INCOME AND EXPENSES

CZK 000	2004	2003
Release of estimated payables	-	2,268
Income from ceded receivables	8,229	-
Income from transfer (sale) of fixed assets	2,562	3,721
Income from rent	11,655	12,464
Contractual fines received	3,769	2,485
Other	9,281	10,584
Total other operating income	35,496	31,522
Residual value of sold assets	(4,052)	(19,886)
Deposit insurance fund	(119,987)	(62,226)
Guarantee fund for securities traders	(8,812)	(1,873)
Losses and damages	(5,272)	(12,722)
Expenses of the prior year	(16,354)	-
Paid fines and penalties	(3)	(9,940)
Other	-	(261)
Total other operating expense	(154,480)	(104,908)

9. ADMINISTRATIVE EXPENSES

CZK 000	2004	2003
Personnel expenses		
Wages and salaries paid to employees	(721,947)	(775,915)
Social and health insurance	(255,130)	(267,983)
	(977,077)	(1,043,898)
Including wages and salaries paid to:		
Members of the Board of Directors	(13,114)	(13,394)
Other executives	(64,896)	(62,802)
Other administrative expenses	(1,098,139)	(1,006,064)
thereof expenses for audit, legal and tax advisory	(25,621)	(28,777)
Total administrative expenses	(2,075,216)	(2,049,962)

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

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

	2004	2003
Employees	1,215	1,157
Members of the Board of Directors	5	5
Members of the Supervisory Board	9	9
Other executives	27	29

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

CZK 000	2004	2003
Interest income	58,451	6
Interest expense	(16,067)	(16,193)
Fee and commission income	766	3,938
Fee and commission expense	(1)	(4)

The interest income in 2004 totaling CZK 58,451 thousand represents interest income for the whole year from HVB Reality CZ, s.r.o. even though the Bank only purchased the company on 30 December 2004.

11. INCOME AND EXPENSE ACCORDING TO SEGMENTS

(a) Business segments

	Retail Banking		Corporate Banking		Investment Banking		Other	
CZK 000	2004	2003	2004	2003	2004	2003	2004	2003
Interest income	419,272	391,395	2,786,794	2,732,846	1,872,183	1,312,561	-	-
Interest expense	(288,873)	(320,435)	(716,795)	(681,653)	(1,612,298)	(1,107,116)	(5)	-
Income from shares and participation interests	-	-	-	-	-	78,107	90,000	45,900
Fee and commission income	398,681	626,232	726,985	333,287	128,835	93,453	-	-
Fee and commission expense	(149,183)	(121,025)	(37,221)	(43,983)	(58,695)	(24,673)	-	-
Net gains (losses) from financial operations	168,148	158,706	759,206	715,827	318,246	(35,313)	560	3,211

(b) Geographical segments

The Bank's accounting system does not automatically separate income and expenses according to different geographical segments. In 2004, the Bank operated in particular in the Czech Republic and European Union.

12. TRANSACTIONS WITH RELATED PARTIES

CZK 000	2004	2003
Receivables	6,991,876	5,532,770
Liabilities	9,527,312	9,792,339
Income	426,369	363,363
Expense	440,877	780,456

The table includes all transactions with related parties. Detailed information about transactions with entities with controlling and substantial influence and about transactions with persons with a special relationship to the Bank is provided in Notes 10, 13 (e), 13 (f), 14 (g), 14 (h), 22 (b), 22 (c), 23 (b), 23 (c), 32 (c) and 32 (d).

13. 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 (2003: CZK 0 thousand).

(a) Classification of receivables from banks

CZK 000	2004	2003
Standard	19,967,113	20,171,313
Adjustments to potential losses from receivables	-	-
Net receivables from banks	19,967,113	20,171,313

In 2004 the Bank did not carry out any restructuring of receivables from banks (2003: CZK 0 thousand).

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

CZK 000	2004	2003
Bank guarantees	41,926	106,075
Security held by the Bank	13,386,863	17,976,493
Unsecured	6,538,324	2,088,745
Net receivables from banks	19,967,113	20,171,313

No receivables from banks secured by tangible movable assets are included in "Security held by the Bank" (2003: CZK 0 thousand).

(c) Subordinated receivables from banks

The Bank provided a subordinated loan to another bank in the amount of EUR 7,500 thousand in 2004. The loan totalled CZK 229,242 thousand as at 31 December 2004. The loan has a stipulated maturity of 10 years. The interest period is to be set within the range of one to six months and the interest rate is based on the appropriate EURIBOR rate.

(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 2004 and 2003.

(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 2004 or as at 31 December 2003.

The summary of participation interests with controlling and substantial influence is presented in Note 18.

(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 2,026,338 thousand as at 31 December 2004 (2003: CZK 627,011 thousand).

14. RECEIVABLES FROM CUSTOMERS

(a) Classification of receivables from customers

CZK 000	2004	2003
Standard	80,430,911	75,813,072
Special mentioned	4,095,773	4,445,728
Substandard	592,518	939,332
Doubtful	111,739	229,137
Loss	648,059	802,155
Total receivables from customers	85,879,000	82,229,424
Adjustment to potential losses from receivables	(825,803)	(956,148)
Net receivables from customers	85,053,197	81,273,276

Receivables from customers include CZK 716,078 thousand, which represents receivables from securities that have been acquired from primary auctions and are not intended for trading (2003: CZK 761,678 thousand).

In 2004 the Bank did not carry out any restructuring of receivables from customers (2003: CZK 1,392,635 thousand).

(b) Analysis of receivables from customers by sector

CZK 000	2004	2003
Financial institutions	13,250,226	9,164,583
Non-financial institutions	61,857,650	53,463,086
Government sector	369,237	11,014,593
Non-profit organisations	191,204	180,799
Self-employed	765,418	571,902
Resident individuals	6,345,215	4,937,398
Non-residents	3,100,050	2,897,063
Total	85,879,000	82,229,424

(c) Subordinated receivables from customers

The Bank did not provide any loans with stipulations on subordination to customers in 2004 or in 2003.

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

		Bank and				Security		
	Personal	similar		Corporate	Letter of	held		
CZK 000	guarantee	guarantee	Mortgage	guarantee	credit	by the Bank	Unsecured	Total
At 31 December 2004								
Financial institutions	-	3,005,378	-	-	-	4,401,300	5,843,548	13,250,226
Non-financial institutions	106,391	7,351,393	21,950,786	2,411,228	-	4,306,229	25,731,623	61,857,650
Government sector	-	-	-	-	-	221,621	147,616	369,237
Non-profit organisations	-	-	126,364	-	-	21,024	43,816	191,204
Self-employed	4,242	12,000	549,176	-	-	9,322	190,678	765,418
Resident individuals	35,286	1,558	5,182,095	6,045	17	25,523	1,094,691	6,345,215
Non-residents	-	615,035	296,215	121,860	-	266,394	1,800,546	3,100,050
Total	145,919	10,985,364	28,104,636	2,539,133	17	9,251,413	34,852,518	85,879,000
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
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-residents	-	705,507	83,213	-	-	345,008	1,763,335	2,897,063
Total	62,468	6,897,404	21,758,939	3,327,884	33	9,510,391	40,672,305	82,229,424

No receivables from customers secured by tangible movable assets are included in "Security held by the Bank" (2003: CZK 0 thousand).

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

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

	2004	2003
CZK 000		
Write-offs		
Non-financial institutions	54,136	378,289
Non-profit organisations	6	-
Self-employed	1,844	41,449
Resident individuals	1,677	1,473
Non-residents	2,290	859
Total	59,953	422,070
Recoveries		
Non-financial institutions	323	12,064
Self-employed	6,624	6,779
Total	6,947	18,843

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 2004

Loan	Banks involved	Amount in 000 CZK	Split of risk	Split of interest
I.	HVB Bank Czech Republic a.s.	368,617	38.89%	38.89%
	Westdeuschelandesbank Dueseldorf	197,473	20.83%	20.83%
	IKB Deutsche Industriebank	171,143	18.06%	18.06%
	Živnostenská banka a.s.	210,638	22.22%	22.22%
	Total	947,871	100.00%	100.00%
II.	HVB Bank Czech Republic a.s.	5,197	33.33%	33.33%
	BAWAG International Bank CZ a.s. Praha	5,197	33.33%	33.33%
	Komerční Banka a.s. Praha	5,197	33.33%	33.33%
	Total	15,591	100.00%	100.00%
III.	HVB Bank Czech Republic a.s.	99,457	67.20%	67.20%
	Voralberger Landes und Hypotekenbank AG	48,525	32.80%	32.80%
	Total	147,982	100.00%	100.00%
IV.	HVB Bank Czech Republic a.s.	248,264	46.60%	46.60%
	Commerzbank AG, Praha	136,799	25.60%	25.60%
	ING Bank a.s. Praha	148,074	27.80%	27.80%
	Total	533,137	100.00%	100.00%
V.	HVB Bank Czech Republic a.s.	439,124	56.30%	56.30%
	Eurohypo AG, Eshborn	341,541	43.70%	43.70%
	Total	780,665	100.00%	100.00%
VI.	HVB Bank Czech Republic a.s.	268,803	49.90%	49.90%
	Eurohypo AG, Eshborn	269,348	50.10%	50.10%
	Total	538,151	100.00%	100.00%
VII.	HVB Bank Czech Republic a.s.	127,480	77.20%	77.20%
	Eurohypo AG, Eshborn	37,592	22.80%	22.80%
	Total	165,072	100.00%	100.00%
VIII.	HVB Bank Czech Republic a.s.	235,628	56.10%	56.10%
	Eurohypo AG, Eshborn	184,546	43.90%	43.90%
	Total	420,174	100.00%	100.00%
IX.	HVB Bank Czech Republic a.s.	36,645	57.40%	57.40%
	Eurohypo AG, Eshborn	27,221	42.60%	42.60%
	Total	63,866	100.00%	100.00%
X.	HVB Bank Czech Republic a.s.	40,858	51.70%	51.70%
	Eurohypo AG, Eshborn	38,144	48.30%	48.30%
	Total	79,002	100.00%	100.00%
XI.	HVB Bank Czech Republic a.s.	8,727	83.70%	83.70%
	Eurohypo AG, Eshborn	1,702	16.30%	16.30%
	Total	10,429	100.00%	100.00%
XII.	HVB Bank Czech Republic a.s.	42,540	56.30%	56.30%
	Eurohypo AG, Eshborn	33,087	43.70%	43.70%
	Total	75,627	100.00%	100.00%

XIII.	HVB Bank Czech Republic a.s.	1,573	56.30%	56.30%
	Eurohypo AG, Eshborn	1,224	43.70%	43.70%
	Total	2,797	100.00%	100.00%
XIV.	HVB Bank Czech Republic a.s.	8,247	56.30%	56.30%
	Eurohypo AG, Eshborn	6,415	43.70%	43.70%
	Total	14,662	100.00%	100.00%
XV.	HVB Bank Czech Republic a.s.	24,207	56.30%	56.30%
	Eurohypo AG, Eshborn	18,827	43.70%	43.70%
	Total	43,034	100.00%	100.00%

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%
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 Hypotekenbank 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%

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

CZK 000	Controlling influence	Substantial influence
At 1 January 2003	67,178	-
Additions	-	-
Disposals	(67,178)	-
At 31 December 2003	-	-
Interest income	-	-
At 1 January 2004	-	-
Additions	530,889	-
Disposals	-	-
At 31 December 2004	530,889	-
Interest income	58,451	-

The interest income in 2004 totaling CZK 58,451 thousand represents interest income for the whole year from HVB Reality CZ, s.r.o. even though the Bank only purchased the company on 30 December 2004.

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

	Management bodies		Other
CZK 000	Board of Directors	Other executives	
At 31 December 2004	1,666	17,856	4,415,128
At 31 December 2003	2,866	19,140	4,883,753

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

15. 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

	2004	2003
CZK 000		
State treasury bills	7,878,167	6,149,766
State bonds	2,020,443	3,362,120
Other	994,516	681,485
Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB	10,893,126	10,193,371

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 43,268 thousand (2003: CZK 121,352 thousand).

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

	2004	2003
CZK 000		
State zero coupon bonds and other securities held for trading	1,559,931	7,890,557
State zero coupon bonds and other securities available-for-sale	9,333,195	2,302,814
Net book value	10,893,126	10,193,371

(c) Repurchase and resale commitments and other off-balance sheet transactions

Under resale commitments the Bank has acquired state zero coupon bonds and other securities with a market value of CZK 13,434,954 thousand (2003: CZK 17,687,768 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 with a market value of CZK 1,627,866 thousand (2003: CZK 92,200 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 with a market value of CZK 641,900 thousand (2003: CZK 817,197 thousand), which were transferred under repurchase commitments.

Also included in the value of state zero coupon bonds and other securities are securities with a market value of CZK 282,004 thousand (2003: CZK 0 thousand), which have been pledged and are reported in the off-balance sheet in "Collaterals granted".

16. DEBT SECURITIES

(a) Repurchase and resale commitments and other off-balance sheet transactions

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 (2003: CZK 0 thousand).

The value of debt securities includes securities with a market value of CZK 3,066,485 thousand (2003: CZK 0 thousand), which were transferred under repurchase commitments.

The value of debt securities also includes securities with a market value of CZK 939,150 thousand (2003: CZK 0 thousand), that have been pledged and are reported in the off-balance sheet in "Collaterals granted".

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

	2004	2003
CZK 000		
Debt securities held for trading	958,956	1,088,492
Available-for-sale debt securities	16,881,722	14,586,070
Held-to-maturity debt securities	2,543,035	751,306
Net book value	20,383,713	16,425,868

(c) Analysis of debt securities held for trading

	2004 Market value	2003 Market value
CZK 000		
Issued by financial institutions		
- Listed on a recognised CR exchange	43,892	661,873
- Listed elsewhere	11,342	11,716
	55,234	673,589
Issued by non-financial institutions		
- Listed on a recognised CR exchange	860,107	414,903
	860,107	414,903
Issued by government sector		
- Listed on a recognised CR exchange	43,615	-
	43,615	-
Total	958,956	1,088,492

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

The Bank has purchased debt securities issued by the Bank in the book value of CZK 2,900,547 thousand (2003: CZK 2,962,298 thousand), that are held for trading. These securities decrease "Payables from debt securities" (see Note 24(a)).

(d) Analysis of available for sale debt securities

	2004 Market value	2003 Market value
CZK 000		
Issued by financial institutions		
- Listed on a recognised CR exchange	2,800,900	1,416,905
- Listed elsewhere	5,060,770	4,460,264
	7,861,670	5,877,169
Issued by non-financial institutions		
- Listed on a recognised CR exchange	842,656	292,116
- Listed elsewhere	2,851,774	2,783,698
	3,694,430	3,075,814
Issued by government sector		
- Listed on a recognised CR exchange	50,568	47,194
- Listed elsewhere	5,275,054	5,585,893
	5,325,622	5,633,087
Total	16,881,722	14,586,070

The Bank has purchased no debt securities issued by the Bank that are classified as available for sale (2003: CZK 0 thousand).

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

(e) Analysis of debt securities held to maturity

	2004 Book value	2003 Book value
CZK 000		
Issued by financial institutions		
- Unlisted	41,903	168,998
	41,903	168,998
Issued by non-financial institutions		
- Listed on a recognised CR exchange	2,412,162	498,415
- Unlisted	88,970	83,893
	2,501,132	582,308
Total	2,543,035	751,306

The proportion of debt securities with residual maturity up to 1 year to the total balance of debt securities is 52.51% (2003: 33.41%).

17. SHARES, UNITS AND OTHER INVESTMENTS

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

	2004	2003
CZK 000		
Shares, units and other investments held for trading	2,316,096	44
Shares, units and other investments available for sale	7,478	3,000
Total	2,323,574	3,044

(b) Repurchase and resale commitments

Under resale commitments the Bank has not acquired any shares, units and other investments (2003: CZK 5,750 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 (2003: CZK 0 thousand), that have been transferred under repurchase commitments.

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

	2004 Market value	2003 Market value
CZK 000		
Issued by financial institutions		
- Listed on a recognised CR exchange	5,915	-
- Listed elsewhere	455	-
- Unlisted	2,308,312	-
	2,314,682	-
Issued by non-financial institutions		
- Listed on a recognised CR exchange	1,414	44
	1,414	44
Total	2,316,096	44

The Bank has not purchased any of its own shares for the purpose of trading (2003: CZK 0 thousand).

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

	2004 Market value	2003 Adjusted value
CZK 000		
Issued by non-financial institutions		
- Unlisted	7,478	3,000
	7,478	3,000
Total	7,478	3,000

The Bank has not purchased any of its own shares for the purpose of future sale (2003: CZK 0 thousand).

18. PARTICIPATION INTERESTS WITH CONTROLLING AND SUBSTANTIAL INFLUENCE

(a) Participation interests with controlling influence

CZK 000				Other			
Name	Registered office	Business activity	Registered capital	components of Equity	Share in Equity	Share of voting rights	Net Book Value
At 31 December 2004							
HYPO stavební spořitelna a.s.	Praha 1, Senovážné nám. 27	building society	500,000	245,394	60%	60%	360,000
CAE Praha a.s.	Praha 5, nám. Kinských 602	lease of real estate	100,000	(25,604)	100%	100%	74,396
HVB Factoring s.r.o.	Praha 2, Italská 24	surrender, financing and custody of receivables	50,000	24	100%	100%	50,000
HVB Reality CZ, s.r.o.	Praha 5, Elišky Peškové 15	real estate agency	570,312	(566,430)	100%	100%	3,882
Total			1,220,312	(346,616)			488,278
At 31 December 2003							
HYPO stavební spořitelna a.s.	Praha 1, Senovážné nám. 27	building society	500,000	330,791	60%	60%	360,000
CA IB Securities, a.s.	Praha 5, nám. Kinských 602	securities broker	100,000	(25,043)	100%	100%	74,216
Total			600,000	305,748			434,216

Adjustments to participation interests with a controlling influence totalled CZK 20,156 thousand as at 31 December 2004 (2003: CZK 3,500 thousand).

(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 2004							
CBCB-Czech Banking Credit Bureau, a.s.	Praha 1, Na Příkopě 21	running of bank register	1,200	1,517	20%	20%	240
	1,200	1,517			240		
At 31 December 2003							
CBCB-Czech Banking Credit Bureau, a.s.	Praha 1, Na Příkopě 21	running bank register	1,200	51	20%	20%	240
	1,200	51			240		

19. INTANGIBLE FIXED ASSETS
Movements in intangible fixed assets

CZK 000	Software	Software acquisition	Other	Total
Cost				
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
At 1 January 2004	382,203	28,623	7,040	417,866
Additions	117,313	126,649	14,902	258,864
Disposals	-	(119,984)	(9,986)	(129,970)
At 31 December 2004	499,516	35,288	11,956	546,760
Amortisation and adjustments				
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
At 1 January 2004	270,308	-	4,268	274,576
Charge for the year	88,241	-	1,101	89,342
Disposals	-	-	-	-
At 31 December 2004	358,549	-	5,369	363,918
Net book value				
At 31 December 2003	111,895	28,623	2,772	143,290
At 31 December 2004	140,967	35,288	6,587	182,842

20. TANGIBLE FIXED ASSETS

(a) Movements in tangible fixed assets

			Furniture and fittings	Fixed assets not used	Fixed assets not yet in use	Total
CZK 000	Land and building	Equipment				
Cost						
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
At 1 January 2004	947,582	982,984	272,821	698	2,449	2,206,534
Additions	6,444	52,294	3,005	-	106,611	168,354
Disposals	-	(290,923)	(13,288)	-	(96,528)	(400,739)
At 31 December 2004	954,026	744,355	262,538	698	12,532	1,974,149
Depreciation and adjustments						
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
At 1 January 2004	738,706	835,755	213,691	306	-	1,788,458
Charge for the year	62,747	73,784	15,438	34	-	152,003
Disposals	-	(287,825)	(12,334)	-	-	(300,159)
At 31 December 2004	801,453	621,714	216,795	340	-	1,640,302
Net book value						
At 31 December 2003	208,876	147,229	59,130	392	2,449	418,076
At 31 December 2004	152,573	122,641	45,743	358	12,532	333,847

(b) Tangible fixed assets held under finance leases

The Bank does not use any tangible fixed assets which are subject to a leasing agreement in which the Bank acts as the lessee.

21. OTHER ASSETS

	2004	2003
CZK 000		
Other debtors	50,176	20,585
Collections accepted from customers	5,358	32,130
Fair value of derivatives (positive)	2,185,869	1,690,156
Margin of listed derivatives	50,917	31,285
Deferred tax asset (see Note 31)	26,601	24,398
Other	235,956	140,804
Total other assets	2,554,877	1,939,358
Less:		
Adjustments	(7,439)	(7,384)
Total	2,547,438	1,931,974

22. DUE TO BANKS

(a) Analysis of due to banks by residual maturity

	2004	2003
CZK 000		
Repayable on demand	1,116,369	1,690,056
Up to 3 months	12,568,428	13,876,534
From 3 months to 1 year	5,553,901	1,294,776
From 1 to 5 years	3,738,336	3,301,262
Over 5 years	1,118,250	3,709,825
Total	24,095,284	23,872,453

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

	Controlling influence	Substantial influence
CZK 000		
At 1 January 2003	207,960	-
Additions	73,445	-
Disposals	-	-
At 31 December 2003	281,405	-
At 1 January 2004	281,405	-
Additions	-	-
Disposals	(231,023)	-
At 31 December 2004	50,382	-

(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 9,130,411 thousand as at 31 December 2004 (2003: CZK 9,398,989 thousand).

23. 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 2004						
Financial institutions	1,615,899	-	-	3,080,519	1,526,357	6,222,775
Non-financial institutions	22,088,069	-	-	5,596,124	344,659	28,028,852
Insurance institutions	181,367	-	-	1,755,415	-	1,936,782
Government sector	1,592,362	-	-	526,855	-	2,119,217
Non-profit organisations	439,787	-	-	173,702	205	613,694
Self-employed	6,764,376	-	-	2,571,559	2,380	9,338,315
Resident individuals	4,343,827	2,012,022	2,765	11,449,576	1,507,936	19,316,126
Non-residents	1,628,912	-	-	1,056,941	51,598	2,737,451
Companies without IČO	5,216	-	-	-	-	5,216
Total	38,659,815	2,012,022	2,765	26,210,691	3,433,135	70,318,428
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

No due to customers that relate to the provision of investment services to customers are included (2003: CZK 0 thousand).

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

CZK 000	Controlling influence	Substantial influence
At 1 January 2003	-	-
Additions	69,710	-
Disposals	-	-
At 31 December 2003	69,710	-
At 1 January 2004	69,710	-
Additions	106,992	-
Disposals	-	-
At 31 December 2003	176,702	-

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

CZK 000	Management bodies Board of Directors	Other executives	Other
At 31 December 2004	6,857	5,671	157,289
At 31 December 2003	12,905	27,230	2,100

24. PAYABLES FROM DEBT SECURITIES

(a) Analysis of payables from debt securities

	2004	2003
CZK 000		
Certificates of deposit	14,895,458	6,954,340
Mortgage bonds	9,273,425	6,901,929
Other issued bonds	2,835,865	1,624,290
Other	772,683	616,257
Net book value	27,777,431	16,096,816

The proportion of issued debt securities with residual maturity up to 1 year to the total balance of issued debt securities is 8.25% (2003: 28.15%).

The Bank has purchased its own debt securities for the purpose of trading or sale in the total amount of CZK 2,900,547 thousand (2003: CZK 2,962,298 thousand), see Note 16 (c).

(b) Analysis of certificates of deposit and other debt securities by sector

	2004	2003
CZK 000		
Financial institutions	27,902	22,785
Non-financial institutions	12,154,523	5,706,266
Insurance institutions	15,248	10,027
Government sector	31,833	19,602
Non-profit organisations	61,952	17,920
Self-employed	993,097	316,498
Resident individuals	3,846,220	1,861,392
Non-residents	600,548	622,670
Unallocated	-	1,470
Total	17,731,323	8,578,630

(c) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Amount CZK 000	Amount due within 1 year
4/2/2002	4/2/2009	CZK	7,758,867	-
19/8/2004	19/8/2012	CZK	1,102,330	-
Total			8,861,197	-
Accrued interest expense			412,228	
Total			9,273,425	-

(d) Other payables from debt securities

Other payables from debt securities as at 31 December 2004 include securities received under resale commitments totalling CZK 772,683 thousand, which were sold in short sells (2003: CZK 616,257 thousand).

25. SUBORDINATED LIABILITIES

CZK 000	2004	2003
Subordinated debt, Bank Austria AG, Vienna	712,930	758,382
Subordinated debt, Bayerische Hypo- und Vereinsbank AG, Munich	-	397,669
Total	712,930	1,156,051

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. The interest payment period is optional within 1 to 12 months and the interest rate is based on the market rate. The loan fulfils CNB requirements in respect of subordinated liabilities.

The amount of CZK 397,669 thousand as at 31 December 2003 represents the subordinated loan granted by Bayerische Hypo- und Vereinsbank AG, Munich totalling EUR 12,271 thousand for 6-month EURIBOR+0.25%. This subordinated debt, originally maturing on 31 December 2005, was repaid prior to the maturity date, i.e. on 31 December 2004, after obtaining prior approval from the CNB. The loan fulfilled all CNB requirements in respect of subordinated liabilities.

26. OTHER LIABILITIES

CZK 000	2004	2003
Other short term payables to customers	2,352,414	3,036,054
Estimated payables	373,608	477,119
Other creditors	117,428	79,120
Fair value of derivatives (negative)	2,822,097	2,614,341
Taxes payable	52,637	55,476
Other	170,047	111,176
Total	5,888,231	6,373,286

27. REGISTERED CAPITAL

The registered capital of the Bank was CZK 5,124,716 thousand as at 31 December 2004.

The shareholders of the Bank as at 31 December 2004 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

28. BONUSES TIED TO EQUITY

The Bank has not implemented any incentive bonus schemes nor stabilization program for employees for the purchase of own shares and paid any remuneration in the form of options to purchase 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	
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 reserves at 31 December 2003	718,117
Balance at 1 January 2004	718,117
Creation during current year	
Guarantees	
Use during current year	(665)
Write-off of loans	(665)
Release of reserves no longer considered necessary	(120,000)
Balance of reserves at 31 December 2004	597,452
Total reserves for possible credit and guarantee losses at 31 December 2003	718,117
Total reserves for possible credit and guarantee losses at 31 December 2004	597,452

(b) Adjustments to classified receivables

CZK 000		
Adjustments to classified receivables (tax deductible)		
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	
Substandard 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
Balance at 1 January 2004		924,943
Creation during the year		262,709
Special mentioned loans	125,780	
Substandard loans	89,071	
Doubtful loans	6,712	
Loss loans	40,761	
Receivables from debtors subject to bankruptcy and composition proceedings	385	
Use during current year		(59,275)
Write-off of loans	(59,275)	
Release of adjustments no longer considered necessary		(302,519)
FX differences		(8,510)
Balance of tax deductible adjustments at 31 December 2004		817,348
Other adjustments to losses from receivables (tax non-deductible)		
Additional transfer from tax deductible adjustments		121,131
Balance at 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

Balance at 1 January 2004		31,205
Creation during the year		832
Use during current year		-
Release of adjustments no longer considered necessary		(23,582)
FX differences		-
Balance of tax non-deductible adjustments at 31 December 2004		8,455
Total adjustments to credit losses at 31 December 2003		956,148
Total adjustments to credit losses at 31 December 2004		825,803

(c) Other reserves

CZK 000		
Balance at 1 January 2003		68,729
Creation during the 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
Balance at 1 January 2004		69,118
Creation during the year		40,173
Use during current year		(2,117)
Release of reserves no longer considered necessary		(5,150)
Balance of other reserves at 31 December 2004		102,024

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

The Bank has allocated the 2003 profit and proposes to allocate the 2004 profit as follows:

CZK 000	Profit	Retained earnings	Statutory reserve funds	Other reserve funds	Capital funds	Other funds from profit
Balance at 1 January 2004	-	1,661,556	648,218	1,013,319	37,142	850
Profit for 2003	1,706,605					
<i>Allocation of profit for 2003 approved by the Supervisory Board:</i>						
Transfer to reserve funds	(87,630)		85,330	-	-	2,300
Transfer to retained earnings	(1,618,975)	1,618,975				
Dividend payment		(1,000,000)				
Other creation of funds		-	-	-	-	2,205
Use of funds		-	-	-	-	(3,755)
Balance at 31 December 2004 before allocation of the 2004 profit	-	2,280,531	733,548	1,013,319	37,142	1,600

With effect from 1 January 2005, the Bank is obliged to use International Financial and Reporting Standards for keeping its accounts and for preparation of its financial statements. The allocation of the 2004 profit (CZK 1 866 350 thousand) will be subject to the approval of the General Meeting in the first half of 2005.

31. INCOME TAX AND DEFERRED TAX LIABILITY/ASSET

(a) Current income tax

CZK 000	2004	2003
Current year profit (loss) before tax	2,510,172	2,333,322
Income not liable to tax	(373,711)	(473,440)
Tax non-deductible expenses	441,435	245,189
Subtotal	2,577,896	2,105,071
Income tax calculated using a tax rate of 28% (2003: 31%)	721,811	652,572
Tax discounts and offsets used	(53,133)	(20,809)
Income tax for the year	668,678	631,763

(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:

CZK 000	2004	2003
Deferred tax assets		
Reserves for litigations	17,426	13,389
Social and health insurance for bonuses	14,268	19,972
	31,694	33,361
Deferred tax liabilities		
Difference in net book value of fixed assets	5,093	8,963
Deferred tax assets	26,601	24,398

The Bank reported tax revenue as a result of deferred tax amounting to CZK 2,203 thousand (2003: tax expense CZK 10,083 thousand).

Bank management believes that it is highly probable that the Bank will fully realize its deferred tax asset as at 31 December 2004 based upon the Bank's current and expected future level of taxable profits.

(c) Income tax reserve

As at 31 December 2004 the Bank created an income tax reserve totalling CZK 93,300 thousand. This reserve was recognized based on the expected increase in taxable expenses for the next accounting period, which will not be incurred as a result of the Bank's current activities but as a result of the amendment of the Act on Reserves N. 593/1992 Coll. (see Note 3 (f)).

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

CZK 000	Executives
At 31 December 2004	447
At 31 December 2003	647

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	2004	2003
Banks		
Letters of credit and financial guarantees	464,391	490,951
Other contingent liabilities	462,331	514,179
Collaterals provided	1,382,020	-
	2,308,742	1,005,130
Clients		
Letters of credit and financial guarantees	9,531,155	7,911,858
Other contingent liabilities	41,538,513	32,437,194
Collaterals provided	1,467,000	92,200
	52,536,668	40,441,252
Total	54,845,410	41,446,382

Reserves in the total amount of CZK 131,998 thousand (2003: CZK 158,498 thousand), included in the item "Other reserves" in the balance sheet, were created for possible contingencies relating to off-balance sheet assets.

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

CZK 000	2004	2003
Controlling influence	17	17
Substantial influence	-	-
Total	17	17

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

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 2004 or as at 2003.

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

	Contractual amounts		Fair value	
CZK 000	2004	2003	2004	2003
Hedging instruments				
Interest rate swap contracts	8,937,189	5,341,290	(213,896)	(12,286)
Trading instruments				
Forward rate agreements (FRA)	105,100,000	173,769,350	24,971	1,297
Interest rate swap contracts	74,444,161	78,436,333	(776,366)	(578,071)
Forward foreign exchange contracts			(30,773)	(42,634)
Purchase	13,690,067	9,604,540	-	-
Sale	13,662,873	9,648,672	-	-
Option contracts	8,272,994	2,700,522	1,112	189
Cross currency swap contracts	22,381,553	17,250,444	358,724	(292,680)

Listed financial derivatives

	Contractual amounts		Fair value	
CZK 000	2004	2003	2004	2003
Trading instruments				
Interest rate futures	353,610	194,430	50,917	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:

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
CZK 000					
At 31 December 2004					
Hedging instruments					
Interest rate swap contracts	731,160	2,300,000	2,747,445	3,158,584	8,937,189
Trading instruments					
Forward rate agreements (FRA)	45,050,000	47,050,000	13,000,000	-	105,100,000
Interest rate swaps	3,734,090	6,594,600	35,540,126	28,575,345	74,444,161
Foreign exchange contracts (Purchase)	10,045,424	3,628,289	16,354	-	13,690,067
Foreign exchange contracts (Sale)	9,991,075	3,654,262	17,536	-	13,662,873
Option contracts	773,834	1,256,949	6,110,365	131,846	8,272,994
Interest rate futures	353,610	-	-	-	353,610
Cross currency swap contracts	6,272,465	8,143,200	6,769,100	1,196,788	22,381,553
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 swaps	11,679,825	13,860,349	28,695,751	24,200,408	78,436,333
Foreign exchange contracts (Purchase)	4,413,161	5,191,379	-	-	9,604,540
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

(g) Refinancing agreements

The Bank was allowed to draw the following loan facilities as at 31 December 2004:

- loan facility granted by Bank Austria Creditanstalt AG, Vienna amounting to CZK 2,608,109 thousand (EUR 85,610 thousand) with final maturity in December 2006.
- credit line granted by European Investment Bank (EIB) amounting to CZK 1,928,250 thousand (EUR 63,294 thousand) with final maturity in December 2009. This facility is a special-purpose line strictly tied to refinancing of loans fulfilling the terms and conditions of EIB.

33. VALUES TAKEN INTO ADMINISTRATION AND MANAGEMENT

	2004	2003
CZK 000		
Bonds	54,830,130	35,962,602
Shares and open-end funds certificates	63,975,965	43,786,654
Total	118,806,095	79,749,256

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 financial markets conditions.

(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 provides access 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 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 applicable to individual transactions, limits for the portfolio sensitivity (basis point value; BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management" in Note 34 (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 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 both the risk of being able to finance the Bank's assets using the instruments with the appropriate maturity and the Bank's ability to dispose of / sell its assets for the appropriate price within the appropriate time period.

The Bank has access to diversified sources of funds, which comprise deposits and other savings, securities issued, loans accepted including subordinated loans and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates 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 2004						
Cash	490,929	-	-	-	52,465	543,394
State zero coupon bonds	5,663,415	3,892,537	533,486	803,688	-	10,893,126
Receivables from banks	17,931,239	1,731,130	35,726	229,242	39,776	19,967,113
Receivables from customers	10,461,195	15,602,906	27,349,948	26,509,868	5,129,280	85,053,197
Debt securities	5,507,018	2,951,069	6,800,487	5,125,139	-	20,383,713
Shares, units and other investments	-	-	-	-	2,323,574	2,323,574
Participation interests with substantial influence	-	-	-	-	240	240
Participation interests with controlling influence	-	-	-	-	488,278	488,278
Other assets	-	26,601	-	-	3,037,526	3,064,127
Prepaid expenses and accrued income	117,129	-	-	-	-	117 129
Total	40,170,925	24,204,243	34,719,647	32,667,937	11,071,139	142,833,891
Due to banks	13,684,797	5,553,901	3,738,336	1,118,250	-	24,095,284
Due to customers	68,205,990	972,821	1,093,759	45,858	-	70,318,428
Payables from debt securities	15,853,565	97,846	10,723,690	1,102,330	-	27,777,431
Other liabilities	-	-	-	-	19,735,133	19,735,133
Accrued expenses and deferred income	194,685	-	-	-	-	194,685
Subordinated liabilities	-	49	-	712,881	-	712,930
Total	97,939,037	6,624,617	15,555,785	2,979,319	19,735,133	142,833,891
Gap	(57,768,112)	17,579,626	19,163,862	29,688,618	(8,663,994)	-
Cumulative gap	(57,768,112)	(40,188,486)	(21,024,624)	8,663,994	-	-
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 subst. influence	-	-	-	-	240	240
Participation interests with contr. 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	-	-

Interest rate risk

The Bank is exposed to an interest rate risk as 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 optimizing net interest income in accordance with the Bank's strategy approved by the board of directors.

The Bank's financial position as at 31 December 2004 is characterized by the relatively short term nature of its assets compared to its liabilities. The Bank is therefore more interest sensitive on the side of its assets. Positions of shorter-term assets are balanced by speculative longer-term positions. The overall position of the Bank is well-balanced. The financial position is diversified into several currencies, so the Bank is also sensitive to correlation in fluctuations of interest rate in respective currencies. The major sensitivity is connected to EUR and CZK. Net interest income would decrease if the interest rates in respective currencies rose simultaneously.

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 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 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 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 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.

	At 31 December 2004	Average 2004	At 31 December 2003	Average 2003
CZK 000				
VaR of interest rate instruments	27,645	18,163	19,392	17,068
VaR of currency instruments	224	1,551	1,479	1,897
VaR of equity instruments	256	527	157	339

As at 31 December 2004 the total VaR for all market risks was CZK 27,654 thousand (2003: CZK 18,711 thousand), which is lower than the aggregate of the VaR values relating to individual risks due to the correlation between individual risks. At the end of 2004 the method of calculating VaR was changed from the Variance/Covariance method to the method of historical simulation including the risk of credit spreads.

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 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 are 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 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 for the treatment of receivables arising from financial activities, the creation of adjustments and reserves and the 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 its 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:

- 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) of 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 use the internal rating system for receivables from individuals.

(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 a reputable bank
- Guarantee provided by a reputable third party
- Real estate
- Assignment of high quality receivables

The Bank's assessment of the net realizable 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 realizable value of the collateral is determined using this value and the correction coefficient, which reflects the Bank's ability to realize the collateral when necessary. For the purposes of the adjustments calculation the net realizable 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	0.0%
Special mentioned	1-19.9%
Substandard	20-49.9%
Doubtful	50-99.9%
Loss	100.0%

(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 allocates 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 14 (b), 14 (d) and 14 (e).

(f) Receivables recovery

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:

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

(g) Securitization and use of credit derivatives

The Bank did not carry out any securitization 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 2004 approximately 2/3 of the Bank's credit exposure is represented by credit to clients with an annual probability of default lower than 1%.

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 the 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.

Within the Basel II project, the Bank plans to implement a complex system for monitoring and managing its operational risks. It aims to use standardized methods for operational risk management as at the date of implementation of Basel II.

36. OPERATIONAL, LEGAL AND OTHER RISKS

The Bank has developed a complex system of internal rules and regulations that organise and define the working processes and related control activities.

The system of internal rules and regulation includes a "Disaster Recovery Plan" and a "Business Continuity Plan", which address the major operational risks. Internal and external auditors review the validity of these

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





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Česká republika

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Fax +420 222 123 100
Internet www.kpmg.cz

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

On the basis of our audit, on 15 March 2005 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 2004. 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 2004 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."

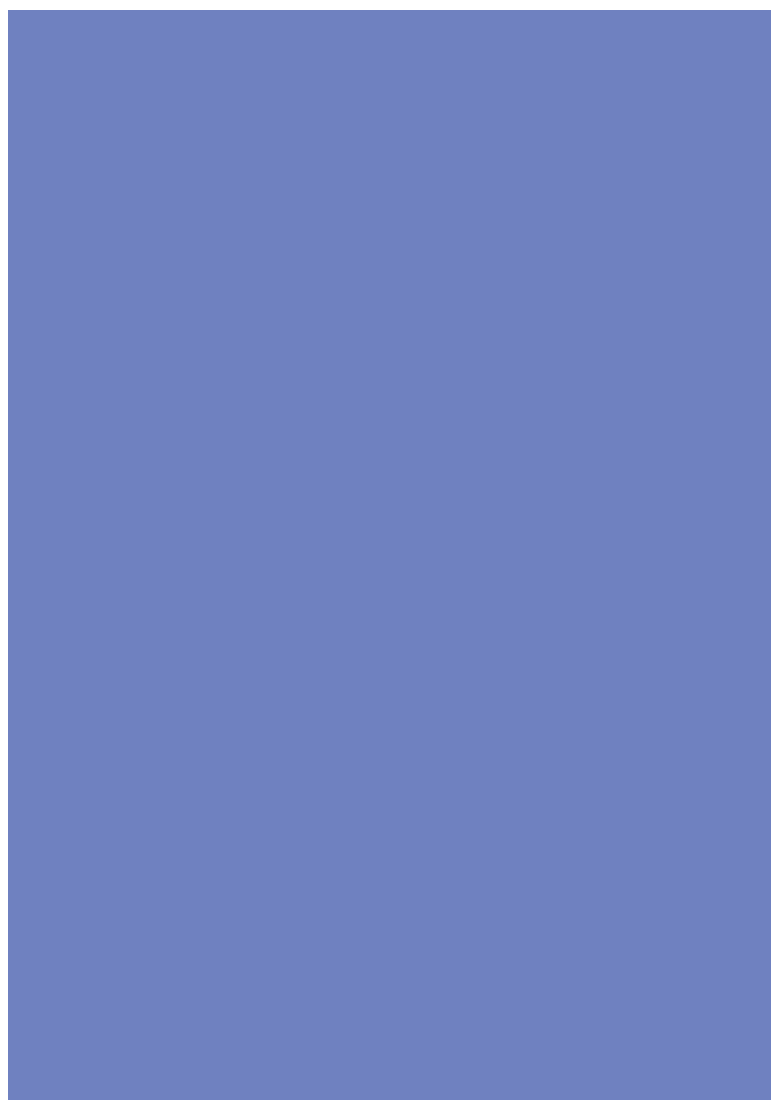
We have reviewed other financial information in the annual report for consistency with the audited financial statements. In our opinion, the information is consistent in all material respects with the audited financial statements.

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
28 April 2005

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

Pavel Závitkovský
Licence number 69



Supplementary information published pursuant to § 118 of act no. 256/2004 coll., on capital market undertakings, as amended

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, in particular pursuant to the Banking Act 21/1992 Coll., as amended. HVB Bank was established for an indefinite period.

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

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

1.2. PERSONS RESPONSIBLE FOR THE AUDIT OF THE FINANCIAL STATEMENTS

RESPONSIBLE PERSON: PAVEL ZÁVITKOVSKÝ

Licence no.: 69
Domicile: Chudenická 1061/26,
Prague 10
Auditor: KPMG Česká republika
Audit, s. r. o.
Licence no.: 71
Registered office: Pobřežní 648/1a,
Prague 8

1.3. MANAGING BOARD OF HVB

DAVID GRUND

Chairman of the Managing Board
and Chief Executive Officer
Domicile: K lukám 702, Šestajovice
Birth no.: 550224/0062

PETR BRAVEK

Member of the Managing Board
and Executive Director
Domicile: Dykova 19, Prague 10
Birth no.: 610804/0708

UDO SZEKULICS

Member of the Managing Board
and Executive Director
Domicile: Nad Údolím 62/338,
Prague 4 - Hodkovičky
Born: 19 December 1958

CHRISTIAN BRUCKNER

Member of the Managing Board
and Executive Director
Domicile: Gallašova 585/9, Prague 6
Born: 19 February 1971

PETER KOERNER

Member of the Managing Board
and Executive Director
Domicile: Pötzleinsdorfer Höhe 33,
A - 1180 Vienna, Austria
Born: 18 May 1959

No Member of the Managing Board
is conducting any other business
activity that might be relevant for
the purpose of appraising the issuer
except for his activities for the
issuer.

On 1 December 2004, Peter Koerner
was appointed a new Member
of the Managing Board, succeeding
Věslav Michalik in the charge of
Executive Director and Member of
the Managing Board. As at the date

of this Annual Report, Peter Koerner
was not yet entered into the
Commercial Register in a legally
valid and effective manner.

1.4. SUPERVISORY BOARD OF HVB

MARTIN GRÜLL

Member of the Supervisory Board
Domicile: Dr. Hans Schürff Gasse
21, Mödling, Austria
Born: 25 October 1959
Date of appointment to the office:
30 July 2001
University of Economics, Vienna
23 years' experience in interna-
tional banking

HEINZ MEIDLINGER

Member of the Supervisory Board
Domicile: Kalmusweg 46 /
Haus 107, Vienna, Austria
Born: 3 November 1955
Date of appointment to the office:
30 July 2001
Academy of Commerce and Trade
35 years' experience in treasury

JAROSLAVA LAUROVÁ

Member of the Supervisory Board
Domicile: Amforová 1886, Prague 5
Birth no.: 595902/1068
Date of appointment to the office:
3 June 2003
Law Faculty, Charles University,
Prague
22 years' experience in banking
law

HARALD NOGRASEK

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

FRIEDERIKE KOTZ

Member of the Supervisory Board
Domicile: Döblinger Hauptstrasse 11,
DG 29, Vienna, Austria
Born: 22 November 1962
Date of appointment to the office:
21 March 2002
University of Economics, Vienna
19 years' experience in commercial

banking, internal audit and quality
management

HELENA ŠRÁMKOVÁ

Member of the Supervisory Board
Domicile: Liškova 633/8, Prague 4
Birth no.: 545518/2623
Date of appointment to the office:
11 March 2002
Secondary School of Economics,
Prague
14 years' experience in banking
payments systems

RALF CYMANEK

Member of the Supervisory Board
Domicile: Ruddigergasse 9/10,
1050 Vienna, Austria
Born: 13 February 1969
Date of appointment to the office:
4 December 2003
Technical University, Budapest,
MBA - El Escorial, Spain
12 years' experience in banking
and consultancy

DDR. REGINA PREHOFER

Member of the Supervisory Board
Domicile: Adolfsstorgasse 49/2/7,
1130 Vienna, Austria
Born: 2 August 1956
Date of appointment to the office:
30 January 2004
University of Vienna, Doctorate
23 years' experience in economy

PAVEL ŠLAMBOUR

Member of the Supervisory Board
Domicile: Černošická 614,
Prague 5 - Lipence
Birth no.: 720312/0903
Technical University, Prague
9 years' experience in securities
trading and FX and money
operations

No Member of the Supervisory
Board is conducting either any other
business activity in the Czech
Republic or any business activity
that might be relevant for the pur-
pose of appraising the issuer, except
for his/her activities for the issuer.

1.5. BANK'S MANAGERS HEAD OFFICE

ING. DAVID GRUND

Chief Executive Officer
from 4 February 2003
University of Economics, Prague
25 years' experience in banking
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

ING. PETR BRÁVEK

Executive Director
from 14 November 2001
ČVUT Prague
11 years' experience in bank operations and project management
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

DR. UDO AMADEUS SZEKULICS

Executive Director
from 1 September 2002
University of Salzburg
19 years' experience in risk management and law
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

DR. PETER KOERNER

Executive Director
from 1 December 2004
University of Vienna, Faculty of Law
20 years' experience in corporate banking
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

CHRISTIAN FRANZ BRUCKNER

Executive Director
from 1 August 2003
Donau - University, Krems
11 years' experience in banking
Domicile: see Managing Board of HVB
Born: see Managing Board of HVB

ING. DUŠAN HLADNÝ

Dept. Corporate Clients
From 1 October 2001
University of Economics, Prague
13 years' experience in corporate banking
Domicile: Na Hřebenech 1163, Prague
Born: 29 November 1964

ING. PAVEL NĚMEJC

Dept. Regional Corporate Clients
From 1 July 2004
University of Economics, Prague
18 years' experience in banking
Domicile: Družstevní 1658/4, 301 00 Plzeň
Born: 9 March 1963

ING. JANA KYTLICOVÁ

Dept. Trade Finance
From 1 January 1995
University of Economics, Prague
19 years' experience in foreign trade
Domicile: Choceradská 3120/8, Prague 4
Born: 25 January 1956

BC. JIŘÍ BÁČA

Dept. Branch Network Management
From 1 October 2001
Masaryk University, Faculty of Economy, Brno
9 years' experience in corporate and private banking
Domicile: Ke dráze 422/4, Prague 10
Born: 16 June 1973

ING. DANA CASIMATY, MBA

Dept. Strategic Planning
From 1 February 2003
University of Economics, Prague, London Business School, London
11 years' experience in strategic planning and product development
Domicile: Peckova 252, Prague 8
Born: 30 June 1968

ING. IVO KUBÁLEK

Dept. Segment and Product Management
From 1 April 2003
University of Economics, Prague
10 years' experience in banking
Domicile: Revoluční 25, Prague 1
Born: 9 December 1961

ING. JAN PRACHAŘ

Authorised to manage the Dept. Private Banking and Securities
From 18 August 2004
University of Economics, Prague
10 years' experience in investment banking
Domicile: Rembrandtova 2186, Prague 10
Born: 17 July 1969

BC. JIŘÍ DOUBRAVSKÝ

Dept. Mobile Distribution Network Management
From 1 September 2002
West Bohemia University, Faculty of Economics, Plzeň
10 years' experience in corporate transactions and real estate finance
Domicile: Oldřichova 595, Prague 2
Born: 29 June 1971

ING. FILIP LESCH

Dept. Trading
From 1 October 2003
University of Economics, Prague
10 years' experience in banking
Domicile: Na Hřebenkách 13, Prague 5
Born: 26 November 1969

ING. JAROSLAV ŽAHOUREK

Dept. Assets and Liabilities Management
From 1 October 2001
Technical University, Prague
10 years' experience in treasury
Domicile: U Zvonařky 2536, Prague 2
Born: 30 May 1970

IGOR ZIBRIK, MA

Dept. Custody
From 1 July 2002
International Finance, University of California
14 years' experience in treasury
Domicile: Ke Dvoru 8, Prague 8
Born: 25 November 1967

ING. JANA RIEBOVÁ

HR Dept.
From 1 November 2002
Institute of Chemical Technology, Prague
14 years' experience in HR management and training
Domicile: Semonická 2173/4, Prague 9
Born: 14 June 1962

ING. JAN CHVOJKA

Dept. Central Marketing
From 1 October 2003
University of Economics, Prague
8 years' experience in marketing
Domicile: Ke Klimentce 45, Prague 5
Born: 27 March 1971

MAG. ALOIS BARTLHUBER
Dept. Credit Risk
Management - Corporate Clients
From 1 October 2001
University of Economics, Vienna
16 years' experience
in risk management
Domicile: K Botiči 8, Prague 10
Born: 21 June 1962

MAG. CHRISTIAN MICHALEK
Dept. Credit Risk Management -
Private and Business Clients
From 1 February 2002
University of Economics, Vienna
8 years' experience in credit risk
management and project
management
Domicile: 7423 Grafenschachen 38,
Grafenschachen, Austria
Born: 15 February 1967

MGR. TIBOR KUZMÍK
Legal Dept.
From 1 July 2003
Faculty of Law, Charles University,
Prague
11 years' experience in law
Domicile: Nechvílova 1869/13,
Prague 4
Born: 20 February 1968

ING. JOSEF TYLL, CSC.
Internal Audit Dept.
From 1 October 2001
University of Economics, Prague
11 years' experience in internal
audit and banking
Domicile: Anežky Malé 774, Prague 4
Born: 8 August 1947

B.SC. DAVID JOSEPH O'MAHONY
Dept. Information Technologies
From 22 November 2004
University College Cork, Ireland
10 years' experience in bank
information technologies
Domicile: U Zvonářky 1, Prague 2
Born: 4 March 1965

ING. DUŠAN CHVOJKA, MBA
Dept. Strategic Operations
Management
From 5 April 2004
Rochester Institute of Technology
10 years' experience in project
management
Domicile: Godrova 1, 811 06
Bratislava, Slovakia
Born: 30 September 1962

ING. MIROSLAV ŠULAI
Financial Dept.
From 1 October 2001
Technical University, Prague
14 years' experience in banking in
management of finance, strategy,
bank services and technologies
Domicile: Gabinova 831/14, Prague 5
Born: 11 July 1961

ING. TOMÁŠ HOLÍK
Dept. Controlling
From 4 April 2002
University of Economics, Prague
8 years' experience in controlling
and market risk monitoring
Domicile: Mirovická 1101/25,
Prague 8
Born: 1 May 1971

HELENA ŠRÁMKOVÁ
Dept. Bank Operations
From 17 May 2004
Secondary School of Economics,
Prague
12 years' experience in bank
payment systems
Domicile: Liškova 633/8, Prague 4
Born: 18 May 1954

ING. MICHAL HLADÍK
Authorised to manage the Card
Operations Centre
From 1 April 2004
Technical University Prague -
machinery and engineering
5 years' experience in banking
Domicile: Pod Valem 354/9,
Prague 10
Born: 8 June 1970

MAG. MARKUS KRIEGLER
Dept. Corporate and Public Finance
From 1 September 2004
Business administration, Vienna
10 years' experience in banking
Domicile: Záhřebská 35, Prague 2
Born: 13 February 1969

DUŠAN PRCHLÍK, MBA
Dept. Real Estate Finance -
Corporate Clients
From 9 April 2003
University of West Florida, USA
6 years' experience in real estate
finance
Domicile: Jiráskova 875, Benešov
Born: 29 June 1974

MGR. PAVEL KUBIČKA, MBA
Dept. Segment and Product
Management
From 7 April 2004
Charles University, Rochester
Institute of Technology
8 years' experience in project
management and banking
and insurance
Domicile: Liborova 14, Prague 6
Born: 25 January 1966

ING. MARTIN VINTER
Dept. Sales
From 1 October 2001
University of Economics, Prague
9 years' experience in treasury
Domicile: Galandova 1237, Prague 6
Born: 22 December 1969

MGR. MARIE WOJCIKOVÁ
Dept. PR and Internal
Communication
From 1 May 2003
Kiev State University
10 years' experience in PR
and communication
Domicile: Mánesova 1234,
Úvaly u Prahy
Born: 24 May 1960

ING. ANTONÍN FIKRLE
Dept. Controlling and Credit Risk
Management
From 1 October 2001
University of Economics, Prague
6 years' experience in credit risk
management and analysis
Domicile: Hvězdoslavova 506/9,
Prague 4
Born: 26 September 1974

ING. MILAN ŘÍHA
Dept. Market Risk Measurement
From 1 October 2003
Technical University, Prague
12 years' experience in treasury
Domicile: Splavná 1489, Prague 9
Born: 19 May 1966

BC. MAREK KORTUS
Dept. Compliance
From 1 October 2003
University of Economics, Prague
6 years' experience in compliance
Domicile: Churáňovská 2692/9,
Prague 5
Born: 27 August 1966

1.6. DIVIDENDS AND DIRECTORS FEES

In 2004, HVB Bank Czech Republic paid a dividend of CZK 1,000,000,000 to its shareholder. No directors fees were paid in the same period.

1.7. 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, as well as trading 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 stated in § 1 para.1 (a) and (b) and para. 3 (a) through (r) of the Act on Banking 21/1992 Coll., as amended;
- (b) issuing of mortgage bonds pursuant to § 1 para. 4 of the Act on Banking 21/1992 Coll., as amended;
- (c) trading with securities (in the Bank's own name and on its own account, in its own name and on the account of a third party, in a third party's name and on the account of the third party) pursuant to § 45 para. 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, consisting of:

- (a) 100 unlisted booked common shares each with a nominal value of CZK 16,320,000;
- (b) 200 unlisted booked common shares each with a nominal value of CZK 13,375,000;
- (c) 74,000 unlisted booked common shares each with a nominal value of CZK 10,000; and
- (d) 10 unlisted 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 has 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

	2004	2003	2002
(All data as at 31 December)			
Registered capital	5,124,716	5,124,716	5,047,000
Share premium	1,996,920	1,996,920	1,996,920
Mandatory reserve funds and risk funds	733,548	648,218	563,121
Other reserve funds and other funds from profit	1,014,919	1,014,169	1,013,511
Capital funds	37,142	37,142	0
Revaluation gains (losses)	0	0	0
Retained earnings from previous years	2,280,531	1,661,556	146,794
Profit for accounting period	1,866,350	1,706,605	1,665,671
Total shareholder's equity	13,054,126	12,189,326	10,433,017

2.3. LIST OF UNPAID BOND ISSUES

The total volume of unpaid bond issues, including EUR and USD bonds converted at the ČNB's exchange rate valid as at 31 December 2004, amounts to CZK 13,829,599,993.

2.4. GROUP STRUCTURE

A/ HVB Bank shareholders

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

B/ Affiliate companies and other companies on an equal footing

Company	Address	Partner/Shareholder (share in %)
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 in %)
HYPO stavební spořitelna a.s.	Prague 1, Senovážné nám. 27	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%)
HVB Reality CZ, s.r.o.	Prague 5, Elišky Peškové 15	HVB Bank Czech Republic a.s. (100%)
HVB Factoring s.r.o.	Prague 2, Italská 24	HVB Bank Czech Republic a.s. (100%)

2.5. INFORMATION ON ALL MONETARY AND IN-KIND INCOMES ACCEPTED BY THE MANAGERS AND MEMBERS OF THE SUPERVISORY BOARD FROM THE ISSUER

	Total incomes	thereof:	Salaries and remuneration	Annual bonuses	Non-monetary compensation
Managing Board of HVB Bank	41,908,808	= >	29,937,428	8,573,380	3,398,000
Supervisory Board of HVB Bank	6,379,629	= >	4,603,841	1,741,000	34,788

Note: Data in Table 2.5. above include the salaries and remuneration to the Members of the Managing Board which are directly paid by the shareholder, as well as bonuses paid out in 2005 covering the year 2004.

2.6. INFORMATION ON THE NUMBER OF SHARES ISSUED BY THE ISSUER AND WHICH ARE UNDER THE OWNERSHIP OF THE ISSUER'S STATUTORY BODIES

The number of shares issued by the issuer under the ownership of the statutory bodies or members thereof, other managers and Members of the Supervisory Board is zero, because all shares issued by the issuer are held by the sole shareholder, Bank Austria Creditanstalt AG, Vienna.

2.7. PRINCIPLES OF REMUNERATING THE ISSUER'S MANAGERS AND MEMBERS OF THE SUPERVISORY BOARD**Remuneration and incentive strategy for the managers of HVB Bank Czech Republic**

HVB Bank has created a remuneration and incentive strategy based on market comparison with other entities active on the financial and banking market in the Czech Republic. The aim of our strategy is to support achievement of our bank's business goals in the best possible way.

Structure of the remuneration and incentive system:

- Policy of basic salaries
- Bonus scheme
- System of benefits

Remuneration and incentive principles:

- Individual performance goals are reflected in the amount of the bonus.
- Key capabilities of a management employee influences reappraisal of his or her basic salary.
- The system of benefits is set in a transparent way for all the staff.

The remuneration and incentive strategy is identical for all of the Bank's employees. The company regularly invests into the personal and professional development of each management employee.

A system of performance evaluation is based on an individual approach that involves setting goals and regular evaluations relative to those goals. Motivating managers in their further personal and professional growth is an inseparable part of this process.

2.8. INFORMATION ON REMUNERATION PAID TO AUDITORS ON BEHALF OF THE ISSUER AND SEPARATELY ON BEHALF OF THE CONSOLIDATED UNIT IN THE REPORTING PERIOD

	On behalf of the issuer		On behalf of the consolidated unit		Total CZK
	Tax advisory	Audit	Tax advisory	Audit	
KPMG	3,139,220.00	15,868,700.00	3,139,220.00	17,517,200.00	
Deloitte Touche	325,488.99	0.00	1,488,445.34	0.00	
PriceWaterhouseCoopers	178,500.00	0.00	178,500.00	0.00	
Total CZK	3,643,208.99	15,868,700.00	4,806,165.34	17,517,200.00	22,323,365.34

2.9. MAJOR INVESTMENTS (IN CZK 000)

Data on major investments (in CZK 000)	2004	2003	2002
Type of investment			
Securities	34,035,049	27,056,739	18,271,846
thereof:			
State zero coupon bonds and other securities for trading	1,559,931	7,890,557	2,725,394
State zero coupon bonds and other securities for sale	9,333,195	2,302,814	5,075,412
Debt securities for trading	958,956	1,088,492	2,478,862
Debt securities for sale	16,881,722	14,586,070	7,005,752
Debt securities held to maturity	2,543,035	751,306	623,426
Shares, participation certificates and other interests for trading	2,316,096	44	0
Shares, participation certificates and other interests for sale	7,478	3,000	3,000
Controlling interests	488,278	434,216	360,000
Substantial interests	240	240	0
Information technologies	176,255	140,518	160,413

1) All data are as at 31 December of the relevant year and stated in CZK 000. All of HVB's investments, except for the financial investments, are of an operative nature. The investments are mostly made in the Czech Republic and are not therefore broken out geographically.

2) Ownership interests which are not securities (i.e. interests in limited liability companies) are not included.

2.10. MAJOR FUTURE INVESTMENTS EXCEPT FOR FINANCIAL INVESTMENTS (PLANNED FOR 2005)

Investments into information technologies	CZK 300,000,000
Other investments (except for financial investments)	CZK 27,841,000
Total	CZK 327,841,000

2.11. GUARANTEES PROVIDED BY THE ISSUER - DATA AS AT 31 DECEMBER 2004

(In CZK 000)	
Guarantees provided	9,764,213
Guarantees provided under opened L/Cs	231,334
Guarantees provided under confirmation of L/Cs	121,504
Total	10,117,051

2.12. REVENUES IN THE LAST TWO ACCOUNTING PERIODS

There is no item known as "revenues" in the financial statements of banks. The issuer holds the opinion that the total gross income (i.e., Interest income and similar income + Income from shares and participation interests + Commission and fee income) can be considered an equivalent to this indicator.

In TCZK	31 Dec. 2004	31 Dec. 2003
Interest income and similar income	5,078,249	4,436,802
Income from shares and participation interests	90,000	124,007
Commission and fee income	1,254,501	1,052,972
Total gross income	6,422,750	5,613,781

2.13. ISSUER'S DIRECT AND INDIRECT PARTICIPATION INTERESTS EXCEEDING 10%

Company:	HYPO stavební spořitelna a. s.
Registered office:	Senovážné nám. 27, Prague 1
Company identification no.:	61858251
Subjects of business:	The subjects of business are administration of building society savings pursuant to § 1 of Act No. 96/1993 Coll., on Building Society Saving and State Support to Building Society Saving, and performance of the activities listed under § 9 para. 1 of Act No. 96/1993 Coll.: a) acceptance of deposits from participants in building society savings schemes, specifically - acceptance of CZK deposits from participants in building society savings schemes; b) providing of loans to participants in building society savings schemes, specifically – providing of CZK loans to participants in building society savings schemes; c) providing of state subsidies to individuals participating in building society savings schemes, specifically - providing of state subsidies in CZK to individuals participating in building society savings schemes; d) granting of loans to entities whose products and delivered services are intended to meet residential needs, specifically - granting of CZK loans to entities whose products and delivered services are intended to meet residential needs; e) acceptance of deposits from banks, foreign banks, branches of foreign banks, financial institutions, foreign financial institutions and branches of foreign financial institutions, specifically - acceptance of CZK deposits from banks, foreign banks, branches of foreign banks, financial institutions, foreign financial institutions and branches of foreign financial institutions; f) providing of guarantees for loans under building society savings schemes, for loans granted in compliance with § 5 para. 5 of the Act on Building Society Saving, and for loans specified in § 9 para. 1 letter a) of the Act on Building Society Saving, specifically – granting of guarantees in CZK for loans under building society savings schemes, for loans granted in compliance with § 5 para. 5 of the Act on Building Society Saving, and for loans specified in § 9 para. 1 letter a) of the Act on Building Society Saving; g) trading on its own account with mortgage bonds and similar products issued by member countries of the Organisation for Economic Co-operation and Development, specifically – trading on its own account with CZK-denominated mortgage bonds; h) trading on its own account with bonds issued by the Czech Republic, with bonds for which the Czech Republic assumed guarantee, and with bonds issued by the Czech National Bank, specifically – trading on its own account with CZK-denominated bonds issued by the Czech Republic, with CZK-denominated bonds for which the Czech Republic assumed guarantee, and with CZK-denominated bonds issued by the Czech National Bank; i) trading on its own account with bonds issued by the member countries of the Organisation for Economic Co-operation and Development, by the central banks of these countries, by financial institutions of these countries and by banks having their seats in these countries, as well as with bonds for which these countries assumed guarantee, and with bonds issued by the European Investment Bank, Nordic Investment Bank and European Central Bank, specifically, - trading on its own account with CZK-denominated bonds issued by the European Investment Bank; j) conducting payments and clearing payments in connection with the activities of a building society savings company, specifically - conducting payments and clearing payments in the Czech Republic in connection with the activities of a building society savings company ;k) provision of banking information; l) financial brokerage
Subscribed registered capital:	CZK 500,000,000
Amounts and types of reserves as at 31 December 2004:	Reserves for standard loans: CZK 841,000, Reserves for taxes: CZK 2,068,000, Other reserves: CZK 29,000,000, Mandatory reserve fund: CZK 100,000,000
Net profit for 2004:	CZK 64,603,000
HVB's share in the company's registered capital	60% (fully paid up)
Profit income from the share in 2004:	CZK 90,000,000

Company:	CBCB-Czech Banking Credit Bureau, a.s.
Registered office:	Na Příkopě 21, 117 19 Prague 1
Company identification no.:	26199696
Subjects of business:	<ul style="list-style-type: none"> - Provision of software - Consultancy in the area of HW and SW - Automatic data processing - Databank services - Administration of computer networks
Subscribed registered capital:	CZK 1,200,000
Amounts and types of reserves as at 31 December 2004:	Other reserves: CZK 1,200,000
Net profit for 2004:	CZK 1,515,000
HVB's share in the company's registered capital:	20% (fully paid up)
Profit income from the share in 2004:	CZK 0
Company:	CAE PRAHA, a.s.
Registered office:	Nám. Kinských 602, Prague 5
Company identification no.:	43004580
Subject of business:	Lease of real estate, apartments and non-residential premises, without providing other than basic services, ensuring proper administration of real estate, apartments and non-residential premises
Subscribed registered capital:	CZK 100,000,000
Amounts and types of reserves as at 31 December 2004:	CZK 0
Loss for 2004:	CZK -561,000
HVB's share in the company's registered capital:	100%
Profit income from the share in 2004:	CZK 0
Company:	HVB Reality CZ, s.r.o.
Registered office:	Elišky Peškové 15, Prague 5
Company identification no.:	60465859
Subject of business:	Real estate brokerage activities
Subscribed registered capital:	CZK 570,312,000
Amounts and types of reserves as at 31 December 2004:	Mandatory reserve fund: CZK 1,169,700
Net profit for 2004:	CZK 13,605,231
HVB's share in the company's registered capital:	100%
Profit income from the share in 2004:	CZK 0
Company:	HVB Factoring s.r.o.
Registered office:	Italská 24, Prague 2
Company identification no.:	27182827
Subject of business:	Financing of short-term receivables arising from sale of goods and services
Subscribed registered capital:	CZK 50,000,000
Amounts and types of reserves as at 31 December 2004:	Other reserves: CZK 8,960
Net profit for 2004:	CZK 23,560
HVB's share in the company's registered capital:	100%
Profit income from the share in 2004:	CZK 0

2.14. ISSUER'S BUSINESS PROSPECTS THROUGH THE END OF THE 2005 ACCOUNTING PERIOD

	(estimate, in TCZK)
Assets	
Cash in hand and balances with central banks	2,178,135
Receivables from banks	16,000,000
Receivables from customers	89,201,842
Securities for trading	10,000,000
thereof: Fixed income securities	10,000,000
Variable income securities	0
Securities portfolio - financial assets	30,711,934
Participation interests	504,456
thereof: Participation interests	
with substantial influence	504,456
Participation interests with	
controlling influence	0
Long-term financial investments	30,207,478
Intangible fixed assets	231,000
Tangible fixed assets (including leasing)	560,909
Receivables from shareholders and partners	
(subscribed unpaid capital)	0
Own shares to reduce registered capital	0
Other assets	1,328,000
Total assets	150,211,820
Liabilities and owner's equity	(estimate, in TCZK)
Due to banks	25,422,168
Due to customers	91,398,760
Certificates of deposit issued	0
Bonds issued	14,700,000
Reserves	310,000
Long-term loans of a special kind taken	748,800
Registered capital	5,124,716
Capital funds, reserve funds	
and other funds from profit	8,967,376
Other liabilities	3,540,000
Total liabilities and owner's equity	150,211,820
Profit and loss account	
Interest income	
(banks, clients, government bodies)	2,925,040
Commission and fee income	
(banks, clients, government bodies)	1,936,258
Gains from trading operations	165,000
General administrative expenses	-2,577,450
Other operating loss	-150,319
Net creation of adjustments and reserves	-379,192
Extraordinary income	-4,870
Income tax	-532,589
Net profit / loss for the accounting period	1,381,878

2.15. GENERAL OUTLINE OF TRENDS IN THE ISSUER'S ACTIVITY FROM 31 DECEMBER 2004 ONWARD

The Bank is maintaining its position as one of the leading banks delivering comprehensive services to corporate clients, based on detailed knowledge of the clients' needs, tailored solutions and individualised client care. The Bank retains its traditionally strong position in the segment of financing foreign trade transactions and in project and structured financing. The Bank also maintains a significant market share in financing of commercial real estate, and it continues to develop its operations in the segment of small and medium-sized companies.

In the segment of private customers, the Bank is focused on providing high-quality services and products meeting clients' individual needs, and including consultancy services. The Bank will continue to target the customers from growing segments, for whom it has designated product packages, mortgage financing, consumer loans and alternative investment products (i.e. structured bonds, zero coupon bonds). In addition to the branch network, there exist such alternatives for accessing the Bank's services as affiliated companies and the Bank's network of strategic partners.

3. ACTIVITIES

3.1. KEY ACTIVITIES

Client group	Banking products and services
Corporate clients	
	Loans
	Project financing and structured financing
	International transactions
	Documentary transactions
	Mortgages
	Treasury & Custody services
	Deposits
	Retail banking
	Payment cards
	Asset management
Retail (private) clients	
	Personal and business current accounts
	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)
	Counter services

3.2. REGISTERED OFFICE OF THE ISSUER'S ORGANISATIONAL UNIT AND DESCRIPTION OF REAL ESTATE OWNED BY THE ISSUER

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

HVB Bank owns two real estate properties, both in Brno, at Lidická Street no. 59 and Dvořákova Street no. 1.

3.3. PATENTS AND LICENCES

1/ ČNB resolution dated 16 January 2004, ref. no. 2004/141/520 Sp. 520/93/19.12.2003, on the basis of which HVB Bank was granted a bank licence.

2/ Czech Ministry of Finance resolution dated 19 December 1995, ref. no. 104/75 407/95, permitting 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 14 June 1999, ref. no. 521/2703-k/99). This permit remains valid after the change of the company name to Hypovereinsbank CZ a.s. and subsequently to HVB Bank. HVB Bank requested an extension of the granted permit to include other investment services. The Securities Commission granted its permission thereto by a resolution dated 9 October 2002, ref. no. 43/N/224/2001, legally valid and effective from 13 November 2002.

3.4. JUDICIAL, ADMINISTRATIVE AND ARBITRATION PROCEEDINGS

HVB Bank is not and was not involved in any judicial, administrative or arbitration proceedings which had or could have a significant impact on the issuer's financial situation. 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. LOANS OUTSTANDING AND OTHER LIABILITIES

Creditor: European Investment Bank, Luxembourg
Debtor: HypoVereinsbank CZ a.s.
Loan amount: CZK 940,000,000
Interest rate: PRIBOR - 0.05%
Loan date: 15 June 1999
Maturity date: 15 March 2009
Collateral: No collateral*

Creditor: European Investment Bank, Luxembourg
Debtor: HypoVereinsbank CZ a.s.
Loan amount: CZK 677,000,000
Interest rate: PRIBOR - 0.05%
Loan date: 15 December 2000
Maturity date: 15 March 2009
Collateral: No collateral*

Creditor: European Investment Bank, Luxembourg
Debtor: Bank Austria Creditanstalt Czech Republic, a.s.
Loan amount: USD 4,000,000
Interest rate: EIB POOL RATE**
Loan date: 20 June 2000
Maturity date: 15 June 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: 26 April 2001
Maturity date: 15 December 2006
Collateral: No collateral*

Creditor: European Investment Bank, Luxembourg
Debtor: Bank Austria Creditanstalt Czech Republic, a.s.
Loan amount: EUR 25,000,000
Interest rate: EIB POOL RATE**
Loan date: 15 June 2001
Maturity date: 15 June 2009
Collateral: No collateral*

Creditor: European Investment Bank, Luxembourg
Debtor: HVB Bank Czech Republic a.s.
Loan amount: EUR 100,000,000 (disbursed EUR 50,000,000)
Interest rate: EIB POOL RATE**
Loan date: 4 December 2001
Maturity date: 15 March 2011 - the disbursed portion
Collateral: No collateral*

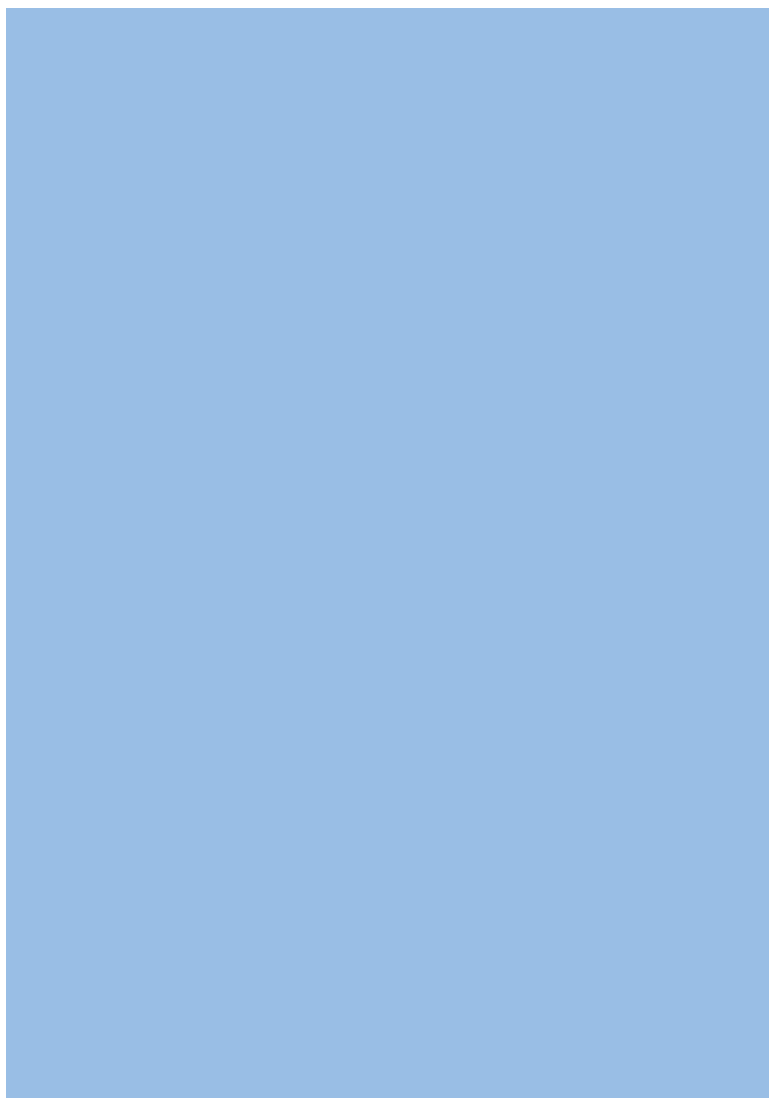
*) Bayerische Hypo- und Vereinsbank AG, Munich, originally issued a guarantee for EIB with regard to all loans to HypoVereinsbank Czech Republic a.s. However, this guarantee was transferred to Bank Austria Creditanstalt AG, Vienna. Bank Austria AG, Vienna, originally issued a guarantee for EIB regarding all loans to Bank Austria Creditanstalt Czech Republic a.s. and to HVB Bank Czech Republic a.s., and this guarantee was also transferred to Bank Austria Creditanstalt AG, Vienna. Presently, all loans are guaranteed by Bank Austria Creditanstalt AG, Vienna.

**) 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 actual situation and that no substantial circumstances that might affect the accurate and correct assessment of the Bank as an issuer of securities have been omitted or distorted.

**REPORT ON RELATIONS BETWEEN
THE CONTROLLING
AND CONTROLLED ENTITIES**



Report on relations between the controlling and controlled entities and on the relations between associated entities 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/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, this Report shall not be reviewed pursuant to § 66a para. 16 of the Commercial Code by the Supervisory Board of HVB Bank.

Within the scope of its 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

One group of these relations consists of relations established in connection with the provision of bank guarantees by the controlling entity or associated entities on behalf of HVB. For these guarantees, the controlling entity or 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 on behalf of a beneficiary (a third party). In the last year such counter-guarantees were provided by the controlling entity on behalf of the controlled entity. The controlled entity paid co-acceptance commissions to the controlling entity as consideration provided 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 Czech National Bank Provision 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, including amendment thereto, pursuant to § 39 et seq. of 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 pledger pledged the right to bonds and its receivables from bank accounts on behalf 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 last 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 agreements that provide the controlled entity with services in the field of information technologies. Three agreements were concluded with the company Bank Austria Creditanstalt AG concerning operation and delivery of payment system services, and one agreement regulating the treasury and risk management systems. Amendments to the previously concluded Site Framework Contract were executed with the company Informations-Technologie Austria GmbH, and an amendment regulating the performance and payments under a previously concluded agreement was executed with the company WAVE Solutions Information Technology GmbH. The services were provided under terms corresponding 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 a lessee and as a lessor. In the last year no new lease agreements were concluded with the associated entities in this area (except for amendments newly stipulating the currency of rent payment). Services were provided in accordance with the agreements previously concluded at arm's length. The controlled entity did not incur any loss on the basis of these relations.

6. ACQUISITION OF A 100% BUSINESS INTEREST IN THE BUSINESS COMPANY HVB REALITY CZ, S.R.O.

In the reporting period, the controlling entity and the controlled entity concluded an Agreement on Transfer of the Business Interest in the Company HVB Reality CZ, s.r.o., on the basis of which a business interest of 100% in the company HVB Reality CZ, s.r.o., identification no. (IČ): 60465859, having its registered office at Elišky Peškové 15/735, 150 00, Prague 5, was transferred from the controlled entity to the controlling entity. The controlled entity did not incur any loss based on the transaction.

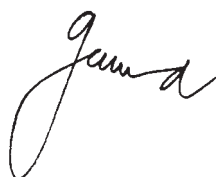
7. OTHER AGREEMENTS

The controlled entity also entered into other 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. Furthermore, the controlled entity, as the credi-

tor, concluded a contract on subordinated debt with the company HVB Banka Serbia and Montenegro a.d. A framework agreement on co-operation in processing and settling of MasterCard credit cards transactions was executed with the Hungarian company HVB Bank Hungary Rt. The controlled entity further participated, as a security agent, in transactions wherein the controlling entity was one of the contractual parties. The controlled entity and the controlling entity also concluded a co-operation agreement defining their co-operation in project financing, acquisition financing and syndicated loans. Further, the controlled entity trades on the inter-bank market at arm's length with the controlling entity and with those associated entities that are banks. 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 consideration accepted.



Ing. David Grund



Christian Bruckner

**MANAGING BOARD,
SUPERVISORY BOARD**



Managing Board, Supervisory Board

MEMBERS OF THE MANAGING BOARD AS OF 31 DECEMBER 2004:

ING. DAVID GRUND

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

DR. UDO AMADEUS SZEKULICS

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

ING. PETR BRÁVEK

Born: 4 August 1961
Member of the Managing Board and Executive Director
Date of appointment to the office: 12 December 2001
Dykova 19, Prague 10
Technical University, Prague
11 years' experience in bank operations and project management

CHRISTIAN FRANZ BRUCKNER

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

NEW MEMBER OF THE MANAGING BOARD:

DR. PETER KOERNER

Born: 18 May 1959
Member of the Managing Board and Executive Director
Date of appointment to the office: 1 December 2004
Pötzleinsdorf Höhe 33,
1180 Vienna, Austria
University of Economics, Vienna
20 years' experience in banking

MEMBER OF THE MANAGING BOARD WHO RESIGNED FROM HIS OFFICE DURING 2004:

ING. VĚSLAV MICHALIK, CSC.

Born: 1 March 1963
Member of the Managing Board and Executive Director
Date of resignation from the office: 30 November 2004
Šípková 405
252 41 Dolní Břežany
Technical University, Prague
10 years' experience in corporate finance and investment banking

MEMBERS OF THE SUPERVISORY BOARD AS OF 31 DECEMBER 2004:

HEINZ MEIDLINGER

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

MAG. FRIEDERIKE KOTZ

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

RALF CYMANEK

Born: 13 February 1969
 Date of appointment to the office:
 4 December 2003
 Rüdigerstrasse 9/10,
 1050 Vienna, Austria
 Technical University, Budapest, MBA -
 El Escorial, Spain
 12 years' experience in consultancy

JUDR. JAROSLAVA LAUROVÁ

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

HELENA ŠRÁMKOVÁ

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

**NEW MEMBERS OF THE
SUPERVISORY BOARD:****HELMUT BERNKOPF**

Born: 10 May 1967
 Date of appointment to the office:
 6 December 2004
 Hockegasse 85/4, A-1180 Vienna,
 Austria
 University of Economics, Vienna,
 Commercial College, Vienna
 10 years' experience in banking

HARALD VERTNEG

Born: 26 June 1959
 Date of appointment to the office:
 7 September 2004
 Felixgasse 21, A-1130 Vienna, Austria
 University of Vienna
 University of Economics, Vienna
 21 years' experience in banking

DDR. REGINA PREHOFER

Born: 2 August 1956
 Date of appointment to the office:
 30 January 2004
 Adolfstorgasse 49/2/7, 1130 Vienna,
 Austria
 University of Economics and Business
 Administration, Vienna
 University of Vienna
 24 years' experience in banking

ING. PAVEL ŠLAMBOUR

Born: 12 March 1972
 Date of appointment to the office:
 21 April 2004
 Černošická 614, 155 31 Prague 5
 Technical University, Prague
 10 years' experience in banking

**MEMBERS OF THE SUPERVISORY
BOARD WHO RESIGNED FROM
THEIR OFFICES DURING 2004:****MAG. MARTIN GRÜLL**

Born: 25 October 1959
 Date of resignation from the office:
 18 November 2004
 Dr. Hans Schürff Gasse 21, 2340
 Mödling, Austria
 University of Economics, Vienna
 23 years' experience in international
 banking

HARALD NOGRASEK

Born: 5 October 1958
 Date of resignation from the office:
 6 September 2004
 Leopold Moser Gasse 4/1/158
 1020 Vienna, Austria
 University of Economics, Vienna
 18 years' experience in capital
 markets and portfolio management

MAG. FRIEDRICH KADR NOSKA

Born: 28 June 1951
 Date of resignation from the office:
 19 February 2004
 Carabelligasse 5/106,
 1210 Vienna, Austria
 University of Economics, Vienna
 28 years' experience in banking

ING. JIŘÍ DRBOHLAV

Born: 7 April 1970
 Date of resignation from the office:
 19 February 2004
 K Haltýři 687/15
 181 00 Prague 8
 University of Economics, Prague
 13 years' experience in corporate
 client business and strategy and
 product development

Due to job rotations within the CEE
 region of Bank Austria Creditanstalt
 (BA-CA), the parent company of
 HVB Bank Czech Republic, the
 following changes in the Managing
 Board of HVB Bank Czech Republic
 will take place by summer 2005.
 The changes are subject to approval
 by the local authorities.

- Christian Suppanz, 54, currently
 Chief Executive Officer of HVB
 Bank Slovakia and highly experienced
 in the field of banking, will join the
 Managing Board of HVB Bank Czech
 Republic. He will assume the functions
 of Chief Financial Officer and Chief
 Operating Officer, succeeding
 Christian Bruckner, 34, in these
 positions. Mr Bruckner will leave the
 Managing Board of HVB Bank Czech
 Republic and will assume a new position
 within BA-CA Group.
- Alfred Fuesselberger, 41, member
 of the Managing Board of HVB Central
 Profit Banka and responsible for Retail,
 will also join HVB Bank Czech Republic.
 He is to succeed Petr Brávek, 43,
 currently responsible for the Retail
 business segment within HVB Bank
 Czech Republic. Mr Brávek will leave
 the Managing Board and the bank. Mr
 Fuesselberger has previously worked
 for Creditanstalt in Prague from
 1993 to 1997.

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 - NÁMĚSTÍ REPUBLIKY
nám. Republiky 3a
110 00 Prague 1
Tel.: 221 119 611
Fax: 221 119 622

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

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

PRAGUE - HAVELSKÁ
Havelská 19
110 00 Prague 1
Tel.: 221 119 706
Fax: 221 119 702

PRAGUE - VINOHRADY
Italská 24
121 49 Prague 2
Tel.: 221 119 671
Fax: 221 119 672

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

PRAGUE - PALÁC FLÓRA
Vinohradská 151
130 00 Prague 3
Tel.: 255 743 201
Fax: 255 743 204

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

PRAGUE - DEJVICE
Vítězné náměstí 10
160 00 Prague 6
Tel.: 233 089 511
Fax: 233 089 520

BRNO - KOBLIŽNÁ

Koblišná 2
601 80 Brno
Tel.: 542 422 411
Fax: 542 215 561

BRNO - LIDICKÁ

Lidická 59
602 00 Brno
Tel.: 549 523 411
Fax: 549 523 499

ČESKÉ BUDĚJOVICE

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

HRADEC KRÁLOVÉ

Ulrichovo náměstí 854
500 02 Hradec Králové
Tel.: 495 000 127
Fax: 495 512 550

CHOMUTOV

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

JIHLAVA

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

KARLOVY VARY

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

LIBEREC

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

MLADÁ BOLESLAV

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

OLOMOUČ

28.října 15
772 00 Olomouc
Tel.: 585 223 281
Fax: 585 223 269

OSTRAVA

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

PARDUBICE

Smilova 1904
530 02 Pardubice
Tel.: 466 614 092
Fax: 466 614 096

PLZEŇ - NÁMĚSTÍ REPUBLIKY

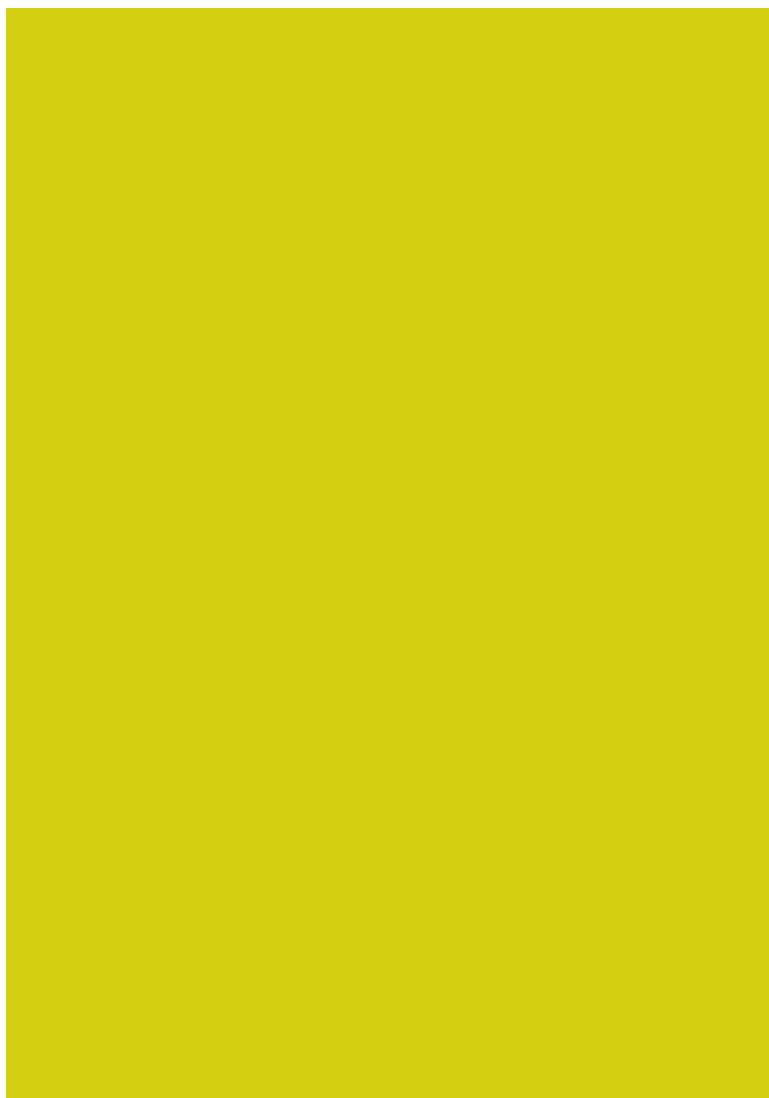
nám. Republiky/Riegrova 1
304 48 Plzeň
Tel.: 377 196 111
Fax: 377 196 245

ÚSTÍ NAD LABEM

Mírové náměstí 35A
400 01 Ústí nad Labem
Tel.: 474 445 555
Fax: 474 445 556

ZLÍN

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



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 to include building society savings.

HYPO STAVEBNÍ SPOŘITELNA A.S.

The subsidiary company HYPO stavební spořitelna a.s., in which HVB Bank exercises control, is included within the consolidation unit of HVB Bank, and it is the only other entity so included.

HVB Bank owns 60% of the company's registered capital. The other shareholder is VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, which holds the minority share of 40%.

A major issue in 2004 was a change in the Act on Building Society Saving which resulted, in particular, in a reduction of the state subsidy for clients newly concluding contracts. Another important event was an investigation conducted by the Office for the Protection of Economic Competition which suspected that the building society savings organisations were colluding in the setting of their fees. The discussions in the news media had a very negative impact on the clients and potential

clients. Although it was not a member of any cartel, HYPO stavební spořitelna a.s. created a reserve for the fine assessed against it by the antimonopoly office in the amount of CZK 29 million. This statutory change and the investigation mentioned had a substantial impact on the number of newly concluded contracts -- not only at HYPO stavební spořitelna a.s. (reduction by 60.3%) but throughout the entire segment (reduction by 66.5%).

HYPO stavební spořitelna a.s. acquired a licence during 2004 for cross-selling of products, and it has concluded cross-selling agreements with its parent company HVB Bank, with Allianz penzijní fond, a. s. (pension fund) and with VICTORIA VOLKSBANKEN pojišťovna, a. s. (insurance company). In July 2004, the company put into operation a new information system. That system was introduced, among other reasons, to help to deliver an improved level of services to the clients of HYPO stavební spořitelna a.s.

During 2004, HYPO stavební spořitelna a.s. concluded 57,000 contracts with a total target amount of almost CZK 11,400 million. As at the end of 2004, the company had registered almost 461,000 duly concluded building society savings contracts with an aggregate target amount of CZK 90,800 million (an increase of CZK 3,500 million compared to 2003). The market share of HYPO stavební spořitelna a.s. in the total new target amount written in 2004 slightly grew to 8.5% (2003: 7.7%). Loans granted, including bridging loans, totalled

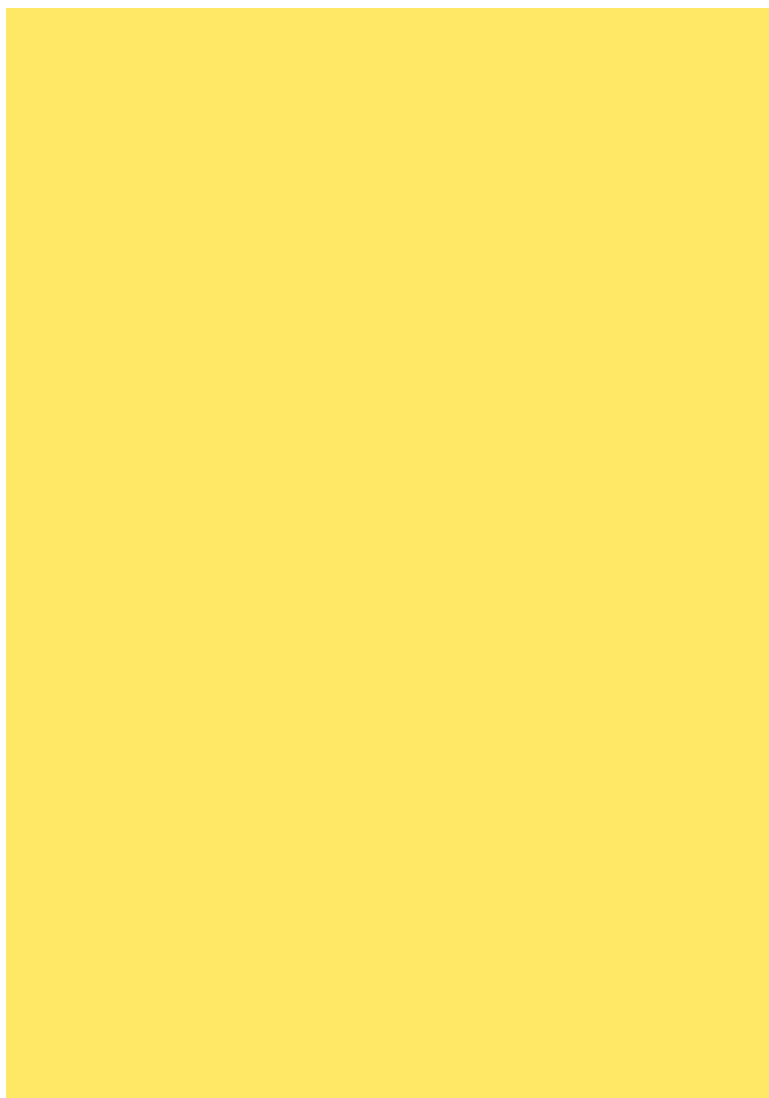
CZK 1,860 million as at the end of 2004, representing year-on-year growth of 5.4%.

In the months to come, HYPO stavební spořitelna a.s. will continue to extend its business activities, primarily in granting housing loans, bridging loans and in cross-selling products.

**KEY FINANCIAL CHARACTERISTICS
OF THE COMPANY**

CZK 000	31 Dec. 2004
Registered capital	500,000
Equity	745,394
Total assets	24,305,189
Net profit/loss	64,603

**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

		2004	2003
A. Capital and capital adequacy			
Capital adequacy ratio	%	10.4	13.6
Tier 1 (after taking into account deductible items)	CZK 000	11,289,352	10,624,692
Tier 2	CZK 000	1,216,318	1,478,635
Employed Tier 3	CZK 000	-	-
Items deductible from the total of Tier 1 and Tier 2	CZK 000	279,242	74,216
Total equity	CZK 000	12,226,428	12,029,111
Capital requirements in accordance with specific regulations:			
Capital requirement A	CZK 000	8,195,511	6,579,170
Capital requirement B	CZK 000	1,167,253	497,203
Capital requirement for credit risk of trading portfolio	CZK 000	157,880	101,411
Capital requirement for credit exposure risk of trading portfolio	CZK 000	-	-
Capital requirement for general interest rate risk	CZK 000	965,117	370,785
Capital requirement for general equity risk	CZK 000	78	2,220
Capital requirement for foreign exchange risk	CZK 000	44,178	22,788
Capital requirement for commodities risk	CZK 000	-	-
B. Ratio indicators			
Return on average assets (ROAA)	%	1.2	1.2
Return on average equity (ROAE) after tax	%	16.6	18.1
Assets per employee	CZK 000	119,041	118,202
Administrative expenses per employee	CZK 000	1,638	1,791
Net profit per employee	CZK 000	1,307	1,377



CONSOLIDATED BALANCE SHEET **AS AT 31 DECEMBER 2004**

ASSETS					
		2004	2004	2004	2003
CZK 000	Note	Gross amount	Adjustment	Net amount	Net amount
1 Cash in hand and balances with central banks		586,508		586,508	954,420
2 State zero coupon bonds and other securities eligible for refinancing with the central bank (CNB)	15	22,140,995		22,140,995	15,756,976
thereof: a) securities issued by government institutions		22,140,995		22,140,995	15,756,976
b) others					
3 Receivables from banks and cooperative savings associations	13	22,351,175		22,351,175	25,803,811
thereof: a) repayable on demand		232,515		232,515	490,347
b) other receivables		22,118,660		22,118,660	25,313,464
4 Receivables from customers - cooperative savings associations' members	14	93,132,700	913,912	92,218,788	86,507,385
thereof: a) repayable on demand		536,649	459,092	77,557	242,120
b) other receivables		92,596,051	454,820	92,141,231	86,265,265
5 Debt securities	16	21,043,648		21,043,648	17,089,021
thereof: a) issued by government institutions		5,369,237		5,369,237	5,633,087
b) issued by other entities		15,674,411		15,674,411	11,455,934
6 Shares, units and other investments	17	2,323,574		2,323,574	3,044
7 Participation interests in associates	18	422		422	250
8 Participation interests in non-consolidated subjects	19	148,434	20,156	128,278	74,216
9 Goodwill (negative goodwill)					
10 Intangible fixed assets	20	744,948	498,827	246,121	185,022
thereof: a) establishment costs					
b) goodwill					
11 Tangible fixed assets	21	2,090,857	1,668,617	422,240	508,613
thereof: land and buildings for operating activities		1,030,736	804,265	226,471	283,055
12 Other assets	22	3,772,334	9,948	3,762,386	3,087,761
13 Receivables from subscribed registered capital					
14 Prepaid expenses and accrued income		123 323		123,323	284,294
Total assets		168,458,918	3,111,460	165,347,458	150,254,813

LIABILITIES AND OWNER'S EQUITY			
CZK 000	Note	2004	2003
1 Due to banks and cooperative savings associations	23	24,044,902	23,591,048
thereof: a) repayable on demand		1,065,987	1,662,258
b) other receivables		22,978,915	21,928,790
2 Due to customers - cooperative savings associations' members	24	91,752,939	87,262,946
thereof: a) repayable on demand		38,672 339	35,930,343
b) other receivables		53,080,600	51,332,603
3 Payables from debt securities	25	26,400,871	15,835,711
thereof: a) debt securities issued		25,628,188	15,219,454
b) other payables from debt securities		772,683	616,257
4 Other liabilities	27	7,976,697	8,135,448
5 Deferred income and accrued expenses		194,732	677,113
6 Reserves	30	824,685	936,370
thereof: a) for pensions and similar obligations			
b) for taxes		95,368	147,453
c) other		729,317	788,917
7 Subordinated liabilities	26	712,930	1,156,051
8 Registered capital (excluding minority interests)	28	5,124,716	5,124,716
thereof: a) registered paid up capital		5,124,716	5,124,716
b) own shares			
9 Share premium		1,996,920	1,996,920
10 Reserve funds and other funds from profit (excluding minority interests)		1,748,467	1,662,387
thereof: a) statutory reserve funds and risk funds	31	733,548	648,218
b) other reserve funds		1,013,319	1,013,319
c) other funds from profit		1,600	850
11 Revaluation reserve fund			
12 Capital funds (excluding minority interests)	31	37,142	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)	31	2,419,005	1,755,092
15 Consolidated reserve fund		10	-240
16 Profit (loss) for the accounting period (excluding minority interests)		1,815,112	1,751,543
17 Share on profit (loss) in associates		172	250
18 Minority interests		298,158	332,316
thereof: minority registered capital		200,000	200,000
minority capital funds			
minority funds from profit including retained earnings and accumulated losses from previous periods		72,317	71,634
minority profit (loss) for the accounting period		25,841	60,682
Total liabilities and owner's equity		165,347,458	150,254,813

OFF-BALANCE SHEET ITEMS			
CZK 000	Note	2004	2003
Off-balance sheet assets			
1 Commitments and guarantees provided	33	52,066,541	41,444,343
2 Collaterals provided	33	1,627,866	260,173
3 Receivables from spot transactions		1,999,319	3,318,799
4 Receivables from fixed term transactions	33	224,906,580	284,596,387
5 Receivables from options	33	8,272,994	2,700,522
6 Receivables written-off		1,112,359	1,052,395
7 Values placed into custody, administration and deposit			
8 Values placed under management			
Off-balance sheet liabilities			
9 Commitments and guarantees received		24,335,842	18,104,342
10 Collaterals and pledges received		59,119,118	55,528,613
11 Payables from spot transactions		1,998,681	3,231,657
12 Payables from fixed term transactions	33	224,575,969	284,917,147
13 Payables from options	33	8,272,947	2,700,522
14 Values taken into custody, administration and deposit	34	119,350,155	78,435,473
15 Values taken under management	34	900,636	840,333

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2004

CZK 000	Note	2004	2003
1 Interest income and similar income	6	5,957,827	5,140,629
thereof: debt securities interest income		1,757,731	1,255,621
2 Interest expense and similar expense	6	-3,219,956	-2,553,931
thereof: interest expense and similar expense		-444,379	-369,800
3 Income from shares and participation interests		0	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		0	78,107
4 Commission and fee income	7	1,623,473	1,715,431
5 Commission and fee expense	7	-450,811	-637,686
6 Net gains (losses) from financial operations	8	1,237,304	842,501
7 Other operating income	9	36,943	32,648
thereof: negative goodwill		0	53
8 Other operating expenses	9	-172,517	-112,181
thereof: goodwill			
9 Administrative expenses	10	-2,275,756	-2,277,094
thereof: a) employee expenses		-1,055,652	-1,100,205
thereof: aa) wages and salaries		-782,571	-819,861
ab) social and health insurance		-273,081	-280,344
b) other administrative expenses		-1,220,104	-1,176,889
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	20, 21	-255,781	-297,488
12 Release of adjustments and reserves to receivables and guarantees, income from written-off receivables	14, 30	464,341	799,264
13 Write-offs, creation and use of adjustments and reserves for receivables and guarantees		-344,729	-228,462
14 Release of adjustments to participation interests with controlling and substantial influence		180	
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		-16,836	-3,500
16 Release of other reserves	30	5,150	4,794
17 Creation and use of other reserves	30	-67,056	-5,183
18 Current year profit (loss) on ordinary activities before tax		2,521,776	2,497,849
19 Extraordinary income			
20 Extraordinary expenses			
21 Current year profit (loss) on extraordinary activities before tax		0	0
23 Income tax	32	-680,823	-685,624
24 Profit or loss for the accounting period (excluding minority interests)		1,815,112	1,751,543
25 Share of profits (losses) of associates		172	250
26 Minority net profit or loss for the accounting period		25,841	60,682

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 2004

CZK 000	Registered capital	Own shares	Share premium	Reserve funds	Capital funds	Other funds from profit	Revaluation from (losses)	Profit gains (loss)	Total
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
Balance as at 1 January 2004	5,124,716		1,996,920	1,661,537	37,142	850		3,506,635	12,327,800
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								1,815,112	1,815,112
Dividends								-1,000,000	-1,000,000
Transfers to funds				85,330		2,300		-87,630	
Use of funds									
Issue of shares									
Registered capital reduction									
Own shares purchases									
Other changes						-1,550			-1,550
Balance as at 31 December 2004	5,124,716		1,996,920	1,746,867	37,142	1,600		4,234,117	13,141,362

Notes to the Financial Statements

(consolidated)

1. BACKGROUND

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

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

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

(b) Transaction date

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 entrance of building savings contracts into the accounting information system; the date of issue or receipt of a guarantee or opening credit commitment; 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) are recorded in the appropriate account of assets or liabilities on the transaction date. Fixed term and option contracts are recorded in off-balance sheet accounts from the trade date until the settlement date.

A financial asset or its part is derecognized 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 if they are waived by the Bank.

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

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

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

Premiums and discounts on debt securities are amortised/accreted through the profit and loss account over the period from the date of purchase to the date of maturity using the effective interest rate method. In the case of securities classified into the portfolio held for trading, available for sale and 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 securities can be sold for that market price.

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

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

An adjusted value of securities equals the share proportion on equity for shares, 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 and to securities acquired in primary issues not held for trading purposes. 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 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 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.

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

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

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) Goodwill (negative goodwill)

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

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

(h) Intangible and tangible fixed assets

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

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

Software	4 years
Buildings and land	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 the 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 attrib-

utable 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

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

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.

Deposits on accounts of building savings are recorded as customer savings and are monitored and allocated into three basic deposit types with stated maturity. The first type are deposits with the saving period up to 5 years, which are classified as savings with a 5 year stipulated maturity, which is in accordance to the period required by the legal terms for payment of the state subsidy. The second type is represented by the deposits related to those building savings contracts that continue after the 5 years period of saving. These deposits are classified as savings with a notice period whose maturi-

ty is equal to the contractual notice period (3 months). The third type is represented by building savings after the granting of building loans; respectively deposits received after concluding a loan agreement under a condition that enables paying out of the savings before drawing a loan. These deposits are classified as saving deposits repayable on demand without stated maturity.

This classification of deposits is in accordance with the CNB decree that specifies the methodology for preparing the financial statements submitted to the CNB.

(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 2004.

4. CHANGES IN ACCOUNTING POLICY

Compared with 2003, the following change in accounting policy was made in 2004:

Transaction date

In 2003 accounting transactions involving the purchase or sale of financial assets with a usual term of delivery (spot transactions) were recorded in off-balance sheet accounts from the trade date until the settlement date. Since 2004 spot transactions have been recorded in the appropriate account of assets or liabilities on the transaction date. This change in accounting policy had no impact on the items "Retained earnings or accumulated losses from previous years" and "Net profit (loss) for the accounting period".

5. COMPANIES INCLUDED INTO CONSOLIDATION

The consolidated financial statements as at 31 December 2004 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	245,394	60%	60%	direct

The audited financial statements of the subsidiary for the year ended 31 December 2004 were used for the preparation of these consolidated financial statements.

6. NET INTEREST INCOME

CZK 000	2004	2003
Interest income		
from deposits	217,961	196,188
from loans	3,677,411	3,440,327
from securities	1,757,731	1,255,621
other	304,724	248,493
Interest expense		
from deposits	(1,948,794)	(1,626,741)
from loans	(414,272)	(292,226)
from securities	(444,379)	(369,800)
other	(412,511)	(265,164)
Net interest income	2,737,871	2,586,698

The Bank did not claim or waived default interest of CZK 12,122 thousand (2003: CZK 9,088 thousand). The Bank also did not apply the accrual principle for the default interest relating to endangered receivables of CZK 351,212 thousand (2003: CZK 345,185 thousand).

7. FEES AND COMMISSIONS

CZK 000	2004	2003
Fee and commission income from		
securities transactions	43,756	31,092
management, administration, deposit and custody	89,065	64,120
clearing services	338,026	305,004
current account administration	164,373	161,163
payment card processing and administration	215,635	173,039
operations connected with building savings providing	370,733	665,988
other	401,885	315,025
Total	1,623,473	1,715,431
Fee and commission expense from		
securities transactions	(4,285)	(2,872)
management, administration, deposit and custody	(23,318)	(10,993)
payment card issue and processing	(124,905)	(100,240)
intermediation of building savings and loans	(204,607)	(447,618)
other	(93,696)	(75,963)
Total	(450,811)	(637,686)

8. NET GAINS OR LOSSES FROM FINANCIAL OPERATIONS

CZK 000	2004	2003
Gains/losses from securities transactions	592,804	28,546
Gains/losses from derivative transactions	(415,890)	(98,128)
Gains/losses from foreign exchange transactions	1,060,390	912,083
Total	1,237,304	842,501

9. OTHER OPERATING INCOME AND EXPENSES

CZK 000	2004	2003
Release of estimated payables	-	2,268
Income from ceded receivables	8,229	-
Income from transfer (sale) of fixed assets	2,562	3,721
Income from rent	11,655	12,464
Contractual fines received	3,769	2,485
Other	10,728	11,710
Total other operating income	36,943	32,648
Residual value of sold assets	(4,052)	(19,886)
Deposit insurance fund	(136,956)	(66,330)
Guarantee fund for securities traders	(8,812)	(1,873)
Losses and damages	(5,272)	(12,722)
Expenses of the prior year	(16,354)	-
Paid fines and penalties	(3)	(9,940)
Other	(1,068)	(1,430)
Total other operating expense	(172,517)	(112,181)

10. ADMINISTRATIVE EXPENSES

CZK 000	2004	2003
Personnel expenses		
Wages and salaries paid to employees	782,571	819,861
Social and health insurance	273,081	280,344
	1,055,652	1,100,205
Including wages and salaries paid to:		
Members of the Board of Directors	20,373	14,834
Other executives	64,896	62,802
Other administrative expenses	1,220,104	1,176,889
thereof expenses for audit, legal and tax advisory	30,461	34,802
Total administrative expenses	2,275,756	2,277,094

Information on bonuses tied to equity is included in Note 29.

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

	2004	2003
Employees	1,332	1,250
Members of the Board of Directors	8	8
Members of the Supervisory Board	15	15
Other executives	42	43

11. INCOME AND EXPENSES ACCORDING TO SEGMENTS

(a) Business segments

	Retail Banking		Corporate Banking		Investment Banking		Other	
CZK 000	2004	2003	2004	2003	2004	2003	2004	2003
Interest income	523,275	469,407	2,772,735	2,717,852	2,661,239	1,952,971	578	399
Interest expense	(926,809)	(785,656)	(702,736)	(666,659)	(1,590,406)	(1,101,616)	(5)	-
Income from shares and participation interests	-	-	-	-	-	78,107	-	-
Fee and commission income	767,385	1,288,970	726,985	333,008	128,835	93,453	268	-
Fee and commission expense	(353,663)	(568,924)	(37,221)	(43,704)	(59,909)	(24,959)	(18)	(99)
Net gains (losses) from financial operations	168,148	158,706	759,206	715,827	309,390	(35,243)	560	3,211

(b) Geographical segments

The Bank's accounting system does not automatically separate income and expenses according to different geographical segments. In 2004, the Bank operated in the Czech Republic and in the European Union.

12. TRANSACTIONS WITH RELATED PARTIES

	2004	2003
CZK 000		
Receivables	6,991,896	5,536,337
Liabilities	9,477,096	9,231,310
Income	425,637	359,834
Expense	426,210	765,463

The table includes all transactions with related parties. Detailed information about transactions with entities with controlling and substantial influence and about transactions with persons with a special relationship to the Bank is provided in Notes 13 (e), 14 (g), 14 (h), 23 (b), 24 (b), 24 (c) and 33 (b).

13. 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 CZK 1,163,882 thousand (2003: CZK 1,554,163 thousand).

(a) Classification of receivables from banks

	2004	2003
CZK 000		
Standard	22,351,175	25,803,811
Adjustments to potential losses from receivables	-	-
Net receivables from banks	22,351,175	25,803,811

In 2004 the Bank did not carry out any restructuring of receivables from banks (2003: CZK 0 thousand).

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

	2004	2003
CZK 000		
Bank guarantees	41,926	106,075
Security held by the Bank	13,386,863	17,976,493
Unsecured	8,922,386	7,721,243
Net receivables from banks	22,351,175	25,803,811

No receivables from banks secured by tangible movable assets are included in "Security held by the Bank" (2003: CZK 0 thousand).

(c) Subordinated receivables from banks

The Bank provided a subordinated loan to another bank in the amount of EUR 7,500 thousand in 2004. The loan totalled CZK 229,242 thousand as at 31 December 2004. The loan has a stipulated maturity of 10 years. The interest period is to be set within the range of one to six months and the interest rate is based on the appropriate EURIBOR rate.

(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 2004 and 2003.

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

The volume of receivables from persons with a special relationship to the Bank totalled CZK 2,026,338 thousand as at 31 December 2004 (2003: CZK 627,011 thousand).

14. RECEIVABLES FROM CUSTOMERS

(a) Classification of receivables from customers

	2004	2003
CZK 000		
Standard	87,502,855	80,967,956
Special mentioned	4,143,371	4,492,944
Substandard	624,338	960,469
Doubtful	156,836	262,152
Loss	705,300	803,170
Adjustments to potential losses from receivables	(913,912)	(979,306)
Net receivables from customers	92,218,788	86 507 385

Receivables from customers include CZK 6,080,528 thousand, which represents receivables from securities that have been acquired from primary auctions and are not intended for trading (2003: CZK 4,239,341 thousand).

In 2004 the subsidiary restructured receivables from customers amounting to CZK 311 thousand (in 2003: CZK 1,393,768 thousand).

(b) Analysis of receivables from customers by sector

	2004	2003
CZK 000		
Financial institutions	13,250,226	9,164,583
Non-financial institutions	61,858,377	53,463,917
Government sector	5,735,775	14,495,098
Non-profit organisations	191,204	180,799
Self-employed	765,418	571,902
Resident individuals	8,203,659	6,699,069
Non-residents	3,100,050	2,897,063
Unallocated	27,991	14,260
Total	93,132,700	87,486,691

(c) Subordinated receivables from customers

The Bank did not provide any loans with stipulations on subordination to customers in 2004 or in 2003.

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

	Personal guarantee	Bank and similar guarantee	Mortgage	Corporate guarantee	Other types of security	Security held by the Bank	Unsecured	Total
CZK 000								
At 31 December 2004								
Financial institutions	-	3,005,378	-	-	-	4,401,300	5,843,548	13,250,226
Non-financial institutions	106,391	7,351,393	21,951,469	2,411,228	-	4,306,273	25,731,623	61,858,377
Government sector	-	-	2,088	-	-	221,621	5,512,066	5,735,775
Non-profit organisations	-	-	126,364	-	-	21,024	43,816	191,204
Self-employed	4,242	12,000	549,176	-	-	9,322	190,678	765,418
Resident individuals	35,286	1,558	5,249,459	6,045	1,490,109	132,932	1,288,270	8,203,659
Non-residents	-	615,035	296,215	121,860	-	266,394	1,800,546	3,100,050
Unallocated	-	-	-	-	-	-	27,991	27,991
Total	145,919	10,985,364	28,174,771	2,539,133	1,490,109	9,358,866	40,438,538	93,132,700
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
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-residents	-	705,507	83,213	-	-	345,008	1,763,335	2,897,063
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

No receivables from customers secured by tangible movable assets are included in "Security held by the Bank" (2003: CZK 0 thousand).

(e) Receivables from customers written-off and re-covered

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

	2004	2003
CZK 000		
Write-offs		
Non-financial institutions	54,136	378,289
Non-profit organisations	6	-
Self-employed	1,844	41,449
Resident individuals	12,837	5,977
Non-residents	2,290	859
Unallocated	801	-
Total	71,914	426,574
Recoveries		
Non-financial institutions	323	12,064
Self-employed	6,624	6,779
Resident individuals	4,135	5,382
Total	11,082	24,225

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 2004

Loan	Banks involved	Amount in 000 CZK	Split of risk	Split of interest
I.	HVB Bank Czech Republic a.s.	368,617	38.89%	38.89%
	Westdeutsche Landesbank Dueseldorf	197,473	20.83%	20.83%
	IKB Deutsche Industriebank	171,143	18.06%	18.06%
	Živnostenská banka a.s.	210,638	22.22%	22.22%
	Total	947,871	100.00%	100.00%
II.	HVB Bank Czech Republic a.s.	5,197	33.33%	33.33%
	BAWAG International Bank CZ a.s. Praha	5,197	33.33%	33.33%
	Komerční Banka a.s. Praha	5,197	33.33%	33.33%
	Total	15,591	100.00%	100.00%
III.	HVB Bank Czech Republic a.s.	99,457	67.20%	67.20%
	Voralberger Landes und Hypothekenbank AG	48,525	32.80%	32.80%
	Total	147,982	100.00%	100.00%
IV.	HVB Bank Czech Republic a.s.	248,264	46.60%	46.60%
	Commerzbank AG, Praha	136,799	25.60%	25.60%
	ING Bank a.s. Praha	148,074	27.80%	27.80%
	Total	533,137	100.00%	100.00%

Loan	Banks involved	Amount in 000 CZK	Split of risk	Split of interest
V.	HVB Bank Czech Republic a.s.	439,124	56.30%	56.30%
	Eurohypo AG, Eshborn	341,541	43.70%	43.70%
	Total	780,665	100.00%	100.00%
VI.	HVB Bank Czech Republic a.s.	268,803	49.90%	49.90%
	Eurohypo AG, Eshborn	269,348	50.10%	50.10%
	Total	538,151	100.00%	100.00%
VII.	HVB Bank Czech Republic a.s.	127,480	77.20%	77.20%
	Eurohypo AG, Eshborn	37,592	22.80%	22.80%
	Total	165,072	100.00%	100.00%
VIII.	HVB Bank Czech Republic a.s.	235,628	56.10%	56.10%
	Eurohypo AG, Eshborn	184,546	43.90%	43.90%
	Total	420,174	100.00%	100.00%
IX.	HVB Bank Czech Republic a.s.	36,645	57.40%	57.40%
	Eurohypo AG, Eshborn	27,221	42.60%	42.60%
	Total	63,866	100.00%	100.00%
X.	HVB Bank Czech Republic a.s.	40,858	51.70%	51.70%
	Eurohypo AG, Eshborn	38,144	48.30%	48.30%
	Total	79,002	100.00%	100.00%
XI.	HVB Bank Czech Republic a.s.	8,727	83.70%	83.70%
	Eurohypo AG, Eshborn	1,702	16.30%	16.30%
	Total	10,429	100.00%	100.00%
XII.	HVB Bank Czech Republic a.s.	42,540	56.30%	56.30%
	Eurohypo AG, Eshborn	33,087	43.70%	43.70%
	Total	75,627	100.00%	100.00%
XIII.	HVB Bank Czech Republic a.s.	1,573	56.30%	56.30%
	Eurohypo AG, Eshborn	1,224	43.70%	43.70%
	Total	2,797	100.00%	100.00%
XIV.	HVB Bank Czech Republic a.s.	8,247	56.30%	56.30%
	Eurohypo AG, Eshborn	6,415	43.70%	43.70%
	Total	14,662	100.00%	100.00%
XV.	HVB Bank Czech Republic a.s.	24,207	56.30%	56.30%
	Eurohypo AG, Eshborn	18,827	43.70%	43.70%
	Total	43,034	100.00%	100.00%

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%

Loan	Banks involved	Amount	Split of	Split of
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%
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%

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

	Management bodies		Other
CZK 000	Directors	Board of executives	
At 31 December 2004	1,666	17,856	4,415,147
At 31 December 2003	2,866	19,140	4,887,320

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	2004	2003
Controlling influence		
From 1 year to 5 years	17,144	-
Over 5 years	513,745	-
Total	530,889	-

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

CZK 000	2004	2003
State zero coupon bonds and other securities held for trading	1,559,931	7,890,557
State zero coupon bonds and other securities available-for-sale	9,333,195	2,302,814
State zero coupon bonds and other held-to-maturity securities	11,247,869	5,563,605
Net book value	22,140,995	15,756,976

(c) Repurchase and resale commitments

Under resale commitments the Bank has acquired state zero coupon bonds and other securities with a market value of CZK 13,434,954 thousand (2003: CZK 17,687,768 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 with a market value of CZK 1,627,866 thousand (2003: CZK 92,200 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 with a market value of CZK 641,900 thousand (2003: CZK 817,197 thousand), which were transferred under repurchase commitments.

15. 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	2004	2003
State treasury bills	7,878,167	6,149,766
State bonds	13,268,312	8,925,725
Other	994,516	681,485
Net book value of state zero coupon bonds and other securities eligible for refinancing with the ČNB	22,140,995	15,756,976

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 351,606 thousand (2003: CZK 262,207 thousand).

16. 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 (2003: CZK 0 thousand).

The value of debt securities includes securities with a market value of CZK 3,066,485 thousand (2003: CZK 0 thousand), which were transferred under repurchase commitments.

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

CZK 000	2004	2003
Debt securities held for trading	958,956	1,088,492
Available-for-sale debt securities	16,881,722	14,586,070
Held-to-maturity debt securities	3,202,970	1,414,459
Net book value	21,043,648	17,089,021

(c) Analysis of debt securities held for trading

	2004 Market value	2003 Market value
CZK 000		
Issued by financial institutions		
- Listed on a recognised CR exchange	43,892	661,873
- Listed elsewhere	11,342	11,716
	55,234	673,589
Issued by non-financial institutions		
- Listed on a recognised CR exchange	860,107	414,903
	860,107	414,903
Issued by government sector		
- Listed on a recognised CR exchange	43,615	-
	43,615	-
Total	958,956	1,088,492

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

The Bank has purchased debt securities issued by the Bank in the book value of CZK 2,900,547 thousand (2003: CZK 2,962,298 thousand), that are held for trading. These securities decrease "Payables from debt securities" (see Note 25(a)).

(d) Analysis of available for sale debt securities

	2004 Market value	2003 Market value
CZK 000		
Issued by financial institutions		
- Listed on a recognised CR exchange	2,800,900	1,416,905
- Listed elsewhere	5,060,770	4,460,264
	7,861,670	5,877,169
Issued by non-financial institutions		
- Listed on a recognised CR exchange	842,656	292,116
- Listed elsewhere	2,851,774	2,783,698
	3,694,430	3,075,814
Issued by government sector		
- Listed on a recognised CR exchange	50,568	47,194
- Listed elsewhere	5,275,054	5,585,893
	5,325,622	5,633,087
Total	16,881,722	14,586,070

The Bank has purchased no debt securities issued by the Bank that are classified as available for sale (2003: CZK 0 thousand).

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

(e) Analysis of debt securities held to maturity

	2004 Book value	2003 Book value
CZK 000		
Issued by financial institutions		
- Listed on a recognised CR exchange	659,935	663,153
- Unlisted	41,903	168,998
	701,838	832,151
Issued by non-financial institutions		
- Listed on a recognised CR exchange	2,412,162	498,415
- Unlisted	88,970	83,893
	2,501,132	582,308
Total	3,202,970	1,414,459

The proportion of debt securities with residual maturity up to 1 year to the total balance of debt securities is 41.49% (2003: 17.74%).

17. SHARES, UNITS AND OTHER INVESTMENTS

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

	2004	2003
CZK 000		
Shares, units and other investments held for trading	2,316,096	44
Shares, units and other investments available for sale	7,478	3,000
Total	2,323,574	3,044

(b) Repurchase and resale commitments

Under resale commitments the Bank has not acquired any shares, units and other investments (2003: CZK 5,750 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 (2003: CZK 0 thousand), that have been transferred under repurchase commitments.

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

	2004 Market value	2003 Market value
CZK 000		
Issued by financial institutions		
- Listed on a recognised CR exchange	5,915	-
- Listed elsewhere	455	-
- Unlisted	2,308,312	-
	2,314,682	-
Issued by non-financial institutions		
- Listed on a recognised CR exchange	1,414	44
Total	2,316,096	44

The Bank has not purchased any of its own shares for the purpose of trading (2003: CZK 0 thousand).

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

	2004 Market value	2003 Adjusted value
CZK 000		
Issued by non-financial institutions		
- Unlisted	7,478	3,000
	7,478	3,000
Total	7,478	3,000

The Bank has not purchased any of its own shares for the purpose of future sale (2003: CZK 0 thousand).

18. PARTICIPATION INTERESTS WITH SUBSTANTIAL INFLUENCE

Analysis of participation interests with substantial influence

CZK 000							
Name	Registered office	Business activity	Registered capital	Other equity elements	Consol. entity share in equity	in voting rights	Net book value
As at 31 December 2004							
CBCB-Czech Banking Credit Bureau, a.s.	Praha 1, Na Příkopě 21	running of bank register	1,200	910	20%	20%	422
			1,200	910			422
As 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%	250
			1,200	51			250

19. PARTICIPATION INTERESTS IN NON-CONSOLIDATED SUBJECTS

Analysis of participation interests in non-consolidated subjects

CZK 000							
Name	Registered office	Business activity	Registered capital	Other equity elements	Consol. entity share in equity	in voting rights	Net book value
As at 31 December 2004							
CAE PRAHA a.s.	Praha 5, nám. Kinských 602	lease of real estate	100,000	(25,604)	100%	100%	74,396
HVB Factoring s.r.o.	Praha 2, Italská 24	surrender, financing and custody of receivables	50,000	24	100%	100%	50,000
HVB Reality CZ, s.r.o.	Praha 5, Elišky Peškové 15	real estate agency	570,312	(566,430)	100%	100%	3,882
Total			720,312	(592,010)			128,278
As at 31 December 2003							
CA IB Securities, a.s.	Praha 5, nám. Kinských 602	securities broker	100,000	(25,043)	100%	100%	74,216
Total			100,000	(25,043)	74,216		

In the opinion of the management of the parent company, the consolidation of the financial statements of CAE PRAHA a.s. (formerly CA IB Securities, a.s.), HVB Factoring s.r.o. and HVB Reality CZ, s.r.o. would not have a material impact on the consolidated financial statements, therefore the management of the parent company decided not to include these companies into the consolidated group.

20. INTANGIBLE FIXED ASSETS

Movements in intangible fixed assets

		Software		
CZK 000	Software	acquisition	Other	Total
Cost				
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)
At 31 December 2003	514,617	65,939	7,040	587,596
At 1 January 2004	514,617	65,939	7,040	587,596
Additions	183,087	126,649	14,902	324,638
Disposals	-	(157,300)	(9,986)	(167,286)
At 31 December 2004	697,704	35,288	11,956	744,948
Amortisation and adjustments				
At 1 January 2003	517,755	-	3,381	521,136
Charge for the year	102,517	-	887	103,404
Disposals	(221,966)	-	-	(221,966)
At 31 December 2003	398,306	-	4,268	402,574
At 1 January 2004	398,306	-	4,268	402,574
Charge for the year	95,152	-	1,101	96,253
Disposals	-	-	-	-
At 31 December 2004	493,458	-	5,369	498,827
Net book value				
At 31 December 2003	116,311	65,939	2,772	185,022
At 31 December 2004	204,246	35,288	6,587	246,121

21. TANGIBLE FIXED ASSETS

(a) Movements in tangible fixed assets

	Land and building	Equipment	Furniture and fittings	Fixed assets not used	Fixed assets not yet in use	Total
CZK 000						
Cost						
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
At 31 December 2003	1,022,668	1,016,816	280,704	698	6,846	2,327,732
At 1 January 2004	1,022,668	1,016,816	280,704	698	6,846	2,327,732
Additions	8,363	59,668	3,504	-	106,611	178,146
Disposals	(295)	(300,513)	(13,288)	-	(100,925)	(415,021)
At 31 December 2004	1,030,736	775,971	270,920	698	12,532	2,090,857
Depreciation and adjustments						
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)
At 31 December 2003	739,613	859,651	219,549	306	-	1,819,119
At 1 January 2004	739,613	859,651	219,549	306	-	1,819,119
Charge for the year	64,947	78,692	15,855	34	-	159,528
Disposals	(295)	(297,401)	(12,334)	-	-	(310,030)
At 31 December 2004	804,265	640,942	223,070	340	-	1,668,617
Net book value						
At 31 December 2003	283,055	157,165	61,155	392	6,846	508,613
At 31 December 2004	226,471	135,029	47,850	358	12,532	422,240

(b) Tangible fixed assets held under finance leases

As at 1 January 2002 the subsidiary took over the finance lease of a car at a cost of CZK 1,859 thousand. During 2004 there were no additions or disposals. In accordance with the valid accounting regulations for banks and other financial institutions assets purchased under a finance lease are not disclosed in the balance sheet until the assets are legally assigned to the Bank.

The subsidiary is due to pay the following finance lease installments:

	Paid during 2004	Due within 1 year	Due from 1 to 5 years	Due in next years	Total payments remaining
CZK 000					
Motorcars	159	-	-	-	-
Total	159	-	-	-	-

22. OTHER ASSETS

CZK 000	2004	2003
Other debtors	56,763	36,601
Collections accepted from customers	5,358	32,130
Fair value of derivatives (positive)	2,185,869	1,690,156
Deferred tax asset	35,199	28,940
Estimated receivables (expected claim for state subsidy)	1,200,000	1,112,393
Other	289,145	199,543
Total other assets	3,772,334	3,099,763
Less:		
Adjustments	(9,948)	(12,002)
Total	3,762,386	3,087,761

The expected claim by the subsidiary for a state subsidy from the Ministry of Finance for the year 2004 was calculated based on the volume of the clients' deposits with an enforced claim for state subsidy for the year 2004 and it is limited to CZK 4,500 (or CZK 3,000) per individual. The estimated receivable resulting from the expected claim for state subsidy was calculated and is included in the accounting evidence and it is presented in the balance sheet as "Other assets" and "Other liabilities" as at 31 December 2004 (see Note 27).

23. DUE TO BANKS

(a) Analysis of due to banks by residual maturity

CZK 000	2004	2003
Repayable on demand	1,065,987	1,662,258
Up to 3 months	12,568,428	13,816,458
From 3 months to 1 year	5,553,901	1,101,245
From 1 to 5 years	3,738,336	3,301,262
Over 5 years	1,118,250	3,709,825
Total	24,044,902	23,591,048

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

The volume of due to persons with a special relationship to the Bank totalled CZK 9,130,411 thousand as at 31 December 2004 (2003: CZK 9,117,584 thousand).

24. DUE TO CUSTOMERS

(a) Analysis of due to customers by sectors

	Repayable on demand	Savings with fixed maturity	Savings with notice	Term deposits with fixed maturity	Other	Total
CZK 000						
At 31 December 2004						
Financial institutions	1,615,899	-	-	3,080,519	1,526,357	6,222,775
Non-financial institutions	22,088,069	51,535	4 007	5,596,124	344,659	28,084,394
Insurance institutions	181,367	-	-	1,755,415	-	1,936,782
Government sector	1,592,362	24,675	3 616	526,855	-	2,147,508
Non-profit organisations	439,787	2,276	-	173,702	205	615,970
Self-employed	6,764,376	-	-	2,571,559	2,380	9,338,315
Resident individuals	4,356,351	20,265,363	2 860 196	11,449,576	1,507,936	40,439,422
Non-residents	1,628,912	-	-	1,056,941	51,598	2,737,451
Companies without IČO	5,216	-	-	-	-	5,216
Unallocated	-	-	-	-	225,106	225,106
	38,672,339	20,343,849	2 867 819	26,210,691	3,658,241	91,752,939
At 31 December 2003						
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
	35,930,343	16,835,023	1,302,056	31,114,324	2,081,200	87,262,946

No due to customers that relate to the provision of investment services to customers are included (2003: CZK 0 thousand).

(b) Due to participation interests in non-consolidated subjects

As at 31 December 2004, the Bank reported due to participation interests in non-consolidated subjects in the total amount of CZK 176,702 thousand (2003: CZK 69,710 thousand).

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

	Management bodies			
	Board of Directors	Other executives	Other	
CZK 000				
At 31 December 2004	6,857	5,671	157,455	
At 31 December 2003	12,905	27,230	3,881	

25. PAYABLES FROM DEBT SECURITIES

(a) Analysis of payables from debt securities

	2004	2003
CZK 000		
Certificates of deposit	14,895,458	6,954,340
Mortgage bonds	7,896,865	6,640,824
Other issued bonds	2,835,865	1,624,290
Other	772,683	616,257
Net book value	26,400,871	15,835,711

The proportion of issued debt securities with residual maturity up to 1 year to the total balance of issued debt securities is 9.31% (2003: 29.04%).

The Bank has purchased its own debt securities for the purpose of trading or sale in the total amount of CZK 2,900,547 thousand (2003: CZK 2,962,298 thousand), see Note 16 (c).

(b) Analysis of certificates of deposit and other debt securities by sector

CZK 000	2004	2003
Financial institutions	27,902	22,785
Non-financial institutions	12,154,523	5,706,266
Insurance institutions	15,248	10,027
Government sector	31,833	19,602
Non-profit organizations	61,952	17,920
Self-employed	993,097	316,498
Resident individuals	3,846,220	1,861,392
Non-residents	600,548	622,670
Unallocated	-	1,470
Total	17,731,323	8,578,630

(c) Analysis of mortgage bonds issued

Issue date	Maturity date	Currency	Amount CZK 000	Amount due within 1 year
4/2/2002	4/2/2009	CZK	7,506,165	-
Total			7,506,165	-
Accrued interest expense			390,700	
Total			7,896,865	-

(d) Other payables from debt securities

Other payables from debt securities as at 31 December 2004 include securities received under resale commitments totalling CZK 772,683 thousand, which were sold in short sells (2003: CZK 616,257 thousand).

26. SUBORDINATED LIABILITIES

	2004	2003
CZK 000		
Subordinated debt, Bank Austria AG, Vienna	712,930	758,382
Subordinated debt, Bayerische Hypo- und Vereinsbank AG, Munich	-	397,669
Total	712,930	1,156,051

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. The interest payment period is optional within 1 to 12 months and the interest rate is based on the market rate. The loan fulfils CNB requirements in respect of subordinated liabilities.

The amount of CZK 397,669 thousand as at 31 December 2003 represents the subordinated loan granted by Bayerische Hypo- und Vereinsbank AG, Munich totalling EUR 12,271 thousand for 6-month EURIBOR+0.25%. This subordinated debt, originally maturing on 31 December 2005, was repaid prior to the maturity date, i.e. on 31 December 2004, after obtaining prior approval from the CNB. The loan fulfilled all CNB requirements in respect of subordinated liabilities.

27. OTHER LIABILITIES

	2004	2003
CZK 000		
Other short term payables to customers	2,374,836	3,095,537
Estimated payables	1,154,866	1,064,907
Other creditors	155,168	100,002
Fair value of derivatives (negative)	2,822,097	2,614,341
Taxes payable	66,826	56,574
Other payables to customers (expected claim for state subsidy)	1,200,000	1,112,393
Other	202,904	91,694
Total	7,976,697	8,135,448

The current year creation of estimated payables for interest bonuses had an impact on the estimated payables as at 31 December 2004. These interest bonuses are credited in accordance with the subsidiary's business terms and conditions in the client's building saving accounts after the end of the saving cycle. In 2004, an estimated payable was created for these future expenditures amounting to CZK 261,400 thousand (2003: CZK 200,000 thousand). The difference between creation of estimated payable and changes in estimated payable is presented by interests advantaged drawn in the current period.

28. REGISTERED CAPITAL

The registered capital of the Bank was CZK 5,124,716 thousand as at 31 December 2004.

The shareholders of the Bank as at 31 December 2004 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

29. BONUSES TIED TO EQUITY

The Bank has not implemented any incentive bonus schemes nor stabilization program for employees for the purchase of own shares and paid any remuneration in the form of options to purchase own shares.

30. RESERVES AND AJUSTMENTS FOR POSSIBLE CREDIT LOSSES

(a) Reserves for possible credit and guarantee losses

CZK 000		
Reserves for possible credit and guarantee losses		
Balance at 1 January 2003		1,098,733
Creation during current year		-
Guarantees	-	
Use during current year		(1,515)
Write-off of loans	(1,515)	
Release of reserves no longer considered necessary		(377,419)
Balance of reserves at 31 December 2003		719,799
Balance at 1 January 2004		719,799
Creation during current year		-
Guarantees	-	
Use during current year		(665)
Write-off of loans	(665)	
Release of reserves no longer considered necessary		(120,841)
Balance of reserves at 31 December 2004		598,293
Total reserves for possible credit and guarantee losses at 31 December 2003	719,799	
Total reserves for possible credit and guarantee losses at 31 December 2004	598,293	

(b) Adjustments to classified receivables

CZK 000		
Adjustments to classified receivables (tax deductible)		
Additional transfer to tax non-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	
Use during current year		(419,903)
Write-off of loans	(419,903)	
Release of adjustments no longer considered necessary		(298,658)
FX differences		(7,290)

Balance of tax deductible adjustments at 31 December 2003		948,101
Balance at 1 January 2004		948,101
Creation during the year		298,770
Special mentioned loans	125,782	
Substandard loans	89,075	
Doubtful loans	10,907	
Loss loans	72,621	
Receivables from debtors subject to bankruptcy and composition proceedings	385	
Use during current year		(59,275)
Write-off of loans	(59,275)	
Release of adjustments no longer considered necessary		(306,474)
FX differences		(8,510)
Balance of tax deductible adjustments at 31 December 2004		872,612
Other adjustments to losses from receivables (tax non-deductible)		
Additional transfer from tax deductible adjustments		121,131
Balance at 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
Balance at 1 January 2004		31,205
Creation during the year		33,677
Use during current year		-
Release of adjustments no longer considered necessary		(23,582)
FX differences		-
Balance of tax non-deductible adjustments at 31 December 2004		41,300
Total adjustments to credit losses at 31 December 2003		979,306
Total adjustments to credit losses at 31 December 2004		913,912

(c) Other reserves

CZK 000	
Balance at 1 January 2003	68,729
Creation during the 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
Balance at 1 January 2004	69,118
Creation during the year	69,173
Use during current year	(2,117)
Release of reserves no longer considered necessary	(5,150)
Balance of other reserves at 31 December 2004	131,024

The subsidiary has created a reserve for a fine amounting to CZK 29,000 thousand imposed in accordance with the decision of the Office for the Protection of Competition on 24 August 2004. The subsidiary lodged an appeal against the decision on 9 September 2004. The result of the appeal was unknown as at the closing date of the financial statements.

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

The Bank has allocated the 2003 profit as follows:

	Profit	Retained earnings	Statutory reserve funds	Other reserve funds	Capital funds	Other funds from profit
CZK 000						
Balance at 1 January 2004	-	1,755,092	648,218	1,013,319	37,142	850
Profit for 2003	1,751,543					
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	-	-	-	
Dividend payment		(1,000,000)				
Other creation of funds		-	-	-	-	2,205
Use of funds		-	-	-	-	(3,755)
Balance at 31 December 2004 before allocation of the 2004 profit	-	2,419,005	733,548	1,013,319	37,142	1,600

With effect from 1 January 2005, the Bank is obliged to use International Financial and Reporting Standards for keeping its accounts and for preparation of its financial statements.

32. INCOME TAX AND DEFERRED TAX LIABILITY/ASSET

(a) Current income tax

CZK 000	2004		2003	
	Bank	Subsidiary	Bank	Subsidiary
Current year profit (loss) before tax	2,510,172	101,604	2,333,322	210,614
Income not liable to tax	(373,711)	(80,829)	(473,440)	(39,530)
Tax non-deductible expenses	441,435	119,207	245,189	6,775
Subtotal	2,577,896	139,982	2,105,071	177,859
Deduction of tax losses, 10% reinvestment allowance	-	(597)	-	(497)
Adjusted tax base	2,577,896	139,385	2,105,071	177,362
Income tax calculated using a tax rate of 28% (2003: 31%)	721,811	39,028	652,572	54,982
Tax discounts and offsets used	(53,133)	-	(20,809)	(4,450)
Income tax for the year	668,678	39,028	631,763	50,532

(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:

CZK 000	2004	2003
Deferred tax assets		
Tax non-deductible reserves	17,426	13,389
Social and health insurance for bonuses	14,896	20,349
Adjustments to loans	5,325	-
Cancellation of previous years income	1,318	-
Other	2,464	1,852
	41,429	35,590
Deferred tax liabilities		
Differences in net book value of fixed assets	4,922	6,650
Penalty interest and interest on tax overdue	1,308	-
	6,230	6,650
Deferred tax assets	35,199	28,940

The Bank reported tax revenue as a result of deferred tax amounting to CZK 6,259 thousand (2003: tax yield CZK 2,301 thousand).

Bank management believes that it is highly probable that the Bank will fully realize its deferred tax asset as at 31 December 2004 based upon the Bank's current and expected future level of taxable profits.

(c) Income tax reserve

As at 31 December 2004 the Bank created an income tax reserve totalling CZK 95,368 thousand. This reserve was recognized based on the expected increase in taxable expenses for the next accounting period, which will not be incurred as a result of the Bank's current activities but as a result of the amendment of the Act on Reserves N. 593/1992 Coll. (see Note 3 (f)).

33. OFF-BALANCE SHEET ITEMS

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

CZK 000	2004	2003
Banks		
Letters of credit and financial guarantees	464,391	490,951
Other contingent liabilities	462,314	514,162
Collaterals provided	160,866	3,117
	1,087,571	1,008,230
Clients		
Letters of credit and financial guarantees	9,531,155	7,911,858
Other contingent liabilities	41,608,681	32,527,372
Collaterals provided	1,467,000	257,056
	52,606,836	40,696,286
Total	53,694,407	41,704,516

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

CZK 000	Executives
At 31 December 2004	447
At 31 December 2003	647

(c) Off-balance sheet financial instruments

CZK 000	Contractual amounts		Fair value	
	2004	2003	2004	2003
Financial derivatives from OTC market (OTC derivatives)				
Hedging instruments				
Interest rate swap contracts	8,937,189	5,341,290	(213,896)	(12,286)
Trading instruments				
Forward rate agreements (FRA)	105,100,000	173,769,350	24,971	1,297
Interest rate swap contracts	74,444,161	78,436,333	(776,366)	(578,071)
Forward foreign exchange contracts			(30,773)	(42,634)
Purchase	13,690,067	9,604,540	-	-
Sale	13,662,873	9,648,672	-	-
Option contracts	8,272,994	2,700,522	1,112	189
Cross currency swap contracts	22,381,553	17,250,444	358,724	(292,680)
Listed financial derivatives				
Trading instruments				
Interest rate futures	353,610	194,430	50,917	31,285

(d) Residual maturity of financial derivatives

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

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
CZK 000					
At 31 December 2004					
Hedging instruments					
Interest rate swap contracts	731,160	2,300,000	2,747,445	3,158,584	8,937,189
Trading instruments					
Forward rate agreements (FRA)	45,050,000	47,050,000	13,000,000	-	105,100,000
Interest rate swaps	3,734,090	6,594,600	35,540,126	28,575,345	74,444,161
Foreign exchange contracts (Purchase)	10,045,424	3,628,289	16,354	-	13,690,067
Foreign exchange contracts (Sale)	9,991,075	3,654,262	17,536	-	13,662,873
Option contracts	773,834	1,256,949	6,110,365	131,846	8,272,994
Interest rate futures	353,610	-	-	-	353,610
Cross currency swap contracts	6,272,465	8,143,200	6,769,100	1,196,788	22,381,553
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 swaps	11,679,825	13,860,349	28,695,751	24,200,408	78,436,333
Foreign exchange contracts (Purchase)	4,413,161	5,191,379	-	-	9,604,540
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

(e) Refinancing agreements

The Bank was allowed to draw the following loan facilities as at 31 December 2004:

- loan facility granted by Bank Austria Creditanstalt AG, Vienna amounting to CZK 2,608,109 thousand (EUR 85,610 thousand) with final maturity in December 2006.
- credit line granted by European Investment Bank (EIB) amounting to CZK 1,928,250 thousand (EUR 63,294 thousand) with final maturity in December 2009. This facility is a special-purpose line strictly tied to refinancing of loans fulfilling the terms and conditions of EIB.

34. VALUES TAKEN INTO ADMINISTRATION AND MANAGEMENT

	2004	2003
CZK 000		
Bonds	35,017,433	25,251,142
Shares and open-end funds certificates	63,975,965	43,786,654
Total	98,993,398	69,037,796

35. FINANCIAL INSTRUMENTS - MARKET RISK

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

(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 provides access 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 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 applicable to individual transactions, limits for the portfolio sensitivity (basis point value; BPV), stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are included in "Risk management" in Note 35 (c).

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

(b) 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 35 (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 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 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	Without specification	Total
At 31 December 2004						
Cash	496,304	-	-	-	90,204	586,508
State zero coupon bonds	6,124,266	4,051,027	3,879,824	8,085,878	-	22,140,995
Receivables from banks	18,295,286	2,642,224	898,010	475,879	39,776	22,351,175
Receivables from customers	10,706,514	15,834,613	30,255,245	30,265,486	5,156,930	92,218,788
Debt securities	5,509,542	2,969,992	6,847,277	5,716,837	-	21,043,648
Shares, units and other investments	-	-	-	-	2,323,574	2,323,574
Participation interests in associates	-	-	-	-	422	422
Participation interests in non-consol. subjects	-	-	-	-	128,278	128,278
Other assets	-	1,226,601	-	-	3,204,146	4,430,747
Prepaid expenses and accrued income	117,129	-	-	-	6,194	123,323
Total	41,249,041	26,724,457	41,880,356	44,544,080	10,949,524	165,347,458
Due to banks	13,634,415	5,553,901	3,738,336	1,118,250	-	24,044,902
Due to customers	68,735,705	8,174,085	14,512,672	330,477	-	91,752,939
Payables from debt securities	15,853,565	97,846	10,449,460	-	-	26,400,871
Other liabilities	-	1,200,000	-	-	21,041,084	22,241,084
Accrued expenses and deferred income	194,685	-	-	-	47	194,732
Subordinated liabilities	-	49	-	712,881	-	712,930
Total	98,418,370	15,025,881	28,700,468	2,161,608	21,041,131	165,347,458
Gap	(57,169,329)	11,698,576	13,179,888	42,382,472	(10,091,607)	-
Cumulative gap	(57,169,329)	(45,470,753)	(32,290,865)	10,091,607	-	-
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
Due to banks	15,478,716	1,101,245	3,301,262	3,709,825	-	23,591,048
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	-	-

Interest rate risk

The Bank is exposed to an interest rate risk as 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 optimizing net interest income in accordance with the Bank's strategy approved by the board of directors.

The Bank's financial position as at 31 December 2004 is characterized by the relatively short term nature of its assets compared to its liabilities. The Bank is therefore more interest sensitive on the side of its assets. Positions of shorter-term assets are balanced by speculative longer-term positions. The overall position of the Bank is well-balanced. The financial position is diversified into several currencies, so the Bank is also sensitive to correlation in fluctuations of interest rate in respective currencies. The major sensitivity is connected to EUR and CZK. Net interest income would decrease if the interest rates in respective currencies rose simultaneously.

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 35 (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 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 on the market within a certain time period on a certain confidence level. The Bank determines Value at Risk using the stochastic simulation of a large number of scenarios of potential development on the financial markets. Value at Risk is measured based on a one-day holding period and confidence level of 99%. The results of this model are back-tested and compared with the results corresponding to the actual changes of interest rates achieved on the financial markets on a daily basis. If the Bank identifies any inaccuracies, the model is adjusted to be in line with the current development on the financial markets.

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

	At 31 December 2004	Average 2004	At 31 December 2003	Average 2003
CZK 000				
VaR of interest rate instruments	30,312	19,750	20,357	17,587
VaR of currency instruments	224	1,551	1,479	1,897
VaR of equity instruments	256	527	157	339

As at 31 December 2004 the total VaR for all market risks was CZK 30,314 thousand (2003: CZK 20,411 thousand), which is lower than the aggregate of the VaR values relating to individual risks due to the correlation between individual risks. At the end of 2004 the method of calculating VaR was changed from the Variance/Covariance method to the method of historical simulation including the risk of credit spreads.

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 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 are part of the Bank's risk management process.

36. FINANCIAL INSTRUMENTS - CREDIT RISK

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

(a) Classification of receivables

The Bank classifies receivables into individual categories in accordance with the ČNB decree No. 9 issued on 6 November 2002. This sets out the rules for the treatment of receivables arising from financial activities, the creation of adjustments and reserves and the 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 its 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:

- 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) of 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 use the internal rating system for receivables from individuals.

(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 accept-

able 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 a reputable bank
- Guarantee provided by a reputable third party
- Real estate
- Assignment of high quality receivables

The Bank's assessment of the net realizable 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 realizable value of the collateral is determined using this value and the correction coefficient, which reflects the Bank's ability to realize the collateral when necessary. For the purposes of the adjustments calculation the net realizable 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

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, 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 14 (b), 14 (d) and 14 (e).

(f) Receivables recovery

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:

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

(g) Securitization and use of credit derivatives

The Bank did not carry out any securitization 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 2004 approximately 2/3 of the Bank's credit exposure is represented by credit to clients with an annual probability of default lower than 1%.

37. OPERATIONAL, LEGAL AND OTHER RISKS

The Bank has developed a complex system of internal rules and regulations that organise and define the working processes and related control activities.

The system of internal rules and regulation includes a "Disaster Recovery Plan" and a "Business Continuity Plan", which address the major 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.

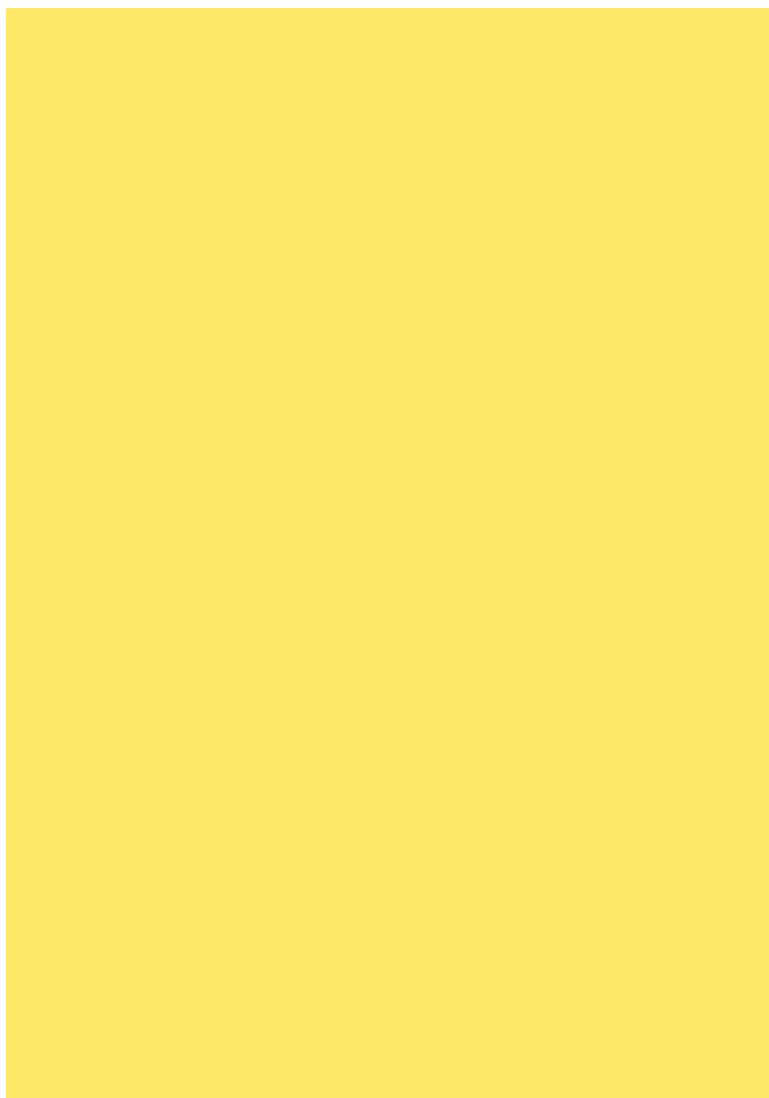
The obligations of employees and management together with related control activities are precisely defined in the complex of internal rules and regulation.

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 the 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.

Within the Basel II project, the Bank plans to implement a complex system for monitoring and managing its operational risks. It aims to use standardized methods for operational risk management as at the date of implementation of Basel II.

**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 15 April 2005 we issued an auditor's report on the Bank's consolidated 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 2004. 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 2004 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."

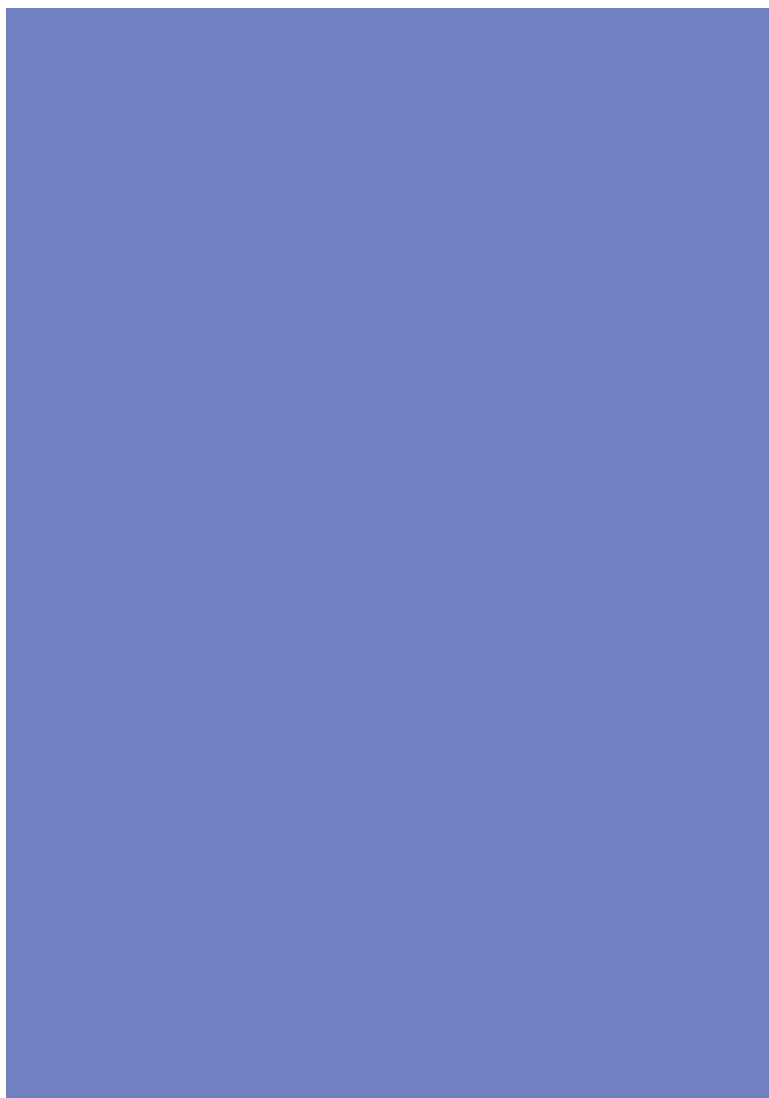
We have reviewed other financial information in the annual report for consistency with the audited consolidated financial statements. In our opinion, the information is consistent in all material respects with the audited consolidated financial statements.

Prague
28 April 2005

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

Pavel Závítkovský
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

CAE PRAHA A.S.

Key financial characteristics of the company (CZK 000):

	31 Dec. 2004
Registered capital	100,000
Equity	74,396
Total assets	74,546
Net profit/loss	-561

As at 31 December 2004, HVB Bank and its consolidation unit held a 100% share in the registered capital of this company. The company is currently inactive.

HVB FACTORING S.R.O.

Key financial characteristics of the company (CZK 000):

	31 Dec. 2004
Registered capital	50,000
Equity	50,024
Total assets	52,528
Net profit/loss	24

As at 31 December 2004, HVB Bank and its consolidation unit held a 100% share in the registered capital of this company. The company's main subject of business activity is the purchase, financing and administration of accounts receivable.

HVB REALITY CZ, S.R.O.

Key financial characteristics of the company (CZK 000):

	31 Dec. 2004
Registered capital	570,312
Equity	3,882
Total assets	560,277
Net profit/loss	13,605

As at 31 December 2004, HVB Bank and its consolidation unit held a 100% share in the registered capital of this company. The company is in the real estate business.

CBCB-CZECH BANKING CREDIT BUREAU, A.S.

Key financial characteristics of the company (CZK 000):

	31 Dec. 2004
Registered capital	1,200
Equity	2,110
Total assets	9,766
Net profit/loss	908

As at 31 December 2004, HVB Bank and its consolidation unit held a 20% share in the registered capital of this company. The company's main business activity is to operate a banking client information register.