

# **Annual Report of Živnostenská banka for the year 2002**

CONTENTS	Page
Composition of the Supervisory Board and Board of Directors	3
Supervisory Board Report	4
Introduction by the Vice - Chairman of the Board of Directors to the Directors' Report	5
Directors' Report	6-12
Report of the independent auditors to the shareholders of Živnostenská banka, a.s.	13-14
Regular Financial Statement audited by Czech Accounting Standards	15-80
Report of independent auditors to the shareholders of Živnostenská banka, a.s.	81
Consolidated Financial Statement audited by International Accounting Standards	82-148
Report on relations between interlinked persons	149-152
Supplementary data in conformity with the Measure of the Ministry of Finance of the Czech Republic, ref 282/73391/2001, from 7 December 2001	153-156
Additional information	157
Other top managers of Živnostenská banka, a.s.	158
Contacts	159

### **The Supervisory Board**

**Mr Hubert Piel**, Chairman (since 23 January 2002)

**Mr Dirk Hoffmann**, Vice-Chairman

**Ms Ivana Burešová**

**Mr Vladimír Burian**

**Mr Heinz D. Gottschalk**

**Mr Detlef Schmidt** (since 18 April 2002)

**Mr Vikas Thapar** (until 15 April 2002)

### **The Board of Directors**

**Mr Josef Pitra**, Vice-Chairman

**Mr Aleš Barabas**

**Mr Thomas Bürkle** (until 15 September 2002)

**Mr Martin Kryl**

**Mr Tomáš Zralý**

## **SUPERVISORY BOARD REPORT**

The Supervisory Board reviewed the ordinary and consolidated financial statements prepared as of 31 December 2002 together with the Auditor's Report prepared by PricewaterhouseCoopers Audit, s.r.o., the independent auditor of Živnostenská banka, a.s. for the year 2002, and the proposal for distribution of profit. The Supervisory Board acknowledged the conclusion drawn in the Auditor's Report that the financial statements clearly evidence the financial situation of Živnostenská banka, a.s. as of 31 December 2002 and its results for the 2002 accounting period. Considering the Auditor's Report the Supervisory Board based on their activity state that the ordinary and consolidated financial statements in all substantial matters truly reflect the assets, liabilities and financial situation of Živnostenská banka, a.s., and were prepared in accordance with relevant laws and regulations. Additionally, the proposal for distribution of profit complies with relevant laws and regulation, Articles of Association of Živnostenská banka, a.s. and instructions of the General Meeting.

The Supervisory Board further state that based on the ordinary and consolidated financial statements and other documents provided to the Supervisory Board in 2002, it did not identify any material deficiencies or incorrectness which would lead to the conclusion that the company's bookkeeping was not maintained in accordance with relevant regulations or did not properly reflect the situation of Živnostenská banka, a.s.

As a result, the Supervisory Board recommend to the General Meeting to approve the ordinary and consolidated financial statements and the proposal for distribution of profit. The Supervisory Board reviewed the Report on Relations Between Related Parties for 2002 as prepared by the Board of Directors of Živnostenská banka, a.s. and provided to the Supervisory Board. The Supervisory Board has no material objections to the report.

March 2003



Roberto Nicastro  
Chairman of the Supervisory Board

## **INTRODUCTION BY THE VICE - CHAIRMAN OF THE BOARD OF DIRECTORS TO THE DIRECTORS' REPORT**

In 2002, Živnostenská banka, a.s. achieved a decent result; the IAS consolidated net profit of CZK 113.1 million was in line with expectations.

Živnostenská banka managed to post this result at a time when it was preparing for a change in majority shareholder, and therefore it was unable to adopt any fundamental strategic decisions on its future business orientation. Only when the new strategic investor, the Italian bank UniCredito Italiano, entered at the beginning of 2003 was it possible to draw up a new medium-term business plan for Živnostenská banka; this plan is designed to strengthen the bank's market position in selected financial products considerably. Also, the strong background of this Italian banking group, one of the most effectively functioning European banks, should help prepare Živnostenská banka for the demanding conditions of the European single market, which the Czech Republic is due to join in 2004.

The estimated financial results of Živnostenská banka in 2003 should be another important step on the way to fulfilling the ambitious medium-term plans consistent with the expectations of the bank's shareholders.

March 2003



Josef Pitra  
Vice - chairman of the Board of Directors

## **DIRECTORS' REPORT**

### **Czech Economy**

Under pressure from the global economic downswing in 2002, economic growth in the Czech Republic was reduced to its slowest pace in three years. The decline in economic activity was not of a particularly significant scope when the much worse external conditions are taken into account. The Czech economy seems to have coped with the aftermath of last August's devastating floods without too much trouble. While the economic driver remained domestic demand, there was a shift from investment to retail. Although consumer confidence gradually went down over the year and unemployment escalated to a record high by the end of the year, household spending remained at more or less the same level as in 2001. The falling inflation rate and the lowest ever interest rates pushed the real value of household income up and made consumer credits and mortgages more widely available. Poor foreign demand, combined with the dramatically appreciating domestic currency in the first half of the year, severely limited the investment resources available to export-oriented companies. The sliding investment demand was also influenced considerably by the high comparative base offered by 2001 and the transfer of some of the government's expenditure items from gross fixed capital to current expenditure. In the first half of the year, the traditional foreign trade deficit improved moderately and fuelled economic growth; in the latter half of the year the situation reversed. Besides the difficult export conditions, the situation was exacerbated by the floods, which hit the tourist industry hard.

### **European Commission Evaluation**

In its 2002 regular report on Czech Republic's progress towards accession to the European Union, published in October 2002, the European Commission stated inter alia that the financial sector as a whole was characterized by a relatively strong banking sector which has emerged from a long-winded and costly restructuring and privatisation process. In the year under scrutiny, about 95% of total banking assets were controlled by foreign-controlled banks. The market as a whole is fairly concentrated. The overall health of the banking sector has improved substantially over time. The completion of privatisation and enhanced supervision have helped the stability of the banking sector.

### **Investment by UniCredito Italiano**

In 2002, Živnostenská banka, a.s. (ŽB) found itself the subject of a sale. After several months of negotiation, on 14 August 2002 the Germany-based Bankgesellschaft Berlin AG sold its 85.16% stake in the equity capital of ŽB to the Italian bank UniCredito Italiano SpA. The sale, which required the consent of the central banks in the Czech Republic and

Italy, was completed on 11 February 2003. ŽB clients benefited from the guarantee of a strong, highly effective financial group, and the oldest Czech bank itself was able to adopt a clear strategy in the run-up to the Czech Republic's entry into the European Union.

UniCredito Italiano (UCI) is the largest banking group in Italy by market capitalization and enjoys a top position in Europe, where it is one of the five best banks in terms of efficiency and profitability. Its total assets (EUR 213 billion at 31 December 2002) make it one of the twenty largest European groups.

By making this acquisition in the Czech Republic, UCI has strengthened its leading position in New Europe (i.e. the countries of Central, Eastern and Southern Europe which, sooner or later, will become members of the European Union). In addition to Živnostenská banka, it controls the fifth largest Slovak bank, Unibanka, the largest Polish commercial bank, Bank Pekao, the largest bank in Croatia, Zagrebacka banka, the Romania-based UniCredit Romania, and Bulbank in Bulgaria. In Turkey, UCI has formed a 50:50 partnership with the Koc Group in Koc Financial Services.

UCI views the acquisition of ŽB as an important step of its strategy in the region and as a strong platform to develop banking operations in the Czech Republic. In accordance with UCI's federal model in New Europe, Živnostenská banka will continue to operate under its traditional brand name. UCI has declared that ŽB, as a group member, will develop its banking operations significantly, expand its branch network, and increase its market share as a result of a focused business plan, especially in the small and medium-sized companies and retail banking segments.

On 12 February 2003 the rating agency Moody's Investors Service responded promptly to UniCredito Italiano's takeover of Živnostenská banka by raising ŽB's rating for long-term deposits from Baa1 by three grades to A1, and by upping the bank's rating for short-term deposits from P-2 to P-1; it also confirmed the financial power rating of D.

According to Moody's, the increase in the rating of Živnostenská banka's long-term deposits to the highest level possible in the Czech Republic (i.e. the rating awarded to the Czech Republic) reflects the fact that UCI views ŽB as a strategic subsidiary and therefore it is anticipated that if necessary it would be quick to provide Živnobanka with support.

### **Financial Results**

The financial management and business activities of Živnostenská banka in 2002 were inevitably affected by the sale of the majority stake in the bank's registered capital. One of the bank's priorities was to concentrate on activities related to this sale.

The total assets of the Živnostenská banka group rose by more than 2% year on year and amounted to CZK 52.1 billion (unless stated otherwise, all figures in this and the following paragraph have been reached according to International Accounting Standards). The bank managed to increase its share of the credit market. Credits to clients came to CZK 21.7 billion, a rise of more than 20% on 2001. The value of credits to individuals

more than doubled year on year and accounted for almost 6% of the bank's credit portfolio. The share of non-performing credits was 2.9 % of the value of the credit portfolio. On the liabilities side, client deposits fell by more than 1.5 billion Czech crowns. In the reporting year, the Živnostenská banka group posted consolidated earnings of CZK 113.1 million, which is a year-on-year decline of CZK 151.3 million. According to Czech Accounting Standards, the bank made a profit of CZK 99.6 million, i.e. CZK 56.3 million less than in the year previous. The main reason for the lower profits compared with 2001 was the reduction in revenues by CZK 169 million, which was not fully offset by lower costs. The bank failed to achieve its net interest income targets owing to the reduced interest rates on the Czech market and the fall in client deposits. The trading result was half that of the preceding year.

### **Private and Personal Banking**

In the reporting year, Živnostenská banka continued expanding its product range for private and personal clients. A significant new investment product was the Živnobanka – Bond Fund. This fund arose when the oldest fund from the time of voucher privatization was opened; client interest has been very keen ever since the fund opening.

In the field of payment cards, Živnostenská banka introduced several new versions of Visa international credit cards: Visa Credit Classic, Visa Gold (issued in association with the travel agency Čedok), and Visa Golf, the first affinity credit card in the Czech Republic (issued in association with the Czech Golf Federation). The latter two cards are complemented by an extensive attractive programme of non-banking services and benefits.

Another new card, unique on the Czech market, is the Visa Sporokonto, which classified as a charge card. It is an international payment card where the credit is repaid in the form of an automatically conducted buyback of money market fund participation certificates. This card was developed in collaboration with the bank's subsidiary ŽB-Trust, which manages the fund Živnobanka - Sporokonto. It offers investors practically the same liquidity of some of their assets invested in the fund as they would enjoy with a current account.

In terms of direct channels, Živnostenská banka has introduced GSM banking with the country's largest two mobile operators. In addition to standard banking services, such as payments, account information, or time deposits, the Eurotel application allows prepaid SIM cards to be recharged. We have also expanded our NetBanka Internet banking service considerably.

We have extended our range of mortgage products for private and personal clients by introducing our new Benefit mortgage with the opportunity of borrowing up to 90% of the value of a property. Another significant step has been that clients can draw on the credit as soon as the application is made for an entry in the property register, which speeds up the whole process tremendously.



The bank promoted sales of retail and private banking products and services with advertising campaigns focusing on credit and investment banking. The bank demonstrated its electronic banking services at the INVEX 2002 trade fair. The product of the cooperation between Živnostenská banka and the Czech Golf Federation – the first affinity card on the Czech market, called VISA Golf – was presented in the form of a promotion in golf magazines and in the form of social events: an Evening of Czech Golf, the Miss Golf Competition, and a number of Živnobanka Meridian Golf Tour tournaments. The Harmony Christmas Concert, which boasted performances by Jelena Obrazcova and Peter Dvorský, was addressed in particular to private banking clients and the bank's business partners.

### **ŽB – Trust and ŽB – Asset Management**

The bank's subsidiaries ŽB - Trust, investiční společnost, a.s. and ŽB - Asset Management, a.s. successfully developed and managed their finances according to plan in 2002. ŽB - Trust, investiční společnost, a.s. posted net earnings of CZK 10.9 million, while ŽB - Asset Management, a.s. ended the year with a loss of CZK 7.4 million.

ŽB - Trust maintained its position as the fourth largest investment company in the Czech Republic by volume of assets managed in open-ended mutual funds, and kept to its 6.5% share on the market of collective investment funds. The company manages five open-ended mutual funds, of which four funds with various investment designs are intended for the general public and one is a special fund for foundations. During the year, the voucher privatization investment fund Živnobanka – 1. investiční fond, a.s. was successfully transformed into the open-ended mutual fund Živnobanka – Bond Fund.

On 31 December 2002, the total value of assets in all the funds managed by the investment company ŽB - Trust was CZK 6.3 billion. The net value of assets in the Živnobanka open-ended funds surged by almost CZK 3.1 billion due to net sales, exchange rate changes, and the opening up of an investment fund from the first wave of voucher privatization. The total value of new sales and the volume of net participation certificate sales in 2002 was the highest in the history of ŽB-Trust. This investment company is an active member of the Union of Investment Companies of the Czech Republic (UNIS ČR).

In 2002, ŽB - Asset Management, a.s. increased its registered capital to CZK 27 million and continued building its infrastructure. This company offers investment consulting, manages client assets in individual portfolios, and has started preparing for the distribution of foreign funds. It is a member of the Association for the Capital Market (AKAT).

## **Corporate Banking**

As in previous years, the bank's corporate banking section kept to its growth trajectory in active transactions. The value of credits granted to the target group of companies rose 18%, breaking through the CZK 20 billion threshold. This high trading activity was sufficient to offset the poor developments in interest rates and the prices of our competitors. There was a palpable rise – by more than 17% – in corporate deposits too. As with our credit operations, this situation offset the falling interest rates. However, despite this result, we have identified an evident change in the behavior of businesses, who are exploiting the reduced interest rates to use their disposable assets more effectively. The ongoing trend of falling interest rates in the Czech Republic and the European Union could make this tendency all the more apparent in the next year.

In spite of these developments, last year the corporate banking section continued to foster quality relations with top companies in the Czech Republic and as such preserved its healthy prospects for development in the next few years.

At the end of the year, the organization and management of the whole section started to adapt to the standards of the new strategic shareholder - UniCredito Italiano. A medium-term plan which focuses on expanding cooperation with medium-sized enterprises based in the Czech Republic has been drawn up. That is not to say we have dropped out interest in significant companies with potential, which we are determined to keep exploiting as much as possible. We expect the client service models to be revised so that we can achieve lasting improvements in the standard of our services. We are planning to develop new products, especially in cash management, as we believe this is where the future business success of banking lies.

## **Financial Markets**

All companies today need to be able to manage foreign exchange and interest rate risk effectively. The Financial Markets division of Živnostenská banka has developed a range of services designed to meet the needs of modern business. Our dedicated team of specialists have extensive experience in all aspects of Financial Markets management, and can tailor risk management needs to suit its customers needs.

Živnostenská's range of money market products can help maximise returns, maintain the liquidity that cash deposits provide, and ensure that interest rate hedging techniques are available.

Today, forecasting foreign exchange rates is extremely difficult, especially with certain volatile currencies. Any company with international business faces uncertainty over income or expenditure due to exchange rate fluctuations. The Financial Markets division can help its customers control these risks and protect businesses against adverse movements in foreign exchange rates.

The activities of the division are supported by professional team of employees, committed to providing outstanding solutions to its customers, pursuing a strategy of excellence and efficiency.

### **Financial Institutions**

One of the priority tasks of the Financial Institutions section was to optimize the conditions for foreign payment relations. In this respect, we managed to strike several major agreements with foreign partners, allowing us to continue improving our quality of service.

Thanks to the high professional qualities of its services, Živnostenská banka is traditionally one of the top players in terms of acting as depository for investment companies and investment and pension funds. We strive to find optimal solutions to client requirements and we are keen to complement our range of services in this area with other bank products, such as custody of securities and treasury services. Our efforts to improve services here include an active approach to the process of harmonization with European Union legislation and to the problems of the current legislative conditions in this field.

Despite the adverse situation on the world's capital markets, the bank has managed to retain its status as one of the key custodians of securities in the Czech Republic. The bank is distinguished in its service provision by its individual approach to clients and its flexible reaction to their specific requirements.

### **Risk Management**

In 2002, the bank's management took a keen interest in the development of the risk management system. Halfway through the year, we set up a new risk management department headed by a managing director tasked to raise the general standard of methodology applied in the management of credit, market, and operating risks, including from the aspect of the fundamental changes being prepared in bank regulation (the new Basel II regulations). Credit risk management continued to concentrate on risks stemming from credit granted to corporations and institutions, which account for approximately 94% of the bank's total credit portfolio. In 2002, there was a slight rise in the volume of exposed credits compared with the year previous. The exposed credit indicator was 2.9 % of the total gross volume of credits granted to enterprises (3% at a full-bank level, i.e.

including credits to individuals) and remained well below the average for the banking sector. The share of total exposed credits covered by specific provisions was 56% at the end of 2002. In line with amendments to Czech legislation, the bank stopped creating general reserves to cover credit risks. However, their volume remained practically unchanged year on year and stood at CZK 548 million as at 31 December 2002. The successful development of the risk management system, the application of all basic rules and principles of prudence in the provision of credits, and the quality base of that part of the credit department dealing in the recovery of receivables from exposed credits form a solid foundation for the bank to maintain a low-risk credit portfolio in the future.

### **Charity and Sponsorship of the Arts and Sport**

Živnostenská banka has become the traditional general sponsor of the literary Jaroslav Seifert Prize organized by the Charter 77 Foundation; last year the bank sponsored this event for the tenth successive year. The expert judges awarded the prize to Jiří Gruša for his work *Grušas Wacht am Rhein aneb Putovní ghetto*. The bank also sponsored Christmas charity concerts organized by the Czech Blind United and by the Friends of National Theatre Opera. In sport, the bank was the sponsor of the international tennis tournament carrying its name: the Živnobanka Czech Open 2002 in Prostějov, which was won by the Argentine Guillermo Coria. Without publicity the bank supplied aid to municipalities and institutions hit by the floods. Živnostenská banka branches sponsored good causes in the regions they cover.

### **Conclusion**

As has been mentioned above, the key event for Živnostenská banka in 2002 was its sale, making it an integral part of the strong European banking group UniCredito Italiano. We have already started work on fulfilling the demanding targets set by the new majority shareholder. Živnostenská banka need not be the largest bank, but that is not to say it should not become the best bank in the Czech Republic.

March 2003

Board of Directors





PricewaterhouseCoopers Audit, s.r.o.  
Kateřinská 40  
120 00 Prague 2  
Czech Republic  
Telephone +420 251 151 111  
Facsimile +420 251 156 111  
ID No. 40765521

## REPORT OF INDEPENDENT AUDITORS

### TO THE SHAREHOLDERS OF ŽIVNOSTENSKÁ BANKA, A.S.

We have audited the accompanying balance sheet of Živnostenská banka, a.s. ("the Bank") as at 31 December 2002, the related income statement and notes and the statement of changes in equity, for the year 2002 then ended presented in the annual report of the Bank on pages 15 to 80 ("the financial statements"). The financial statements and underlying accounting records are the responsibility of the Bank's Board of Directors. 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 Auditing Standards of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to 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 Bank's 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 accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Bank as at 31 December 2002, and the results of its operations and its changes in equity for the year 2002 then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Bank on pages 3 to 12, 138 to 148 and 153 to 159, which does not form part of the financial statements for the year ended 31 December 2002, is consistent with the audited financial statements of the Bank. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.



Živnostenská banka, a.s.  
Report of Independent Auditors

In addition we have also reviewed the accompanying report on relations between the Bank and its controlling party Bankgesellschaft Berlin AG and between the Bank and the other parties controlled by Bankgesellschaft Berlin AG on pages 149 to 152 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

23 May 2003

A handwritten signature in blue ink, appearing to be the initials 'PC' followed by a stylized flourish.

PricewaterhouseCoopers Audit, s.r.o.  
represented by

A handwritten signature in blue ink, appearing to be 'FM' followed by a stylized flourish.

François Mattelaer  
Partner

A handwritten signature in blue ink, appearing to be 'PK' followed by a stylized flourish.

Petr Kríž  
Auditor, Licence No. 1140

## BALANCE SHEET AS AT 31 DECEMBER 2002

<u>Assets</u>			<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>Gross amount</u>	<u>Provision</u>	<u>Net amount</u>	<u>Net amount</u>	<u>Net amount</u>
	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>
<b>1 Cash and deposits with central banks</b>	<b>988,494</b>	-	<b>988,494</b>	<b>1,482,755</b>	<b>1,421,725</b>
<b>2 State treasury bills and other bills eligible for refinancing with the ČNB</b>	<b>1,427,774</b>	-	<b>1,427,774</b>	<b>2,823,036</b>	<b>541,780</b>
a) state securities	1,427,774	-	1,427,774	2,823,036	541,780
b) other	-	-	-	-	-
<b>3 Due from banks, mutual savings banks</b>	<b>20,910,311</b>	-	<b>20,910,311</b>	<b>20,281,850</b>	<b>22,787,039</b>
a) repayable on demand	135,793	-	135,793	274,538	190,309
b) other receivables	20,774,518	-	20,774,518	20,007,312	22,596,730
<b>4 Due from customers, members of mutual savings banks</b>	<b>22,605,802</b>	<b>363,379</b>	<b>22,242,423</b>	<b>18,976,187</b>	<b>16,736,783</b>
a) repayable on demand	4,901	-	4,901	10,329	4,269
b) other receivables	22,600,901	363,379	22,237,522	18,965,858	16,732,514
<b>5 Debt securities</b>	<b>4,950,437</b>	-	<b>4,950,437</b>	<b>5,419,701</b>	<b>14,481,607</b>
a) issued by government institutions	313,910	-	313,910	549,876	10,412,173
b) issued by other entities	4,636,527	-	4,636,527	4,869,825	4,069,434
<b>6 Shares, mutual shares and other interests</b>	<b>39,583</b>	<b>18,505</b>	<b>21,078</b>	<b>122,931</b>	<b>406,548</b>
<b>7 Participation interests with significant influence</b>	<b>39,271</b>	-	<b>39,271</b>	<b>39,271</b>	<b>35,285</b>
a) in banks	-	-	-	-	-
b) in other entities	39,271	-	39,271	39,271	35,285
<b>8 Participation interests with controlling influence</b>	<b>33,946</b>	<b>909</b>	<b>33,037</b>	<b>15,988</b>	<b>16,477</b>
a) in banks	-	-	-	-	-
b) in other entities	33,946	909	33,037	15,988	16,477
<b>9 Intangible fixed assets</b>	<b>596,881</b>	<b>504,156</b>	<b>92,725</b>	<b>93,586</b>	<b>123,711</b>
of which:					
a) establishment costs	-	-	-	-	-
b) goodwill	-	-	-	-	-
c) other	596,881	504,156	92,725	93,586	123,711
<b>10 Tangible fixed assets</b>	<b>2,724,168</b>	<b>1,235,402</b>	<b>1,488,766</b>	<b>1,643,695</b>	<b>1,722,165</b>
a) land and buildings for banking activities	1,611,409	428,003	1,183,406	1,244,500	1,285,974
b) other	1,112,759	807,399	305,360	399,195	436,191
<b>11 Other assets</b>	<b>234,238</b>	-	<b>234,238</b>	<b>430,917</b>	<b>413,960</b>
<b>12 Receivables from shareholders</b>	-	-	-	-	-
<b>13 Prepayments and accrued income</b>	<b>20,798</b>	-	<b>20,798</b>	<b>22,419</b>	<b>24,539</b>
<b>Total assets</b>	<b><u>54,571,703</u></b>	<b><u>2,122,351</u></b>	<b><u>52,449,352</u></b>	<b><u>51,352,336</u></b>	<b><u>58,711,619</u></b>

<u>Liabilities:</u>		<u>2002</u>	<u>2001</u>	<u>2000</u>
		CZK'000	CZK'000	CZK'000
<b>1</b>	<b>Due to banks, mutual savings banks</b>	<b>7,975,451</b>	<b>5,819,339</b>	<b>19,796,491</b>
	a) repayable on demand	23,416	58,540	75,275
	b) other payables	7,952,035	5,760,799	19,721,216
<b>2</b>	<b>Due to customers, members of mutual savings banks</b>	<b>36,418,377</b>	<b>38,057,448</b>	<b>31,592,107</b>
	a) repayable on demand	16,378,341	12,810,621	8,925,693
	of which: saving accounts	-	-	-
	b) other payables	20,040,036	25,246,827	22,666,414
	of which:			
	ba) saving accounts repayable on demand	-	-	-
	bb) saving accounts at notice	-	-	-
	bc) term accounts repayable on demand	17,326,142	21,912,796	20,325,542
	bd) term accounts at notice	1,549,921	1,761,258	1,871,921
<b>3</b>	<b>Liabilities from debt securities</b>	<b>2,708,361</b>	<b>2,456,865</b>	<b>2,349,423</b>
	a) Issued debt securities	2,708,361	2,456,865	2,349,423
	b) other liabilities from debt securities	-	-	-
<b>4</b>	<b>Other liabilities</b>	<b>962,261</b>	<b>774,969</b>	<b>892,346</b>
<b>5</b>	<b>Accruals and deferred income</b>	<b>22,715</b>	<b>17,697</b>	<b>32,092</b>
<b>6</b>	<b>Provisions</b>	<b>632,074</b>	<b>629,554</b>	<b>532,049</b>
	a) provisions for pensions and similar liabilities	1,226	1,009	717
	b) provisions for taxes	-	-	-
	c) other provisions	630,848	628,545	531,332
<b>7</b>	<b>Subordinated liabilities</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>1,000,000</b>
<b>8</b>	<b>Share capital</b>	<b>1,360,410</b>	<b>1,360,410</b>	<b>1,360,410</b>
	of which: share capital paid up	1,360,410	1,360,410	1,360,410
<b>9</b>	<b>Own shares</b>	-	-	-
<b>10</b>	<b>Share premium</b>	-	-	-
<b>11</b>	<b>Reserve funds and other funds from profit</b>	<b>1,082,921</b>	<b>1,082,921</b>	<b>1,082,921</b>
	a) statutory reserve funds	272,082	272,082	272,082
	b) reserve fund for own shares	-	-	-
	c) other reserve funds	810,839	810,839	810,839
	d) other funds from profit	-	-	-
	of which: risk fund	-	-	-
<b>12</b>	<b>Reserve fund for new valuation</b>	-	-	-
<b>13</b>	<b>Capital funds</b>	-	-	-
<b>14</b>	<b>Revaluation reserve</b>	-	<b>(40,588)</b>	<b>29,305</b>
	a) revaluation differences on assets and liabilities	-	-	-
	b) revaluation differences on hedging derivatives	-	(40,588)	29,305
	c) revaluation differences on participations	-	-	-
<b>15</b>	<b>Retained earnings/(accumulated losses) from previous periods</b>	<b>187,160</b>	<b>37,774</b>	<b>(186,741)</b>
<b>16</b>	<b>Net profit for the year</b>	<b>99,622</b>	<b>155,947</b>	<b>231,216</b>
<b>Total liabilities</b>		<b><u>52,449,352</u></b>	<b><u>51,352,336</u></b>	<b><u>58,711,619</u></b>



## OFF-BALANCE SHEET AS AT 31 DECEMBER 2002

<u>Assets:</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
<b>1 Commitments and guarantees given</b>	<b>9,784,825</b>	<b>8,812,246</b>	<b>18,332,843</b>
a) commitments	8,428,036	7,985,158	16,649,796
b) guarantees and collaterals	1,300,553	814,376	1,652,193
c) guarantees from bills of exchange	-	-	-
d) guarantees from letters of credit	56,236	12,712	30,854
<b>2 Collaterals given</b>	-	-	-
a) real estate pledges	-	-	-
b) cash pledges	-	-	-
c) securities pledges	-	-	-
d) other	-	-	-
<b>3 Receivables from spot transactions</b>	<b>2,072,155</b>	<b>3,425,964</b>	<b>9,118,986</b>
a) interest instruments	1,311,159	2,426,549	8,409,579
b) currency instruments	756,899	999,415	709,407
c) equity instruments	4,097	-	-
d) commodity instruments	-	-	-
<b>4 Receivables from term instruments</b>	<b>16,375,097</b>	<b>16,547,618</b>	<b>14,943,181</b>
a) interest instruments	11,031,773	10,206,153	7,905,008
b) currency instruments	5,023,076	5,952,613	6,636,410
c) equity instruments	-	3,600	-
d) commodity instruments	-	-	-
e) debt instruments	320,248	385,252	401,763
<b>5 Receivables from option instruments</b>	<b>320,248</b>	-	-
a) interest instruments	-	-	-
b) currency instruments	-	-	-
c) equity instruments	-	-	-
d) commodity instruments	-	-	-
e) debt instruments	320,248	-	-
<b>6 Receivables written-off</b>	<b>127,746</b>	<b>191,151</b>	<b>213,436</b>
<b>7 Assets in custody</b>	-	-	-
<b>8 Assets managed by third party</b>	-	-	-
<b>Total off-balance sheet assets</b>	<b><u>28,680,071</u></b>	<b><u>28,976,979</u></b>	<b><u>42,608,446</u></b>

<u>Liabilities:</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
<b>1 Commitments and guarantees received</b>	<b>5,366,964</b>	<b>5,049,881</b>	<b>4,201,219</b>
a) commitments	-	-	-
b) guarantees and collaterals	5,057,064	5,049,881	4,201,219
c) guarantees from bills of exchange	309,900	-	-
d) guarantees from letters of credit	-	-	-
<b>2 Collaterals received</b>	<b>31,422,861</b>	<b>30,925,919</b>	<b>34,358,087</b>
a) real estate pledges	7,579,144	7,047,453	4,695,001
b) cash pledges	271,362	314,840	11,232,759
c) securities pledges	1,143,402	240,948	41,403
d) other	9,537,953	12,533,678	7,236,924
e) collaterals - securities	12,891,000	10,789,000	11,152,000
<b>3 Payables from spot transactions</b>	<b>2,072,062</b>	<b>3,425,903</b>	<b>9,119,165</b>
a) interest instruments	1,311,159	2,426,549	8,409,579
b) currency instruments	756,806	999,354	709,586
c) equity instruments	4,097	-	-
d) commodity instruments	-	-	-
<b>4 Payables from term instruments</b>	<b>16,390,997</b>	<b>16,533,041</b>	<b>14,989,660</b>
a) interest instruments	11,031,773	10,206,153	7,905,008
b) currency instruments	5,038,976	5,938,036	6,682,889
c) equity instruments	-	3,600	-
d) commodity instruments	-	-	-
e) debt instruments	320,248	385,252	401,763
<b>5 Payables from option instruments</b>	<b>320,248</b>	-	-
a) interest instruments	-	-	-
b) currency instruments	-	-	-
c) equity instruments	-	-	-
d) commodity instruments	-	-	-
e) debt instruments	320,248	-	-
<b>6 Assets under custody</b>	<b>7,669,968</b>	<b>2,940,110</b>	<b>2,682,979</b>
of which: securities	7,669,968	2,940,110	2,682,979
<b>7 Assets under management</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total off-balance sheet liabilities</b>	<b><u>63,243,100</u></b>	<b><u>58,874,854</u></b>	<b><u>65,351,110</u></b>

## INCOME STATEMENT

### FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
<b>1 Interest receivable and similar income</b>	<b>2,134,455</b>	<b>3,278,808</b>	<b>2,720,620</b>
of which: interest income from debt securities	314,323	678,296	448,911
<b>2 Interest payable and similar expense</b>	<b>(1,174,009)</b>	<b>(2,314,802)</b>	<b>(1,896,088)</b>
including: interest expense on debt securities	(24,608)	(19,966)	(23,303)
<b>3 Income from shares and other interests</b>	<b>-</b>	<b>33,346</b>	<b>22,913</b>
of which:			
a) income from participating interests	-	-	-
b) income from interests in subsidiary undertakings	-	-	-
c) income from other shares and interests	-	33,346	22,913
<b>4 Fee and commission income</b>	<b>285,136</b>	<b>269,349</b>	<b>290,680</b>
<b>5 Fee and commission expense</b>	<b>(28,706)</b>	<b>(34,687)</b>	<b>(37,973)</b>
<b>6 Gains less losses from financial transactions</b>	<b>90,390</b>	<b>373,946</b>	<b>328,152</b>
<b>7 Other operating income</b>	<b>43,945</b>	<b>18,484</b>	<b>69,133</b>
<b>8 Other operating expense</b>	<b>(12,071)</b>	<b>(1,097)</b>	<b>(44,279)</b>
<b>9 Administrative expense</b>	<b>(885,211)</b>	<b>(954,296)</b>	<b>(883,280)</b>
of which:			
a) staff costs	(419,740)	(380,182)	(354,165)
aa) wages and salaries	(313,169)	(283,958)	(264,542)
ab) social and health insurance	(106,571)	(96,224)	(89,623)
b) other administrative expenses	(465,471)	(574,114)	(529,115)
<b>10 Utilization of provisions for tangible and intangible fixed assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) utilization of specific provisions for tangible fixed assets	-	-	-
b) utilization of other provisions for tangible fixed assets	-	-	-
c) utilization of specific provision for intangible fixed assets	-	-	-
<b>11 Depreciation, additions to provisions for tangible and intangible fixed assets</b>	<b>(271,472)</b>	<b>(284,277)</b>	<b>(271,504)</b>
a) depreciation of tangible fixed assets	(220,099)	(218,399)	(209,473)
b) additions to specific provisions for tangible fixed assets	-	-	-
c) additions to other provisions for tangible fixed assets	-	-	-
d) amortization of intangible fixed assets	(51,373)	(65,878)	(62,031)
e) additions to specific provision for intangible fixed assets	-	-	-

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
<b>12 Utilization of provisions for loans and guarantees, income from ceded receivables and income from receivables already written-off</b>	<b>65,430</b>	<b>207,228</b>	<b>276,038</b>
a) utilization of specific provisions for loans and guarantees	7,562	96,855	172,415
b) utilization of other provisions for loans and guarantees	48,662	102,477	13,947
c) gains from ceded receivables and income from receivables already written-off	9,206	7,896	89,676
<b>13 Write-offs, additions to provisions for loans and guarantees</b>	<b>(220,405)</b>	<b>(236,668)</b>	<b>(574,950)</b>
a) additions to other provisions for loans and guarantees	(207,890)	(36,665)	(169,120)
b) additions to specific provisions for guarantees	-	(192,031)	(288,577)
c) write-off of loans and payments from guarantees, losses from ceded receivables	(12,515)	(7,972)	(117,253)
<b>14 Utilization of provisions for participating interests with significant and controlling influence</b>	<b>-</b>	<b>3,986</b>	<b>630,036</b>
<b>15 Additions to provisions for participating interests with significant and controlling influence</b>	<b>(478)</b>	<b>(432)</b>	<b>(344,670)</b>
<b>16 Utilization of other specific provisions</b>	<b>628</b>	<b>378</b>	<b>179</b>
<b>17 Additions to other specific provisions</b>	<b>(10,712)</b>	<b>(2,706)</b>	<b>(53,791)</b>
<b>18 Utilization of other provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>19 Additions to other provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>20 Profit on ordinary activities before taxation</b>	<b>16,920</b>	<b>356,560</b>	<b>231,216</b>
<b>21 Extraordinary income</b>	<b>86,619</b>	<b>-</b>	<b>-</b>
<b>22 Extraordinary expenses</b>	<b>-</b>	<b>(200,613)</b>	<b>-</b>
<b>23 Profit or loss on extraordinary activities before taxation</b>	<b>86,619</b>	<b>(200,613)</b>	<b>-</b>
<b>24 Income tax</b>	<b>(3,917)</b>	<b>-</b>	<b>-</b>
<b>25 Share on profits of subsidiary and associated undertakings</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>26 Net profit for the year</b>	<b><u>99,622</u></b>	<b><u>155,947</u></b>	<b><u>231,216</u></b>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2002

	Share capital	Statutory reserve fund	Revenue reserve fund	(Accumulated losses)/ Retained earnings	Total equity
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
At 1 January 2000	1,360,410	272,082	810,839	(186,741)	2,256,590
Profit for the year 2000	-	-	-	<u>231,216</u>	<u>231,216</u>
At 31 December 2000	1,360,410	272,082	810,839	44,475	2,487,806
Social fund allocation	-	-	-	(6,701)	(6,701)
Profit for the year 2001	-	-	-	<u>155,947</u>	<u>155,947</u>
At 31 December 2001	1,360,410	272,082	810,839	193,721	2,637,052
Social fund allocation	-	-	-	(6,561)	(6,561)
Profit for the year 2002	-	-	-	<u>99,622</u>	<u>99,622</u>
At 31 December 2002	<u>1,360,410</u>	<u>272,082</u>	<u>810,839</u>	<u>286,782</u>	<u>2,730,113</u>

## 1 GENERAL INFORMATION

Živnostenská banka was founded in 1868 for the purpose of financing small and medium-sized Czech companies. It was the first bank in the Austro-Hungarian Empire with only Czech capital. It was nationalized in 1945 as were the other banks in the Czech Republic. Živnostenská banka existed as a legal entity during the years 1950 - 1956 but its activities were very limited. Later Živnostenská banka started to provide special services to individuals which related to their income denominated in foreign currencies.

Živnostenská banka, a.s. (hereinafter referred to as “the Bank”) was incorporated on 1 March 1992 as a legal successor of the original Živnostenská banka. The Bank has its registered office at Praha 1, Na Příkopě 858/20, and it is organised as eight domestic regional branches and a representative office in Bratislava, Slovak Republic.

The Bank’s operations primarily consist of:

- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currency;
- accepting current and term accounts denominated in Czech and foreign currency;
- rendering of general banking services through a network of branches and agencies;
- executing foreign exchange transactions;
- providing foreign trade finance and related banking services;
- trading in securities and portfolio management.

The shareholder structure of the Bank is in the process of being changed (Note 27).

## 2 ACCOUNTING POLICIES

### (a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting, chart of accounts and the applicable accounting rules set by the Ministry of Finance of the Czech Republic. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments held for trading and available-for-sale to fair values.

The financial statements are rounded to thousands of Czech Crowns (“CZK’000”) unless otherwise stated and are not consolidated. The Bank presents consolidated financial statements according to International Accounting Standards separately.

### (b) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank (hereinafter “CNB”) effective at the balance sheet date. All resulting foreign exchange gains and losses are recognised in gains less losses from financial transactions.

### (c) Fair value of securities

The fair value of a security is determined as the market value quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share on the investee’s equity for equities;
- the risk adjusted net present value for debt securities and notes.

### (d) Trading securities

Trading securities were either acquired for generating profit from short-term fluctuations in price or dealer’s margin, or included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are further measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on trading securities is reported as interest income on securities.

## 2 ACCOUNTING POLICIES (continued)

### (e) Available-for-sale investment securities

Available-for-sale investment securities are neither trading securities nor securities held to maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management. Available-for-sale securities are measured in the same way as trading securities. Non-securitised shares other than shares in subsidiaries and associates are measured at cost less impairment.

### (f) Investment securities held-to-maturity

Investment securities held-to-maturity are securities with fixed maturity where the Bank has both the intent and the ability to hold them to maturity.

Investment securities held-to-maturity are measured at amortised cost.

### (g) Transfers between portfolios

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- trading securities cannot be transferred;
- on sale or transfer of any securities held-to-maturity, the Bank must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity within the two following accounting periods. Exceptions to this rule are allowed within the last three months before maturity or in the case of a significant deterioration in an issuer's creditworthiness.

### (h) Investments in subsidiary and associated undertakings

A subsidiary is an enterprise that is controlled by the Bank, which means that the Bank has the power to govern the financial and operating policies as to obtain benefits from its activities.

An associated undertaking is an enterprise where the Bank has significant influence, which is the power to participate in the financial and operating policy decisions, but not control.

Investments in subsidiary and associated undertakings are measured at cost less any impairment other than temporary.



## 2 ACCOUNTING POLICIES (continued)

### (i) Securities financing arrangements

Securities borrowed or purchased under agreements to resell (resale or reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cashflows are recorded as loans and borrowings respectively on a settlement date basis.

### (j) Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised on balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are presented in other assets or in other liabilities when their fair value is positive or negative respectively.

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

Changes in the fair value of derivatives held for trading are included in Gains less losses from financial transactions.

The Bank designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge) or a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met.

- i) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- ii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- iii) the hedge is effective on an ongoing basis.

## **2 ACCOUNTING POLICIES (continued)**

### **(j) Derivative financial instruments and hedging (continued)**

Changes in the fair value of derivatives that qualify as effective fair value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the hedging reserve in equity. Where a hedged forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in the hedging reserve are transferred from the hedging reserve and form part of the cost of the asset or liability. Otherwise, amounts deferred in the hedging reserve are transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

### **(k) Interest income and expense**

Interest income and expense are recognised for all interest bearing instruments on an accrual basis using the effective yield method based on the acquisition cost. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

Income on non-performing loans is also accrued and capitalised into the related loan balance. Such amounts are considered in estimating the provision for non-performing loans.

### **(l) Penalty interest**

Penalty interest income is suspended or forgiven and excluded from interest income until received.

### **(m) Fee and commission income**

Fixed fee income for arrangement of loans, guarantees and other activities is recognised immediately, whereas commission is accrued over the period to maturity.

## 2 ACCOUNTING POLICIES (continued)

### (n) Provisions and allowances

Specific provisions are recognised when the Bank has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. In addition, general provisions for banking risk recorded prior to 1 January 2002 are recognised in the balance sheet, however, these must be utilised or written back to income by 31 December 2005. All provisions are presented in liabilities.

Allowances are deducted from the cost of each impaired asset. The amount of allowance for impaired loans and other assets is based on appraisals of recoverable amount of these assets at the balance sheet date.

### (o) Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over the estimated useful lives:

	<u>Depreciation period</u> (years)
Buildings and constructions	30
Technical improvement on buildings classified as historical monuments	10
Energy equipment	12
Machinery and equipment	6
Furniture and fittings	6
Motor vehicles	4
IT Equipment	4
Software	4

Repair and maintenance expenditures are charged to expense as incurred. Expenditures enhancing the value of the asset are capitalised and depreciated.

## 2 ACCOUNTING POLICIES (continued)

### (o) Tangible and intangible fixed assets (continued)

Assets held under finance lease agreements are not capitalised and are accounted for in the same way as operating leases, with rental charges being reflected in the income statement on a straight-line basis over the term of the lease agreement. Neither is the corresponding lease obligation recorded as a liability.

Correspondingly, assets lent under finance lease agreements are included in operating fixed assets and depreciated over the term of the lease agreement.

### (p) Value added tax

The Bank is registered for value added tax (hereinafter “VAT”). Fixed tangible assets and intangible assets are stated at cost excluding appropriate VAT. The Bank does not raise claims for input VAT, since the ratio of income subject to VAT is lower than 5% of the total income of the Bank. Input VAT incurred is expensed immediately. VAT on fixed tangible and intangible assets is included in the acquisition cost.

### (q) Deferred taxation

Deferred tax liability is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

Deferred tax related to fair value remeasurement of hedges, which are charged or credited directly to equity, is also credited or charged directly to equity.

### (r) Pensions

During the year the Bank operated defined contribution schemes for its employees. The contributions made to the pension fund for the period are charged against profit. In addition, regular contributions are made to the state to fund the national pension plan.

## 2 ACCOUNTING POLICIES (continued)

### (s) Related parties

Related parties are defined in accordance with the Act on Banks as follows:

- board members, senior management and their relatives;
- corporates controlling the Bank, their shareholders holding more than 10% of share capital and their senior management and its relatives;
- corporates with 10% shareholding of the Bank's board members, senior management or corporates controlling the Bank;
- shareholders holding more than 10% of the Bank and corporates controlled by them;
- subsidiaries of the Bank.

In accordance with the Czech accounting rules the following related party balances and transactions are disclosed in Notes 4, 5, 7, 8, 10, 12, 13, 16, 17, 18:

- direct and indirect equity investments, loans, other receivables and liabilities to subsidiaries and associates including their securities held by the Bank;
- the Bank's shareholders holding more than 3% of share capital;
- remuneration, loans received and guarantees provided by members of the Board of Directors, Supervisory Board and senior management aggregated by individual bodies, including main terms and policies.

### (t) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of signing the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to signing of the financial statements, which are indicative of conditions, which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

## 2 ACCOUNTING POLICIES (continued)

### (u) Extraordinary items and changes in accounting policy

Extraordinary items include significant one-off effects of events outside the scope of the Bank's activities and effects of changes in accounting policies.

Changes in accounting policy have been adopted by the Bank prospectively, therefore comparative financial information has not been remeasured. The changes in accounting policies affected the income statement for the year 2002 and 2001 as follows:

The changes in accounting policies since 1 January 2002 as follows:

- (i) Provisions for trading securities and available-for-sale investment securities were released and both portfolios were remeasured at fair value. The resulting difference is presented as extraordinary income. The net effect of this change is CZK 107,554,000 (release of provisions to securities of CZK 124,003,000; remeasurement of securities at fair value of CZK (16,449,000)).
- (ii) Hedge reserve of CZK (40,588,000) relating to interest rate swaps hedging the fair value of loans and bonds was released against extraordinary income. Hedged loans were revalued against extraordinary income in an amount of CZK 19,653,000. The net effect of this change is CZK (20,935,000).

Transaction costs (e.g. commissions and fees of brokers, advisors or stock exchanges) are included in cost of purchased securities. No restatement has been made for the cost of securities as at 31 December 2001 (which excluded such costs) therefore the change had no retrospective impact on the income statement or equity. The increase of acquisition costs during the year was not material and was largely offset on remeasurement to fair value.

2002  
CZK'000

Pretax effects of changes in accounting policies included in extraordinary income:

i)	Release of provisions to securities	124,003
i)	Remeasurement of securities at fair value	(16,449)
ii)	Hedges reclassified to income	<u>(20,935)</u>
	Total pretax effect of changes in accounting policies driven by law	<u>86,619</u>

## 2 ACCOUNTING POLICIES (continued)

### (u) Extraordinary items and changes in accounting policies (continued)

The changes in accounting policies since 1 January 2001 are as follows:

- (i) New definitions of securities portfolios, rules for movements between portfolios and valuations on an individual basis were introduced (trading securities, securities held-to-maturity and securities available-for-sale) (Note 7). The effect of this change is represented by reclassifications between balance sheet lines and a charge to provision for securities of CZK 120,705,000.
- (ii) The derivative element embedded in a loan granted to a related party holding a portfolio of credit swaps (Note 26(d)), has been separated out of the host contract and is included at fair value in other liabilities. The effect of the marking to market, as at 1 January 2001 of the derivative element embedded in the loan is a loss of CZK 78,183,000 included within the result for the year 2001.
- (iii) New criteria for hedge accounting as listed in Note 2(j) were defined. Several derivatives classified as hedges in 2000 did not meet the new criteria. Consequently, an amount of CZK 1,725,000 previously recorded in the hedging reserve, was charged to the income statement as at 1 January 2001.
- (iv) The Bank changed depreciation policy for technical improvements acquired by the end of the year 1999 on rented buildings from 1 January 2001. The technical improvement is depreciated over 10 years instead of 30 years. The Bank recorded an extraordinary depreciation charge related to previous periods of CZK 3,419,000.

These changes affected the income statement for the year 2001 as follows:

	<u>2001</u>
	CZK'000
i) New definitions of securities portfolios and their valuation at	(120,705)
ii) Separation and fair valuation of the embedded credit derivative	(78,183)
iii) Hedging reserve of non-qualifying derivatives charged to expenses	<u>(1,725)</u>
Total pretax effect of changes in accounting policies driven by law	(200,613)
iv) Change in depreciation policy of the Bank for technical improvements on rented buildings	<u>(3,419)</u>
Total pretax effect of changes in accounting policies	<u>(204,032)</u>

### 3 CASH AND DEPOSITS WITH CENTRAL BANKS

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Cash on hand	405,662	592,689	398,466
Obligatory reserves	500,318	788,580	748,597
Current accounts with central banks	<u>82,514</u>	<u>101,486</u>	<u>274,662</u>
	<u>988,494</u>	<u>1,482,755</u>	<u>1,421,725</u>

Obligatory reserves are mandatory deposits with the CNB and they are not available for use in the Bank's day-to-day operations. These deposits were interest-free until 11 July 2001. Since that date they bear interest at the CZK repo rate (2.75% p.a. at 31 December 2002; 4.75% p.a. at 31 December 2001).

### 4 DUE FROM BANKS

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Current accounts with banks	135,814	274,569	190,309
Term deposits with banks and central banks	7,390,673	8,826,593	10,963,265
Standard loans to banks	315,604	301,332	520,254
Loans provided in reverse repo transactions	<u>13,068,220</u>	<u>10,879,356</u>	<u>11,113,211</u>
	<u>20,910,311</u>	<u>20,281,850</u>	<u>22,787,039</u>

Loans provided in reverse repo transactions as at 31 December 2002 of CZK 13,068 million (31 December 2001: CZK 10,869 million; 31 December 2000: 11,102 million) are with the CNB.

<b>Placements with related parties</b>	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Placements with the holding company	2,444,523	378,269	754,473
Placements with other related parties	<u>-</u>	<u>424</u>	<u>406,081</u>
	<u>2,444,523</u>	<u>378,693</u>	<u>1,160,554</u>



## 5 DUE FROM CUSTOMERS

	<u>31 December 2002</u> CZK '000	<u>31 December 2001</u> CZK '000	<u>31 December 2000</u> CZK '000
Standard loans to companies and individuals	20,617,961	18,758,820	16,493,539
Consumer loans	63,147	50,310	-
Impaired loans to companies and individuals	1,844,687	371,208	513,207
Standard loans to municipalities	<u>80,007</u>	<u>-</u>	<u>-</u>
	22,605,802	19,180,338	17,006,746
Allowance for impaired loans (Note 11)	<u>(363,379)</u>	<u>(204,151)</u>	<u>(269,963)</u>
	<u>22,242,423</u>	<u>18,976,187</u>	<u>16,736,783</u>

In addition to the allowance for impaired loans the Bank has reflected a general provision for loans and guarantees of CZK 548 million at 31 December 2002 (2001: CZK 555 million; 2000: CZK 460 million) (Note 11). This provision has to be utilised or written back to income by 31 December 2005 (Note 2(n)).

The Bank restructured loans and other receivables of CZK 263 million at 31 December 2002 (at 31 December 2001: CZK 165 million; at 31 December 2000: CZK 307 million). Loans and other receivables are considered as restructured in case that the Bank grants relief to clients because it is likely that the Bank would incur losses if acting otherwise. Relief is granted due to economic and legal reasons relating to the debtor's financial situation and the relief would not be granted under other circumstances. Roll-over of a short-term loan is not considered to be restructuring of the loan in the case where the client has fulfilled all requirements of loan agreements.

During 2000, the Bank provided a credit line of CZK 11,299 million to a foreign company (EUR 320 million). As collateral for this loan, the Bank received a cash deposit of CZK 10,878 million (EUR 310 million) (Note 12). The foreign company repaid all obligations resulting from this loan in November 2001. As at 31 December 2000, CZK 1,123 million (EUR 32 million) was drawn from this facility and the unutilised amount of the credit line was CZK 10,106 million (EUR 288 million) (Note 18). A part of the difference between the cash deposit and the utilised amount of the credit line as at 31 December 2000 was invested in foreign government bonds with a nominal value of CZK 9,246 million (EUR 263.5 million) (Note 7(a)).

## 5 DUE FROM CUSTOMERS (continued)

### (a) Loans to related parties and major shareholders

Standard loans to companies and individuals include the following loans to related parties (Note 2(s)):

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
<u>Subsidiary undertakings:</u>			
ŽB - Trust, investiční společnost, a.s.	-	256,202	-
ŽB - Asset Management, a.s.	-	253,399	125,423
<u>Associated undertakings:</u>			
Český leasing, spol. s r.o.	327,330	517,849	439,012
<u>Other related parties:</u>			
Board of Directors	583	773	-
Supervisory Board	548	670	804
Management	9,489	8,485	4,437
Bankgesellschaft Berlin AG group companies	<u>320,349</u>	<u>385,252</u>	<u>402,894</u>
Total loans to related parties	<u>658,299</u>	<u>1,422,630</u>	<u>972,570</u>

All loans to related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

## 5 DUE FROM CUSTOMERS (continued)

### (a) Loans to related parties and major shareholders (continued)

As at 31 December 2002, 2001 and 2000, the Bank had not granted any loans to its shareholders.

On 30 November 2001, the Bank sold its share in Živnobanka - 1. investiční fond, a.s. (Note 7(b)) (hereinafter "ŽIF") to its subsidiaries, ŽB - Trust, investiční společnost, a.s. and ŽB - Asset Management, a.s. The selling price was CZK 680 per share (market price per share as at 30 November 2001: CZK 665). The total sales contract value with ŽB - Trust, investiční společnost, a.s. was CZK 256,219,000 (total market price: CZK 250,567,000) and with ŽB - Asset Management, a.s. CZK 128,109,000 (total market price: CZK 125,283,000).

The Bank has provided short-term loans to both subsidiaries to fund the acquisition of shares of ŽIF. CZK 259 million was provided to ŽB - Trust, investiční společnost, a.s. and CZK 130 million was provided to ŽB - Asset Management, a.s. The interest rate for the short-term loans is 3 months PRIBOR + 0.2% p.a.

The Bank has provided to a related party incorporated abroad a five year loan of USD 11 million due in 2005. Underlying this loan is a portfolio of credit default swaps on reference assets with aggregate nominal value of USD 43 million of which the Bank's investment is equal to the loan provided. The loan could terminate before the original maturity date in the event of a credit default of any one of the reference assets or if the mark to market loss on the portfolio exceeds 70% of the loan principal. The early redemption amount would be calculated as the loan principal and accrued interest as at termination date less the market value of the portfolio. The market value of the portfolio is equivalent to the aggregate market values of the individual credit default swaps comprising the portfolio as provided to the Bank by BGB, which represents the portfolio's pricing agent. The derivative element embedded in this loan has been separated out of the host contract and is included at fair value under Other liabilities (Note 16) with changes in fair value being included in Gains less losses from financial transactions (Note 22).

During 2001, one of the reference assets in the portfolio (Railtrack plc) was substituted by another reference asset (GE Capital Corporation). As a result of this event, the Bank took delivery of Railtrack bonds which as at 31 December 2001 were included at fair value in securities available-for-sale (Note 7(b)). The bond was repaid on 10 October 2002 at 100.01% of its nominal value by the legal successor of Railtrack plc, Network Rail plc.

## 5 DUE FROM CUSTOMERS (continued)

### (a) Loans to related parties and major shareholders (continued)

During 2002, one of the reference assets in the portfolio (XEROX Corporation) was substituted by another reference asset (BASF). As a result of this event, the Bank took delivery of the XEROX bonds, which as at 31 December 2002 were included at fair value in the available-for-sale portfolio (Note 7(b)).

Continuance of the loan arrangement is subject to early termination option held by the Bank (Note 26(d)) and Bankgesellschaft Berlin AG (hereinafter "BGB"), both of which can be exercised and the arrangement terminated subsequently within three months after the Bank's share transfer agreement between BGB and UniCredito Italiano SPA (Note 27) becomes effective.

### (b) Quality of loan portfolio

Loans are categorised in accordance with the definitions issued by the CNB in five categories (standard, watch, substandard, doubtful, loss). Non-performing loans include substandard, doubtful and loss loans and represent total outstanding principal and accrued interest receivable with service payments overdue more than 90 days or other defaults in contractual terms or financial performance.

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Standard	20,761,115	18,809,130	16,493,539
Watch	1,197,793	83,164	198,788
Substandard	403,045	59,763	136
Doubtful	100,583	72,404	35,735
Loss	<u>143,266</u>	<u>155,877</u>	<u>278,548</u>
	<u>22,605,802</u>	<u>19,180,338</u>	<u>17,006,746</u>

## 5 DUE FROM CUSTOMERS (continued)

### (b) Quality of loan portfolio

The forced sale value ascribed to assets received as collateral for loans to customers can be analysed as follows:

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Guarantees received	5,366,964	5,049,881	4,201,219
Cash	271,362	314,840	11,232,759
Securities	1,143,402	240,948	41,403
Land and buildings	7,579,144	7,047,453	4,695,001
Other assets	<u>9,537,953</u>	<u>12,533,678</u>	<u>7,236,924</u>
	<u>23,898,825</u>	<u>25,186,800</u>	<u>27,407,306</u>

As at 31 December 2000, the item Cash in the table above included the cash collateral of CZK 10,878 million for the loan to the foreign company with a credit line of CZK 11,299 million described in Note 5(a).

## 6 SYNDICATE LOANS

At 31 December 2002, 2001 and 2000 the Bank led syndicate loans, which can be analysed as follows:

	Share of syndicate manager	Share of syndicate members	<u>Loan balance</u>		
	%	%	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
			CZK'000	CZK'000	CZK'000
Facility 1	50	50	189,087	382,616	400,362
Facility 2	31	69	<u>208,367</u>	<u>250,000</u>	<u>250,000</u>
			<u>397,454</u>	<u>632,616</u>	<u>650,362</u>

## 7 SECURITIES

	Debt securities			Shares, mutual shares and other interest		
	at 31 December			at 31 December		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Trading	5,008,651	6,309,629	12,102,109	5	4	29
Available for sale	<u>1,369,560</u>	<u>1,933,108</u>	<u>2,921,278</u>	<u>21,073</u>	<u>122,927</u>	<u>406,519</u>
Total	<u>6,378,211</u>	<u>8,242,737</u>	<u>15,023,387</u>	<u>21,078</u>	<u>122,931</u>	<u>406,548</u>

### (a) Trading securities

#### Debt securities

At 31 December 2002

	<u>Fair value</u> CZK'000
Main or auxiliary market of recognised stock exchanges	<u>5,008,651</u>

CZK 5,008,651,000 represents securities traded on main or auxiliary market of recognised stock exchanges out of which CZK 1,427,774,000 represents state treasury bills.

At 31 December 2001

	<u>Net cost</u> CZK'000	<u>Fair value</u> CZK'000
State treasury bills	2,823,260	2,828,714
Main or auxiliary market of recognised stock exchanges	3,466,095	3,464,275
Accrued interest on bonds	<u>24,996</u>	<u>24,996</u>
	6,314,351	<u>6,317,985</u>
Provision for unrealised losses	<u>(4,722)</u>	
	<u>6,309,629</u>	

**7 SECURITIES (continued)****(a) Trading securities (continued)****Debt securities (continued)**

At 31 December 2000

	<u>Net cost</u> CZK'000	<u>Fair value</u> CZK'000
State treasury bills	541,780	541,836
Main or auxiliary market of recognised stock exchanges	11,305,985	11,301,467
Unquoted	105,270	105,270
Accrued interest on bonds	<u>153,993</u>	<u>153,993</u>
	12,107,028	<u>12,102,566</u>
Provision for unrealised losses	<u>(4,919)</u>	
	<u>12,102,109</u>	

Net cost represents acquisition cost excluding any recognised transaction cost.

Debt securities in the trading portfolio at 31 December 2002 include CZK 1,780 million of securities (36% of the total) redeemable within one year (2001: CZK 3,964 million representing 63%; 2000: CZK 10,301 million representing 85%).

**Shares, mutual shares and other interests**

	<u>Fair value</u> <u>31 December 2002</u> CZK'000	<u>Net cost</u> <u>31 December 2001</u> CZK'000	<u>Net cost</u> <u>31 December 2000</u> CZK'000
Unquoted	5	9	-
Main or auxiliary market of recognised stock exchanges	-	-	<u>29</u>
	5	9	29
Provision for unrealised losses	-	<u>(5)</u>	<u>-</u>
	<u>5</u>	<u>4</u>	<u>29</u>

## 7 SECURITIES (continued)

### (b) Securities available-for-sale

#### Debt securities

At 31 December 2002

Fair value  
CZK'000

Main or auxiliary market of recognised stock exchanges

1,369,560

At 31 December 2001

Net cost      Fair value  
CZK'000      CZK'000

Main or auxiliary market of recognised stock exchanges

1,921,943      1,990,738

Unquoted

72,518      -

Accrued interest on bonds

41,004      41,004

2,035,465      2,031,742

Provision for unrealised losses

(102,357)

1,933,108

At 31 December 2000

Net cost      Fair value  
CZK'000      CZK'000

Main or auxiliary market of recognised stock exchanges

2,506,035      2,261,582

Unquoted

608,278      606,801

Accrued interest on bonds

52,896      52,896

3,167,209      2,921,279

Provision for unrealised losses\*

(245,931)

2,921,278

\* Total provision of CZK 171,029,000 for securities including both Debt securities and Shares, mutual shares and other interests was calculated on a portfolio basis in 2000. Due to 2002 reporting requirements we show it separately for Debt securities (CZK 245,931,000) and for Shares, mutual shares and other interests (surplus of CZK 74,902,000).



**7 SECURITIES (continued)****(b) Securities available-for-sale (continued)****Shares, mutual shares and other interests**

At 31 December 2002

	<u>Net cost</u> CZK'000	<u>Fair value</u> CZK'000
Main or auxiliary market of recognised stock exchanges	10,672	10,672
Unquoted	<u>28,906</u>	<u>10,401</u>
	39,578	<u>21,073</u>
Provision for unrealised losses	<u>(18,505)</u>	
	<u>21,073</u>	

At 31 December 2001

	<u>Net cost</u> CZK'000	<u>Fair value</u> CZK'000
Main or auxiliary market of recognised stock exchanges	124,945	112,628
Unquoted	<u>33,632</u>	<u>10,862</u>
	158,577	<u>123,490</u>
Provision for unrealised losses	<u>(35,650)</u>	
	<u>122,927</u>	

**7 SECURITIES (continued)****(b) Securities available-for-sale (continued)****Shares, mutual shares and other interests (continued)**

At 31 December 2000

	<u>Net cost</u> CZK'000	<u>Fair value</u> CZK'000
Main or auxiliary market of recognised stock exchanges	294,710	392,733
Unquoted	<u>36,907</u>	<u>16,667</u>
	331,617	<u>409,400</u>
Provision for unrealised losses*	<u>74,902</u>	
	<u>406,519</u>	

\* Total provision of CZK 171,029,000 for securities including both Debt securities and Shares, mutual shares and other interests was calculated on a portfolio basis in 2000. Due to 2002 reporting requirements we show it separately for Debt securities (CZK 245,931,000) and for Shares, mutual shares and other interests (surplus of CZK 74,902,000).

The available-for-sale securities at 31 December 2002 include also CZK 10 million of securities at fair value issued by an associated undertaking (at 31 December 2001: CZK 11 million; at 31 December 2000: CZK 17 million).

**(c) Securities held-to-maturity**

Based on legislative requirements effective from 1 January 2001 a held-to-maturity portfolio could be created. During 2001, the Bank decided to transfer the securities, which were included in its investment portfolio as at 31 December 2000 to the available-for-sale portfolio. As at 31 December 2002, the Bank has no securities included in a held-to-maturity portfolio.

**7 SECURITIES (continued)****(d) Summary of provisions for unrealised losses**

	<u>Trading securities at 31 December</u>			<u>Available-for-sale securities at 31 December</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Debt securities	-	4,722	4,919	-	102,357	245,931
Shares, mutual shares and other interests	=	<u>5</u>	<u>-</u>	<u>18,505</u>	<u>35,650</u>	<u>(74,902)</u>
Provision for unrealised losses (Note 11)	=	<u>4,727</u>	<u>4,919</u>	<u>18,505</u>	<u>138,007</u>	<u>171,029</u>

**8 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS****(a) Investments in subsidiary undertakings**

At 31 December 2002

<u>Name, registered office and major business</u>	<u>At cost</u>	<u>Nominal value</u>	<u>Share capital</u>	<u>Shareholding</u>
	CZK'000	CZK'000	CZK'000	%
ŽB - Trust, investiční společnost, a.s. Na Příkopě 15, 110 00 Praha 1; Collective investment	5,250	20,000	20,000	100
ŽB - Asset Management, a.s. Na Příkopě 15, 110 00 Praha 1; Provision of main and supplementary investment services	27,590	27,000	27,000	100
Zivnostenska Finance B.V. Haaksbergweg 27, 1101 BP Amsterdam Zuidoost, The Netherlands; Provision of financial services and investment activities	<u>1,106</u>	EUR 35,000	EUR 35,000	100
	33,946			
Provision for diminution in value (Note 11)	<u>(909)</u>			
	<u>33,037</u>			

## 8 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (continued)

### (a) Investments in subsidiary undertakings (continued)

The company Zivnostenska Finance B.V. did not carry out any activities during the years 2002, 2001 and 2000.

At 31 December 2001

	<u>At cost</u> CZK'000	Nominal <u>value</u> CZK'000	Share <u>capital</u> CZK'000	<u>Shareholding</u> %
ŽB - Trust, investiční společnost, a.s.	5,250	20,000	20,000	100
ŽB - Asset Management, a.s.	10,590	10,000	10,000	100
Zivnostenska Finance B.V.	<u>580</u>	NLG 40,000	NLG 40,000	100
	16,420			
Provision for diminution in value (Note 11)	<u>(432)</u>			
	<u>15,988</u>			

The Bank approved an increase of registered share capital in ŽB - Asset Management, a.s. from CZK 10 million to CZK 27 million in November 2001 and the change became effective in 2002.

At 31 December 2000

	<u>At cost</u> CZK'000	Nominal <u>value</u> CZK'000	Share <u>capital</u> CZK'000	<u>Shareholding</u> %
ŽB - Trust, investiční společnost, a.s.	5,250	20,000	20,000	100
ŽB - Asset Management, a.s.	10,590	10,000	10,000	100
Zivnostenska Finance B.V.	<u>637</u>	NLG 40,000	NLG 40,000	100
	<u>16,477</u>			

## 8 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (continued)

### (a) Investments in subsidiary undertakings (continued)

#### Summary financial information on subsidiary undertakings

At 31 December 2002 and for the year then ended:

Name	Unaudited subsidiary financial data				
	Net book		Total		Profit/(loss)
	<u>amount</u>	<u>Equity</u>	<u>assets</u>	<u>Revenues</u>	<u>before tax</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
ŽB - Trust, investiční společnost, a.s.	5,250	134,902	152,922	124,296	14,902
ŽB - Asset Management, a.s.	27,590	24,617	37,629	29,451	(7,430)
Zivnostenska Finance B. V.	197	154	277	1	(284)

At 31 December 2001 and for the year then ended:

Name	Audited subsidiary financial data				
	Net book		Total		Profit/(loss)
	<u>amount</u>	<u>Equity</u>	<u>assets</u>	<u>Revenues</u>	<u>before tax</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
ŽB - Trust, investiční společnost, a.s.	5,250	126,113	397,561	255,178	14,699
ŽB - Asset Management, a.s.	10,590	32,091	293,137	23,256	(4,014)
Zivnostenska Finance B. V.	148	(96)	29	3	(244)

At 31 December 2000 and for the year then ended:

Name	Audited subsidiary financial data				
	Net book		Total		Profit/(loss)
	<u>amount</u>	<u>Equity</u>	<u>assets</u>	<u>Revenues</u>	<u>before tax</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
ŽB - Trust, investiční společnost, a.s.	5,250	118,894	137,277	497,899	18,997
ŽB - Asset Management, a.s.	10,590	19,188	150,201	20,971	1,951
Zivnostenska Finance B. V.	637	163	404	37	(201)

## 8 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (continued)

### (b) Investments in associated undertakings

At 31 December 2002

<u>Name, registered office and major business</u>	<u>At cost</u> CZK'000	<u>Nominal value</u> CZK'000	<u>Share capital</u> CZK'000	<u>Shareholding</u> %
Český leasing, spol. s r.o. Nádražní 23, 151 34 Praha 5; Financial and operational lease	<u>39,271</u>	37,000	148,000	25

At 31 December 2001

	<u>At cost</u> CZK'000	<u>Nominal value</u> CZK'000	<u>Share capital</u> CZK'000	<u>Shareholding</u> %
Český leasing, spol. s r.o.	<u>39,271</u>	37,000	148,000	25

At 31 December 2000

	<u>At cost</u> CZK'000	<u>Nominal value</u> CZK'000	<u>Share capital</u> CZK'000	<u>Shareholding</u> %
Český leasing, spol. s r.o.	39,271	37,000	148,000	25
Provision for diminution in value (Note 11)	<u>(3,986)</u>			
	<u>35,285</u>			

Subsidiary and associated undertakings comprise solely investments in common stock. Voting rights are equal to the shareholdings in each company.

## 9 INTANGIBLE AND TANGIBLE FIXED ASSETS

### Intangible fixed assets

	<u>31 December 2000</u> CZK'000	<u>31 December 2001</u> CZK'000	<u>Additions</u> CZK'000	<u>Disposals</u> CZK'000	<u>31 December 2002</u> CZK'000
<u>Cost</u>					
Software	499,804	532,476	46,829	-	579,305
Other	<u>10,812</u>	<u>13,893</u>	<u>53,235</u>	<u>49,552</u>	<u>17,576</u>
	<u>510,616</u>	<u>546,369</u>	<u>100,064</u>	<u>49,552</u>	<u>596,881</u>
<u>Accumulated amortisation</u>					
Software	384,601	447,709	47,586	-	495,295
Other	<u>2,304</u>	<u>5,074</u>	<u>3,787</u>	-	<u>8,861</u>
	<u>386,905</u>	<u>452,783</u>	<u>51,373</u>	-	<u>504,156</u>
<u>Net book amount</u>	<u>123,711</u>	<u>93,586</u>			<u>92,725</u>

## 9 TANGIBLE AND INTANGIBLE FIXED ASSETS (continued)

### Operating tangible fixed assets

	<u>31 December 2000</u>	<u>31 December 2001</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2002</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<u>Cost</u>					
Land	43,826	44,118	773	236	44,655
Buildings	1,544,585	1,593,087	4,945	14,785	1,583,247
Equipment	1,021,137	1,067,482	68,960	49,242	1,087,200
Assets in course of construction	<u>26,780</u>	<u>6,840</u>	<u>69,852</u>	<u>67,626</u>	<u>9,066</u>
	<u>2,636,328</u>	<u>2,711,527</u>	<u>144,530</u>	<u>131,889</u>	<u>2,724,168</u>
<u>Accumulated depreciation</u>					
Buildings	286,309	363,892	81,641	14,785	430,748
Equipment	<u>627,854</u>	<u>703,940</u>	<u>149,957</u>	<u>49,243</u>	<u>804,654</u>
	<u>914,163</u>	<u>1,067,832</u>	<u>231,598</u>	<u>64,028</u>	<u>1,235,402</u>
<u>Net book amount</u>	<u>1,722,165</u>	<u>1,643,695</u>			<u>1,488,766</u>

### Fixed assets held under lease contracts

The Bank holds no material assets under finance lease contracts, which have not been recorded as fixed assets in the financial statements.

### Assets under charge

At 31 December 2002, 31 December 2001 and 31 December 2000 the Bank had no fixed assets provided as security over its liabilities or liabilities of third parties.



**10 OTHER ASSETS**

	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Unsettled securities transactions	745	747	735
Advances granted	48,405	66,478	85,526
Settlement clearance accounts	524	31,257	50,863
Derivative financial instruments (Note 26(d))	136,427	206,103	203,561
Other receivables	<u>48,137</u>	<u>126,332</u>	<u>73,275</u>
	<u>234,238</u>	<u>430,917</u>	<u>413,960</u>

Derivative financial instruments as at 31 December 2002 includes balances with related parties of CZK 56,086,000 (31 December 2001: CZK 36,151,000; 31 December 2000: CZK nil).

**11 ALLOWANCES, PROVISIONS AND WRITE OFFS**

The Bank had the following provisions and allowances for assets at risk:

	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
<u>Provisions</u>			
General provisions for loans (Note 5)	535,488	538,931	442,959
Specific provisions for guarantees (Note 18)	12,364	16,485	17,280
Other provisions	<u>84,222</u>	<u>74,138</u>	<u>71,810</u>
	<u>632,074</u>	<u>629,554</u>	<u>532,049</u>
<u>Allowances</u>			
Impaired loans to customers (Note 5)	363,379	204,151	269,963
Trading securities (Note 7(a))	-	4,727	4,919
Securities available-for-sale (Note 7(b))	18,505	138,007	171,029
Investments in subsidiaries & associates (Note 8)	<u>909</u>	<u>432</u>	<u>3,986</u>
	<u>382,793</u>	<u>347,317</u>	<u>449,897</u>

**11 ALLOWANCES, PROVISIONS AND WRITE OFFS (CONTINUED)**

The movements in provisions can be analysed as follows:

	General provisions <u>for loans</u> CZK'000	Specific provisions <u>for guarantees</u> CZK'000	Other provisions CZK'000	Total provisions CZK'000
At 1 January 2000	344,076	-	18,198	362,274
Additions	271,298	17,280	53,791	342,369
Usage	<u>(172,415)</u>	<u>-</u>	<u>(179)</u>	<u>(172,594)</u>
At 31 December 2000	442,959	17,280	71,810	532,049
Additions	192,031	-	2,706	194,737
Usage	<u>(96,059)</u>	<u>(795)</u>	<u>(378)</u>	<u>(97,232)</u>
At 31 December 2001	538,931	16,485	74,138	629,554
Additions	-	-	10,712	10,712
Usage	<u>(3,443)</u>	<u>(4,121)</u>	<u>(628)</u>	<u>(8,192)</u>
At 31 December 2002	<u>535,488</u>	<u>12,364</u>	<u>84,222</u>	<u>632,074</u>

**11 ALLOWANCES, PROVISIONS AND WRITE OFFS (continued)**

The movements in allowances can be analysed as follows:

	Impaired loans to <u>customers</u> CZK'000	Trading <u>securities</u> CZK'000	Available- for-sale <u>securities</u> CZK'000	Investments in subsidiaries <u>and associates</u> CZK'000
Allowance at 1 January 2000	114,791	114,736	-	460,381
Additions	169,887	78,191	-	367,690
Usage	(13,947)	(188,405)	-	(630,036)
Foreign exchange adjustment	<u>(768)</u>	<u>397</u>	<u>-</u>	<u>(23,020)</u>
Allowance at 31 December 2000	269,963	4,919	-	175,015
Transfer	-	-	171,029*	(171,029)*
Additions	47,109	117,634	404,910	436
Usage	(102,477)	(117,638)	(427,860)	(3,986)
Foreign exchange adjustment	<u>(10,444)</u>	<u>(188)</u>	<u>(10,072)</u>	<u>(4)</u>
Allowance at 31 December 2001	204,151	4,727	138,007	432
Addition	213,445	-	-	478
Usage	(48,662)	(4,727)	-	-
Remeasurement to the fair value (Note 2(u))	-	-	(119,270)	-
Foreign exchange adjustment	<u>(5,555)</u>	<u>-</u>	<u>(232)</u>	<u>(1)</u>
Allowance at 31 December 2002	<u>363,379</u>	<u>-</u>	<u>18,505</u>	<u>909</u>

\* Allowance related to the securities transferred as at 1 January 2001 due to change in accounting policies (Note 2(u)) from investment in subsidiaries and associates to portfolio available-for sale.

**Write-offs and recovery of amounts written off previously**

	2002		2001		2000	
	Amounts <u>written off</u> CZK'000	Recovery of amounts written <u>off previously</u> CZK'000	Amounts <u>written off</u> CZK'000	Recovery of amounts written <u>off previously</u> CZK'000	Amounts <u>written off</u> CZK'000	Recovery of amounts written <u>off previously</u> CZK'000
Customers	<u>12,515</u>	<u>9,206</u>	<u>7,972</u>	<u>7,896</u>	<u>117,253</u>	<u>89,676</u>

**11 ALLOWANCES, PROVISIONS AND WRITE OFFS (continued)****Write-offs and recovery of amounts written off previously (continued)**

Bad debts are written off against established general provisions, specific allowances or directly expensed in the case that management asserts their recoverability as being remote.

Within amounts written off of CZK 12,515,000 as at 31 December 2002 (31 December 2001: CZK 7,972,000; 31 December 2000: CZK 117,253,000) is included amount of CZK 6,318,000 (31 December 2001: CZK 3,032,000; 31 December 2000: CZK 66,658,000) relating to expenses from assigned receivables.

**12 DUE TO BANKS**

	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Due to other banks	<u>7,975,451</u>	<u>5,819,339</u>	<u>19,796,491</u>

**Deposits from related parties**

	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Holding company	<u>293,087</u>	<u>—</u>	<u>10,878,000</u>

Management considers that deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal interest rate and liquidity risk or present other unfavourable features.

At 31 December 2000, Deposits from related parties includes CZK 10,878 million relating to the collateral received from the holding company in relation to the credit line in amount of CZK 11,299 million described in Note 5(a).

**13 DUE TO CUSTOMERS**

	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Amounts due to governmental entities	6,009,505	2,692,836	9,133
Amounts due to municipalities	33,800	33,671	247,073
Amounts due to private customers	<u>30,375,072</u>	<u>35,330,941</u>	<u>31,335,901</u>
	<u>36,418,377</u>	<u>38,057,448</u>	<u>31,592,107</u>

**Deposits from related parties**

	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Subsidiary undertakings and other companies under common control	9,763	59,143	115,235
Associated undertakings	-	317	-
Funds in custody of ŽB - Trust, investiční společnost, a.s.	668,737	340,500	148,563
Board of Directors	10,752	11,662	18,418
Supervisory Board	1,328	340	1,466
Management	<u>13,354</u>	<u>9,830</u>	<u>11,578</u>
	<u>703,934</u>	<u>421,792</u>	<u>295,260</u>

Except for certain bona fide employee deposits at preferential interest rates, management considers that deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal interest rate and liquidity risk or present other unfavourable features.

**14 LIABILITIES FROM DEBT SECURITIES**

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Promissory notes and bills of exchange	<u>2,708,361</u>	<u>2,456,865</u>	<u>2,349,423</u>

**15 SUBORDINATED LIABILITIES**

On 29 December 1999 the Bank received a subordinated debt of EUR 27.7 million from BGB, which was converted to CZK 1 billion on 29 March 2000. The subordinated debt bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2004 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2009, with no repayment being possible before 29 December 2004 without the consent of the CNB. The debt, which is unsecured, is subordinated to all other liabilities of the Bank and forms a part of the tier two capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy.

**16 OTHER LIABILITIES**

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Payables from unsettled securities transactions	94	41,157	27,780
Trading liabilities (short positions in equities)	-	-	11
Settlement clearance accounts	395,793	1,275	351,109
Miscellaneous payables	207,503	446,033	277,728
Derivative financial instruments (Note 26(d))	352,022	283,673	234,461
Current income tax liability	3,917	-	-
Social fund	<u>2,932</u>	<u>2,831</u>	<u>1,257</u>
	<u>962,261</u>	<u>774,969</u>	<u>892,346</u>

Derivative financial instruments as at 31 December 2002 includes balances with related parties of CZK 263,533,000 (31 December 2001: CZK 167,847,000; 31 December 2000: CZK nil).

## 17 EQUITY AND PROFIT DISTRIBUTION

### Share capital

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Issued and paid	<u>1,360,410</u>	<u>1,360,410</u>	<u>1,360,410</u>

### Issues of shares

<u>ISIN</u>	<u>Date of issue</u>	<u>Date of registration</u>	<u>Nominal value of share</u> CZK	<u>Number of shares</u>	<u>Nominal value</u> CZK'000
CZ0008002557	17 April 1992	24 May 1993	1,000	633,407	633,407
CZ0008002557	17 April 1992	30 August 1993	1,000	727,003	<u>727,003</u>
					<u>1,360,410</u>

### Shareholders

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
<u>Name and registered office</u>	<u>Holding</u> %	<u>Holding</u> %	<u>Holding</u> %
Bankgesellschaft Berlin AG, Alexanderplatz 2, Berlin	85.16	85.16	85.16
Stroden Management Limited, Parou 1A, 6035 Larnaca, Cyprus	-	7.88	-
Credit Suisse Life & Pensions penzijní fond, a.s. Starobrněnská 335, 602 00 Brno	7.94	-	-
Other shareholders holding individually less than 3% of share capital	<u>6.90</u>	<u>6.96</u>	<u>14.84</u>
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

The shareholder structure of the Bank is in the process of being changed (Note 27).

**17 EQUITY AND PROFIT DISTRIBUTION (continued)****Share capital (continued)**

The Bank's shares owned by members of the Board of Directors, Supervisory Board and management can be summarised as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	Number of shares held	Number of shares held	Number of shares held
Board of Directors	13	13	15
Management	<u>41</u>	<u>42</u>	<u>42</u>
	<u>54</u>	<u>55</u>	<u>57</u>

At 31 December 2002, 2001 and 2000 1,360,410 shares of the Bank's total nominal value of shares in issue of CZK 1,360,410,000 were registered for trading and were traded on the public markets (i.e. Prague Stock Exchange and RM-System).

If the balance of the statutory reserve fund has not reached 20% of the share capital, the Bank is required under the Commercial Code to allocate 5% of annual profit to this non-distributable fund.

**Profit distribution**

The 2001 and 2000 net profit was allocated, and the profit of CZK 99,622,000 for 2002 is proposed to be allocated, as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Social fund	7,514	6,561	6,700
Retained earnings	<u>92,108</u>	<u>149,386</u>	<u>224,516</u>
Net profit	<u>99,622</u>	<u>155,947</u>	<u>231,216</u>

Social fund contributions are not charged to the income statement in accordance with Czech accounting rules.



**17 EQUITY AND PROFIT DISTRIBUTION (continued)****Earnings per share**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Net profit attributable to shareholders	92,108	149,386	224,516
Number of ordinary shares in issue	1,360,410	1,360,410	1,360,410
Basic earnings per share (in CZK)	<u>67.71</u>	<u>109.81</u>	<u>165.04</u>

**Revaluation reserve**

	<u>Hedging derivatives</u>
	CZK'000
As at 1 January 2000	82,905
As at 31 December 2000	29,305
As at 31 December 2001	(40,588)
As at 31 December 2002	-

## 18 CONTINGENCIES AND COMMITMENTS

Commitments to extend loans, loan guarantees to third parties and letters of credit include exposure to credit loss in the event of a client's default. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit risk, interest rate risk and liquidity risk.

The Bank is the subject of several legal disputes. A provision of CZK 50 million (31 December 2001: CZK 40 million; 31 December 2000: CZK 40 million) was made on the basis of the Bank's assessment of the expected outcome of these legal disputes.

Contingent assets include:

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Loan commitments	<u>8,428,036</u>	<u>7,985,158</u>	<u>16,649,796</u>
<u>Guarantees granted</u>			
On behalf of banks	-	-	1,000,000
On behalf of clients	1,300,553	814,376	652,193
Letters of credit	<u>56,236</u>	<u>12,712</u>	<u>30,854</u>
Total guarantees granted	1,356,789	827,088	1,683,047
Specific provision for guarantees granted (Note 11)	<u>(12,364)</u>	<u>(16,485)</u>	<u>(17,280)</u>
Net after provisions	<u>1,344,425</u>	<u>810,603</u>	<u>1,665,767</u>

**18 CONTINGENCIES AND COMMITMENTS (continued)**

Contingent assets include the following balances with related parties:

	Loan commitments			Guarantees granted		
	31 December 2002	31 December 2001	31 December 2000	31 December 2002	31 December 2001	31 December 2000
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Subsidiaries	-	6,399	-	2,035	2,059	2,260
Associates	332,476	86,012	-	-	-	-
Other	<u>1,289</u>	<u>582</u>	<u>-</u>	<u>450</u>	<u>2,413</u>	<u>2,491</u>
	<u>333,765</u>	<u>92,993</u>	<u>-</u>	<u>2,485</u>	<u>4,472</u>	<u>4,751</u>

At 31 December 2002, 2001 and 2000 the Bank had no assets placed in custody and no assets managed by a third party.

	31 December 2002	31 December 2001	31 December 2000
	CZK'000	CZK'000	CZK'000
<u>Assets under custody</u>			
Shares	234,293	n/a*	n/a*
Other	<u>2,726,311</u>	<u>n/a*</u>	<u>n/a*</u>
	2,960,604	2,940,110	2,682,979
<u>Assets under administration</u>			
Shares	688,083	-	-
Bonds	3,940,547	-	-
Other	<u>80,734</u>	<u>-</u>	<u>-</u>
	4,709,364	-	-
Total assets under custody and administration	<u>7,669,968</u>	<u>2,940,110</u>	<u>2,682,979</u>

\* The Bank's system is not able to provide the historical split, which was not required prior to 2002.

Management considers that no present obligations were associated with these fiduciary duties at 31 December 2002.

**18 CONTINGENCIES AND COMMITMENTS (continued)****Assets purchased under resale agreements (Reverse Repo transaction)**

	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
	CZK'000	CZK'000	CZK'000
Bonds	<u>12,891,000</u>	<u>10,789,000</u>	<u>11,152,000</u>

Receivables from Reverse Repo transactions are included in Due from banks (Note 4).

As at 31 December 2002, 2001 and 2000 the Bank had no assets sold under repurchase agreements (Repo transactions).

**Assets held in custody and depository**

The Bank acts as depository for certain mutual, investment and pension funds. The aggregate net asset value of these funds at 31 December 2002 was CZK 15,237 million (31 December 2001: CZK 14,203 million, 31 December 2000: CZK 13,102 million). Management considers that no present obligations were associated with these fiduciary duties at 31 December 2002.

**Capital expenditures**

At 31 December 2002, the Bank had contractual commitments for capital expenditure of CZK 3,162,000 (31 December 2001: CZK 880,000; 31 December 2000: CZK 28 million).

**19 INTEREST RECEIVABLE AND SIMILAR INCOME**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Interest on inter-bank transactions	682,280	1,154,334	1,191,652
Interest on loans to customers and state	1,120,542	1,328,823	919,436
Interest and discount on debt securities	314,323	678,296	448,911
Interest and discount on other financial transactions	<u>17,310</u>	<u>117,355</u>	<u>160,621</u>
	<u>2,134,455</u>	<u>3,278,808</u>	<u>2,720,620</u>

**19 INTEREST RECEIVABLE AND SIMILAR INCOME (continued)**

Accrued penalty interest income at 31 December 2002 on impaired loans was CZK 1,223,000 (2001: CZK nil; 2000: CZK nil).

Penalty interest of CZK 1,466,000 on impaired loans as at 31 December 2002 was recorded to the off-balance sheet as its recoverability is considered to be remote (2001: CZK 1,897,000; 2000: CZK nil).

At 31 December 2002, 31 December 2001, 31 December 2000 no penalty interest was forgiven.

**20 INTEREST PAYABLE AND SIMILAR EXPENSE**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Interest on inter-bank transactions	368,806	1,112,940	820,089
Interest on deposits from customers and state	780,595	1,157,055	1,052,696
Interest and discount on debt securities issued	24,608	19,966	23,303
Interest and discount on other financial transactions	-	<u>24,841</u>	-
	<u>1,174,009</u>	<u>2,314,802</u>	<u>1,896,088</u>

**21 COMMISSION AND FEE INCOME**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Foreign and domestic payments	95,324	91,483	91,833
Loans	60,614	54,381	67,269
Transactions with payment cards	31,342	26,286	24,422
Cash, cheques	30,061	29,707	27,214
Maintenance of accounts	25,048	22,117	18,645
Custody fee income	16,457	21,740	29,861
Guarantees	9,908	7,318	8,048
Brokerage from securities and derivatives trading	7,071	7,355	10,736
Trade finance	4,307	4,733	5,403
Other	<u>5,004</u>	<u>4,229</u>	<u>7,249</u>
	<u>285,136</u>	<u>269,349</u>	<u>290,680</u>

**22 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Gains less losses from securities transactions	976	131,160	38,347
Gains less losses from foreign currency transactions	198,902	224,650	307,280
Gains less losses from derivatives trading	<u>(109,488)</u>	<u>18,136</u>	<u>(17,475)</u>
	<u>90,390</u>	<u>373,946</u>	<u>328,152</u>

**23 ADMINISTRATIVE EXPENSES**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Rent and lease charges	42,429	43,510	38,109
Staff costs	430,540	390,818	365,615
Depreciation and amortisation	271,472	284,277	271,504
Audit, tax and legal advisory services	10,883	10,932	13,838
Other consulting	13,005	33,711	27,207
Advertising & Representation	72,442	84,366	68,250
Information Technology	83,475	83,249	90,225
Telecommunications	59,582	60,553	57,772
Stationery and similar expenses	42,906	37,954	37,847
Consumption of material, fuel & energy	33,176	35,519	35,139
Consumption of low value fixed assets	7,077	10,451	15,203
Insurance of clients' deposits	29,953	99,624	71,525
Other administration expenses	<u>71,814</u>	<u>64,706</u>	<u>106,829</u>
	<u>1,168,754</u>	<u>1,239,670</u>	<u>1,199,063</u>

**23 ADMINISTRATIVE EXPENSES (continued)**

Staff costs can be analysed as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Wages and salaries excluding Board of Directors	305,314	267,978	251,609
Social security and other social costs	106,571	96,224	89,623
Salaries and emoluments of Board of Directors	18,115	25,426	23,193
Emoluments of Supervisory Board	<u>540</u>	<u>1,190</u>	<u>1,190</u>
	<u>430,540</u>	<u>390,818</u>	<u>365,615</u>

Staff statistics

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Average number of employees	794	774	724
Number of members of the Board of Directors	5	5	5
Number of members of the Supervisory Board	6	6	6

**24 PENSION BENEFITS**

The Bank contributes to a pension fund (Allianz penzijní fond, a.s.) on behalf of its employees. The fund is a defined contribution plan. The Bank makes fixed contributions to its employees for pension insurance. In addition, the Bank may contribute a percentage of annual net profit to the pension plan proportionally to each individual employee's annual income.

## 25 TAXATION

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000	CZK'000
Profit before taxation	103,539	155,947	231,216
Permanent differences between profit and tax base:			
Items increasing the tax base	5,943	7,578	2,744
Tax non-deductible costs	39,112	589,906	776,290
Items decreasing the tax base	(5,235)	(35,468)	(63,905)
Non-taxable revenues	<u>(39,715)</u>	<u>(732,150)</u>	<u>(853,811)</u>
Net taxable profit/(tax loss)	103,644	(14,187)	92,534
10% investment relief	(11,313)	-	(24,062)
Utilised losses brought forward	(78,269)	-	(68,472)
Deductible gifts	<u>(1,427)</u>	<u>-</u>	<u>-</u>
Adjusted tax base	12,635	-	-
Corporate tax charge at 31%	<u>3,917</u>	<u>-</u>	<u>-</u>
<u>Deferred income tax assets</u>			
Loan loss provisions	47,645	19,346	39,268
Other provisions	-	44,381	55,780
Tax loss carry forwards	<u>-</u>	<u>27,547</u>	<u>21,777</u>
	47,645	91,274	116,825
<u>Deferred income tax liabilities</u>			
Differences between accounting and tax depreciation	<u>(20,005)</u>	<u>(20,814)</u>	<u>(23,111)</u>
Potential net deferred tax asset	<u>27,640</u>	<u>70,460</u>	<u>93,714</u>

The net deferred tax asset of CZK 27,640,000 at 31 December 2002 has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised.

The net deferred tax asset of CZK 70,460,000 at 31 December 2001 (2000: CZK 93,714,000) has not been recognised as it was not beyond reasonable doubt that future taxable profit would be available against which the unused tax credits could be utilised.



## 26 FINANCIAL RISKS

### (a) Strategy in using financial instruments

The Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other contractual liabilities.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

### (b) Credit risk

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and business segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by industry sector and by country are approved by the Board of Directors.

## 26 FINANCIAL RISKS (continued)

## (b) Credit risk (continued)

## Geographical segmentation

At 31 December 2002

Assets	Domestic	European	Other	Other	Total
	CZK'000	union	Europe	CZK'000	CZK'000
Balances with central bank	988,494	-	-	-	988,494
Due from banks	13,294,308	5,925,463	1,533,383	157,157	20,910,311
Due from customers	17,982,494	3,155,592	1,074,075	30,262	22,242,423
Trading securities	1,482,889	2,610,295	455,149	460,323	5,008,656
Securities available-for-sale	629,121	305,412	406,518	49,582	1,390,633
Investments	32,840	39,468	-	-	72,308
Other assets	<u>1,748,781</u>	<u>86,285</u>	<u>1,452</u>	<u>9</u>	<u>1,836,527</u>
	<u>36,158,927</u>	<u>12,122,515</u>	<u>3,470,577</u>	<u>697,333</u>	<u>52,449,352</u>

At 31 December 2001

Assets	Domestic	European	Other	Other	Total
	CZK'000	union	Europe	CZK'000	CZK'000
Balances with central bank	1,482,755	-	-	-	1,482,755
Due from banks	11,671,464	7,408,721	941,442	260,223	20,281,850
Due from customers	15,429,210	2,785,517	721,048	40,412	18,976,187
Trading securities	2,879,354	2,485,571	474,204	470,504	6,309,633
Securities available-for-sale	673,423	428,283	924,351	29,978	2,056,035
Investments	15,840	39,419	-	-	55,259
Other assets	<u>1,996,934</u>	<u>175,177</u>	<u>11,561</u>	<u>6,945</u>	<u>2,190,617</u>
	<u>34,148,980</u>	<u>13,322,688</u>	<u>3,072,606</u>	<u>808,062</u>	<u>51,352,336</u>

## 26 FINANCIAL RISKS (continued)

### (b) Credit risk (continued)

#### Geographical segmentation (continued)

At 31 December 2000

Assets	Domestic	European	Other	Other	Total
	CZK'000	union	Europe	CZK'000	CZK'000
Balances with central bank	1,421,725	-	-	-	1,421,725
Due from banks	12,836,670	7,225,119	2,590,549	134,701	22,787,039
Due from customers	11,820,280	4,260,152	584,591	71,760	16,736,783
Trading securities	786,536	10,877,691	241,829	196,082	12,102,138
Securities available-for-sale	2,004,092	363,798	959,907	-	3,327,797
Investments	15,840	35,922	-	-	51,762
Other assets	<u>2,053,422</u>	<u>177,685</u>	<u>16,572</u>	<u>36,696</u>	<u>2,284,375</u>
	<u>30,938,565</u>	<u>22,940,367</u>	<u>4,393,448</u>	<u>439,239</u>	<u>58,711,619</u>

#### Business segmentation

At 31 December 2002

Assets	Retail	Corporate	Investment	Other	Total
	banking	banking	banking	CZK'000	CZK'000
Cash and balances with central bank	-	-	582,831	405,663	988,494
Due from banks	-	-	20,910,311	-	20,910,311
Due from customers	1,178,276	21,064,147	-	-	22,242,423
Trading securities	-	242,443	4,766,213	-	5,008,656
Securities available-for-sale	-	1,076,723	313,910	-	1,390,633
Investments	-	72,308	-	-	72,308
Other assets	<u>37,732</u>	<u>99,238</u>	<u>47,456</u>	<u>1,652,101</u>	<u>1,836,527</u>
Total assets	<u>1,216,008</u>	<u>22,554,859</u>	<u>26,620,721</u>	<u>2,057,764</u>	<u>52,449,352</u>

**26 FINANCIAL RISKS (continued)****(b) Credit risk (continued)****Business segmentation (continued)**

At 31 December 2001

	Retail <u>banking</u>	Corporate <u>banking</u>	Investment <u>banking</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Cash and balances with central bank	-	-	890,066	592,689	1,482,755
Due from banks	-	-	20,281,850	-	20,281,850
Due from customers	568,482	18,407,705	-	-	18,976,187
Trading securities	-	310,500	5,999,133	-	6,309,633
Securities available-for-sale	-	1,240,084	815,951	-	2,056,035
Investments	-	55,259	-	-	55,259
Other assets	<u>30,895</u>	<u>166,908</u>	<u>255,705</u>	<u>1,737,109</u>	<u>2,190,617</u>
Total assets	<u>599,377</u>	<u>20,180,456</u>	<u>28,242,705</u>	<u>2,329,798</u>	<u>51,352,336</u>

At 31 December 2000

	Retail <u>banking</u>	Corporate <u>banking</u>	Investment <u>banking</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Cash and balances with central bank	-	-	1,155,047	266,678	1,421,725
Due from banks	-	-	22,787,039	-	22,787,039
Due from customers	291,689	16,445,094	-	-	16,736,783
Trading securities	-	550,802	11,551,336	-	12,102,138
Securities available-for-sale	-	2,181,243	1,146,554	-	3,327,797
Investments	-	51,762	-	-	51,762
Other assets	<u>26,037</u>	<u>193,086</u>	<u>380,181</u>	<u>1,685,071</u>	<u>2,284,375</u>
Total assets	<u>317,726</u>	<u>19,421,987</u>	<u>37,020,157</u>	<u>1,951,749</u>	<u>58,711,619</u>

**(c) Market risk**

The Bank takes on exposure to market risks which arise from open positions in interest rate, currency and equity products.

## 26 FINANCIAL RISKS (continued)

### (d) Derivative financial instruments

The Bank has outstanding derivative financial instruments contracts, which can be analysed as follows:

	31 December 2002			31 December 2001			31 December 2000		
	Nominal value	Fair value positive	Fair value negative	Nominal value	Fair value positive	Fair value negative	Nominal value	Fair value positive	Fair value negative
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<b>Trading derivatives</b>									
<u>Interest rate derivatives</u>									
FRA	7,568,616	25,459	(2,371)	6,441,110	10,121	(1,669)	2,532,700	967	(670)
Swaps	<u>3,013,877</u>	<u>61,593</u>	<u>(159,859)</u>	<u>1,998,091</u>	<u>70,846</u>	<u>(65,007)</u>	<u>1,765,966</u>	<u>86,679</u>	<u>(101,016)</u>
	<u>10,582,493</u>	<u>87,052</u>	<u>(162,230)</u>	<u>8,439,201</u>	<u>80,967</u>	<u>(66,676)</u>	<u>4,298,666</u>	<u>87,646</u>	<u>(101,686)</u>
<u>Foreign exchange derivatives</u>									
Forwards	1,261,539	30,848	(4,999)	867,997	16,330	(15,386)	1,235,641	11,846	(24,453)
Swaps	<u>3,761,537</u>	<u>15,984</u>	<u>(55,198)</u>	<u>5,084,616</u>	<u>104,047</u>	<u>(88,659)</u>	<u>5,400,769</u>	<u>60,240</u>	<u>(96,479)</u>
	<u>5,023,076</u>	<u>46,832</u>	<u>(60,197)</u>	<u>5,952,613</u>	<u>120,377</u>	<u>(104,045)</u>	<u>6,636,410</u>	<u>72,086</u>	<u>(120,932)</u>
<u>Credit derivatives</u>									
Embedded derivative	320,248	-	(102,031)	385,252	-	(69,846)	401,763*	-	(78,183)*
Option purchased									
(Note 5(a))	320,248	-	-	-	-	-	-	-	-
Option sold									
(Note 5(a))	<u>(320,248)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(320,248)</u>	<u>-</u>	<u>(102,031)</u>	<u>385,252</u>	<u>-</u>	<u>(69,846)</u>	<u>401,763*</u>	<u>-</u>	<u>(78,183)*</u>

\* The derivative element embedded in the loan granted to a related party (Note 5(a)) was not recognized as at 31 December 2000 separately in derivatives (Note 2(u)), it is presented for comparative purposes only.

Fair value of trading derivatives is recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific Czech accounting rules and are therefore presented above as trading derivatives with fair value gains and losses recognised in the income statement.

## 26 FINANCIAL RISKS (continued)

### (d) Derivative financial instruments (continued)

<u>31 December 2002</u>			<u>31 December 2001</u>			<u>31 December 2000</u>		
<u>Nominal</u>	<u>Fair value</u>	<u>Fair value</u>	<u>Nominal</u>	<u>Fair value</u>	<u>Fair value</u>	<u>Nominal</u>	<u>Fair value</u>	<u>Fair value</u>
<u>value</u>	<u>positive</u>	<u>negative</u>	<u>value</u>	<u>positive</u>	<u>negative</u>	<u>value</u>	<u>positive</u>	<u>negative</u>
<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>

#### Fair value hedging derivatives

##### Interest rate derivatives

Swaps	<u>449,280</u>	<u>2,543</u>	<u>(27,564)</u>	<u>1,770,552</u>	<u>4,759</u>	<u>(43,106)</u>	<u>3,606,341</u>	<u>43,829</u>	<u>(11,843)</u>
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Fair value of the above qualifying fair value hedging instruments is recognised in the income statement and the corresponding changes in the fair value of the hedged items as a result of the hedged risk are also recognised in the income statement.

The table above provides a detailed breakdown of the nominal or notional amounts and the fair value of the Bank's derivative financial instruments outstanding at year-end. These instruments allow the Bank and its customers to transfer, modify or reduce their interest rate and currency risks.

The nominal or notional amounts provide a basis for volume comparison with instruments recognised on the balance sheet but do not indicate the Bank's exposure to credit or price risk.

## 26 FINANCIAL RISKS (continued)

### (e) Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to the currency risk. Included in the table are the Bank's foreign currency denominated assets and liabilities at carrying amounts, categorised by currency.

As at 31 December 2002

<b>Assets</b>	<u>CZK</u>	<u>EUR</u>	<u>USD</u>	<u>SKK</u>	<u>GBP</u>	<u>Other</u>	<u>Total</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Cash and balances with							
central bank	816,969	90,556	46,128	1,986	10,126	22,729	988,494
Due from banks	15,729,642	2,130,038	2,399,633	164,353	30,218	456,427	20,910,311
Due from customers	17,174,347	3,355,366	1,451,496	64,046	27,114	170,054	22,242,423
Trading securities	1,576,716	1,656,360	1,288,331	-	487,249	-	5,008,656
Securities available-for-sale	20,530	544	1,369,559	-	-	-	1,390,633
Investments	72,111	197	-	-	-	-	72,308
Derivative financial instruments	118,733	856	16,838	-	-	-	136,427
Other assets	<u>1,681,324</u>	<u>10,892</u>	<u>6,930</u>	<u>20</u>	<u>352</u>	<u>582</u>	<u>1,700,100</u>
	<u>37,190,372</u>	<u>7,244,809</u>	<u>6,578,915</u>	<u>230,405</u>	<u>555,059</u>	<u>649,792</u>	<u>52,449,352</u>
<b>Liabilities</b>							
Due to banks	5,099,010	404,188	2,161,896	150,401	87,778	72,178	7,975,451
Due to customers	23,640,261	5,883,455	5,745,580	69,312	440,785	638,984	36,418,377
Liabilities from debt securities	2,194,799	204,936	308,626	-	-	-	2,708,361
Subordinated liabilities	1,000,000	-	-	-	-	-	1,000,000
Provisions	632,074	-	-	-	-	-	632,074
Derivative financial instruments	134,332	8,238	209,452	-	-	-	352,022
Other liabilities	<u>3,121,664</u>	<u>152,214</u>	<u>74,048</u>	<u>747</u>	<u>5,205</u>	<u>9,189</u>	<u>3,363,067</u>
	<u>35,822,140</u>	<u>6,653,031</u>	<u>8,499,602</u>	<u>220,460</u>	<u>533,768</u>	<u>720,351</u>	<u>52,449,352</u>

**26 FINANCIAL RISKS (continued)****(e) Currency risk (continued)**

As at 31 December 2001

	<u>CZK</u>	<u>EUR</u>	<u>USD</u>	<u>SKK</u>	<u>GBP</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Cash and balances with							
central bank	1,181,025	225,378	46,512	367	8,032	21,441	1,482,755
Due from banks	12,779,079	3,632,089	3,488,097	19,970	35,664	326,951	20,281,850
Due from customers	14,202,841	3,248,213	1,136,222	100,811	59,832	228,268	18,976,187
Trading securities	2,986,870	1,470,356	1,589,637	-	262,770	-	6,309,633
Securities available-for-sale	23,008	273,352	1,691,007	-	68,668	-	2,056,035
Investments	55,110	149	-	-	-	-	55,259
Derivative financial instruments	170,321	2,281	33,501	-	-	-	206,103
Other assets	<u>1,857,212</u>	<u>101,167</u>	<u>18,552</u>	<u>117</u>	<u>3,664</u>	<u>3,802</u>	<u>1,984,514</u>
	<u>33,255,466</u>	<u>8,952,985</u>	<u>8,003,528</u>	<u>121,265</u>	<u>438,630</u>	<u>580,462</u>	<u>51,352,336</u>
<b>Liabilities</b>							
Due to banks	3,351,509	1,363,249	1,104,405	-	153	23	5,819,339
Due to customers	22,486,875	6,595,842	7,787,855	7,111	476,625	703,140	38,057,448
Liabilities from debt securities	2,212,776	113,076	131,013	-	-	-	2,456,865
Subordinated liabilities	1,000,000	-	-	-	-	-	1,000,000
Provisions	629,554	-	-	-	-	-	629,554
Derivative financial instruments	150,675	10,343	122,655	-	-	-	283,673
Other liabilities	<u>2,906,969</u>	<u>121,009</u>	<u>48,035</u>	<u>15,954</u>	<u>5,582</u>	<u>7,908</u>	<u>3,105,457</u>
	<u>32,738,358</u>	<u>8,203,519</u>	<u>9,193,963</u>	<u>23,065</u>	<u>482,360</u>	<u>711,071</u>	<u>51,352,336</u>



**26 FINANCIAL RISKS (continued)****(e) Currency risk (continued)**

As at 31 December 2000

	<u>CZK</u>	<u>EUR</u>	<u>USD</u>	<u>SKK</u>	<u>GBP</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Cash and balances with central bank	1,289,938	66,244	44,185	783	5,095	15,480	1,421,725
Due from banks	13,107,966	2,133,129	6,977,736	4,760	427,177	136,271	22,787,039
Due from customers	9,491,362	5,663,552	1,246,945	80,505	287	254,132	16,736,783
Trading securities	811,035	10,400,792	890,311	-	-	-	12,102,138
Securities available-for-sale	555,952	346,419	1,817,148	-	-	608,278	3,327,797
Investments	51,125	637	-	-	-	-	51,762
Derivative financial instruments	91,875	7,655	66,653	-	-	37,378	203,561
Other assets	<u>1,997,306</u>	<u>45,065</u>	<u>23,982</u>	<u>53</u>	<u>4,260</u>	<u>10,148</u>	<u>2,080,814</u>
	<u>27,396,559</u>	<u>18,663,493</u>	<u>11,066,960</u>	<u>86,101</u>	<u>436,819</u>	<u>1,061,687</u>	<u>58,711,619</u>
<b>Liabilities</b>							
Due to banks	3,440,095	12,146,590	4,207,329	2,420	33	24	19,796,491
Due to customers	15,788,807	6,781,839	7,901,138	8,176	438,965	673,182	31,592,107
Liabilities from debt securities	2,199,466	63,938	86,019	-	-	-	2,349,423
Subordinated liabilities	1,000,000	-	-	-	-	-	1,000,000
Provisions	532,049	-	-	-	-	-	532,049
Derivative financial instruments	151,670	7,474	32,065	-	-	43,252	234,461
Other liabilities	<u>3,164,701</u>	<u>21,830</u>	<u>16,359</u>	<u>1,356</u>	<u>1,560</u>	<u>1,282</u>	<u>3,207,088</u>
	<u>26,276,788</u>	<u>19,021,671</u>	<u>12,242,910</u>	<u>11,952</u>	<u>440,558</u>	<u>717,740</u>	<u>58,711,619</u>

**(f) Interest rate risk**

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

## 26 FINANCIAL RISKS (continued)

### (f) Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's interest bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2002

Assets	Within	3 – 12	1 – 5	Over	Non-	Total
	<u>3 months</u>	<u>months</u>	<u>years</u>	<u>5 years</u>	interest	
	CZK'000	CZK'000	CZK'000	CZK'000	bearing	CZK'000
Deposits with central bank	582,832	-	-	-	405,662	988,494
Due from banks	20,206,705	703,585	-	-	21	20,910,311
Due from customers	16,641,179	3,839,473	1,460,378	486,240	(184,847)*	22,242,423
Securities	4,138,646	988,530	1,019,310	231,725	93,386	6,471,597
Derivative financial instruments	39,980	44,963	51,484	-	-	136,427
Other assets	<u>524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,699,576</u>	<u>1,700,100</u>
	<u>41,609,866</u>	<u>5,576,551</u>	<u>2,531,172</u>	<u>717,965</u>	<u>2,013,798</u>	<u>52,449,352</u>
<b>Liabilities</b>						
Due to banks	5,694,464	2,049,999	230,988	-	-	7,975,451
Due to customers	35,762,617	545,983	26,335	-	83,442	36,418,377
Liabilities from debt securities	2,708,361	-	-	-	-	2,708,361
Subordinated liabilities	1,000,000	-	-	-	-	1,000,000
Provisions	-	-	-	-	632,074	632,074
Derivative financial instruments	42,318	28,162	238,253	43,289	-	352,022
Other liabilities	<u>1,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,361,775</u>	<u>3,363,067</u>
	<u>45,209,052</u>	<u>2,624,144</u>	<u>495,576</u>	<u>43,289</u>	<u>4,077,291</u>	<u>52,449,352</u>

\* CZK (184,847,000) is stated net of an amount of CZK (363,379,000) representing allowance for impaired loans.

Derivative financial instruments are disclosed based on repricing/maturity of the fixed leg of derivative.

**26 FINANCIAL RISKS (continued)****(f) Interest rate risk (continued)**

At 31 December 2001

Assets	Within	3 – 12	1 – 5	Over	Non-	Total
	<u>3 months</u>	<u>months</u>	<u>years</u>	<u>5 years</u>	interest <u>bearing</u>	
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Deposits with central bank	890,066	-	-	-	592,689	1,482,755
Due from banks	17,736,359	2,545,460	-	-	31	20,281,850
Due from customers	14,298,763	2,354,225	1,833,713	487,313	2,173*	18,976,187
Securities	5,201,538	1,483,674	1,020,329	537,237	178,149	8,420,927
Derivative financial instruments	115,475	32,218	57,571	839	-	206,103
Other assets	<u>2,267</u>	<u>-</u>	<u>172</u>	<u>-</u>	<u>1,982,075</u>	<u>1,984,514</u>
	<u>38,244,468</u>	<u>6,415,577</u>	<u>2,911,785</u>	<u>1,025,389</u>	<u>2,755,117</u>	<u>51,352,336</u>
<b>Liabilities</b>						
Due to banks	4,378,873	1,142,962	297,228	-	276	5,819,339
Due to customers	34,560,377	783,327	14,546	-	2,699,198	38,057,448
Liabilities from debt securities	2,452,508	-	4,357	-	-	2,456,865
Subordinated liabilities	1,000,000	-	-	-	-	1,000,000
Provisions	-	-	-	-	629,554	629,554
Derivative financial instruments	85,553	27,755	142,939	27,426	-	283,673
Other liabilities	<u>14,014</u>	<u>3,822</u>	<u>519</u>	<u>-</u>	<u>3,087,102</u>	<u>3,105,457</u>
	<u>42,491,325</u>	<u>1,957,866</u>	<u>459,589</u>	<u>27,426</u>	<u>6,416,130</u>	<u>51,352,336</u>

\* CZK 2,173,000 is stated net of an amount of CZK (204,151,000) representing allowance for impaired loans.

Derivative financial instruments are disclosed based on repricing/maturity of the fixed leg of derivative.

**26 FINANCIAL RISKS (continued)****(f) Interest rate risk (continued)**

At 31 December 2000

Assets	Within	3 – 12	1 – 5	Over	Non-	Total
	<u>3 months</u>	<u>months</u>	<u>years</u>	<u>5 years</u>	<u>bearing</u>	
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Deposits with central bank	1,023,259	-	-	-	398,466	1,421,725
Due from banks	19,901,685	2,885,354	-	-	-	22,787,039
Due from customers	12,857,560	2,099,319	1,244,490	696,298	(160,884)*	16,736,783
Securities	11,636,192	1,359,771	1,512,927	514,497	458,310	15,481,697
Derivative financial instruments	96,140	59,103	36,454	11,864	-	203,561
Other assets	<u>1,978</u>	<u>436</u>	<u>214</u>	<u>-</u>	<u>2,078,186</u>	<u>2,080,814</u>
	<u>45,516,814</u>	<u>6,403,983</u>	<u>2,794,085</u>	<u>1,222,659</u>	<u>2,774,078</u>	<u>58,711,619</u>
<b>Liabilities</b>						
Due to banks	13,618,420	5,803,614	363,377	-	11,080	19,796,491
Due to customers	29,965,430	1,105,126	51,379	-	470,172	31,592,107
Liabilities from debt securities	2,314,705	30,501	4,217	-	-	2,349,423
Subordinated liabilities	1,000,000	-	-	-	-	1,000,000
Provisions	-	-	-	-	532,049	532,049
Derivative financial instruments	90,017	98,054	34,990	11,400	-	234,461
Other liabilities	<u>3,302</u>	<u>11,609</u>	<u>1,506</u>	<u>-</u>	<u>3,190,671</u>	<u>3,207,088</u>
	<u>46,991,874</u>	<u>7,048,904</u>	<u>455,469</u>	<u>11,400</u>	<u>4,203,972</u>	<u>58,711,619</u>

\* CZK (160,884,000) is stated net of an amount of CZK (269,963,000) representing allowance for impaired loans.

Derivative financial instruments are disclosed based on repricing/maturity of the fixed leg of derivative.

## 26 FINANCIAL RISKS (continued)

### (g) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses assets and liabilities of the Bank into relevant maturity bands based on the remaining period at the balance sheet date to the contractual maturity date.

Debt securities can be realised on financial markets prior to their contractual maturity.

At 31 December 2002

Assets	Within	3 – 12	1 – 5	Over	Unspecified	Total
	<u>3 months</u>	<u>months</u>	<u>years</u>	<u>5 years</u>		
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Deposits with central bank	488,176	-	-	-	500,318	988,494
Due from banks	20,127,705	545,585	237,000	-	21	20,910,311
Due from customers	5,191,334	5,943,055	8,725,197	2,571,441	(188,604)*	22,242,423
Debt securities	823,640	1,197,695	3,817,441	539,435	93,386	6,471,597
Other assets	<u>40,505</u>	<u>45,301</u>	<u>58,263</u>	<u>868</u>	<u>1,691,590</u>	<u>1,836,527</u>
	<u>26,671,360</u>	<u>7,731,636</u>	<u>12,837,901</u>	<u>3,111,744</u>	<u>2,096,711</u>	<u>52,449,352</u>
<b>Liabilities</b>						
Due to banks	5,694,464	2,059,693	221,294	-	-	7,975,451
Due to customers	35,725,937	666,105	26,335	-	-	36,418,377
Liabilities from debt securities	2,708,361	-	-	-	-	2,708,361
Subordinated liabilities	-	-	-	1,000,000	-	1,000,000
Provisions	-	-	-	-	632,074	632,074
Other liabilities	<u>43,611</u>	<u>28,501</u>	<u>245,031</u>	<u>44,157</u>	<u>3,353,789</u>	<u>3,715,089</u>
	<u>44,172,373</u>	<u>2,754,299</u>	<u>492,660</u>	<u>1,044,157</u>	<u>3,985,863</u>	<u>52,449,352</u>
Net financial assets/(liabilities)	<u>(17,501,013)</u>	<u>4,977,337</u>	<u>12,345,241</u>	<u>2,067,587</u>	<u>(1,889,152)</u>	<u>-</u>

\* CZK (188,604,000) is stated net of an amount of CZK (363,379,000) representing allowance for impaired loans.

**26 FINANCIAL RISKS (continued)****(g) Liquidity risk (continued)**

At 31 December 2001

<b>Assets</b>	Within	3 – 12	1 – 5	Over	<u>Unspecified</u>	<u>Total</u>
	<u>3 months</u>	<u>months</u>	<u>years</u>	<u>5 years</u>		
	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>
Deposits with central bank	694,175	-	-	-	788,580	1,482,755
Due from banks	17,519,930	2,649,959	111,930	-	31	20,281,850
Due from customers	5,159,385	4,404,158	7,160,067	2,250,488	2,089*	18,976,187
Debt securities	1,813,582	1,483,630	3,725,115	1,220,408	178,192	8,420,927
Other assets	<u>102,376</u>	<u>31,764</u>	<u>68,484</u>	<u>5,917</u>	<u>1,982,076</u>	<u>2,190,617</u>
	<u>25,289,448</u>	<u>8,569,511</u>	<u>11,065,596</u>	<u>3,476,813</u>	<u>2,950,968</u>	<u>51,352,336</u>
<b>Liabilities</b>						
Due to banks	4,378,872	1,154,679	285,512	-	276	5,819,339
Due to customers	37,102,539	815,963	14,546	-	124,400	38,057,448
Liabilities from debt securities	2,452,508	-	4,357	-	-	2,456,865
Subordinated liabilities	-	-	-	1,000,000	-	1,000,000
Provisions	-	-	-	-	629,554	629,554
Other liabilities	<u>88,298</u>	<u>31,576</u>	<u>143,459</u>	<u>27,427</u>	<u>3,098,370</u>	<u>3,389,130</u>
	<u>44,022,217</u>	<u>2,002,218</u>	<u>447,874</u>	<u>1,027,427</u>	<u>3,852,600</u>	<u>51,352,336</u>
Net financial assets/(liabilities)	<u>(18,732,769)</u>	<u>6,567,293</u>	<u>10,617,722</u>	<u>2,449,386</u>	<u>(901,632)</u>	<u>-</u>

\* CZK 2,089,000 is stated net of an amount of CZK (204,151,000) representing allowance for impaired loans.

**26 FINANCIAL RISKS (continued)****(g) Liquidity risk (continued)**

At 31 December 2000

<b>Assets</b>	Within	3 – 12	1 – 5	Over	<b>Unspecified</b>	<b>Total</b>
	<u>3 months</u>	<u>months</u>	<u>years</u>	<u>5 years</u>		
	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>
Deposits with central bank	673,127	-	-	-	748,598	1,421,725
Due from banks	19,743,779	2,885,355	157,905	-	-	22,787,039
Due from customers	3,841,252	5,162,271	5,869,499	2,019,924	(156,163)*	16,736,783
Debt securities	521,482	10,758,272	2,484,251	1,259,757	457,935	15,481,697
Other assets	<u>34,392</u>	<u>89,515</u>	<u>58,912</u>	<u>23,369</u>	<u>2,078,187</u>	<u>2,284,375</u>
	<u>24,814,032</u>	<u>18,895,413</u>	<u>8,570,567</u>	<u>3,303,050</u>	<u>3,128,557</u>	<u>58,711,619</u>
<b>Liabilities</b>						
Due to banks	1,932,383	17,523,851	329,177	-	11,080	19,796,491
Due to customers	29,953,846	1,116,711	51,379	-	470,171	31,592,107
Liabilities from debt securities	2,314,705	30,501	4,217	-	-	2,349,423
Subordinated liabilities	-	-	-	1,000,000	-	1,000,000
Provisions	-	-	-	-	532,049	532,049
Other liabilities	<u>93,148</u>	<u>109,662</u>	<u>36,668</u>	<u>11,400</u>	<u>3,190,671</u>	<u>3,441,549</u>
	<u>34,294,082</u>	<u>18,780,725</u>	<u>421,441</u>	<u>1,011,400</u>	<u>4,203,971</u>	<u>58,711,619</u>
Net financial assets/(liabilities)	<u>(9,480,050)</u>	<u>114,688</u>	<u>8,149,126</u>	<u>2,291,650</u>	<u>(1,075,414)</u>	<u>-</u>

\* CZK (156,163,000) is stated net of an amount of CZK (269,963,000) representing allowance for impaired loans.



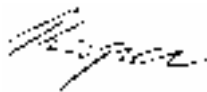
## 27 SUBSEQUENT EVENTS

On 14 August 2002, BGB signed an agreement to sell its 85.16% share in the Bank to the bank UniCredito Italiano SPA. Following the regulatory clearance by the Central Bank of Italy and Czech National Bank, the transaction was completed and shares were settled on 12 February 2003. UniCredito Italiano SPA became the controlling shareholder of the Bank since that date.

The management of the Bank considers that there were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements of the Bank as at 31 December 2002.

## STATUTORY APPROVALS

These financial statements have been approved for submission to the general meeting of shareholders by the Board of Directors and have been signed on their behalf by:

<u>Date</u>	<u>Signature of the statutory representative</u>	<u>Person responsible for accounting</u>	<u>Person responsible for the financial statements preparation</u>
12 February 2003			





PricewaterhouseCoopers Audit, s.r.o.  
Kateřinská 40  
120 00 Prague 2  
Czech Republic  
Telephone +420 251 151 111  
Facsimile +420 251 156 111  
ID No. 40765521

## REPORT OF INDEPENDENT AUDITORS

### TO THE SHAREHOLDERS OF ŽIVNOSTENSKÁ BANKA, A. S.

We have audited the accompanying consolidated balance sheet of Živnostenská banka, a. s. ("the Bank") as at 31 December 2002, the related statements of income, changes in equity and cash flows for the year then ended set out on pages 82 to 137 ("the financial statements"). 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 International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 of the Bank, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2002, and the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by IASB.

7 March 2003

PricewaterhouseCoopers Audit, s.r.o.  
represented by

François Mattelaer  
Partner

## CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December	
		2002	2001
		CZK '000	CZK '000
Interest income	4	2,125,063	3,270,179
Interest expense	4	(1,173,399)	(2,314,047)
<b>Net interest income</b>		951,664	956,132
Fee and commission income	5	413,381	391,621
Fee and commission expense	5	(43,552)	(46,305)
<b>Net fee and commission income</b>		369,829	345,316
Dividend income	6	-	44,787
Net trading income	7	122,691	255,677
Gains less losses from investment securities	8	6,774	35,867
Other operating income	9	27,657	10,139
<b>Net operating income</b>		1,478,615	1,647,918
Impairment losses on loans and advances	10	(82,097)	(40,779)
Operating expenses	11	(1,276,969)	(1,335,749)
<b>Profit from operations</b>		119,549	271,390
Income tax expense	12	(6,397)	(6,911)
<b>Net profit</b>	13	113,152	264,479
<b>Earnings per share</b> (expressed in CZK per share)			
- basic and diluted	13	83.2	194.4

The following notes form an integral part of these consolidated financial statements.



**CONSOLIDATED BALANCE SHEET**

	Notes	As at 31 December	
		2002	2001
		CZK '000	CZK '000
<b>ASSETS</b>			
Cash and balances with central bank	14	988,530	1,482,917
Treasury bills	15	1,427,774	2,828,714
Due from other banks	16	20,866,655	20,179,489
Trading securities	17	3,566,413	3,984,679
Derivative financial instruments	18	136,427	189,009
Loans and advances to customers	19	21,711,134	17,859,312
Investment securities	20	1,531,499	2,199,452
Intangible assets	21	99,338	99,633
Property, plant and equipment	21	1,494,642	1,653,925
Other assets	22	322,920	563,597
Current tax asset		<u>3,571</u>	<u>3,189</u>
<b>Total assets</b>		<b><u>52,148,903</u></b>	<b><u>51,043,916</u></b>
<b>LIABILITIES</b>			
Due to other banks	23	7,929,860	5,751,413
Other deposits		2,708,361	2,456,865
Trading liabilities	18	352,022	257,839
Subordinated debt	24	1,000,000	1,000,000
Due to customers	25	36,387,652	37,854,496
Other liabilities	26	824,261	876,628
Current tax liability		<u>3,917</u>	<u>16,997</u>
<b>Total liabilities</b>		<b><u>49,206,073</u></b>	<b><u>48,214,238</u></b>
<b>SHAREHOLDERS' EQUITY</b>			
Ordinary shares (1,360,410 shares fully paid)		1,360,410	1,360,410
Retained earnings	27	494,926	381,774
Other reserves	27	<u>1,087,494</u>	<u>1,087,494</u>
<b>Total shareholders' equity</b>		<b><u>2,942,830</u></b>	<b><u>2,829,678</u></b>
<b>Total shareholders' equity and liabilities</b>		<b><u>52,148,903</u></b>	<b><u>51,043,916</u></b>

These financial statements have been approved for issue by the Board of Directors on 7 March 2003 and signed on its behalf by Mr Josef Pitra, Vice-Chairman of the Board of Directors and by Mr Aleš Barabas, Member of the Board of Directors.

The following notes form an integral part of these consolidated financial statements.



**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share <u>capital</u> CZK'000	Other <u>reserves</u> CZK'000	Retained <u>earnings</u> CZK'000	Total <u>equity</u> CZK'000
<b>Balance at 1 January 2001</b>	1,360,410	1,087,402	117,387	2,565,199
Increase of statutory reserve	-	92	(92)	-
Net profit for the year 2001	<u>-</u>	<u>-</u>	<u>264,479</u>	<u>264,479</u>
<b>Balance at 31 December 2001</b>	1,360,410	1,087,494	381,774	2,829,678
Net profit for the year 2002	<u>-</u>	<u>-</u>	<u>113,152</u>	<u>113,152</u>
<b>Balance at 31 December 2002</b>	<u>1,360,410</u>	<u>1,087,494</u>	<u>494,926</u>	<u>2,942,830</u>

An analysis of movements in each category within "Other reserves" and "Retained earnings" description of the nature and purpose of each balance is presented in Note 27.

The following notes form an integral part of these consolidated financial statements.



## CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December	
		2002	2001
		CZK'000	CZK'000
<b><u>Cash flows from operating activities</u></b>			
Interest income receipts		2,331,046	3,381,187
Interest payments		(1,311,225)	(2,488,708)
Dividend receipts		-	44,787
Fee and commission receipts		369,829	345,316
Net trading and other income received		466,495	704,225
Recoveries on loans previously written off		9,206	7,896
Cash payments to employees and suppliers		(981,443)	(1,148,704)
Income taxes paid		<u>(5,847)</u>	<u>(7,084)</u>
Operating cash flows before changes in operating assets and liabilities		878,061	838,915
Changes in operating assets and liabilities:			
Net decrease in trading securities		992,781	6,597,051
Net decrease in loans and advances to banks		1,940,747	281,198
Net (increase) in loans and advances to customers		(3,851,822)	(1,809,051)
Net decrease in other assets		37,883	106,230
Net increase / (decrease) in deposits from other banks		2,429,943	(13,765,464)
Net (decrease) / increase in amounts due to customers		(1,466,844)	6,802,236
Net increase / (decrease) in other liabilities		<u>68,462</u>	<u>(514,717)</u>
Net cash from / (used in) operating activities		<u>1,029,211</u>	<u>(1,463,602)</u>
<b><u>Cash flows from investing activities</u></b>			
Purchase of property and equipment		(133,713)	(132,817)
Proceeds from sale of property, plant and equipment and intangible assets		12,544	1,317
Purchases of investment securities		(131,131)	(168,037)
Proceeds from sales and redemption of securities		<u>799,084</u>	<u>1,331,219</u>
Net cash from investing activities		<u>546,784</u>	<u>1,031,682</u>
Effect of exchange rate changes on cash and cash equivalents		<u>(162,607)</u>	<u>(438,409)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		1,413,388	(870,329)
Cash and cash equivalents at beginning of year	31	<u>19,981,779</u>	<u>20,852,108</u>
<b>Cash and cash equivalents at end of year</b>	31	<u>21,395,167</u>	<u>19,981,779</u>

There was no cash flow from financing activities in 2002 and 2001. The following notes form an integral part of these consolidated financial statements.



## INTRODUCTION

Živnostenská banka was founded in 1868 for the purpose of financing small and medium-sized Czech companies. It was the first bank in the Austro-Hungarian Empire with only Czech capital. It was nationalized in 1945 as were the other banks in the Czech Republic. Živnostenská banka existed as a legal entity during the years 1950 - 1956 but its activities were very limited. Later Živnostenská banka started to provide special services to individuals which related to their income denominated in foreign currencies.

Živnostenská banka, a.s. (hereinafter referred to as “the Bank”) was incorporated on 1 March 1992 as a legal successor of the original Živnostenská banka. The Bank has its registered office at Praha 1, Na Příkopě 858/20, and is organised as eight domestic regional branches and a representative office in Bratislava, Slovak Republic.

The Bank’s operations primarily consist of:

- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currency;
- accepting current and term accounts denominated in Czech and foreign currency;
- rendering of general banking services through a network of branches and agencies;
- executing foreign exchange transactions;
- providing foreign trade finance and related banking services;
- financial instruments trading and portfolio management.

These consolidated financial statements include Bank’s subsidiaries involved in fund and other assets management (ŽB - Trust, investiční společnost, a.s. and ŽB - Asset Management, a.s.), hereby referred to together as “the Group”.

The shareholder structure of the Group is in the process of being changed. As at 31 December 2002 the control over the Group was exercised by Bankgesellschaft Berlin AG (“BGB”). At 11 February 2003 an 85.16% share of the Bank was sold by BGB to UniCredito Italiano SPA. The rest of the shares is listed and traded on the Prague Stock Exchange.

## 1 ACCOUNTING POLICIES

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

### (a) Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards and Interpretations issued by International Accounting Standards Board (“IASB”). The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, trading securities, trading liabilities and all derivative contracts.

All amounts are shown in thousands of Czech Crowns unless otherwise stated.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### (b) Consolidation

Subsidiary undertakings are those companies in which the Group, directly or indirectly, has power to exercise control over financial and operating policies.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The consolidated financial statements therefore include the results and net assets of ŽB – Trust, investiční společnost, a.s., and ŽB – Asset Management, a.s. which are wholly owned subsidiaries of the Bank.

## 1 ACCOUNTING POLICIES (continued)

### (c) Associated undertakings

Associated undertakings are those companies in which the Bank, directly or indirectly has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

### (d) Foreign currencies

The consolidated financial statements are presented in Czech crowns (“CZK”) which is the measurement currency of all companies within the Group.

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

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss.

### (e) Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, forward rate agreements (FRA), currency and interest rate swaps and credit derivatives are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as credit linked derivatives in bank loans and deposits, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income statement.

Changes in the fair value of derivatives held for trading are included in net trading income.

On the acquisition date, the Group designates certain derivatives as a hedge of the fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.



## 1 ACCOUNTING POLICIES (continued)

### (e) Derivative financial instruments (continued)

The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- a) Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- b) The hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- c) The hedge is effective on an ongoing basis.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the income statement, along with the corresponding change in the fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 18.

### (f) Offsetting financial instruments

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

## **1 ACCOUNTING POLICIES (continued)**

### **(g) Interest income and expense**

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price.

Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on fixed income securities treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

### **(h) Fee and commission income**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised pro rata over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

### **(i) Trading securities**

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the settlement date. Such transactions are treated as derivatives until settlement occurs.

## 1 ACCOUNTING POLICIES (continued)

### (j) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (“repos”) are retained in the financial statements as trading or investment securities and the counterparty liability is included in amounts due to other banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method. Securities lent to counterparties are retained in the financial statements.

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

### (k) Investment securities

The Group has the choice to classify its investment securities into the following two categories: held-to-maturity and available-for-sale assets. Investment securities where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase. At 31 December 2002 and 2001 the Group did not have any securities in the held-to-maturity category.

Investment securities are initially recognised at cost. Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement as gains less losses from investment securities. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

## **1 ACCOUNTING POLICIES (continued)**

### **(k) Investment securities (continued)**

All prompt purchases and sales of investment securities are recognised at settlement date. All other purchases and sales are recognised as derivative forward transactions until settlement.

### **(l) Originated loans and the provisions for loan impairment**

Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Group and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the impairment losses on loans and advances in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the writedown, the release of the provision is credited to the impairment losses on loans and advances.

## 1 ACCOUNTING POLICIES (continued)

### (m) Property, plant and equipment and intangible assets

All property and equipment and intangible assets are stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight line method to write off the cost of each tangible and intangible asset to its residual value over its estimated useful life as follows:

	<u>Depreciation period</u> (years)
Equipment	4 to 12
Software	2 to 6
Buildings	30

Property, plant and equipment and intangible assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment and intangible assets are determined by reference to their net book value and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred, value enhancements are capitalised.

### (n) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank, treasury bills, amounts due from other banks and trading and available-for-sale securities except equities.

### (o) Provisions

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

## **1 ACCOUNTING POLICIES (continued)**

### **(p) Employee benefits**

During the year the Bank operated defined contribution pension schemes for its employees. The contributions made to the pension fund for the period are charged against profit. In addition, regular contributions are made to the state to fund the national pension plan.

### **(q) Deferred taxation**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property, plant and equipment and intangible assets, non-deductible tax provisions and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### **(r) Operating leases**

For operating leases, lease payments are recognised as an expense in the income statement over the lease term.

### **(s) Acceptances**

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

### **(t) Fiduciary activities**

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

## **1 ACCOUNTING POLICIES (continued)**

### **(u) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10 per cent or more of all the segments are reported separately.

### **(v) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

### **(w) Recently issued accounting pronouncements**

IASB is currently considering many improvements in several existing IAS and significant revisions of standards for financial instruments (IAS 32 and 39) and business combinations (IAS 22). Due to the uncertainty of the final amendments, the effect on the Group's future financial position and result cannot be predicted.

## **2 USE OF FINANCIAL INSTRUMENTS**

### **(a) Strategy in using financial instruments**

By its nature the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (a) Strategy in using financial instruments (continued)

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

#### Fair value hedges

The Group hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets using interest rate swaps (Note 18).

### (b) Capital adequacy

To monitor the adequacy of its capital the Group uses ratios established by the Czech National Bank (“CNB”), which are based on the rules of the Bank for International Settlements (“BIS”). These ratios measure capital adequacy (minimum 8%) by comparing the Group’s eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount.

Tier 1 capital consists of shareholders’ equity less goodwill. Tier 2 capital includes the Group’s eligible subordinated debt and general provisions.



## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (b) Capital adequacy (continued)

The Group's capital adequacy level was as follows:

	<u>Capital</u>		<u>Capital adequacy</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000	%	%
<b>CNB Capital Ratios - Czech GAAP</b>				
Tier 1 capital	2,630,996	2,481,420	7.52	7.75
Tier 1 + Tier 2 capital	4,015,430	3,831,474	11.75	12.23
<b>BIS Capital Ratios – IFRS</b>				
Tier 1 capital	2,746,948	2,587,894	8.00	8.36
Tier 1 + Tier 2 capital	4,127,854	3,927,679	12.25	12.93

### (c) Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and by country are approved monthly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (c) Credit risk (continued)

#### Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

#### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (c) Credit risk (continued)

#### Geographical concentrations of assets, liabilities, revenues and off balance sheet items

##### As at 31 December 2002

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Credit commitments</u>	<u>Revenues</u>	<u>Capital expenditure</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Czech Republic	35,856,386	45,896,632	7,539,746	n/a	n/a
Other OECD countries	15,520,499	5,455,232	888,258	n/a	n/a
Non – OECD Central and Eastern Europe countries	766,173	421,673	32	n/a	n/a
Other countries	<u>5,845</u>	<u>375,366</u>	<u>-</u>	<u>n/a</u>	<u>n/a</u>
	<u>52,148,903</u>	<u>52,148,903</u>	<u>8,428,036</u>	<u>2,695,566*</u>	<u>128,870*</u>

##### As at 31 December 2001

	<u>Total assets</u>	<u>Total liabilities</u>	<u>Credit commitments</u>	<u>Revenues</u>	<u>Capital expenditure</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Czech Republic	33,820,876	44,935,549	6,579,428	n/a	n/a
Other OECD countries	16,574,402	5,279,672	1,405,410	n/a	n/a
Non – OECD Central and Eastern Europe countries	648,638	642,949	320	n/a	n/a
Other countries	<u>-</u>	<u>185,746</u>	<u>-</u>	<u>n/a</u>	<u>n/a</u>
	<u>51,043,916</u>	<u>51,043,916</u>	<u>7,985,158</u>	<u>4,008,270*</u>	<u>203,025*</u>

\* The information system of the Bank is not able to distinguish revenues and capital expenditure according to geographical regions.

n/a – not applicable

The Czech Republic is the home country of the Group, which is also the main operating country. The areas of operation include all the primary business segments.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (c) Credit risk (continued)

#### Geographical concentrations of assets, liabilities, revenues and off balance sheet items (continued)

As an active participant in the international money markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions was CZK 20,912,634,000 at 31 December 2002 of which CZK 45,979,000 consisted of derivative financial instruments (31 December 2001: CZK 20,311,552,000 of which derivative financial instruments: CZK 132,067,000).

Interest and fee income, total assets, total liabilities and contingent liabilities are allocated based on the country in which the counterparty is located.

The following table presents the geographic sector risk concentration for the customer portfolio and advances to customers and debt securities.

#### As at 31 December 2002

	Loans and advances		Other credit risk	
	to customers		bearing instruments	
	CZK'000	%	CZK'000	%
Czech Republic	17,372,541	80	8,711,708	89
Other OECD countries	3,880,627	18	1,063,440	11
Non – OECD Central and Eastern Europe countries	451,991	2	9,375	-
Other countries	<u>5,975</u>	<u>-</u>	<u>151</u>	<u>-</u>
	<u>21,711,134</u>	<u>100</u>	<u>9,784,674</u>	<u>100</u>

#### As at 31 December 2001

	Loans and advances		Other credit risk	
	to customers		bearing instruments	
	CZK'000	%	CZK'000	%
Czech Republic	14,469,299	81	7,304,445	83
Other OECD countries	3,246,663	18	1,492,126	17
Non – OECD Central and Eastern Europe countries	143,350	1	15,494	-
Other countries	<u>-</u>	<u>-</u>	<u>181</u>	<u>-</u>
	<u>17,859,312</u>	<u>100</u>	<u>8,812,246</u>	<u>100</u>

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (c) Credit risk (continued)

#### Geographical concentrations of assets, liabilities, revenues and off balance sheet items (continued)

Loans and advances are further analysed in Note 19 and Note 30.

Economic sector risk concentrations within the customer loan portfolio were as follows:

	31 December 2002		31 December 2001	
	CZK'000	%	CZK'000	%
Services	10,743,190	49	10,445,315	58
Manufacturing	8,840,870	41	6,393,383	36
Private individuals	1,103,847	5	531,754	3
Other	<u>1,023,227</u>	<u>5</u>	<u>488,860</u>	<u>3</u>
	<u>21,711,134</u>	<u>100</u>	<u>17,859,312</u>	<u>100</u>

### (d) Market risk

The group takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

### (e) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2002 and 2001. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (e) Currency risk (continued)

#### Concentrations of assets, liabilities and off balance sheet items

The Group has the following significant currency positions:

	<u>CZK</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
As at 31 December 2002	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<b>Assets</b>						
Cash and balances with central bank	817,004	46,128	10,126	90,557	24,715	988,530
Treasury bills	1,427,774	-	-	-	-	1,427,774
Due from other banks	15,722,648	2,399,299	30,215	2,096,231	618,262	20,866,655
Trading securities	151,958	1,285,255	485,235	1,643,965	-	3,566,413
Derivative financial instruments	118,733	16,838	-	856	-	136,427
Loans and advances to customers	16,624,161	1,449,781	27,110	3,374,010	236,072	21,711,134
Investment securities	186,619	1,344,336	-	544	-	1,531,499
Intangible assets	99,338	-	-	-	-	99,338
Property, plant and equipment	1,494,642	-	-	-	-	1,494,642
Other assets	222,866	32,525	2,372	61,895	3,262	322,920
Current tax asset	<u>3,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,571</u>
<b>Total assets</b>	<b><u>36,869,314</u></b>	<b><u>6,574,162</u></b>	<b><u>555,058</u></b>	<b><u>7,268,058</u></b>	<b><u>882,311</u></b>	<b><u>52,148,903</u></b>
<b>Liabilities</b>						
Due to other banks	5,059,518	2,158,097	87,471	402,268	222,506	7,929,860
Other deposits	2,194,799	308,626	-	204,936	-	2,708,361
Trading liabilities	134,331	209,453	-	8,238	-	352,022
Subordinated debt	1,000,000	-	-	-	-	1,000,000
Due to customers	23,617,092	5,743,004	440,110	5,879,691	707,755	36,387,652
Other liabilities	575,389	74,979	6,187	157,156	10,550	824,261
Current tax liability	<u>3,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,917</u>
<b>Total liabilities</b>	<b><u>32,585,046</u></b>	<b><u>8,494,159</u></b>	<b><u>533,768</u></b>	<b><u>6,652,289</u></b>	<b><u>940,811</u></b>	<b><u>49,206,073</u></b>
<b>Net balance sheet position</b>	<b><u>4,284,268</u></b>	<b><u>(1,919,997)</u></b>	<b><u>21,290</u></b>	<b><u>615,769</u></b>	<b><u>(58,500)</u></b>	<b><u>2,942,830</u></b>
<b>Off balance sheet net (notional position)</b>	<b>(1,319,911)</b>	<b>1,886,399</b>	<b>1,362</b>	<b>(644,726)</b>	<b>61,070</b>	<b>(15,806)</b>
<b>Credit commitments</b>	<b>7,270,616</b>	<b>329,041</b>	<b>1,560</b>	<b>757,446</b>	<b>69,373</b>	<b>8,428,036</b>

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (e) Currency risk (continued)

#### Concentrations of assets, liabilities and off balance sheet items (continued)

	___CZK CZK'000	___USD CZK'000	___GBP CZK'000	___EUR CZK'000	___Other CZK'000	___Total CZK'000
<b>As at 31 December 2001</b>						
<b>Assets</b>						
Cash and balances with central bank	1,181,187	46,512	8,032	225,378	21,808	1,482,917
Treasury bills	2,828,714	-	-	-	-	2,828,714
Due from other banks	12,737,920	3,469,896	35,661	3,589,138	346,874	20,179,489
Trading securities	679,487	1,584,722	262,233	1,458,237	-	3,984,679
Derivative financial instruments	166,460	21,006	-	1,543	-	189,009
Loans and advances to customers	13,106,540	1,129,178	59,824	3,235,803	327,967	17,859,312
Investment securities	108,187	1,755,406	67,763	268,091	5	2,199,452
Intangible assets	99,633	-	-	-	-	99,633
Property, plant and equipment	1,653,925	-	-	-	-	1,653,925
Other assets	290,639	85,790	4,793	176,275	6,100	563,597
Current tax asset	<u>3,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,189</u>
<b>Total assets</b>	<b><u>32,855,881</u></b>	<b><u>8,092,510</u></b>	<b><u>438,306</u></b>	<b><u>8,954,465</u></b>	<b><u>702,754</u></b>	<b><u>51,043,916</u></b>
<b>Liabilities</b>						
Due to other banks	3,298,850	1,095,363	153	1,357,024	23	5,751,413
Other deposits	2,212,777	131,013	-	113,075	-	2,456,865
Trading liabilities	149,064	103,803	-	4,972	-	257,839
Subordinated debt	1,000,000	-	-	-	-	1,000,000
Due to customers	22,330,063	7,775,305	475,513	6,568,212	705,403	37,854,496
Other liabilities	602,254	78,286	6,370	159,989	29,729	876,628
Current tax liability	<u>16,997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,997</u>
<b>Total liabilities</b>	<b><u>29,610,005</u></b>	<b><u>9,183,770</u></b>	<b><u>482,036</u></b>	<b><u>8,203,272</u></b>	<b><u>735,155</u></b>	<b><u>48,214,238</u></b>
<b>Net balance sheet position</b>	<b><u>3,245,876</u></b>	<b><u>(1,091,260)</u></b>	<b><u>(43,730)</u></b>	<b><u>751,193</u></b>	<b><u>(32,401)</u></b>	<b><u>2,829,678</u></b>
<b>Off balance sheet net notional position</b>	<b>(387,987)</b>	<b>1,118,830</b>	<b>40,794</b>	<b>(803,691)</b>	<b>46,693</b>	<b>14,639</b>
<b>Credit commitments</b>	<b>6,644,739</b>	<b>395,668</b>	<b>1,338</b>	<b>924,357</b>	<b>19,056</b>	<b>7,985,158</b>

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (f) Interest rate risk

#### **Interest sensitivity of assets, liabilities and off balance sheet items**

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest-rate sensitive derivative financial instruments.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of Due to customers up to 1 month, of CZK 33,719,705,000 (31 December 2001: CZK 33,018,837,000) of which 49% (31 December 2001: 40%) represent balances on current accounts considered by the Group as a relatively stable core source of funding of its operations.



## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (f) Interest rate risk (continued)

As at	Up to	1-3	3-12	1-5	Over	Non-interest	
31 December 2002	1 month	months	months	years	5 years	bearing	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<b>Assets</b>							
Cash and balances with central bank	988,530	-	-	-	-	-	988,530
Treasury bills	562,460	-	865,314	-	-	-	1,427,774
Due from other banks	19,284,034	882,911	699,710	-	-	-	20,866,655
Trading securities	1,003,572	2,415,103	29,544	93,066	25,123	5	3,566,413
Derivative financial instruments	13,559	26,421	44,963	51,484	-	-	136,427
Loans and advances to customers	9,874,249	6,330,095	3,696,385	1,340,142	470,263	-	21,711,134
Investment securities	147,691	-	92,231	987,759	202,698	101,120	1,531,499
Intangible assets	-	-	-	-	-	99,338	99,338
Property, plant and equipment	-	-	-	-	-	1,494,642	1,494,642
Other assets	-	-	-	-	-	322,920	322,920
Current tax asset	-	-	-	-	-	3,571	3,571
<b>Total assets</b>	<b>31,874,095</b>	<b>9,654,530</b>	<b>5,428,147</b>	<b>2,472,451</b>	<b>698,084</b>	<b>2,021,596</b>	<b>52,148,903</b>
<b>Liabilities</b>							
Due to other banks	3,820,479	1,844,722	2,035,577	229,082	-	-	7,929,860
Other deposits	2,698,478	9,883	-	-	-	-	2,708,361
Trading liabilities	12,028	30,290	28,162	238,253	43,289	-	352,022
Subordinated debt	-	1,000,000	-	-	-	-	1,000,000
Due to customers	33,719,705	2,016,188	542,615	25,702	-	83,442	36,387,652
Other liabilities	-	-	-	-	-	824,261	824,261
Current tax liability	-	-	-	-	-	3,917	3,917
<b>Total liabilities</b>	<b>40,250,690</b>	<b>4,901,083</b>	<b>2,606,354</b>	<b>493,037</b>	<b>43,289</b>	<b>911,620</b>	<b>49,206,073</b>
<b>On balance sheet</b>							
<b>interest sensitivity gap</b>	<b>(8,376,595)</b>	<b>4,753,447</b>	<b>2,821,793</b>	<b>1,979,414</b>	<b>654,795</b>	<b>1,109,976</b>	<b>2,942,830</b>
<b>Off balance sheet</b>							
<b>interest sensitivity gap</b>	<b>911,799</b>	<b>220,132</b>	<b>711,541</b>	<b>(1,450,139)</b>	<b>(393,333)</b>	<b>-</b>	<b>-</b>

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (f) Interest rate risk (continued)

As at	Up to	1-3	3-12	1-5	Over	Non-interest	
31 December 2001	<u>1 month</u>	<u>months</u>	<u>months</u>	<u>years</u>	<u>5 years</u>	<u>bearing</u>	<u>Total</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<b>Assets</b>							
Cash and balances with central bank	1,482,917	-	-	-	-	-	1,482,917
Treasury bills	549,775	1,012,249	1,266,690	-	-	-	2,828,714
Due from other banks	16,190,622	1,485,838	2,503,029	-	-	-	20,179,489
Trading securities	987,869	2,273,286	18,221	184,899	-	520,404	3,984,679
Derivative financial instruments	60,169	39,939	30,491	57,571	839	-	189,009
Loans and advances to customers	7,386,125	6,301,802	2,240,334	1,803,437	127,614	-	17,859,312
Investment securities	174,043	181,975	197,547	867,259	569,914	208,714	2,199,452
Intangible assets	-	-	-	-	-	99,633	99,633
Property, plant and equipment	-	-	-	-	-	1,653,925	1,653,925
Other assets	-	-	-	-	-	563,597	563,597
Current tax asset	-	-	-	-	-	3,189	3,189
<b>Total assets</b>	<u>26,831,520</u>	<u>11,295,089</u>	<u>6,256,312</u>	<u>2,913,166</u>	<u>698,367</u>	<u>3,049,462</u>	<u>51,043,916</u>
<b>Liabilities</b>							
Due to other banks	1,241,540	3,095,730	1,129,711	284,432	-	-	5,751,413
Other deposits	2,446,958	5,549	-	4,358	-	-	2,456,865
Trading liabilities	56,782	28,773	22,079	130,069	20,136	-	257,839
Subordinated debt	-	1,000,000	-	-	-	-	1,000,000
Due to customers	33,018,837	4,014,790	806,793	14,076	-	-	37,854,496
Other liabilities	-	-	-	-	-	876,628	876,628
Current tax liability	-	-	-	-	-	16,997	16,997
<b>Total liabilities</b>	<u>36,764,117</u>	<u>8,144,842</u>	<u>1,958,583</u>	<u>432,935</u>	<u>20,136</u>	<u>893,625</u>	<u>48,214,238</u>
<b>On balance sheet</b>							
<b>interest sensitivity gap</b>	(9,932,597)	3,150,247	4,297,729	2,480,231	678,231	2,155,837	2,829,678
<b>Off balance sheet</b>							
<b>interest sensitivity gap</b>	1,296,958	(65,146)	552,077	(1,059,156)	(724,733)	-	-

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (f) Interest rate risk (continued)

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December 2002	<u>CZK</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>
	%	%	%	%
<b>Assets</b>				
Cash and balances with central bank	1.68	-	-	-
Treasury bills	2.95	n/a	n/a	n/a
Due from other banks	2.75	1.64	3.57	3.34
Trading securities – debt securities	7.78	1.70	4.10	3.45
Loans and advances to customers	4.48	3.51	4.75	5.16
Investment securities – debt securities	-	6.98	-	-
<b>Liabilities</b>				
Due to other banks	3.07	1.49	4.04	4.26
Other deposits	2.37	0.90	-	2.49
Due to customers	1.79	0.35	2.06	1.26

n/a – not applicable

Assuming the financial assets and liabilities at 31 December 2002 were to remain until maturity or settlement without any action by the Group to alter the resulting interest rate risk exposure, an immediate and sustained increase of 1% in market interest rates across all maturities would reduce net income and the Group's equity for the following year by approximately CZK 13,141,000 (31 December 2001: CZK 31,371,000).

The calculation is made on the assumption that the change will take place simultaneously on both assets and liabilities sides, which would not be the case in reality. The Bank would make re-pricing decisions with a certain delay after the change of market conditions, thus limiting the effect on the overall net income and the Group equity.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (f) Interest rate risk (continued)

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December 2001	<u>CZK</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u> <sup>1)</sup>
	%	%	%	%
<b>Assets</b>				
Cash and balances with central bank	4.75	n/a	n/a	n/a
Treasury bills	5.08	n/a	n/a	n/a
Due from other banks	4.79 <sup>2)</sup>	2.67	3.55	3.80
Trading securities – debt securities	6.42	2.33	4.15	3.81
Loans and advances to customers	6.57	3.94	4.85	5.62
Investment securities– debt securities	n/a	6.93	3.50	4.15
<b>Liabilities</b>				
Due to other banks	5.23	2.90	n/a	3.76
Other deposits	4.34	1.32	n/a	2.83
Due to customers	3.36	0.78	2.03	1.48

<sup>1)</sup> Positions denominated in all currencies of the eurozone.

<sup>2)</sup> This rate is influenced by repo operations with Czech National Bank of CZK 10,869 million with an effective rate of 4.74%.

n/a – not applicable

### (g) Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (g) Liquidity risk (continued)

#### Maturities of assets and liabilities

As at	Up to	1-3	3-12	1-5	Over		
31 December 2002	1 month	months	months	years	5 years	Unspecified	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<b>Assets</b>							
Cash and balances with central bank	488,212	-	-	-	-	500,318	988,530
Treasury bills	562,460	-	865,314	-	-	-	1,427,774
Due from other banks	19,223,777	864,168	541,710	237,000	-	-	20,866,655
Trading securities *	7,652	248,898	89,838	2,888,398	331,622	5	3,566,413
Derivative financial instruments	12,451	27,529	44,963	51,484	-	-	136,427
Loans and advances to customers	1,796,225	3,148,936	5,772,199	8,500,221	2,493,553	-	21,711,134
Investment securities	-	-	239,922	987,759	202,698	101,120	1,531,499
Intangible assets	-	-	-	-	-	99,338	99,338
Property, plant and equipment	-	-	-	-	-	1,494,642	1,494,642
Other assets	34,451	57,888	26,885	39,607	9,048	155,041	322,920
Current tax asset	-	-	-	-	-	3,571	3,571
<b>Total assets</b>	<u>22,125,228</u>	<u>4,347,419</u>	<u>7,580,831</u>	<u>12,704,469</u>	<u>3,036,921</u>	<u>2,354,035</u>	<u>52,148,903</u>
<b>Liabilities</b>							
Due to other banks	3,820,479	1,844,722	2,045,271	219,388	-	-	7,929,860
Other deposits	2,698,478	9,883	-	-	-	-	2,708,361
Trading liabilities	11,639	30,679	130,193	136,222	43,289	-	352,022
Subordinated debt	-	-	-	-	1,000,000	-	1,000,000
Due to customers	32,338,322	3,360,891	662,737	25,702	-	-	36,387,652
Other liabilities	21,233	26,298	17,790	2,539	178	756,223	824,261
Current tax liability	-	-	-	-	-	3,917	3,917
<b>Total liabilities</b>	<u>38,890,151</u>	<u>5,272,473</u>	<u>2,855,991</u>	<u>383,851</u>	<u>1,043,467</u>	<u>760,140</u>	<u>49,206,073</u>
<b>Net liquidity gap</b>	(16,764,923)	(925,054)	4,724,840	12,320,618	1,993,454	1,593,895	2,942,830

\* Item is split according to remaining maturity however the Bank in principle will not hold these securities more than one year.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (g) Liquidity risk (continued)

#### Maturities of assets and liabilities (continued)

As at	Up to	1-3	3-12	1-5	Over		
31 December 2001	1 month	months	months	years	5 years	Unspecified	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<b>Assets</b>							
Cash and balances with central bank	694,337	-	-	-	-	788,580	1,482,917
Treasury bills	549,775	1,012,249	1,266,690	-	-	-	2,828,714
Due from other banks	16,190,622	1,269,410	2,607,527	111,930	-	-	20,179,489
Trading securities *	-	83,411	18,222	2,702,345	680,316	500,385	3,984,679
Derivative financial instruments	60,169	39,939	30,491	57,571	839	-	189,009
Loans and advances to customers	746,270	3,730,126	4,273,004	6,864,571	2,245,341	-	17,859,312
Investment securities	-	181,975	197,547	1,041,302	569,914	208,714	2,199,452
Intangible assets	-	-	-	-	-	99,633	99,633
Property, plant and equipment	-	-	-	-	-	1,653,925	1,653,925
Other assets	98,027	76,278	70,211	49,849	24,264	244,968	563,597
Current tax asset	-	-	-	-	-	3,189	3,189
<b>Total assets</b>	<b>18,339,200</b>	<b>6,393,388</b>	<b>8,463,692</b>	<b>10,827,568</b>	<b>3,520,674</b>	<b>3,499,394</b>	<b>51,043,916</b>
<b>Liabilities</b>							
Due to other banks	1,241,540	3,095,730	1,129,711	284,432	-	-	5,751,413
Other deposits	2,446,959	5,549	-	4,357	-	-	2,456,865
Trading liabilities	56,782	28,773	22,079	130,069	20,136	-	257,839
Subordinated debt	-	-	-	-	1,000,000	-	1,000,000
Due to customers	33,018,838	4,014,790	806,792	14,076	-	-	37,854,496
Other liabilities	66,962	42,108	26,637	14,939	7,290	718,692	876,628
Current tax liability	-	-	-	-	-	16,997	16,997
<b>Total liabilities</b>	<b>36,831,081</b>	<b>7,186,950</b>	<b>1,985,219</b>	<b>447,873</b>	<b>1,027,426</b>	<b>735,689</b>	<b>48,214,238</b>
<b>Net liquidity gap</b>	<b>(18,491,881)</b>	<b>(793,562)</b>	<b>6,478,473</b>	<b>10,379,695</b>	<b>2,493,248</b>	<b>2,763,705</b>	<b>2,829,678</b>

\* Item is split according to remaining maturity however the Bank in principle will not hold these securities more than one year.

The nature of the retail deposits held by the Group is such that these have a short term contractual maturity, although in practice their effective maturity is longer term.

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (g) Liquidity risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

### (h) Fair values of financial assets and liabilities

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

	Carrying value		Fair value	
	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000	CZK'000	CZK'000
<b>Financial assets</b>				
Due from other banks	20,866,655	20,179,489	20,866,655	20,179,489
Loans and advances to customers	<u>21,711,134</u>	<u>17,859,312</u>	<u>21,711,134</u>	<u>17,859,312</u>
	<u>42,577,789</u>	<u>38,038,801</u>	<u>42,577,789</u>	<u>38,038,801</u>
<b>Financial liabilities</b>				
Due to other banks	7,929,860	5,751,413	7,929,860	5,751,413
Due to customers	36,387,652	37,854,496	36,387,652	37,854,496
Other deposits	<u>2,708,361</u>	<u>2,456,865</u>	<u>2,708,361</u>	<u>2,456,865</u>
	<u>47,025,873</u>	<u>46,062,774</u>	<u>47,025,873</u>	<u>46,062,774</u>

## 2 USE OF FINANCIAL INSTRUMENTS (continued)

### (h) Fair values of financial assets and liabilities (continued)

#### **Due from other banks**

Due from other banks includes short-term inter-bank placements and items in the course of collection at approximately their fair values. It also includes loans and advances to other banks, the majority of which reprice within relatively short time spans; therefore it is assumed their carrying values approximate their fair values.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

#### **Loans and advances to customers**

Loans and advances are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

#### **Deposits and borrowings**

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

### (i) Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of mal-administration or under-performance. At the balance sheet date the Group had investment custody and fund depository accounts amounting to approximately CZK 15.2 billion (31 December 2001: CZK 15.6 billion) and financial assets under management estimated to be CZK 0.9 billion (31 December 2001: CZK 0.8 billion).



### 3 SEGMENT REPORTING

The Group has two distinct industry segments, i.e. banking activities provided by Živnostenská banka, a.s. and asset management services provided by ŽB - Trust, investiční společnost, a.s. and ŽB - Asset Management, a.s.

- Banking activities – incorporating private banking services, private customer current accounts, savings, deposits, investment savings products, custody, debit cards, consumer loans and mortgages, direct debit facilities, current accounts, overdrafts, loan and other credit facilities, foreign currency trading, structured financing derivative products and financial market trading;
- Asset management - comprise funds management, collective investment, providing consultancy services and provision of main and supplementary investment services.

### 3 SEGMENT REPORTING (continued)

#### Primary reporting format - business segments

Year ended 31 December 2002

	<u>Banking</u>	Asset <u>management</u>	<u>Eliminations</u>	<u>Group</u>
	CZK'000	CZK'000	CZK'000	CZK'000
Revenues*	2,566,087	171,185	(41,706)	2,695,566
Net operating income	1,357,564	121,051		1,478,615
Segment result	95,248	24,301		119,549
Profit from operations before tax	95,248	24,301		119,549
Income tax	<u>(3,917)</u>	<u>(2,480)</u>		<u>(6,397)</u>
Net profit	<u>91,331</u>	<u>21,821</u>		<u>113,152</u>
Segment assets	51,965,913	182,990		52,148,903
Segment liabilities	49,174,004	32,069		49,206,073
Capital expenditure	121,500	7,370		128,870
Depreciation	220,461	5,408		225,869
Amortisation	51,373	4,293		55,666
Other non-cash expenses	96,706	-		96,706

\* Only revenues are disclosed as gross figures therefore the elimination column is fulfilled only in this line.  
All other figures are net.

### 3 SEGMENT REPORTING (continued)

#### Primary reporting format - business segments (continued)

Year ended 31 December 2001

	<u>Banking</u> CZK'000	Asset <u>management</u> CZK'000	<u>Eliminations</u> CZK'000	<u>Group</u> CZK'000
Revenues*	3,918,299	129,724	(39,753)	4,008,270
Net operating income	1,558,050	89,868		1,647,918
Segment result	263,076	8,314		271,390
Profit from operations before tax	263,076	8,314		271,390
Income tax	-	(6,911)		(6,911)
Net profit	<u>263,076</u>	<u>1,403</u>		<u>264,479</u>
Segment assets	50,415,172	628,744		51,043,916
Segment liabilities	47,677,341	536,897		48,214,238
Capital expenditure	194,502	8,523		203,025
Depreciation	218,399	8,204		226,603
Amortisation	65,878	2,498		68,376
Other non-cash expenses	48,574	-		48,574

\* Only revenues are disclosed as gross figures therefore the elimination column is fulfilled only in this line. All other figures are net.

Transactions between the business segments were on normal commercial terms and conditions. There are no material items of income or expense between the business segments.

#### Secondary reporting format - geographical segments

The majority of revenue from external customers originates from the Czech Republic. Subsequent to the closure of the London Branch in 1999, the majority of the assets are also allocated in the Czech Republic and there has been no significant capital expenditure outside the Czech Republic.

## 4 NET INTEREST INCOME

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
<b>Interest income</b>		
Interest from cash and short term funds	298,184	858,741
Interest from trading securities	210,493	427,548
Interest from investment securities	104,909	169,413
Interest from securities borrowed and reverse repos	387,252	430,685
Interest from loans and advances	1,106,915	1,301,121
Other	<u>17,310</u>	<u>82,671</u>
	<u>2,125,063</u>	<u>3,270,179</u>
<b>Interest expense</b>		
Interest to banks and customers	1,013,221	2,257,108
Interest from securities lent and repos	27,232	12,132
Other borrowed funds	69,801	24,841
Other	<u>63,145</u>	<u>19,966</u>
	<u>1,173,399</u>	<u>2,314,047</u>
<b><u>Net interest income</u></b>	<u>951,664</u>	<u>956,132</u>

## 5 NET FEE AND COMMISSION INCOME

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
<b>Fee and commission income</b>		
Commission income	202,911	151,466
Credit related fees and commissions	64,516	61,700
Fee income from trading securities services	5,798	26,285
Portfolio and other management fees	32,418	22,284
Asset management and related fees	76,733	123,075
Income from other operations	<u>31,005</u>	<u>6,811</u>
	<u>413,381</u>	<u>391,621</u>
<b>Fee and commission expense</b>		
Expense from interbank transactions	1,571	12,914
Fee expense from trading securities services	291	224
Brokerage fees paid	16,618	11,618
Expense from other operations	<u>25,072</u>	<u>21,549</u>
	<u>43,552</u>	<u>46,305</u>
<b>Net fee and commission income</b>	<u>369,829</u>	<u>345,316</u>

## 6 DIVIDEND INCOME

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Trading securities	-	11,441
Available-for-sale securities	<u>-</u>	<u>33,346</u>
	<u>-</u>	<u>44,787</u>

**7 NET TRADING INCOME**

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Securities and derivative instruments	(63,462)	37,680
Equities	(12,743)	(17,380)
Foreign exchange gains	<u>198,896</u>	<u>235,377</u>
	<u>122,691</u>	<u>255,677</u>

Foreign exchange gains includes gains and losses from spot and forward contracts, and translated foreign currency assets and liabilities. Securities and derivative instruments include the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps and other derivatives. Equities trading income includes the results of making markets in equity securities.

**8 GAINS LESS LOSSES FROM INVESTMENT SECURITIES**

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Change in hedged bonds available-for-sale	-	89,086
Change in hedging derivatives against bonds	-	(56,818)
Realised gains from sale and revaluation of investment securities	<u>6,774</u>	<u>3,599</u>
Gains less losses from investment securities	<u>6,774</u>	<u>35,867</u>

**9 OTHER OPERATING INCOME**

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Revenue from sales of tangible and intangible fixed assets	13,338	2,765
Other operating income	<u>14,319</u>	<u>7,374</u>
	<u>27,657</u>	<u>10,139</u>

**10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES**

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Loans and advances to customers		
- Provision charge for credit risk impairment	91,152	48,574
- Recovery of loans written off previously	(9,206)	(7,896)
- Change in hedged loans	(8,479)	(14,699)
- Change in hedging derivatives against loans	<u>8,630</u>	<u>14,800</u>
	<u>82,097</u>	<u>40,779</u>

**11 OPERATING EXPENSES**

	<u>2002</u>	<u>2001</u>
	CZK '000	CZK '000
<u>Operating expenses</u>		
Staff costs (see below)	472,993	435,451
Depreciation	281,535	294,979
Administrative expenses	131,079	116,240
Communications	35,269	40,385
Advertising and marketing	84,553	97,145
Compulsory deposit insurance	29,953	99,624
Professional services	28,186	44,993
Office and car maintenance	25,086	29,735
Operating lease rentals	54,496	51,455
IT maintenance	78,759	79,058
Office equipment	7,077	10,462
Other expenses related to employees	8,830	8,259
Loss on sale of property and equipment	13,072	1,545
Other	<u>26,081</u>	<u>26,418</u>
	<u>1,276,969</u>	<u>1,335,749</u>
<u>Staff costs</u>		
Wages and salaries	352,722	320,124
Social security costs and social fund contributions	116,885	112,646
Pension costs	<u>3,386</u>	<u>2,681</u>
	<u>472,993</u>	<u>435,451</u>

The average number of persons employed by the Group during the year 2002 was 835 (2001: 800).

**12 INCOME TAX EXPENSE**

	<u>2002</u>	<u>2001</u>
	CZK '000	CZK '000
Current tax	<u>6,397</u>	<u>6,911</u>



**12 INCOME TAX EXPENSE (continued)**

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of the Czech Republic as follows:

<u>Group</u>	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Profit before tax	<u>119,549</u>	<u>271,390</u>
Prima facie tax calculated at a tax rate of 31%	37,060	84,131
Income not assessable for tax purposes	(49,375)	(242,481)
Expenses not deductible for tax purposes	42,930	188,209
Tax effect of consolidation adjustments including tax shield	(29,542)	(32,475)
Additions to unrecognised tax losses carried forward	<u>5,324</u>	<u>9,527</u>
	<u>6,397</u>	<u>6,911</u>

The effective tax rate for the Group is 5.4% (31 December 2001: 2.5%).

**Deferred income taxes**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
<b>Deferred income tax assets</b>		
Tax non-deductible provisions for loans	47,645	19,346
Tax non-deductible provisions for securities	-	44,381
Unused tax losses	7,387	27,547
Other timing differences	<u>295</u>	<u>-</u>
	55,327	91,274
<b>Deferred income tax liabilities</b>		
Differences between accounting and tax depreciation	<u>(20,571)</u>	<u>(20,814)</u>
Net unrecognised deferred income tax asset	<u>34,756</u>	<u>70,460</u>

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 31%.

Deferred tax asset and deferred tax liability is offset in the financial statements, because they related to income taxes levied by the same taxation authority on the same taxable entity. The net deferred tax asset has not been recognised, as its recoverability is not probable.

**12 INCOME TAX EXPENSE (continued)**

The movement in the unrecognised deferred income tax asset comprises the following temporary differences:

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Unrecognised deferred tax assets at 1 January	70,460	93,714
Tax non-deductible provisions for loans	28,299	(19,922)
Tax non-deductible provisions for securities	(44,381)	(11,399)
(Utilisation) / increase of unrecognised tax losses	(20,160)	5,770
Change in other timing differences	295	-
Change in differences between accounting and tax depreciation	<u>243</u>	<u>2,297</u>
Unrecognised deferred tax assets at 31 December	<u>34,756</u>	<u>70,460</u>

**13 EARNINGS PER SHARE**

A basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Net profit attributable to shareholders	113,152	264,479
Weighted average of shares in issue	1,360,410	1,360,410
Basic and diluted earnings per share (CZK per share)	<u>83.2</u>	<u>194.4</u>

**14 CASH AND BALANCES WITH CENTRAL BANK**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Cash in hand	405,698	592,851
Balances with central bank other than mandatory reserve deposits	<u>82,514</u>	<u>101,486</u>
Included in cash and cash equivalents (Note 31)	488,212	694,337
Mandatory reserve deposits with central bank	<u>500,318</u>	<u>788,580</u>
	<u>988,530</u>	<u>1,482,917</u>

Minimum mandatory reserves are not available for the Bank's day-to-day operations.

**15 TREASURY BILLS**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
State Treasury bills	<u>1,427,774</u>	<u>2,828,714</u>

State treasury bills include cash equivalents of CZK 562,460,000 (31 December 2001: CZK 1,562,024,000) with less than 90 days maturity (Note 31). Bills are categorised as assets held for trading and carried at their fair value.

**16 DUE FROM OTHER BANKS**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Items in course of collection from other banks	136,050	274,573
Reverse repos with central bank	13,062,000	10,869,000
Placements with other banks	7,354,572	8,734,584
Loans to other banks	<u>314,033</u>	<u>301,332</u>
	<u>20,866,655</u>	<u>20,179,489</u>

The total balance includes cash equivalents of CZK 20,087,945,000 (31 December 2001: CZK 17,460,032,000) due from banks with less than 90 days maturity (Note 31).

**17 TRADING SECURITIES**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Bonds included in cash equivalents (Note 31)	256,550	83,411
Other bonds and similar listed debt securities	3,309,859	3,400,884
Equities		
- listed	-	500,380
- unlisted	<u>4</u>	<u>4</u>
	<u>3,566,413</u>	<u>3,984,679</u>

Bonds and similar listed debt securities at 31 December 2002 include CZK 193 million of securities bearing fixed interest to maturity (31 December 2001: CZK 269 million).

## 18 DERIVATIVE FINANCIAL INSTRUMENTS AND TRADING LIABILITIES

The Group utilises the following derivative instruments for both hedging and non-hedging purposes:

**Currency forwards** represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

**Forward rate agreements** are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

**Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The nominal and fair values of derivative instruments held are set out in the following table.

## 18 DERIVATIVE FINANCIAL INSTRUMENTS AND TRADING LIABILITIES (continued)

	31 December 2002			31 December 2001		
	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
<b>Derivatives designated as fair value hedges</b>						
Interest rate swaps	<u>449,280</u>	<u>2,543</u>	<u>(27,564)</u>	<u>1,770,552</u>	<u>839</u>	<u>(41,427)</u>
<b>Derivatives held for trading</b>						
<u>Interest rate derivatives</u>						
Forwards	7,568,616	25,459	(2,371)	6,441,110	10,121	(1,669)
Swaps	<u>3,013,877</u>	<u>61,593</u>	<u>(159,859)</u>	<u>1,998,091</u>	<u>57,672</u>	<u>(40,852)</u>
	<u>10,582,493</u>	<u>87,052</u>	<u>(162,230)</u>	<u>8,439,201</u>	<u>67,793</u>	<u>(42,521)</u>
<u>Foreign exchange derivatives</u>						
Forwards	1,261,539	30,848	(4,999)	867,997	16,330	(15,386)
Swaps	<u>3,761,537</u>	<u>15,984</u>	<u>(55,198)</u>	<u>5,084,616</u>	<u>104,047</u>	<u>(88,659)</u>
	<u>5,023,076</u>	<u>46,832</u>	<u>(60,197)</u>	<u>5,952,613</u>	<u>120,377</u>	<u>(104,045)</u>
<u>Credit derivatives</u>						
Embedded derivative	320,248	-	(102,031)	385,252	-	(69,846)
Option purchased	320,248	-	-	-	-	-
Option sold	<u>(320,248)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>320,248</u>	<u>-</u>	<u>(102,031)</u>	<u>385,252</u>	<u>-</u>	<u>(69,846)</u>
<b>Total derivatives</b>						
Interest rate	11,031,773	89,595	(189,794)	10,209,753	68,632	(83,948)
Foreign exchange	5,023,076	46,832	(60,197)	5,952,613	120,377	(104,045)
Credit	<u>320,248</u>	<u>-</u>	<u>(102,031)</u>	<u>385,252</u>	<u>-</u>	<u>(69,846)</u>
	<u>16,375,097</u>	<u>136,427</u>	<u>(352,022)</u>	<u>16,547,618</u>	<u>189,009</u>	<u>(257,839)</u>

There were no non-derivative trading liabilities at 31 December 2002 and 2001.

The Group undertakes approximately 56% of its transactions in foreign exchange and interest rate contracts with other financial institutions (2001: 62%). Management has established stop loss and maturity limits.

**19 LOANS AND ADVANCES TO CUSTOMERS**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Loans to individuals:		
- Overdrafts	9,821	8,876
- Term loans	167,242	120,712
- Mortgages	997,663	442,883
Loans to corporate entities:		
- Direct commercial loans	18,137,953	15,844,930
- Sub-participation loans	2,316,222	1,773,916
- Other	<u>895,471</u>	<u>391,423</u>
Gross loans and advances to customers	22,524,372	18,582,740
Revaluation of hedged loans	8,479	19,653
Provision for individually identified credit risk impairment	(286,229)	(204,151)
Provision for portfolio impairment	<u>(535,488)</u>	<u>(538,930)</u>
Net loans and advances to customers	<u>21,711,134</u>	<u>17,859,312</u>

The loan balances as at 31 December 2002 and 2001 include loans to associates and related parties that are described further below.

The gross amounts as at 31 December 2002 and 2001 best represent maximum credit risk exposure of the Group on these transactions without taking account of the fair value of any collateral.

The Bank has provided to a related party incorporated abroad a five year loan of USD 11 million due in 2005. Underlying this loan is a portfolio of credit default swaps on reference assets with aggregate nominal value of USD 43 million of which the Bank's investment is equal to the loan provided. The loan could terminate before the original maturity date in the event of a credit default of any one of the reference assets or if the mark to market loss on the portfolio exceeds 70% of the loan principal. The early redemption amount would be calculated as the loan principal and accrued interest as at the termination date less the market value of the portfolio. The market value of the portfolio is equivalent to the aggregate market values of the individual credit default swaps comprising the portfolio as provided to the Bank by BGB, which represents the portfolio's pricing agent. The derivative element embedded in this loan has been separated out of the host contract and is included at fair value under Derivative financial instruments and trading liabilities (Note 18) with changes in fair value being included in Net trading income (Note 7).

**19 LOANS AND ADVANCES TO CUSTOMERS (continued)**

During 2001, one of the reference assets in the portfolio (Railtrack plc) was substituted by another reference asset (GE Capital Corporation). As a result of this event, the Bank took delivery of Railtrack bonds which as at 31 December 2001 were included at fair value in securities available-for-sale (Note 20(b)). The bond was repaid on 10 October 2002 at 100.01% of its nominal value by the legal successor of Railtrack plc, Network Rail plc.

During 2002, one of the reference assets in the portfolio (XEROX Corporation) was substituted by another reference asset (BASF). As a result of this event, the Bank took delivery of the XEROX bonds, which as at 31 December 2002 were included at fair value in the available-for-sale portfolio (Note 20(b)).

Continuance of the loan arrangement is subject to an early termination option held by the Bank (Note 18) and BGB, both of which can be exercised and the arrangement terminated subsequently within three months after the Bank's share transfer agreement between BGB and UniCredito Italiano SPA (Note 33) becomes effective. The agreement became effective on 11 February 2003 (Note 33).

Movements in provisions for impairment are as follows:

	<u>2002</u>	<u>2001</u>
	CZK'000	CZK'000
Balance at 1 January	743,081	712,921
Net additions to provisions	84,191	40,603
Foreign exchange differences	<u>(5,555)</u>	<u>(10,443)</u>
Balance at 31 December	<u>821,717</u>	<u>743,081</u>

**20 INVESTMENT SECURITIES****(a) Securities held-to-maturity**

The Bank does not classify any securities as held-to-maturity.

**20 INVESTMENT SECURITIES (continued)****(b) Securities available-for-sale**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Bonds and similar debt securities		
included in cash equivalents (Note 31) - listed	-	181,975
Other bonds and similar debt securities - listed	1,344,337	1,808,763
Shares and similar equity securities - listed	10,672	158,433
- unlisted	<u>176,490</u>	<u>50,281</u>
	<u>1,531,499</u>	<u>2,199,452</u>

**Bonds and other similar debt securities**

Bonds and other debt securities in the available-for-sale portfolio at 31 December 2002 include CZK 1,197 million of securities bearing fixed interest until maturity (31 December 2001: CZK 1,853 million).

**Movements in investment portfolio**

	<u>Investment</u>	<u>Available-for-sale</u>	<u>Total</u>
	<u>securities</u>	<u>securities</u>	<u>investment portfolio</u>
	CZK'000	CZK'000	CZK'000
<b>31 December 2000</b>	3,362,634	-	3,362,634
Addition	-	168,037	168,037
Revaluation	-	99,197	99,197
Disposal	-	(1,430,416)	(1,430,416)
Transfer	<u>(3,362,634)</u>	<u>3,362,634</u>	<u>-</u>
<b>31 December 2001</b>	-	2,199,452	2,199,452
Addition	-	131,131	131,131
Revaluation	-	(12,247)	(12,247)
Disposal	<u>-</u>	<u>(786,837)</u>	<u>(786,837)</u>
<b>31 December 2002</b>	<u>-</u>	<u>1,531,499</u>	<u>1,531,499</u>



**21 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS****Intangible assets**

	<u>Software</u> CZK'000	<u>Assets in the course of construction</u> CZK'000	<u>Total</u> CZK'000
<b>At 31 December 2001</b>			
Cost	554,424	3,642	558,066
Accumulated depreciation	<u>(458,433)</u>	<u>-</u>	<u>(458,433)</u>
Net book amount	<u>95,991</u>	<u>3,642</u>	<u>99,633</u>
<b>Year ended 31 December 2002</b>			
Opening net book amount	95,991	3,642	99,633
Additions	51,979	3,690	55,669
Disposals / transfers	(408)	-	(408)
Depreciation charge	<u>(55,556)</u>	<u>-</u>	<u>(55,556)</u>
Closing net book amount	<u>92,006</u>	<u>7,332</u>	<u>99,338</u>
<b>At 31 December 2002</b>			
Cost	606,067	7,332	613,399
Accumulated depreciation	<u>(514,061)</u>	<u>-</u>	<u>(514,061)</u>
Net book amount	<u>92,006</u>	<u>7,332</u>	<u>99,338</u>

**21 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (continued)****Property, plant and equipment**

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	Assets in the course of <u>construction</u>	<u>Total</u>
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<b>At 31 December 2001</b>					
Cost	44,119	1,593,190	1,096,967	6,840	2,741,116
Accumulated depreciation	—	(358,475)	(728,716)	—	(1,087,191)
Net book amount	<u>44,119</u>	<u>1,234,715</u>	<u>368,251</u>	<u>6,840</u>	<u>1,653,925</u>
<b>Year ended 31 December 2002</b>					
Opening net book amount	44,119	1,234,715	368,251	6,840	1,653,925
Additions	772	4,945	71,174	2,226	79,117
Disposals / transfers	(236)	(14,785)	(50,841)	—	(65,862)
Depreciation charge	—	(69,631)	(102,907)	—	(172,538)
Closing net book amount	<u>44,655</u>	<u>1,155,244</u>	<u>285,677</u>	<u>9,066</u>	<u>1,494,642</u>
<b>At 31 December 2002</b>					
Cost	44,655	1,583,247	1,117,300	9,066	2,754,268
Accumulated depreciation	—	(428,003)	(831,623)	—	(1,259,626)
Net book amount	<u>44,655</u>	<u>1,155,244</u>	<u>285,677</u>	<u>9,066</u>	<u>1,494,642</u>

**22 OTHER ASSETS**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Accounts receivable	36,561	75,222
Prepayments and accrued items	187,025	337,602
Other debtors	22,588	6,312
Payments in transit	1,269	141,503
Other	<u>75,477</u>	<u>2,958</u>
	<u>322,920</u>	<u>563,597</u>

**23 DUE TO OTHER BANKS**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Items in course of collection	23,416	58,540
Loans received from other banks	218,987	230,551
Term deposits of other banks	<u>7,687,457</u>	<u>5,462,322</u>
	<u>7,929,860</u>	<u>5,751,413</u>

**24 SUBORDINATED DEBT**

On 29 December 1999 the Bank received a subordinated debt of EUR 27.7 million from BGB, which was converted to CZK 1 billion on 29 March 2000. The subordinated debt bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2004 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2009, with no repayment being possible before 29 December 2004 without the consent of the CNB. The debt, which is unsecured, is subordinated to all other liabilities of the Bank and forms part of the tier two capital of the Bank (Note 2(b)).

**25 DUE TO CUSTOMERS**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Corporate customers:		
- Current accounts	10,803,440	7,816,448
- Term deposits	3,585,077	4,406,067
Retail customers:		
- Current accounts	5,565,155	5,326,780
- Term deposits	<u>16,433,980</u>	<u>20,305,201</u>
	<u>36,387,652</u>	<u>37,854,496</u>

**26 OTHER LIABILITIES**

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Accruals and estimated items	155,811	289,872
Payments in transit	420,137	313,685
Other creditors	37,040	50,720
Unsettled securities in transit	94	41,163
Amounts payable to employees	73,656	64,065
Provisions for guarantees and other provisions	96,586	89,090
Other	<u>40,937</u>	<u>28,033</u>
	<u>824,261</u>	<u>876,628</u>

The Group is subject to several legal disputes. At 31 December 2002, a provision of CZK 50 million (31 December 2001: CZK 40 million) was made on the basis of the Group's assessment of the expected outcome of one legal dispute relating to reconstruction of one of Bank's branches. The management expects that the legal proceedings for which the provision has been created would be completed within twelve months from the date of preparation of these financial statements. In the light of this expected timeframe, the provision was not discounted.

**27 RESERVES AND RETAINED PROFIT**

	<u>Statutory</u>	<u>Other</u>	<u>Retained</u>	<u>Total</u>
	<u>fund</u>	<u>funds</u>	<u>earnings</u>	<u></u>
	CZK'000	CZK'000	CZK'000	CZK'000
Balance at 1 January 2002	276,654	810,840	381,774	1,469,268
Profit 2002	-	-	<u>113,152</u>	<u>113,152</u>
<u>Balance at 31 December 2002</u>	<u>276,654</u>	<u>810,840</u>	<u>494,926</u>	<u>1,582,420</u>

Other funds are created from retained profit as supplementary funds above the statutory fund legal requirement of 20% of share capital. Utilisation of such funds is not subject to ratification by the Annual General Meeting. These funds can be used based on Board of Directors proposal approved by Supervisory Board.

## 28 DIVIDENDS PER SHARE

No dividends were paid in 2002 and 2001.

## 29 EMPLOYEE BENEFITS

The Bank contributes to a pension fund (Allianz penzijní fond, a.s.) on behalf of its employees. The fund is a defined contribution plan. The Bank makes fixed contributions on behalf of its employees for pension insurance. In addition, the Bank may contribute a percentage of annual net profit before such contribution to the pension plan proportionally to each individual employee's annual income.

## 30 CONTINGENT LIABILITIES AND COMMITMENTS

**Legal proceeding.** The Group is the subject of several legal disputes (Note 26).

**Capital commitments.** At 31 December 2002, the Group had contractual commitments for capital expenditure of CZK 3,162,000 (31 December 2001: CZK 880,000).

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining commitments. The risk is viewed as modest, since it results from the possibility of unused portions of loan authorisation being drawn by the customer and, secondly, from these drawings subsequently not being repaid as due. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being drawn.

### 30 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The following table indicates the contractual amounts of the Group's off-balance sheet financial instruments that commit the Group to extend credit to customers.

<u>Credit commitments</u>	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000
Original term to maturity of one year or less	5,368,235	6,744,585
Original term to maturity of more than one year	<u>3,059,801</u>	<u>1,240,573</u>
	<u>8,428,036</u>	<u>7,985,158</u>
Guarantees, acceptances and letters of credit	<u>1,344,425</u>	<u>810,603</u>

The fair value of such commitments is CZK nil, because they will be settled under market interest rates and other terms at that time.

**Operating lease commitments.** The future minimum lease payments for buildings entered into by the Group are as follows:

<u>Year</u>	<u>31 December 2002</u> CZK'000	<u>31 December 2001</u> CZK'000
Within 1 year	50,821	49,783
2 years	43,185	50,069
3 years	38,725	40,133
4 years	35,430	29,304
5 years	35,560	21,475
Later than five years	<u>56,158</u>	<u>58,842</u>
	<u>259,879</u>	<u>249,606</u>

### 31 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following balances with less than 90 days maturity:

	<u>31 December 2002</u>	<u>31 December 2001</u>
	CZK'000	CZK'000
Cash and balances with central bank (Note 14)	488,212	694,337
Treasury bills (Note 15)	562,460	1,562,024
Due from other banks (Note 16)	20,087,945	17,460,032
Trading securities (Note 17)	256,550	83,411
Investment securities – available-for-sale (Note 20)	<u>          -</u>	<u>181,975</u>
	<u>21,395,167</u>	<u>19,981,779</u>

### 32 RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group, if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As at 31 December 2002 the Bank was controlled by BGB (see Introduction).

A number of other banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and guarantees granted. These transactions were carried out on commercial terms and conditions and at market rates.

## 32 RELATED PARTY TRANSACTIONS (continued)

The volumes of other related party transactions, outstanding balances at the year end, and relating expense and income for the year 2002 and 2001 are as follows:

	Parent company		Affiliated companies		Board of Directors and directors	
	2002	2001	2002	2001	2002	2001
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
<u>Assets and income</u>						
<b>Loans</b>						
At 1 January	-	-	903,100	841,906	9,928	4,452
Issued during the year	-	-	-	253,859	1,761	6,218
Repayments	-	-	(212,176)	(174,945)	(915)	(742)
Foreign exchange difference	-	-	(65,004)	(17,720)	-	-
At 31 December	-	-	<u>625,920</u>	<u>903,100</u>	<u>10,774</u>	<u>9,928</u>
<b>Deposits placed at 31 December</b>	<u>2,400,000</u>	<u>340,000</u>	-	-	-	-
<b>Placements at 31 December</b>	<u>43,587</u>	<u>38,692</u>	-	-	-	-
<b>Interest income earned</b>	<u>63,328</u>	<u>83,085</u>	<u>38,307</u>	<u>54,561</u>	<u>477</u>	<u>325</u>
<b>Fee income</b>	<u>4</u>	<u>4</u>	<u>52</u>	<u>43</u>	-	-
<b>Other income</b>	<u>12,894</u>	<u>56</u>	<u>60</u>	<u>230</u>	-	-
<u>Liabilities and expense</u>						
<b>Deposits accepted</b>						
At 1 January	-	10,986,223	-	-	17,828	20,333
At 31 December	127,090	-	-	-	10,577	17,828
<b>Placements at 31 December</b>	<u>14,269</u>	<u>32,575</u>	<u>15</u>	<u>332</u>	<u>14,552</u>	<u>6,437</u>
<b>Subordinated debt 31 December</b>	<u>1,000,000</u>	<u>1,000,000</u>	-	-	-	-
<b>Interest expense</b>	<u>132,855</u>	<u>496,486</u>	<u>34</u>	<u>221</u>	<u>499</u>	<u>967</u>
<b>Other expense</b>	<u>9,784</u>	<u>16,486</u>	-	-	-	-
<b>Guarantees issued at 31 December</b>	-	-	-	-	<u>450</u>	-



### 32 RELATED PARTY TRANSACTIONS (continued)

No provisions have been recognised in respect of loans or other amount due from provided to related parties.

A listing of the members of the Board of Directors and directors is shown in the annual report. In 2002 the total remuneration of the Board of Directors and the Supervisory Board was CZK 20,250,000 (31 December 2001: CZK 18,496,000).

Related party transactions including foreign exchange trading, intermediation of sale and purchase of certificates of deposits and shares have been carried out on an arm's length basis.

The Bank has granted loans to its directors, management and their related parties. These transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

### 33 SUBSEQUENT EVENTS

On 14 August 2002, BGB signed an agreement to sell its 85.16% share in the Bank to the bank UniCredito Italiano SPA. Following the regulatory clearance by the Central Bank of Italy and Czech National Bank, the transaction was completed and shares were settled on 11 February 2003. UniCredito Italiano SPA became the controlling shareholder of the Bank since that date. There was no transaction with the new main shareholder influencing financial statements at 31 December 2002 as at the date of these financial statements.

The management of the Group considers that there were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements of the Group as at 31 December 2002.

## RECONCILIATION OF FINANCIAL STATEMENTS

ŽIVNOSTENSKÁ BANKA, A. S.

## RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT

	As at 31 December 2002			Explanatory note
	CAS CZK'000	Bridge CZK'000	IFRS CZK'000	
<b>ASSETS</b>				
Cash and balances with central bank	988,494	-	988,494	
Treasury bills	1,427,774	-	1,427,774	
Due from other banks	20,910,311	(43,913)	20,866,398	(1)
Trading securities	3,580,882	(25,267)	3,555,615	(1)
Derivative financial instruments	-	136,427	136,427	(2)
Loans and advances to customers	22,242,423	(531,289)	21,711,134	(1), (6), (8)
Investment securities	1,390,633	54,824	1,445,457	(1), (3), (4)
Investments in subsidiary and associated undertakings	72,308	(72,308)	-	(3)
Intangible assets	92,725	-	92,725	
Property, plant and equipment	1,488,766	-	1,488,766	
Other assets	<u>255,036</u>	<u>30,927</u>	<u>285,963</u>	(1), (2)
<b>Total assets</b>	<b><u>52,449,352</u></b>	<b><u>(450,599)</u></b>	<b><u>51,998,753</u></b>	
<b>LIABILITIES</b>				
Due to other banks	7,975,451	(45,591)	7,929,860	(7)
Other deposits	2,708,361	-	2,708,361	
Trading liabilities	-	352,022	352,022	(5)
Subordinated debt	1,000,000	-	1,000,000	
Due to customers	36,418,377	(20,978)	36,397,399	(7)
Other liabilities	1,613,133	(820,941)	792,192	(5), (6), (7)
Current tax liability	<u>3,917</u>	<u>-</u>	<u>3,917</u>	
<b>Total liabilities</b>	<b><u>49,719,239</u></b>	<b><u>(535,488)</u></b>	<b><u>49,183,751</u></b>	
<b>SHAREHOLDERS' EQUITY</b>				
Ordinary shares	1,360,410	-	1,360,410	
Reserves and retained profit	<u>1,369,703</u>	<u>84,889</u>	<u>1,454,592</u>	(4), (8), (9), (10)
<b>Total shareholders' equity</b>	<b><u>2,730,113</u></b>	<b><u>84,889</u></b>	<b><u>2,815,002</u></b>	
<b>Total equity and liabilities</b>	<b><u>52,449,352</u></b>	<b><u>(450,599)</u></b>	<b><u>51,998,753</u></b>	

**RECONCILIATION OF FINANCIAL STATEMENTS (continued)****ŽIVNOSTENSKÁ BANKA, A. S.****RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT (continued)**

- (1) Under IFRS, accrued interest on due from other banks of CZK 43,913,000 was reclassified to “Other assets” from “Due from other banks”, accrued interest on bonds of CZK 25,267,000 was reclassified to “Other assets” from items “Trading securities”, CZK 25,223,000 from “Investment securities” and CZK 72,951,000 from “Loans and advances to customers”.
- (2) Reclassification of derivative financial instruments amounting to CZK 136,427,000 within the separate caption “Derivative financial instruments” for IFRS purposes from “Other assets”, where derivatives were recorded under CAS.
- (3) Under IFRS, reclassification of CZK 72,308,000 from “Investments in subsidiary and associated undertakings” Český leasing, spol. s r.o., Živnostenska Finance B.V., ŽB-Trust, investiční společnost, a.s. and ŽB – Asset Management, a.s. to “Investment securities”.
- (4) Revaluation to fair value of CZK 7,936,000 of Český Leasing, spol. s r.o. and of CZK (197,000) of Živnostenska Finance B.V. as they were classified as available-for-sale securities.
- (5) Reclassification of derivative financial instruments of CZK 352,022,000 within the separate line “Trading liabilities” for IFRS purposes from item “Other liabilities”, where derivatives were recorded under CAS.
- (6) Under CAS, provision of CZK 535,488,000 was included in general provision in the item “Other liabilities”. Under IFRS this is included within “Loans and advances to customers”, as being specific to the Bank’s loan portfolio.
- (7) Under IFRS, accrued interest on due to other banks of CZK 45,591,000 and on due to customers of CZK 20,978,000 was reclassified to “Other Liabilities”.
- (8) Loans and advances to costumers are revalued upwards by CZK 77,150,000 according to IAS 39.
- (9) Under IFRS elimination of CZK 86,619,000 being revaluation to fair value as already included under IFRS in the prior year, also accounted for under CAS in 2002. Net effect of this adjustment on “Reserves and retained profit” is zero.
- (10) Under IFRS, reclassification of payment to social fund of CZK 6,561,000 from “Reserves and retained profit” to “Operating expenses”. Net effect of this adjustment on “Reserves and retained profit” is zero.

**RECONCILIATION OF FINANCIAL STATEMENTS (continued)****ŽIVNOSTENSKÁ BANKA, A. S.****RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT**

	<u>For the year ended 31 December 2002</u>			<u>Explanatory</u> <u>note</u>
	<u>CAS</u> CZK'000	<u>Bridge</u> CZK'000	<u>IFRS</u> CZK'000	
Net interest income	960,446	151	960,597	(1)
Net fee and commission income	256,430	-	256,430	
Net trading income	90,390	14,121	104,511	(2)
Gains less losses from investment securities	-	(6,860)	(6,860)	(2), (3), (4)
Other operating income	<u>44,573</u>	<u>4,121</u>	<u>48,694</u>	(6)
Net operating income	1,351,839	11,533	1,363,372	
Impairment losses on loans and advances	(154,975)	72,878	(82,097)	(1), (6), (7)
Operating expenses	(1,179,466)	(6,561)	(1,186,027)	(5)
Income from associates	<u>(478)</u>	<u>478</u>	<u>-</u>	(3)
Profit from operations	16,920	78,328	95,248	
Income tax expense	(3,917)	-	(3,917)	
Results from extraordinary activities	<u>86,619</u>	<u>(86,619)</u>	<u>-</u>	(8)
Net profit	<u>99,622</u>	<u>(8,291)</u>	<u>91,331</u>	

(1) Reclassification of negative revaluation of hedging IRS of CZK 8,630,000 and positive revaluation of CZK 8,479,000 of hedged loans from “Net interest income” to “Impairment losses on loans and advances”.

(2) Under IFRS, reclassification of CZK 14,121,000 from “Net trading income” to “Gains less losses from investment securities”.

**RECONCILIATION OF FINANCIAL STATEMENTS (continued)****ŽIVNOSTENSKÁ BANKA, A. S.****RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT (continued)**

- (3) Under IFRS, revaluation of CZK 478,000 for associates not included into consolidation was reclassified from “Income from associates” to “Gains less losses from investment securities”.
- (4) Revaluation to fair value of CZK 7,936,000 of Český leasing, spol. s r.o. and of CZK (197,000) of Zivnostenska Finance B.V.
- (5) Under IFRS, reclassification of payment to social fund of CZK 6,561,000 from “Reserves and retained profit” to “Operating expenses”.
- (6) Reclassification of release of specific provision for guarantees of CZK 4,121,000 from “Impairment losses on loans and advances” to “Other operating income”.
- (7) Under IFRS, positive revaluation of loans of CZK 77,150,000 was included in the profit and loss statement within “Impairment losses on loans and advances”.
- (8) Under IFRS, elimination of CZK 86,619,000 being revaluation to fair value as already included under IFRS in the prior year, also accounted for under CAS in 2002.

**RECONCILIATION OF FINANCIAL STATEMENTS (continued)****ŽB - TRUST, INVESTIČNÍ SPOLEČNOST, A.S.****RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT**

	As at 31 December 2002			Explanatory note
	CAS CZK'000	Bridge CZK'000	IFRS CZK'000	
<b>ASSETS</b>				
Cash and balances with central bank	14	-	14	
Due from other banks	4,527	-	4,527	
Trading securities	10,798	-	10,798	
Investment securities	106,576	-	106,576	
Intangible assets	5,106	-	5,106	
Property, plant and equipment	3,301	-	3,301	
Other assets	21,215	-	21,215	
Current tax asset	<u>3,571</u>	<u>-</u>	<u>3,571</u>	
<b>Total assets</b>	<u>155,108</u>	<u>-</u>	<u>155,108</u>	
<b>LIABILITIES</b>				
Other liabilities	<u>18,129</u>	<u>861</u>	<u>18,990</u>	(1)
<b>Total liabilities</b>	<u>18,129</u>	<u>861</u>	<u>18,990</u>	
<b>SHAREHOLDERS' EQUITY</b>				
Ordinary shares	20,000	-	20,000	
Reserves and retained profit	<u>116,979</u>	<u>(861)</u>	<u>116,118</u>	(1)
<b>Total shareholders' equity</b>	<u>136,979</u>	<u>(861)</u>	<u>136,118</u>	
<b>Total equity and liabilities</b>	<u>155,108</u>	<u>-</u>	<u>155,108</u>	

(1) Under IFRS, reclassification of CZK 861,000 representing the social fund from "Reserves and retained profit" to "Other liabilities".

**RECONCILIATION OF FINANCIAL STATEMENTS (continued)****ŽB - TRUST, INVESTIČNÍ SPOLEČNOST, A.S.****RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT**

	<u>For the year ended 31 December 2002</u>			<u>Explanatory note</u>
	<u>CAS</u> CZK'000	<u>Bridge</u> CZK'000	<u>IFRS</u> CZK'000	
Net interest income	(3,422)	-	(3,422)	
Net fee and commission income	90,736	-	90,736	
Net trading income	8,881	(1,497)	7,384	(1), (2), (3)
Gains less losses from investment securities	-	9,113	9,113	(2)
Other operating income	<u>328</u>	<u>-</u>	<u>328</u>	
Net operating income	96,523	7,616	104,139	
Operating expenses	<u>(82,704)</u>	<u>(500)</u>	<u>(83,204)</u>	(4)
Profit from operations before tax	13,819	7,116	20,935	
Income tax expense	(2,480)	-	(2,480)	
Results from extraordinary activities	<u>11</u>	<u>(11)</u>	<u>-</u>	(1)
Net profit	<u>11,350</u>	<u>7,105</u>	<u>18,455</u>	

- (1) Extraordinary net income of CZK 11,000 classified under CAS as “Results from extraordinary activities” was reclassified to “Net trading income” under IFRS.
- (2) A total of CZK 9,113,000 related to losses from investment securities was recorded under CAS within “Net trading income”. For IFRS purposes the amount was classified under “Gains less losses from investment securities”.
- (3) Adjustment of “Net trading income” being reversal of negative revaluation of trading securities held at as 1 January 2002 in amount of CZK 7,605,000.
- (4) Reclassification of CZK 200,000 representing allocation to social fund and of CZK 300,000 representing payment of tantiems from “Retained earnings” to profit for the period to “Operating expense”.

**RECONCILIATION OF FINANCIAL STATEMENTS (continued)****ŽB - ASSET MANAGEMENT, A.S.****RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT**

	As at 31 December 2002			Explanatory note
	CAS CZK'000	Bridge CZK'000	IFRS CZK'000	
<b>ASSETS</b>				
Cash and balances with central bank	22	-	22	
Due from other banks	5,477	-	5,477	
Investment securities	12,306	-	12,306	
Intangible assets	1,507	-	1,507	
Property, plant and equipment	2,575	-	2,575	
Other assets	<u>15,742</u>	<u>-</u>	<u>15,742</u>	
<b>Total assets</b>	<u>37,629</u>	<u>-</u>	<u>37,629</u>	
<b>LIABILITIES</b>				
Other liabilities	<u>13,012</u>	<u>67</u>	<u>13,079</u>	(1)
<b>Total liabilities</b>	<u>13,012</u>	<u>67</u>	<u>13,079</u>	
<b>SHAREHOLDERS' EQUITY</b>				
Ordinary shares	27,000	-	27,000	
Reserves and retained profit	<u>(2,383)</u>	<u>(67)</u>	<u>(2,450)</u>	(1)
<b>Total shareholders' equity</b>	<u>24,617</u>	<u>(67)</u>	<u>24,550</u>	
<b>Total equity and liabilities</b>	<u>37,629</u>	<u>-</u>	<u>37,629</u>	

(1) Under IFRS, reclassification of CZK 67,000 representing the social fund from "Reserves and retained profit" to "Other liabilities".



**RECONCILIATION OF FINANCIAL STATEMENTS (continued)****ŽB - ASSET MANAGEMENT, A.S.****RECONCILIATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IFRS FORMAT**

	For the year ended 31 December 2002			Explanatory note
	CAS CZK'000	Bridge CZK'000	IFRS CZK'000	
Net interest income	(5,511)	-	(5,511)	
Net fee and commission income	22,663	-	22,663	
Net trading income	-	10,796	10,796	(1)
Gain less losses from investment securities	4,521	-	4,521	
Other operating income	<u>1,869</u>	<u>-</u>	<u>1,869</u>	
		-		
Net operating income	23,542	10,796	34,338	
Operating expenses	<u>(30,972)</u>	<u>-</u>	<u>(30,972)</u>	
Profit from operations before tax	(7,430)	10,796	3,366	
Income tax	-	-	-	
Results from extraordinary activities	<u>-</u>	<u>-</u>	<u>-</u>	
Net profit	<u>(7,430)</u>	<u>10,796</u>	<u>3,366</u>	

- (1) Adjustment of "Net trading income" being reversal of negative revaluation of trading securities held as at 1 January 2002 in amount of CZK 10,796,000.

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002**

	<u>Živnostenská banka, a.s.</u>	<u>ŽB - Trust, investiční společnost, a.s.</u>	<u>ŽB - Asset Management, a.s.</u>	<u>Eliminations</u>	<u>Group</u>	<u>Group</u>
	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>
	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>
<b>ASSETS</b>						
Cash and balances with central bank	988,494	14	22	-	988,530	1,482,917
Treasury bills	1,427,774	-	-	-	1,427,774	2,828,714
Due from other banks	20,866,398	4,527	5,477	(9,747)	20,866,655	20,179,489
Trading securities	3,555,615	10,798	-	-	3,566,413	3,984,679
Derivative financial instruments	136,427	-	-	-	136,427	189,009
Loans and advances to customers	21,711,134	-	-	-	21,711,134	17,859,312
Investment securities	1,445,457	106,576	12,306	(32,840)	1,531,499	2,199,452
Intangible assets	92,725	5,106	1,507	-	99,338	99,633
Property, plant and equipment	1,488,766	3,301	2,575	-	1,494,642	1,653,925
Other assets	285,963	21,215	15,742	-	322,920	563,597
Current tax asset	-	3,571	-	-	3,571	3,189
<b>Total assets</b>	<u>51,998,753</u>	<u>155,108</u>	<u>37,629</u>	<u>(42,587)</u>	<u>52,148,903</u>	<u>51,043,916</u>

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002 (continued)**

	<u>Živnostenská banka, a.s.</u>	<u>ŽB - Trust, investiční společnost, a.s.</u>	<u>ŽB - Asset Management, a.s.</u>	<u>Eliminations</u>	<u>Group</u>	<u>Group</u>
	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>
	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>
<b>LIABILITIES</b>						
Due to other banks	7,929,860	-	-	-	7,929,860	5,751,413
Other deposits	2,708,361	-	-	-	2,708,361	2,456,865
Trading liabilities	352,022	-	-	-	352,022	257,839
Subordinated debt	1,000,000	-	-	-	1,000,000	1,000,000
Due to customers	36,397,399	-	-	(9,747)	36,387,652	37,854,496
Other liabilities	792,192	18,990	13,079	-	824,261	876,628
Current tax liability	<u>3,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,917</u>	<u>16,997</u>
	<u>49,183,751</u>	<u>18,990</u>	<u>13,079</u>	<u>(9,747)</u>	<u>49,206,073</u>	<u>48,214,238</u>
<b>SHAREHOLDERS' EQUITY</b>						
Ordinary shares	1,360,410	20,000	27,000	(47,000)	1,360,410	1,360,410
Reserves and retained profit	<u>1,454,592</u>	<u>116,118</u>	<u>(2,450)</u>	<u>14,160</u>	<u>1,582,420</u>	<u>1,469,268</u>
<b>Total shareholders' equity</b>	<u>2,815,002</u>	<u>136,118</u>	<u>24,550</u>	<u>(32,840)</u>	<u>2,942,830</u>	<u>2,829,678</u>
<b>Total equity and liabilities</b>	<u>51,998,753</u>	<u>155,108</u>	<u>37,629</u>	<u>(42,587)</u>	<u>52,148,903</u>	<u>51,043,916</u>

**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002**

	<u>Živnostenská banka, a.s.</u>	<u>ŽB - Trust, investiční společnost, a.s.</u>	<u>ŽB - Asset Management, a.s.</u>	<u>Eliminations</u>	<u>Group</u>	<u>Group</u>
					For the year ended 31 December	
	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>
	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>	<u>CZK'000</u>
Interest and discount income	2,134,606	1,484	210	(11,237)	2,125,063	3,270,179
Interest expense	<u>(1,174,009)</u>	<u>(4,906)</u>	<u>(5,721)</u>	<u>11,237</u>	<u>(1,173,399)</u>	<u>(2,314,047)</u>
<b>Net interest income</b>	960,597	(3,422)	(5,511)	-	951,664	956,132
Fee and commission income	285,136	112,629	22,851	(7,235)	413,381	391,621
Fee and commission expense	<u>(28,706)</u>	<u>(21,893)</u>	<u>(188)</u>	<u>7,235</u>	<u>(43,552)</u>	<u>(46,305)</u>
<b>Net fee and commission income</b>	256,430	90,736	22,663	-	369,829	345,316
Dividend income	-	-	-	-	-	44,787
Net trading income/(expense)	104,511	7,384	10,796	-	122,691	255,677
Gains less losses from investment securities	(6,860)	9,113	4,521	-	6,774	35,867
Other operating income	<u>48,694</u>	<u>328</u>	<u>1,869</u>	<u>(23,234)</u>	<u>27,657</u>	<u>10,139</u>
<b>Net operating income</b>	1,363,372	104,139	34,338	(23,234)	1,478,615	1,647,918
Impairment losses on loans and advances	(82,097)	-	-	-	(82,097)	(40,779)
Operating expenses	<u>(1,186,027)</u>	<u>(83,204)</u>	<u>(30,972)</u>	<u>23,234</u>	<u>(1,276,969)</u>	<u>(1,335,749)</u>
<b>Profit / (loss) from operations before tax</b>	95,248	20,935	3,366	-	119,549	271,390
Income tax	<u>(3,917)</u>	<u>(2,480)</u>	<u>-</u>	<u>-</u>	<u>(6,397)</u>	<u>(6,911)</u>
<b>Net profit / (loss)</b>	<u>91,331</u>	<u>18,455</u>	<u>3,366</u>	<u>-</u>	<u>113,152</u>	<u>264,479</u>

## Report on Relations between Related Parties

Pursuant to Section 66a (9) of Act No. 513/1991 Sb, the Commercial Code, as amended, the Board of Directors of **Živnostenská banka, a.s.**, registered office: Praha 1, Na Příkopě 858/20, registration number: 00001368, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, entry No. 1350 ('Živnostenská Banka'), has produced this **Report on Relations** for the **2002 accounting period**.

In 2002 accounting period, Živnostenská banka was controlled by **Bankgesellschaft Berlin AG** ('BGB'), registered office: Alexanderplatz 2, D-10178 Berlin, Germany, Reg. No. 527, Sort Code BLZ 100 222 00, also including Berliner Bank, registered office: Hardenbergstr. 32, D-10623 Berlin, Germany. BGB has established and controls **Magrathea 3 Limited**, registered office: Normandy House, Grenville Street, St Helier, Jersey, JE2 4UF, Channel Islands ('Magrathea 3'). BGB is directly controlled by **Land Berlin** (the Federal State of Berlin).

Živnostenská banka controls **ŽB – Trust, investiční společnost, a.s.**, registered office: Praha 1, Na Příkopě 15, registration number: 63080273, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, entry No. 3277 ('ŽB – Trust, investiční společnost') and **ŽB – Asset Management, a.s.**, registered office: Praha 1, Na Příkopě 15, PSČ: 110 00, registration number: 25684558, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, entry No. 5483 ('ŽB – Asset Management').

The Board of Directors of Živnostenská banka hereby declares that between Živnostenská banka and persons interconnected with it in the 2002 accounting period, only relations with BGB, Magrathea 3, ŽB – Trust, investiční společnost, and ŽB – Asset Management existed.

1. **Agreements** entered into between Živnostenská banka and BGB, Magrathea 3, ŽB – Trust, investiční společnost, and ŽB – Asset Management in the 2002 accounting period

1.1. The following trilateral agreement was made between Živnostenská banka, **Magrathea 3**, and BGB in the 2002 accounting period:

Name of Agreement	Subject of Agreement	Date of Conclusion
Annex to USD 10,625,000 facility agreement	Exchange of an underlying convertible bond of the company XEROX PLC for the bond of the company BASF AG	5 August 2002

1.2. No agreements were made between Živnostenská banka and **BGB** in the 2002 accounting period, with exclusion of the trilateral agreement specified above in paragraph 1.1.

1.3. The following bilateral agreements were made between Živnostenská banka and **ŽB – Trust, investiční společnost** in the 2002 accounting period:

Name of Agreement	Subject of Agreement	Date of Conclusion
Outdoors advertising	Running outdoors advertising on a tram in Brno (another party to this contract is Dopravní podnik Brno)	15 March 2002
Temporary positioning of an employee for execution of work	Conditions of positioning an employee in order to execute temporary works consisting in the execution of an office of the organizational unit manager	28 March 2002
Brokering trades in securities	Brokering trades in securities	12 April 2002
Brokering trades in foreign securities	Brokering trades in foreign securities	12 April 2002
Lease contract	ŽB Trust and Živnostenská banka as lessees and the company JESY, s.r.o. and Peter Kleinert as lessors	17 April 2002

Financial co-operation in a joint event	Conditions of co-participation in a joint event - joint promotion of products	17 May 2002
Establishment of a green line	Establishment of a green line (another party to this contract is Český telekom)	27 May 2002
Mutual co-operation in selling a combined product - VISA payment card - Sporokonto	Conditions of co-operation in selling VISA - Sporokonto	16 September 2002

1.4. The following bilateral agreements were made between Živnostenská banka and **ŽB – Asset Management**:

Name of Agreement	Subject of Agreement	Date of Conclusion
No name	Conditions of co-operation and communication in opening and maintaining current portfolio accounts	22 May 2002
No name	Making contracts for managing and securing related services and activities by Živnostenská banka	22 May 2002

2. **Considerations** provided in 2002 by Živnostenská banka to BGB, ŽB – Trust, investiční společnost, and ŽB – Asset Management and **their counter-considerations**

2.1. Considerations provided in 2002 by Živnostenská banka to **BGB** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided within the scope of ordinary commercial relations or under ordinary terms and conditions of business.

Considerations to BGB – Živnostenská banka <b>expense</b>	Consideration (CZK'000)
Financial and management advisory	9,784
Interest on loro accounts	311
Interest on time deposits	3,264
Interest on subordinated debt	45,194
Interest on IRS transactions	84,086
	142,639
Considerations from BGB – Živnostenská banka <b>revenues</b>	
Interest on nostro accounts	1,632
Interest on time deposits	21,835
Interest on IRS transactions	39,861
Income from brokerage activity on sale of securities	12,894
Bank charges	4
	76,226

2.2. Considerations provided in 2002 by Živnostenská banka to **Magrathea 3** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided within the scope of ordinary commercial relations or under ordinary terms and conditions of business.

Considerations from Magrathea 3 - Živnostenská banka <b>revenues</b>	Consideration (CZK'000)
Interest on credit	9,367
	9,367

2.3. Considerations provided in 2002 by Živnostenská banka to **ŽB – Trust, investiční společnost** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided within the scope of ordinary commercial relations or under ordinary terms and conditions of business.

Considerations to ŽB – Trust – Živnostenská banka <b>expense</b>	Consideration (CZK'000)
Interest on current and time deposits	404
	404
<b>Considerations from ŽB – Trust – Živnostenská banka revenues</b>	
Commission from the sale of participation certificates	4,986
Lease of the Živnostenská banka group logo	2,000
Issue, custody, deposit, and management of securities, settlement of securities transactions and related services	1,020
Interest on credit	4,906
Bank charges	138
Other services	1,525
	14,575

2.4. Considerations provided in 2002 by Živnostenská banka to **ŽB – Asset Management** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided within the scope of ordinary commercial relations or under ordinary terms and conditions of business.

Considerations to ŽB – Asset Management – Živnostenská banka <b>expense</b>	Consideration (CZK'000)
Interest on current and time deposits	206
Investment advisory	48
	254
<b>Considerations from ŽB – Asset Management – Živnostenská banka revenues</b>	
Lease of the Živnostenská banka group logo	952
Issue, custody, deposit, and management of securities, settlement of securities transactions and related services	948
Interest on credit	5,721
Bank charges	124
Other services	1,302
	9,047

3. **Other legal transactions** executed by Živnostenská banka in the interest of BGB, Magrathea 3, ŽB Trust, investiční společnost, and ŽB – Asset Management

The Board of Directors of Živnostenská banka declares that Živnostenská banka executed no other legal transactions in the interest of BGB, Magrathea 3, ŽB – Trust, investiční společnost, and ŽB – Asset Management in the 2002 accounting period beyond the scope of ordinary legal transactions in normal business relations or ordinary legal transactions carried out by Živnostenská banka in the normal exercise of rights of BGB as the majority shareholder of Živnostenská banka, or in the normal exercise of rights of Živnostenská banka as the sole shareholder in ŽB – Trust, investiční společnost and ŽB – Asset Management.

4. **Other measures** adopted or implemented by Živnostenská banka in the interest or on the initiative of BGB, ŽB – Trust, investiční společnost, and ŽB – Asset Management, and their benefits and drawbacks:

The Board of Directors of Živnostenská banka declares that Živnostenská banka adopted or implemented no measures in the interest of BGB, Magrathea 3, ŽB – Trust, investiční společnost, and ŽB – Asset Management in the 2002 accounting period beyond the scope of normal business relations, or beyond the exercise of rights of BGB as the majority shareholder in Živnostenská banka, or in the normal exercise of rights of Živnostenská banka as the sole shareholder of ŽB – Trust, investiční společnost and ŽB – Asset Management.

5. **Damage caused** to Živnostenská banka due to created agreements and measures taken or implemented:

The Board of Directors of Živnostenská banka declares that Živnostenská banka suffered no damage from created agreements and measures adopted or implemented.

March 2003

On behalf of the Board of Directors of Živnostenská banka



Josef Pitra  
Vice-Chairman of the Board of Directors



Aleš Barabas  
Member of the Board of Directors



**Supplementary data in conformity with the Measure of the Ministry of Finance of the Czech Republic, ref 282/73391/2001, from 7 December 2001**

**1. Data about the members of the Supervisory Board and the Board of Directors**

**1.1. The Supervisory Board as at 31 December 2002**

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Hubert Piel	Chairman	23 January 2002	university and many years of practical experience in banking	<u>Chairman of the SupB:</u> Bankservice GmbH <u>Vice-Chairman of the SupB:</u> Weberbank Privatbankiers KgaA <u>Member of the SupB:</u> Allbank Allgemeine Privatkundenbank.; Atos Origin Processing Services GmbH; Bankgesellschaft Berlin Polska S.A.; Dvg Hannover Datenverarbeitungsgesellschaft nbH; IBAG Immobilien und Beteiligungen Aktiengesellschaft <u>Member of the BoD:</u> Landesbank Berlin
Dirk Hoffmann	Vice-Chairman	26 November 1999	university and many years of practical experience in banking	<u>Chairman of the SupB:</u> Hannover Commodity Exchange <u>Member of the SupB:</u> BÖAG Börseaktiengesellschaft
Ivana Burešová	member	26 June 2000	university and many years of practical experience in banking	none
Vladimír Burian	member	26 June 2000	secondary school and many years of practical experience in banking	none
Heinz D. Gottschalk	member	30 November 1998	university and many years of practical experience in banking	<u>Member of the BoDir:</u> Bankgesellschaft Berlin (Ireland) plc. <u>Member of the SupB:</u> Berliner Bank (Polska)

Detlef Schmidt	member	18 April 2002	university and many years of practical experience in industry	<p><u>Chairman of the SupB:</u> Marketing management Institut GmbH; Škoda Auto Deutschland GmbH; Škoda Auto Slovensko, s.r.o.; Import Volkswagen Group, s.r.o.</p> <p><u>Vice-Chairman of the SupB:</u> Škoda Auto Polska S.A.</p> <p><u>Member of the SupB:</u> SEAT, S.A.; Autogerma S.p.A.; Volkswagen Group United Kingdom Ltd.; Groupe Volkswagen France; Volkswagen-Audi España S.A.; Škofin, s.r.o.</p>
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### 1.2. The Supervisory Board as at 12 March 2003

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Roberto Nicastro	Chairman	12 February 2003	university and many years of practical experience in banking	<p><u>Chairman of the SupB:</u> Bulbank; Zagrebacka banka</p> <p><u>Vice-Chairman of the SupB:</u> Koc Financial Services; Kocbank</p> <p><u>Member of the SupB:</u> Bank Pekao S.A.; UniCredit Service Lab</p>
Carmine Ferraro	Vice-Chairman	12 February 2003	university and many years of practical experience in banking	<u>Chairman of the SupB:</u> Unibanka, a.s.
Ivana Burešová	member	26 June 2000	university and many years of practical experience in banking	none
Vladimír Burian	member	26 June 2000	university and many years of practical experience in banking	none
Danilo Danielis	member	12 March 2003	university and many years of practical experience in banking	<u>Member of the BoDir:</u> Medio Venetie Banca; UnicreditBanca Mobiliare S.p.A.

Uwe Kruschinski	member	12 March 2003	university and many years of practical experience in banking	none
Secondino Natale	member	12 March 2003	university and many years of practical experience in banking	<u>Member of the BoDir:</u> UniCredito Italiano Bank (Ireland); Unicredito Suisse SA; Clarima SpA; I-Faber SpA; Service Lab SpA
Massimiliano Moi	member	12 March 2003	university and many years of practical experience in banking	none

### 1.3. The Board of Directors as at 31 December 2002

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Josef Pitra	Vice-Chairman	1 March 1992	university and many years of practical experience in banking	none
Aleš Barabas	member	1 March 1992	university and many years of practical experience in banking	<u>Executive Director:</u> Zivnostenska Finance B.V.
Martin Kryl	member	19.October 2001	university and many years of practical experience in banking	<u>Chairman of the SupB:</u> UNIVYC, a.s.
Tomáš Zralý	member	1 March 1992	university and many years of practical experience in banking	<u>Executive Director:</u> Zivnostenska Finance B.V.

**1. 4. The Board of Directors as at 12 March 2003**

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Josef Pitra	Vice-Chairman	1 March 1992	university and many years of practical experience in banking	none
Aleš Barabas	member	1 March 1992	university and many years of practical experience in banking	<u>Executive Director:</u> Zivnostenska Finance B.V.
Pavel Chlumský	member	12 March 2003	university and many years of practical experience in banking	none
Martin Kryl	member	19.October 2001	university and many years of practical experience in banking	<u>Chairman of the SupB:</u> UNIVYC, a.s.
Tomáš Zralý	member	1 March 1992	university and many years of practical experience in banking	<u>Executive Director:</u> Zivnostenska Finance B.V.

**2. Selected quantitative ratios**

- capital adequacy:	11,75 %
- Tier 1:	CZK 2,630,996,000
- Tier 2 and Tier 3:	CZK 1,384,434,000 and 0
- sum of items deductible from Tier 1 and Tier 2 or from the sum of Tier 1 and Tier 2:	CZK 165,032,000
- total capital:	CZK 3,850,398,000
- individual capital requirements pursuant to special regulations:	A: CZK 2,459,242,000 B: CZK 163,170,000
- return on average assets (ROAA):	0.1923%
- return on average equity (ROAE):	3.9243%
- assets per one employee:	CZK 66,057,000
- administration costs per one employee:	CZK 1,115,000
- net profit per one employee:	CZK 125,500

## **Additional information**

### **Anticipated future developments in the activities of Živnostenská banka, a.s.**

In 2003, Živnostenská banka, a.s. expects stable developments in its financial situation, continuing the trend of the previous years.

### **Subject of business of Živnostenská banka, a.s. as per the Articles of association**

Subject of the Bank's business includes:

- domestic and foreign banking and financial transactions, as well as any other operations related therewith, permissible now or in future under general legal regulations effective in the country of the Bank's registered seat.
- issuance of mortgage bonds pursuant to a special Act.

To the extent given by the Banking Act, the Bank may hold participations in corporations and other types of legal persons both in the Czech Republic and abroad as a shareholder or other controller depending on the type of the legal person, even though its subject of business shall not include activities in the banking industry.

### **Information about judicial proceedings**

Annex to Note 26 in the consolidated financial statements:

Živnostenská banka, a.s. is party to several legal disputes. As at 31 December 2002, the Bank had created a provision of CZK 50 million (31 December 2001: CZK 40 million) based on an estimate by the Bank as to the outcome of a legal dispute concerning the reconstruction of one of its branches. The Bank's management expects that the judicial proceedings for which the provision has been created will be completed within twelve months of the balance sheet date. Given this estimated period, the provision has not been discounted.

Živnostenská banka, a.s. is also party to several active legal disputes where the outcome is uncertain. Even if the Bank wins these disputes, in the overwhelming majority of cases the recoverability of the court-awarded amounts is by no means guaranteed. Therefore, as a precaution the Bank does not record potential yields from these disputes in its accounts.

### **Information about main investments**

In 2002, Živnostenská banka, a.s., invested CZK 100 million into intangible assets (of which software accounted for almost half) and CZK 145 million into operating tangible assets.

Future investments into tangible assets will be connected in particular with the planned expansion of the Bank's branch network. Živnostenská banka, a.s. anticipates no significant changes in the current trend associated with investments into intangible assets.

The Bank makes financial investments in the scope of its ordinary activities connected with asset and liability management. It invests into high-grade securities, held in its trading book and its available-for-sale book. The Bank has no plans to change its policy of investing into securities and other financial instruments.

### **Managing Directors**

**Mr Petr Bartel** - Risk Management (since 1 July 2002)

**Mr Pavel Chlumský** - Corporate Banking

**Mr Peter Kenneth Medlock** - Financial Markets

### **Directors**

**Mr Miloš Bádál** - Mortgage Loans

**Ms Ivana Burešová** - Legal Division

**Mr Vladimír Burian** - Prague Branch

**Mr Josef Ciglanský** - Karlovy Vary Branch

**Ms Anna Čápová** - Private Banking

**Mr Michael Dománek** - Liberec Branch

**Mr Dieter Fennel** - Credits (until 31 March 2002)

**Mr Petr Hladký** - Credits (since 1 April 2002)

**Mr Vladimír Chudárek** - Zlín Branch

**Mr Vlastislav Klimeš** - České Budějovice Branch

**Mr Michal Lörincz** - Representative Office Bratislava

**Mr Miroslav Matoušek** - Operations

**Mr Miloslav Mencl** - Corporate Banking

**Mr Petr Merežko** - Structured Finance

**Mr Aleš Novák** - Brno Branch

**Mr Petr Novák** - Support Division

**Ms Jaroslava Pelechová** - Internal Audit

**Mr Michal Provazník** - Information Technology and Organisation

**Mr Ladislav Řehák** - Pardubice Branch

**Mr Jaroslav Řezníček** - Personnel Division

**Ms Anna Smutná** - Financial Division

**Mr Jan Uhlík** - Financial Institutions

**Mr Jiří Uklein** - Ostrava Branch

**Mr Tomáš Vilím** - Products and services of private and personal banking (since 1 April 2002)

**Head Office**

Na Příkopě 858/20  
 P.O.Box 421  
 113 80 Praha 1  
 Czech Republic  
 Tel: +420 224 121 111  
 Fax: +420 224 125 555  
 Web Page: [www.zivnobanka.cz](http://www.zivnobanka.cz)  
 Central E-mail Address: [info@zivnobanka.cz](mailto:info@zivnobanka.cz)

**Branches**

Na Příkopě 858/20 P.O.Box 421 113 80 Praha 1 Czech Republic Tel: +420 224 121 111 Fax: +420 224 125 555 E-mail: <a href="mailto:praha@zivnobanka.cz">praha@zivnobanka.cz</a>	Divadelní 2 P.O.Box 57 601 57 Brno Czech Republic Tel: +420 542 515 111 Fax: +420 542 515 150 E-mail: <a href="mailto:brno@zivnobanka.cz">brno@zivnobanka.cz</a>	nám. Přemysla Otakara II. č.122/35 P.O.Box 178 370 21 České Budějovice Czech Republic Tel: +420 387 711 111 Fax: +420 387 711 777 E-mail: <a href="mailto:ceske.budejovice@zivnobanka.cz">ceske.budejovice@zivnobanka.cz</a>
Tržiště 9 P.O.Box 185 360 01 Karlovy Vary Czech Republic Tel: +420 173 108 111 Fax: +420 173 108 108 E-mail: <a href="mailto:karlovy.vary@zivnobanka.cz">karlovy.vary@zivnobanka.cz</a>	Široká 5 P.O.Box 24 460 01 Liberec Czech Republic Tel: +420 485 395 111 Fax: +420 48 5395 555 E-mail: <a href="mailto:liberec@zivnobanka.cz">liberec@zivnobanka.cz</a>	Kostelní 13 P.O.Box 57 701 57 Ostrava 1 Czech Republic Tel: +420 696 275 111 Fax: +420 696 275 112 E-mail: <a href="mailto:ostrava@zivnobanka.cz">ostrava@zivnobanka.cz</a>
Třída míru 1400 P.O.Box D21 530 01 Pardubice Czech Republic Tel: +420 406 861 111 Fax: +420 406 861 102 E-mail: <a href="mailto:pardubice@zivnobanka.cz">pardubice@zivnobanka.cz</a>		Rašínova 68 P.O.Box 275 760 01 Zlín Czech Republic Tel: +420 677 697 111 Fax: +420 677 697 555 E-mail: <a href="mailto:zlin@zivnobanka.cz">zlin@zivnobanka.cz</a>

**Representative office for Slovak Republic**

Ventúrska 12  
 815 16 Bratislava 1  
 Slovak Republic  
 Tel: +421 2 5441 8470  
 Fax: +421 2 5441 9385