Annual Report of Živnostenská banka for the year 2003

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COMPOSITION OF THE SUPERVISORY BOARD AND THE BOARD OF DIRECTORS

The Supervisory Board

Mr Carmine Ferraro, Chairman (since 29 July 2003)
Mr Roberto Nicastro, Chairman (since 12 February 2003 until 29 July 2003)
Mr Hubert Piel, Chairman (until 12 March 2003)
Mr Carmine Ferraro, Deputy Chairman (since 12 February 2003 until 29 July 2003)
Mr Dirk Hoffmann, Deputy Chairman (until 12 February 2003)
Mr Massimiliano Moi, (since 12 March 2003), Deputy Chairman (since 29 July 2003)
Ms Ivana Burešová
Mr Vladimír Burian
Mr Danilo Danielis (since 12 March 2003 until 10 September 2003)
Mr Heinz D. Gottschalk (until 12 March 2003)
Mr Uwe Kruschinski (since 12 March 2003)
Mr Franjo Luković (since 10 September 2003)
Ms Eva Mikulková (since 10 June 2003)
Mr Secondino Natale (since 12 March 2003)
Mr Detlef Schmidt (until 12 February 2003)
Mr Andrea Varese (since 12 November 2003)

The Board of Directors

Mr Jiří Kunert, Chairman (since 12 May 2003)
Mr Sandro Bianco, Deputy Chairman (since 5 June 2003)
Mr Josef Pitra, Deputy Chairman (until 5 June 2003)
Mr Aleš Barabas
Mr Pavel Chlumský (since 12 March 2003 until 31 December 2003)
Mr Martin Kryl (until 31 December 2003)
Mr Josef Pitra (until 31 December 2003)
Mr Tomáš Zralý (until 31 December 2003)

SUPERVISORY BOARD REPORT

The Supervisory Board reviewed the annual and consolidated financial statements prepared as at 31 December 2003 together with the Auditors’ Report prepared by PricewaterhouseCoopers Audit, s.r.o., the independent auditor of Živnostenská banka, a.s. for the year 2003, and the proposal for distribution of profit. The Supervisory Board acknowledge the conclusion drawn in the Auditors’ Report that the financial statements fairly reflect the financial position of Živnostenská banka, a.s. as at 31 December 2003 and its results for the year 2003. Considering the Auditors’ Report, the Supervisory Board state that the annual and consolidated financial statements fairly reflect assets, liabilities and the equity of Živnostenská banka, a.s. in all material respects and have been prepared in accordance with relevant laws and regulations. Additionally, the proposal for distribution of profit complies with relevant laws and regulations, the Articles of Association of Živnostenská banka, a.s. and resolutions of the General Meeting.

In compliance with the Czech laws, Provisions of the CNB and the Articles of Association of the Bank, the Supervisory Board have been supervising the implementation of the Bank's business policy and the exercise of authorities by the Board of Directors. The Supervisory Board held ten regular sessions and always asked for information from all spheres of the Bank's activities, which had a relevant impact on the financial position and the financial management of the Bank. It approved management changes related to the acquisition of Živnostenská banka, a.s., a medium-term business plan of the Bank for 2003-2007, its budget, its credit policy for 2004, acknowledged investment policy for 2004 and also established a Project Committee for the integration of the Bank into UniCredito Italiano Group.

The Supervisory Board further state that, based on the annual and consolidated financial statements and other documents provided to the Supervisory Board in 2003, it did not identify any material errors or incorrectness which could lead to the conclusion that the Bank's bookkeeping was not maintained in accordance with relevant regulations or did not properly reflect the position of Živnostenská banka, a.s.

The Supervisory Board reviewed the Report on Relations between Related Parties for 2003 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 2004

Mr. Carmine Ferraro
Chairman of the Supervisory Board

INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS TO THE DIRECTORS' REPORT

In 2003, Živnostenská banka, a.s. achieved good results; its net profit according to Czech Accounting Standards amounted to CZK 262 million and is in line with expectations and objectives set by its main shareholder, UniCredito Italiano, after its entry at the beginning of 2003.

Last year Živnostenská banka went through the most emphatic changes from the time of its privatization at the beginning of the 1990s. In February 2003, after the central banks of the Czech Republic and Italy gave their consent, the majority participation interest in the ŽB capital was sold to the UniCredito Italiano Group. Following the entry of the new owner a new medium-term development plan of the Bank was defined, which envisages the strengthening of the Bank's market position in selected segments, particularly in the sphere of retail banking designed for citizens and small entrepreneurs. In cooperation with UniCredito we have launched new projects aimed at the implementation of a business model common for all banks within the New Europe Division, naturally modified to the economic development of every individual country, its customs and behaviour of its clients.

Along with the changes in the system of clients servicing and in the offer of products designed for the large retail clientele, we want to further develop long-time traditions of Živnostenská banka in the sphere of private banking. This is a sphere of our long-time traditions where Živnostenská banka offers its clients products and services ranking by their top quality and ranks among the best ones on the Czech banking market. We are going to strengthen the Bank's position in the corporate banking sphere. Last year we enlarged services for our clients and developed a new servicing system, which will better reflect the clients' needs and increase their comfort.

In 2003, we transformed Živnostenská banka's group so that it would better correspond to the structure and objectives of the main shareholder. The ŽB - Trust company and the Pioneer Czech Investment Company, UniCredito's subsidiary for collective investment, merged and subsequently integrated their activities with ŽB - Asset Management. We expect that the newly created company, which will operate under the name Pioneer Investments on the market, will offer its clients such quality and scope of services they expect from us.

Simultaneously with the above described steps we have launched a number of cultural and organizational changes inside the Bank aimed at deeper integration into the structure of the UniCredito Group in future. In addition to undoubted cost benefits, we expect that such steps will enrich our work by new knowledge and procedures, which can help us achieve ambitious objectives set by the main shareholder of the Bank.

In 2003, we created good conditions for Živnostenská banka to avail itself of the offered opportunity and become a modern bank able not only to always react to dynamic changes in the current banking industry, but also to respect its conservative traditions which always attracted clients' attention in the past. I believe that the year 2004 will prove that our expectations and objectives were correct.

March 2004

Jiří Kunert
Chairman of the Board of Directors

DIRECTORS' REPORT

Czech Economy in 2003

Although in 2003 the Eurozone economy showed evidences of starting recession, the performance of the Czech economy increased. The rapidly growing domestic demand continued to be the main economic driver. Owing to a more than 6% year-on-year increase in wages and nearly a one-third increase in the volume of loans to citizens, family spending has been growing most rapidly since 1996. The quickly growing private consumption was also backed by stagnating prices. For the first time in the history of our country, inflation had been negative for several months.

From the point of view of the structure of economic growth, an unexpected strong revival of investment demands and a reduction of less effective government expenses appeared to be very positive. However, weak prosperity of the main business partners and the continuing decline of tourism resulted in the further worsening of a foreign trade balance. In addition, despite the ever growing economic activity, the situation on the employment market has not improved. The unemployment rate has amounted to a new record level. The main reason for the lowering of the number of employees was the ongoing restructuring of large industrial companies and still too high labour costs. The country's very generous social system and high corporate income taxes had an adverse impact on the growth of unemployment.

In 2003, public finances continued to develop negatively. A deficit in public finances deepened, problems occurred also in the health insurance system. These adverse tendencies should be partially remedied by tax and expenditure measures taken and approved by the government at the end of the year.

Organizational changes, relations with shareholders and human resources management

The year 2003 was a year of organizational and procedural changes for Živnostenská banka after the entry of UniCredito Italiano (UCI) into the Bank and after the implementation of a system of the human resources management.

In February 2003, after the approval received from the central banks of the Czech Republic and Italy, UCI assumed a majority stake in the Bank from the preceding owner - Bankgesellschaft Berlin. During the year UCI bought back other shares from minority shareholders and thus increased its capital interest to 97.7 per cent. With regard to a very small share of freely marketable shares, the extraordinary General Meeting of the Bank decided to cancel public marketability of the Bank's shares. The resolution became effective on 12 December 2003, after the receipt of required approvals from the Prague Stock Exchange and the Securities Commission.

In the course of the year the Bank was fully integrated into the structure of UCI's New Europe Division. A number of processes in the Bank's activities were redefined and a new organizational structure was set up, which corresponds to the management standards of UCI. A new management model was based on the principle of the governance of the Bank by the Executive Committee composed of Board and Managing Directors, each of them responsible for one key segment of the Bank. In line with this, the number of Board Directors was reduced to three.

Within the integration process with UCI, authorities of the Human Resources Division were enlarged and cultural changes were launched in the Bank, which had not been integrated into a network of banks of previous owners before UCI's entry. New remuneration systems have been introduced: the Management by Objective (MBO) for positions with individually defined objectives and the Team Reward System (TRS) for other employees of the Bank where the remuneration will be based on the fulfilment of team tasks. A network of branches was successfully rebuilt; positions of two regional managers – for retail and corporate banking – were created in order to formalize the stress on the development of retail banking for small business and affluent clients.

To improve quality of the top and middle management, an assessment centre project was adopted and the process of "multi-degree due diligence" was introduced with an aim to select new employees and make the internal recruitment process more effective. The Bank decided to enable a group of selected young and prospective employees to participate, jointly with their colleagues from other banks within the New Europe Division, in the so-called Young Talent Programme, which is in fact an internal mini-MBA programme organized for the UCI Group by the prestigious Italian Bocconi University. Živnostenská banka's integration with the UCI Group has also reflected in closer cooperation with the Slovak UniBanka, mainly in the human resources management, which brought results mainly in the prompt transferring and implementation of know-how.

Restructuring of Živnostenská banka's Group

In the year concerned, investment activities of the UCI Group on the Czech market, in particular, the investment company ŽB - Trust, investiční společnost, a.s. and Pioneer česká investiční společnost, a.s., merged. Both companies, which had focused mainly on the sale and management of mutual funds by that time, subsequently integrated their activities with the company ŽB Asset Management, a.s. as a securities trader, ŽB Asset Management dealt with the management of individual portfolios.

The main benefit of the above-mentioned changes is the connection of the global potential of the Pioneer Investments Group with traditions and local know-how of Živnostenská banka's subsidiaries. The aim of transformation of the Živnostenská banka group is to create a strong and experienced company in the sphere of investment banking which will offer its clients more products, higher-quality services and their better availability. Consolidation of those companies will also allow utilizing their most capable specialists as well as solutions which proved to be best in the consolidated companies. Živnostenská banka will remain an exclusive partner for the distribution of mutual funds and in cooperation with a newly established company it is working on the extension of its offer by new products and services of both collective and individual investment.

Financial Results

Živnostenská banka's financial management and business activities in 2003 were affected by the implementation of the UCI business model and the restructuring of the ŽB Group.

Total assets of the ŽB Group showed a slight year-on-year decline to CZK 49.3b. A volume of deposits and loans showed no considerable changes - a total volume of client deposits and payables toward clients resulting from debt securities fell by 0.6 per cent and amounted to CZK 38.9b, a total volume of loans slightly grew to CZK 22.8b.

The Bank continued increasing both the volume and number of loans granted to individuals - a volume of consumer loans and mortgage loans to individuals has increased by 82.5 per cent to CZK 2.2b. This development reflects business objectives declared by the Bank in the sphere of retail banking. A volume of classified loans was 2.0 per cent.

According to Czech Accounting Standards, in the reported year Živnostenská banka achieved net profit after taxation of CZK 262 million, which means a year-on-year increase by CZK 162 million. Such positive economic result was achieved particularly due to the strict management of costs, which remained the same in the year-on-year comparison, the sale of subsidiaries, and an increase in the Bank's revenues, mainly fees, commissions and financial operations. On the contrary, interest income fell due to the adverse development of interest rates on the Czech market.

Private and Retail Banking

In the reported year, Živnostenská banka continued extending its product range for private and retail clients. It worked out a medium-term commercial and marketing strategy, which envisages the addressing of the mass affluent segment, a dynamic development of the branch network and the use of external partners and strategic alliances for the distribution of products of the Bank. The Bank also reshaped its model of servicing clients from the segment of small business entrepreneurs and small traders.

ŽB introduced a unique package of services to the market, the Personal Menu, in three product lines - Standard, Forte and Grand. It is built on the "all inclusive" principle where clients can acquire, for a monthly flat fee, a wide range of products, services and payments without any further limitation.

The "Business Menu" is another package of the Bank designed for small traders and small entrepreneurs with their annual turnover up to CZK 30 million. It includes, for one monthly fee, the complete servicing of corporate finances. The biggest advantage of this product is no limitation of numbers and volumes of client's transactions, services of a personal banker, comfortable and simple execution of all bank services, comfortable access to all direct banking channels always and anywhere, clearly set prices which improve transparency of accounting.

In the sphere of direct channels, Živnostenská banka has complemented MiniBanka services by the possibility of recharging prepaid TWIST cards and launched the GSM banking application with the Oskar operator. In addition, the Bank has also extended the functioning and user comfort of NetBanka, the Bank's Internet banking system.

Corporate Banking

In 2003, the corporate banking segment went through major changes both in the sphere of organization and segment definition and in the system of the client servicing. With regard to the acquisition of new clients, the segment focused mainly on medium-size enterprises which now show high potential of growth in bank deals. In compliance with its new business strategy the Bank strengthened the development of new products, mainly with cash management products, project and structured financing including methods of cooperation between public and private capital, real estate financing and e-solutions. We also followed the development of preparations of structural funds of the European Union, which can be used for the financing of selected projects in future.

In 2003, the corporate banking segment kept its dominant share in total revenues of the Bank and, despite the negative outside economic environment affected by the cut in interest rates and margins, also maintained a stable level of own revenues. The dynamic development of corporate banking was proved by positive results in the acquisition of new clients - the number of corporate clients increased by about one third and the number of newly opened accounts increased by more than 40 percent. A volume of deposits taken from legal entities has been slightly increased and achieved CZK 16.9b.

The year 2003 also brought the first results of intensive cooperation of the Bank within the UniCredito New Europe Division. The New Europe Desk was created, which is a specialized division to provide services to Italian companies in the Czech Republic and to companies from those countries where UCI runs its business.

Within the framework of sharing know-how, the product portfolio was extended by new services of export factoring which enable Czech companies to utilize export financing to selected New Europe countries under better conditions.

Risk Management

Živnostenská banka traditionally pays attention to risk management processes and owing to the timely identification of risks, their monitoring and measuring, as well as due to a sophisticated structure of internal limits for individual types of risks and products, it is successful in eliminating individual risks to an acceptable level. This trend is proved by a low volume of classified loans, which is deep below the banking sector's average, and also by business results of the Bank.

For the whole year 2003 Živnostenská banka has been intensively preparing for the changed regulation with regard to expected requirements of the Basel Committee for Banking Supervision and it will continue these preparations in the years to come, too. Representatives of the Bank responsible for individual parts of the risk management participate in the joint project with representatives of the CNB, the Banking Association, the Chamber of Auditors and other banks and improve their qualification in specialized seminars.

In 2003 Živnostenská banka successfully implemented a new methodology for the market risk management - Value at Risk. This methodology is used for quantification of the interest risk of a trading book, portfolio for the sale and for quantification of the currency risk of the total opened position in foreign currencies.

Charity and Sponsorship

Along with the extension of the Bank's business strategy to the wider client public, the Bank refined its sponsorship strategy. In future, the Bank will focus mainly on supporting projects with a mass impact, both in the sphere of health and charity and in the sphere of culture, sport and education.

Živnostenská banka traditionally provided support to the Children's Home of Charlotte Masaryk in Prague - Zbraslav. At the end of 2003, ŽB employees organized a collection and the collected sum was used for the purchase of Christmas presents for children living in there.

In December 2003, Živnostenská banka provided a donation to the Kapka Naděje Foundation established to help children suffering from blood forming defects. Živnostenská banka was also the general partner to a benefit concert in support of the Foundation, the main guest of which was the famous opera singer Eva Urbanová. The yield of this concert was donated to the Children Oncology and Haematology Division of the 2nd Children's Clinic in the Faculty Hospital in Prague - Motol.

In the sphere of sport, for many years Živnostenská banka has been sponsoring Živnobanka Czech Open, the international tennis tournament in Prostějov, the 10th anniversary of which was held in 2003. Živnostenská banka as the general partner supported the prestigious award "Businessmen of the Year".

Conclusion

The year 2003 was a year of extensive changes in all levels of activities of Živnostenská banka. We have created prerequisites for the fulfilment of objectives set by our new shareholder - UniCredito Italiano - and Živnostenská banka played an active role on the banking market in the Czech Republic.

March 2004

Board of Directors

PRICEWATERHOUSECOOPERS

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 2003, the related income statement, statement of changes in equity and the notes for the year then ended presented in the annual report of the Bank on pages 16 to 78 ("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 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 2003, and the results of its operations and its changes in equity for the year 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 2 to 13, 138 to 147 and 157 to 167, which does not form part of the financial statements is consistent with the audited financial statements of the Bank. In our opinion, all supplementary financial information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying report on relations between the Bank and its controlling party UniCredito Italiano SpA and between the Bank and other parties controlled by UniCredito Italiano SpA on pages 148 to 156 ("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.

15 March 2004

PricewaterhouseCoopers Audit, s.r.o
represented by

Petr Kříž
Partner and Auditor, Licence No. 1140

BALANCE SHEET AS AT 31 DECEMBER 2003

Assets:	Note	31 December 2003 CZK million	31 December 2002 CZK million	31 December 2001 CZK million
Cash and deposits with central banks	**3**	**1,811**	**988**	**1,483**
State treasury and other bills eligible for CNB refinancing	**6**	**1,377**	**1,428**	**2,823**
a) issued by government institutions		1,377	1,428	2,823
Due from banks	**4**	**17,368**	**20,910**	**20,282**
a) repayable on demand		86	136	275
b) other receivables		17,282	20,774	20,007
Due from customers	**5**	**22,786**	**22,242**	**18,976**
a) repayable on demand		5	5	10
b) other receivables		22,781	22,237	18,966
Debt securities	**6**	**4,194**	**4,951**	**5,420**
a) issued by government institutions		256	314	550
b) issued by other entities		3,938	4,637	4,870
Shares, mutual shares and other interests	**6**	**22**	**21**	**123**
Participation interests with significant influence	**7**	**0**	**39**	**39**
Participation interests with controlling influence	**7**	**5**	**33**	**16**
Long-term intangible fixed assets	**8**	**85**	**93**	**93**
Long-term tangible fixed assets	**8**	**1,343**	**1,489**	**1,644**
of which: land and buildings for operating activities		1,115	1,184	1,245
Other assets	**9**	**262**	**234**	**431**
Prepayments and accrued income		**33**	**21**	**22**
Total assets		**49,286**	**52,449**	**51,352**

BALANCE SHEET AS AT 31 DECEMBER 2003

Liabilities:	Note	31 December 2003 CZK million	31 December 2002 CZK million	31 December 2001 CZK million
Due to banks	**11**	**4,766**	**7,976**	**5,819**
a) repayable on demand		18	24	58
b) other payables		4,748	7,952	5,761
Due to customers	**12**	**34,717**	**36,418**	**38,057**
a) repayable on demand		15,162	16,378	12,810
b) other payables		19,555	20,040	25,247
Liabilities from debt securities	**13**	**4,164**	**2,708**	**2,457**
a) issued debt securities		3,413	2,708	2,457
b) other liabilities from debt securities		751	-	-
Other liabilities	**15**	**1,121**	**962**	**775**
Accruals and deferred income		**31**	**23**	**18**
	10,	**503**	**632**	**629**
Provisions	**17**			
a) provisions for pensions and similar liabilities		2	1	1
b) other provisions		501	631	628
Subordinated liabilities	**14**	**1,000**	**1,000**	**1,000**
Share capital	**16**	**1,360**	**1,360**	**1,360**
a) share capital paid up		1,360	1,360	1,360
Reserve funds and revenue reserves		**1,083**	**1,083**	**1,083**
a) statutory reserve funds and risk funds		272	272	272
b) other revenue reserves		811	811	811
Revaluation reserve		**-**	**-**	**(40)**
a) revaluation differences on hedging derivatives		-	-	(40)
Retained earnings from previous periods		**279**	**187**	**38**
Profit for the accounting period		**262**	**100**	**156**
Total liabilities		**49,286**	**52,449**	**51,352**

OFF-BALANCE SHEET AS AT 31 DECEMBER 2003

Assets:	Note	31 December 2003 CZK million	31 December 2002 CZK million	31 December 2001 CZK million
Commitments and guarantees given	**17**	13,115	9,785	8,812
Receivables from spot transactions		4,279	2,072	3,426
Receivables from term instruments	**25**	17,206	16,375	16,548
Receivables from option instruments	**25**	-	320	-
Receivables written-off		97	128	191
Total off-balance sheet assets		**34,697**	**28,680**	**28,977**
Liabilities:				
Commitments and guarantees received	**5**	5,025	5,367	5,050
Collaterals received and pledges	**5**	31,233	31,423	30,926
of which: Collaterals – securities	**17**	12,155	12,891	10,789
Payables from spot transactions		4,277	2,072	3,426
Payables from term instruments	**25**	17,175	16,391	16,533
Payables from option instruments	**25**	-	320	-
Assets under management	**17**	10,461	7,670	2,940
Total off-balance sheet liabilities		**68,171**	**63,243**	**58,875**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 CZK million	2002 CZK million	2001 CZK million
Interest receivable and similar income	**18**	**1,584**	**2,135**	**3,279**
of which: interest income from debt securities		214	315	678
Interest payable and similar expense	**19**	**(729)**	**(1,174)**	**(2,315)**
of which: interest expense on debt securities		(25)	(25)	(25)
Interest margin		**855**	**961**	**964**
Income from shares and other interests		**61**	**-**	**33**
of which: a) income from interests in subsidiary undertakings		61	-	-
b) other income from shares and interests		-	-	33
Fee and commission income	**20**	**323**	**285**	**269**
Fee and commission expense		**(29)**	**(29)**	**(34)**
Gains or losses from fee and commission		**294**	**256**	**235**
Gains or losses from financial transactions	**21**	**241**	**90**	**374**
Other operating income	**22**	**60**	**44**	**19**
Net income		**1,511**	**1,351**	**1,625**
Other operating expense	**23**	**(40)**	**(30)**	**(101)**
Administrative expense	**23**	**(875)**	**(855)**	**(854)**
of which: a) staff costs		(457)	(431)	(391)
of which: aa) wages and salaries		(345)	(324)	(295)
ab) social and health insurance		(112)	(107)	(96)
b) other administrative expenses		(418)	(424)	(463)
Depreciation, additions and utilisation of provisions for long-term tangible and intangible fixed assets	**8**	**(259)**	**(283)**	**(284)**
Net operating expense		**(1,174)**	**(1,168)**	**(1,239)**
Release of provisions and reserves for loans and guarantees, income from receivables already written-off	**10**	**264**	**59**	**199**
Write-offs, additions and utilisation of provisions and reserves for loans and guarantees	**10**	**(203)**	**(215)**	**(228)**
Release of provisions for participating interests with significant and controlling influence	**10**	**-**	**-**	**4**
Loss from transfer of participating interest with significant and controlling influence	**10**	**-**	**-**	**(1)**
Release of other specific provisions	**10**	**-**	**1**	**-**
Additions and utilisation of other specific provisions	**10**	**(1)**	**(11)**	**(3)**
Additions, usage and release of provisions		**60**	**(166)**	**(29)**
Profit on current activities before taxation		**397**	**17**	**357**
Extraordinary income	**2(w)**	**-**	**87**	**-**
Extraordinary expenses	**2(w)**	**-**	**-**	**(201)**
Profit on extraordinary activities before taxation		**-**	**87**	**(201)**
Profit on current and extraordinary activities for the year before taxation		**397**	**104**	**156**
Income tax	**24**	**(135)**	**(4)**	**-**
Profit for the year after taxation		**262**	**100**	**156**

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

	Share capital	Reserve fund	Revaluation reserve	Profit	Total
	CZK million	CZK million	CZK million	CZK million	CZK million
Balance as at 1 January 2001	**1,360**	**1,083**	**29**	**45**	**2,517**
Net profit for the accounting period	-	-	-	156	156
Social fund contributions	-	-	-	(7)	(7)
Revaluation reserve of hedging derivatives	-	-	(69)	-	(69)
Balance as at 31 December 2001	**1,360**	**1,083**	**(40)**	**194**	**2,597**
Net profit for the accounting period	-	-	-	100	100
Social fund contributions	-	-	-	(7)	(7)
Revaluation reserve of hedging derivatives	-	-	40	-	40
Balance as at 31 December 2002	**1,360**	**1,083**	**-**	**287**	**2,730**
Net profit for the accounting period	-	-	-	262	262
Social fund contributions	-	-	-	(8)	(8)
Balance as at 31 December 2003	**1,360**	**1,083**	**-**	**541**	**2,984**

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. The representative office in Bratislava, Slovak Republic was closed as at 30 June 2003.

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 deposit accounts denominated in Czech and foreign currency;
- rendering of general banking services through a network of branches and agencies;
- executing foreign exchange transactions in inter-bank money market;
- providing foreign trade finance and related banking services;
- trading in securities and portfolio management.

From 11 February 2003 the Bank has been controlled by UniCredito Italiano SpA (hereinafter referred to as “UCI”). Until then the Bank had been controlled by Bankgesellschaft Berlin AG (hereinafter referred to as “BGB”).

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, the applicable accounting rules and regulations set by the Ministry of Finance of 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 millions of Czech Crowns (CZK m) unless otherwise stated and are not consolidated. The Bank presents consolidated financial statements according to International Financial Reporting 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 issuer’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 subsequently 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.

(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 the purpose of 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 less impairment.

(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.

(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 cash-flows 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, 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 re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash-flow models. 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 or 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). 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.

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.

(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.

Accrual of penalty interest income is suspended when loans become overdue by more than 90 days, or on other default events of a debtor and is recognised off-balance sheet. Such income is 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.

(n) Receivables

Receivables are stated at nominal value less provision for doubtful amounts. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor. If a receivable is purchased, the purchase price includes all expenses connected with the purchase, e.g. expenses for specialist valuation of purchased receivables, fees to lawyers and commissions.

(o) Provisions

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.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised in the income.

Provisions are set aside in the currency, in which the settlement is expected to be made, so that related exchange differences arising are also recognised in the same way as the provision.

(p) Allowances

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 these assets at the balance sheet date.

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses, connected with the decrease of assets, in the income statement. Release of allowances in case they are no longer necessary is recognised in the income.

Allowances for assets denominated in foreign currency are created in foreign currency. Foreign exchange differences are recognised in the same way as foreign exchange differences from asset revaluation, to which they relate.

(q) Long-term tangible and intangible fixed assets

Long-term 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:

	Depreciation period (years)
Buildings and constructions	30
Technical improvement on buildings classified as historical monuments	15
Technical improvement on leasehold buildings	10
Energy equipment	12
Machinery and equipment	6
Furniture and fittings	6
Motor vehicles	4
Software and other intangible property	2 – 5
IT Equipment	4

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

(r) Value added tax

The Bank is registered for value added tax (hereinafter “VAT”). Long-term tangible and intangible assets and supplies are stated at cost including 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.

(s) Deferred tax

Deferred tax is determined at the tax rate effective for the period, when its realisation is expected.

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.

(t) Staff costs and pensions

Staff costs are included in Administrative expenses and they include also board and management emoluments.

The Bank provides to its employees contributions to a defined pension plan. Contributions paid by the Bank are reflected directly as an expense.

Regular contributions are made to the state budget to fund the national pension plan.

The Bank creates social fund. The social fund contributions are not charged to the income statement in accordance with Czech accounting rules and are presented in other liabilities.

(u) 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 and their shareholders holding more than 10% of capital, their senior management and its relatives;
- corporates in which board members of the Bank, senior management or corporates controlling the Bank hold at least 10% shareholding;
- subsidiaries of the Bank.

In accordance with the Czech accounting rules the following related party balances and transactions are disclosed in Notes 4, 5, 6, 7, 9, 11, 12, 14, 15, 16, 17 and 23:

- total amount of loans provided by the Bank to members of Board of Directors, Supervisory Board, and to employees participating in the management of the Bank;

- total amount of deposits received by the Bank from the members of the Board of Directors, Supervisory Board, and from employees participating in the management of the Bank;
- total amount of guarantees issued by the Bank for the members of Board of Directors, Supervisory Board, and to employees participating in the management of the Bank;
- name and the place of incorporation of the Bank's shareholders holding more than 10% of share capital or voting rights;
- all salaries and remuneration of members of Board of Directors, Supervisory Board in aggregated amounts for each body, and of employees participating in the management of the Bank.

(v) 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.

(w) 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 the effects of changes in accounting policies.

There have been no significant changes in accounting policies during 2003, however the following change in financial reporting occurred:

Utilisation of provisions and allowances is accounted for by reducing expenses, not as income. Comparative financial information has been restated.

The changes in accounting policies affected the income statement for the year 2002 and 2001 as follows:

The changes in accounting policies on 1 January 2002 were 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 was presented as extraordinary income. The net effect of this change was CZK 108 million (release of provisions to securities of

CZK 124 million; remeasurement of securities at fair value of CKZ (16 million).

(ii) Hedge reserve of CZK (40 million) relating to interest rate swaps hedging the fair value of loans and bonds was released against extraordinary income. Hedged loans were revalued by CZK 19 million against extraordinary income. The net effect of this change is CZK (21 million).

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 m
	Pretax effects of changes in accounting policies included in extraordinary income before taxation:	
i)	Release of provisions to securities	124
ii)	Remeasurement of securities at fair value	(16)
iii)	Reclassification to income due to impact of hedge accounting	(21)
	Total pretax effect of changes in accounting policies driven by law	87

The changes in accounting policies on 1 January 2001 were 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 6). The effect of this change is represented by reclassifications between balance sheet lines and a charge to provision for securities of CZK 121 million.

(ii) The derivative element embedded in a loan granted to a related party holding a portfolio of credit swaps (Note 25(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 million 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 2 million previously recorded in the hedging reserve, was charged to the income statement as at 1 January 2001.

(iv) The Bank changed its 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 million.

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

		2001
		CZK m
i)	New definitions of securities portfolios and their valuation	(121)
ii)	Separation and fair valuation of the embedded credit derivative	(78)
iii)	Hedging reserve of non-qualifying derivatives charged to expenses	(2)
	Total pretax effect of changes in accounting policies driven by law	(201)
iv)	Change in depreciation policy of the Bank for technical improvements on rented buildings	(3)
	Total pretax effect of changes in accounting policies	(204)

3 CASH AND DEPOSITS WITH CENTRAL BANKS

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Cash on hand	399	406	593
Obligatory reserves	1,373	500	789
Current accounts with central banks	39	82	101
	1,811	988	1,483

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 bear interest at the CZK repo rate, which was 2.00% p.a. at 31 December 2003 (31 December 2002: 2.75%; 31 December 2001: 4.75%).

4 DUE FROM BANKS

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Current accounts with banks	86	136	275
Term deposits with CNB	752	-	-
Term deposits with other banks	3,731	7,391	8,827
Standard loans to banks	431	315	301
Loans provided in reverse REPO transactions with CNB	12,368	13,068	10,879
	17,368	20,910	20,282

Related parties deposits	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Parent company (UCI)	3	-	-
Parent company (BGB)	-	2,445	378
Other parties	159	-	-
	162	2,445	378

5 DUE FROM CUSTOMERS

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Standard loans to companies and individuals	21,458	20,618	18,759
Consumer loans	145	63	50
Impaired loans to companies and individuals	1,543	1,844	371
Standard loans to municipalities	72	80	-
	23,218	22,605	19,180
Allowance for impaired loans (Note 10)	(432)	(363)	(204)
	22,786	22,242	18,976

In addition to the allowance for impaired loans the Bank has reflected a general tax-deductible provision for loans of CZK 410 million at 31 December 2003 (31 December 2002: CZK 536 million, 31 December 2001: CZK 539 million). This provision has to be utilised or written back to income by 31 December 2005 (Note 2(o), Note 10).

The Bank restructured CZK 134 million of its loans and receivables in 2003 (31 December 2002: CZK 263 million; 31 December 2001: CZK 165 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. 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.

As at 31 December 2003 the Bank led syndicate loans of CZK 167 million (31 December 2002: CZK 397 million; 31 December 2001: CZK 633 million).

In 2000 the Bank provided to a related party incorporated abroad a five year loan of USD 11 million due in 2005. Underlying this loan was a portfolio of credit default swaps on reference assets with aggregate nominal value of USD 43 million of which the Bank's investment was equal to the loan provided. The loan could be terminated before the original maturity date in the event of a credit default of any one of the reference assets. 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 was equivalent to the aggregate market values of the individual credit default swaps comprising the portfolio. The derivative element embedded in this loan was separated out of the host contract and included at fair value under Other liabilities (Note 15) as at 31 December 2002 and 2001 with changes in fair value being included in Gains less losses from financial transactions (Note 21) for the years then ended.

Since 11 February 2003 the company is no longer a related party for the Bank. Continuance of the loan arrangement was also subject to an early termination option held by the Bank (Note 25(d)) and BGB, both of which could be exercised and the arrangement subsequently terminated within three months after the Bank's share transfer agreement between BGB and UCI becomes effective. In April 2003, the Bank exercised this option and terminated the deal at the prevailing market value.

(a) Quality of loan portfolio

Loans are categorised in accordance with the definitions issued by the CNB in five categories (standard, watch, substandard, doubtful, loss). Impaired 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. Watch loans are usually overdue between 30 – 90 days or other risks characteristic are presented. Administration of impaired receivables, including their recovery, is performed by a separate department in the Bank. The Bank does not apply a portfolio approach to the categorisation of receivables. Each receivable is considered individually, as is also the case for the creation of provisions.

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Standard	21,675	20,761	18,809
Watch	1,093	1,198	83
Substandard	132	403	60
Doubtful	86	100	72
Loss	232	143	156
	23,218	22,605	19,180

The Bank accepts collaterals for loans, but they are not taken into account for categorisation of the loans.

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

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Accepted undertakings	5,025	5,367	5,050
Cash	272	271	315
Securities	1,342	1,144	241
Land and buildings	9,092	7,579	7,047
Other assets	8,372	9,538	12,534
	24,103	23,899	25,187

(b) Loans to related parties and major shareholders

Standard loans to companies and individuals include the following loans to related parties:

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Subsidiary undertakings:			
ŽB - Trust, investiční společnost, a.s.	-	-	256
ŽB - Asset Management, a.s.	-**	-	254
Associated undertakings:			
Český leasing, spol. s r.o.	n/a*	327	518
Other related persons:			
Board of Directors of the Bank	-	1	1
Supervisory Board of the Bank	2	1	1
Other members of management	21	9	8
Funds under management of ŽB - Trust, investiční společnost, a.s.	2	-	-
Companies in the group (UCI)	165	-	-
Companies in the group (BGB)	-	320	385
Total loans to related parties	190	658	1,423

* n/a – not applicable

** from 22 December 2003 the company is not a subsidiary (Note 7(b))

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.

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 total sales contract value with ŽB - Trust, investiční společnost, a.s. was CZK 256 million and with ŽB - Asset Management, a.s. CZK 128 million.

In 2001, 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.

6 SECURITIES

	Bonds and similar debt securities at 31 December			Shares, mutual share and other interest equity securities at 31 December		
	2003	2002	2001	2003	2002	2001
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Trading	4,800	5,009	6,310	-	-	-
Available for sale	771	1,370	1,933	22	21	123
	5,571	6,379	8,243	22	21	123

(a) Trading securities

Debt securities

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
State treasury bills	1,377	1,428	2,823
Main or auxiliary market of recognised stock exchanges	3,423	3,581	3,487
	4,800	5,009	6,310

The book value of securities at 31 December 2001 was acquisition cost less provision (CZK 5 million) (Note 10). The fair value of these securities was CZK 6,318 million at this date.

Trading securities at 31 December 2003 include CZK 163 million of bonds issued by the parent company recognised at fair value (31 December 2002 and 2001: CZK 0 million).

(b) Securities available-for-sale

Bonds and similar debt securities

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Main or auxiliary market of recognised stock exchanges	771	1,370	1,933
Unquoted	-	-	-*
	771	1,370	1,933

* Unquoted securities represent CZK 72 million and 100% provision has been created for them.

The book value of securities at 31 December 2001 was acquisition cost less provision (CZK 102 million) (Note 10). The fair value of these securities was CZK 2,032 million at this date.

Shares and similar equity securities

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Traded on main or auxiliary market of recognised stock exchanges			
Open mutual funds	12	11	15
Equity indices	-	-	110
Not traded on main or auxiliary market of recognised stock exchanges			
Joint stock company	10	10	15
Limited liability and other companies	-	19	19
	22	40	159
Provision for diminution in value (Note 10)	-	(19)	(36)
Net value	22	21	123

Securities available-for-sale at 31 December 2003 include securities at fair value of CZK 12 million, which were issued by subsidiary or associated undertakings (at 31 December 2002: CZK 11 million, at 31 December 2001: CZK 13 million).

Provision of CZK 19 million at 31 December 2002 relates to an interest in a company, which was not a joint stock company and was not subsidiary or associate. The company has been dissolved in 2003.

The book value of securities at 31 December 2001 was acquisition cost less provision (CZK 36 million) (Note 10). The fair value of these securities was CZK 123 million at this date.

(c) Securities held-to-maturity

At 31 December 2003, 2002, 2001 the Bank has no securities in a held to maturity portfolio.

7 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

(a) Investments in associated undertakings

The Bank sold its only interest in associated undertaking, Český leasing, spol. s r.o., to Deutsche Sparkassen Leasing AG&Co. KG as at 14 July 2003 for CZK 72 million.

At 31 December 2002 and 2001

Name, registered office and major business	At cost	Nominal value	Equity	Shareholding
	CZK m	CZK m	CZK m	%
Český leasing, spol. s r. o.				
Nádražní 23, 151 34 Praha 5				
Financial and operating leasing	39	37	148	25

(b) Investments in subsidiary undertakings

At 31 December 2003

Name, registered office and major business	Number of shares	At cost	Nominal value	Equity	Share capital	Shareholding
	No.	CZK m	CZK m	CZK m	CZK m	%
ŽB - Trust, investiční společnost, a.s.						
Na Příkopě 15, 110 00 Praha 1;						
Collective investment	20	5	20	57	20	100
Zivnostenska Finance B. V.						
Haaksbergweg Zuidoost, The Netherlands;						
Provision of financial services						
and investment activities	n/a*	1	1	-	1	100
		6	21			
Provision for diminution in value (Note 10)		(1)				
Net value		5				

* n/a – not applicable

The Bank sold its interest in ŽB - Asset Management, a.s. to a related party, Pioneer Global Asset Management SpA, as at 22 December 2003. The selling price was CZK 27 million.

At 31 December 2002

Name, registered office and major business	Number of shares	At cost	Nominal value	Equity	Share capital	Shareholding
	No.	CZK m	CZK m	CZK m	CZK m	%
ŽB - Trust, investiční společnost, a.s.	20	5	20	137	20	100
ŽB - Asset Management, a.s Na Příkopě 15, 110 00 Praha 1 Provision of main and supplementary investment services	54	28	27	24	27	100
Zivnostenska Finance B. V.	n/a*	1	1	-	1	100
		34	48			
Provision for diminution in value (Note 10)		(1)				
Net value		33				

* n/a – not applicable

At 31 December 2001

Name, registered office and major business	Number of shares	At cost	Nominal value	Equity	Share capital	Shareholding
	No.	CZK m	CZK m	CZK m	CZK m	%
ŽB - Trust, investiční společnost, a.s.	20	5	20	126	20	100
ŽB - Asset Management, a.s	54	11	10	32	10	100
Zivnostenska Finance B. V.	n/a*	1	1	-	1	100
		17	31			
Provision for diminution in value (Note 10)		(1)				
Net value		16				

* n/a – not applicable

Investments in subsidiary and associated undertakings comprise solely investments in common stock. Voting rights are equal to the shareholders in each company.

(c) Movements in investments in subsidiary and associated undertakings

The movements in investment in subsidiary and associated undertakings during 2003, 2002 and 2001 can be analysed as follows:

	Subsidiary undertakings		Associated undertakings	
	At cost	Nominal value	At cost	Nominal value
	CZK m	CZK m	CZK m	CZK m
At 1 January 2001	17	31	39	37
Provision	(1)	-	-	-
At 31 December 2001	16	31	39	37
Increase of share capital of ŽB - Asset Management, a.s.	17	17	-	-
At 31 December 2002	33	48	39	37
Sale of investment in ŽB - Asset Management, a.s.	(28)	(27)	-	-
Sale of investment in Český leasing, spol. s r.o.	-	-	(39)	(37)
At 31 December 2003	5	21	-	-

8 LONG TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

Long term intangible fixed assets

	31 December 2001	31 December 2002	Additions	31 December 2003
	CZK m	CZK m	CZK m	CZK m
Cost				
Software	532	579	40	619
Other	14	18	2	20
	546	597	42	639
Accumulated amortisation				
Software	448	495	46	541
Other	5	9	4	13
	453	504	50	554
Net book amount	93	93		85

Long term tangible fixed assets

	31 December 2001	31 December 2002	Additions	Disposals	31 December 2003
	CZK m	CZK m	CZK m	CZK m	CZK m
Cost					
Land and works of art	44	45	-	-	45
Buildings	1,593	1,583	1	8	1,576
Equipment	1,068	1,087	49	9	1,127
Assets in course of construction and advances granted	7	9	13	-	22
	2,712	2,724	63	17	2,770
Accumulated depreciation					
Buildings	364	431	76	8	499
Equipment	704	804	133	9	928
	1,068	1,235	209	17	1,427
Net book amount	1,644	1,489			1,343

Long term fixed assets held under finance lease contracts

The Bank does not hold any assets under finance lease contracts.

Assets under charge

At 31 December 2003, 2002, 2001 there were no long-term fixed assets provided by the Bank as security.

9 OTHER ASSETS

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Receivables from securities transactions	1	1	1
Operating advances granted	69	48	67
Settlement clearance accounts	1	1	31
Derivative financial instruments (Note 25(d))	111	136	206
Other receivables	80	48	126
	262	234	431

Derivative financial instruments as at 31 December 2003 includes CZK 18 million due from related parties (31 December 2002: CZK 56 million; 31 December 2001: CZK 36 million).

10 ALLOWANCES, PROVISIONS AND WRITE OFFS

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

Provisions	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
General provisions for loans (Note 5)	410	536	539
Specific provisions for guarantees (Note 17)	8	12	16
Others	85	84	74
	503	632	629
Allowances			
Impaired loans to customers (Note 5)	432	363	204
Trading securities (Note 6(a))	-	-	5
Securities and shares available-for-sale (Note 6(b))	-	19	138
Investments (Note 7)	1	1	1
	433	383	348

The movements in provisions can be analysed as follows:

	General provisions for loans	Specific provisions for guarantees	Others provisions	Total provisions
	CZK m	CZK m	CZK m	CZK m
At 1 January 2001	443	17	71	531
Additions	192	-	3	195
Usage	(3)	(1)	-	(4)
Release	(93)	-	-	(93)
At 31 December 2001	539	16	74	629
Additions	-	-	11	11
Usage	(3)	(3)	-	(6)
Release	-	(1)	(1)	(2)
At 31 December 2002	536	12	84	632
Additions	-	-	1	1
Release	(126)	(4)	-	(130)
At 31 December 2003	410	8	85	503

The movements in allowances can be analysed as follows:

	Impaired loans to customers CZK m	Trading securities CZK m	Available-for-sale securities CZK m	Investments in affiliates CZK m
At 1 January 2001	270	5	-	175
Transfer	-	-	171*	(171)
Additions	47	118	405	1
Usage	(4)	-	-	-
Release	(98)	(118)	(428)	(4)
Foreign exchange adjustment	(11)	-	(10)	-
At 31 December 2001	204	5	138	1
Additions	213	-	-	-
Usage	-	(5)	-	-
Fair value revaluation	-	-	(119)	-
Release	(49)	-	-	-
Foreign exchange adjustment	(5)	-	-	-
At 31 December 2002	363	-	19	1
Additions	204	-	-	-
Usage	-	-	(19)	-
Release	(134)	-	-	-
Foreign exchange adjustment	(1)	-	-	-
At 31 December 2003	432	-	-	1

* Provision related to securities, which were transferred from investments in subsidiary and associated undertakings to Available for sale portfolio according to changes in accounting policies (Note 2(w)) as at 1 January 2002.

Write-offs and recovery of amounts written off previously

	2003	2002	2001
	CZK m	CZK m	CZK m
Amounts due from clients written off	-	(13)	(8)
Recovery of amounts written off previously	-	9	8
Net loss amounts written off	-	(4)	-

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.

11 DUE TO BANKS

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Due to other banks	4,766	7,976	5,819

Deposits from related parties

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Parent company (UCI)	4	-	-
Parent company (BGB)	-	293	-
	4	293	-

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.

12 DUE TO CUSTOMERS

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Amounts due to governmental entities	3,312	6,009	2,693
Amounts due to municipalities	18	34	33
Amounts due to private customers	31,387	30,375	35,331
	34,717	36,418	38,057

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Liabilities repayable on demand	15,162	16,378	12,810
Term accounts for fixed term	16,189	17,326	21,913
Term accounts with fixed notice period	1,453	1,550	1,761
Accepted Loans	1,693	84	1,114
Other	220	1,080	459
	34,717	36,418	38,057

Deposits from related parties

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Subsidiary undertakings	39	10	59
Companies in UCI group	128	n/a*	n/a*
Funds under control of ŽB - Trust, investiční společnost, a.s.	284	669	341
Board of Directors	10	11	12
Supervisory Board	2	1	-
Other management	22	13	10
	485	704	422

* n/a – not applicable

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.

13 LIABILITIES FROM DEBT SECURITIES

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Mortgage backed securities	746	-	-
Promissory notes and bills of exchange	2,667	2,708	2,457
Debt securities sold not yet purchased (i.e. short sales)	751	-	-
	4,164	2,708	2,457

14 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. In February 2003 the subordinated debt was taken over under the same terms and conditions by UCI from BGB.

15 OTHER LIABILITIES

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Payables from unsettled securities transactions	12	-	41
Settlement clearance accounts	767	603	447
Derivative financial instruments (Note 25(d))	201	352	284
Current income tax liability	139	4	-
Social fund	2	3	3
	1,121	962	775

The item Derivative financial instruments as at 31 December 2003 includes balances with related parties of CZK 18 million (31 December 2002: CZK 264 million; 31 December 2001: CZK 168 million).

16 EQUITY AND PROFIT DISTRIBUTION

Share capital

Issued and paid share capital of CZK 1,360 million is represented by 1,360,410 shares of a nominal value of CZK 1,000 per share.

Issues of shares

ISIN	Date of issue	Date of registration	Nominal value of share	Number of shares	Nominal value
			CZK	pieces	CZK m
CZ0008002557	17 April 1992	24 May 1993	1,000	633,407	633
CZ0008002557	17 April 1992	30 August 1993	1,000	727,003	727
					1,360

Shareholders and shares

Name and registered office	31 December 2003 %	31 December 2002 %	31 December 2001 %
Unicredito Italiano SpA	97.70	0.00	0.00
Bankgesellsschaft Berlin AG, Alexanderplatz 2, Berlin	0.00	85.16	85.16
Stroden Management limited, Parou 1A, 6035 Larnaca, Cyprus	0.00	0.00	7.88
Credit Suisse Life & Pensions penzijní fond, a.s., Starobrněnská 335, 602 00 Brno	0.00	7.94	0.00
Other shareholders holding individually less than 5% of share capital	2.30	6.90	6.96
	100.00	100.00	100.00

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

	31 December 2003 pieces	31 December 2002 pieces	31 December 2001 pieces
Board of Directors	-	13	13
Other management	137	41	42
	137	54	55

At 31 December 2002 and 2001, shares of the Bank were traded on public markets (i.e. Prague Stock Exchange and RM-System). In December 2003, based on the proposal of the major shareholder, trading of shares on public markets was excluded.

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 net profit for 2003 is proposed to be allocated, as follows:

	2003
	CZK m
Social fund contributions (Note 15)	7
Retained earnings	255
	262

Social fund contributions are not charged to the income statement in accordance with Czech accounting rules. Allocation of 2002 and 2001 profits is shown in the Statement of changes in equity.

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

	2003	2002	2001
Net profit attributable to shareholders (in CZK m)	255	92	149
Number of ordinary shares in issue (in thousand pieces)	1,360	1,360	1,360
Basic earnings per share (in CZK)	187.50*	67.65	109.56

* In December 2003, these shares were excluded from trading on public markets according to the proposal of the major shareholder.

17 CONTINGENCIES AND COMMITMENTS

Commitments to provide a loan, loan guarantees to third parties, guarantees from acceptance of bills of exchange and letters of credit expose the Bank to credit risk and to loss in the event of a client's inability to meet his obligations. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit, interest rate and liquidity risk.

The Bank is the subject of several legal disputes. At 31 December 2003 a provision of CZK 50 million (31 December 2002: CZK 50 million; 31 December

2001: CZK 40 million) was made on the basis of the Bank's assessment of the expected outcome of these legal disputes.

Contingent liabilities include:

	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m
Commitments	11,647	8,428	7,985
Guarantees granted on behalf of:			
Customers	1,442	1,301	814
Letters of credit	26	56	13
Total value of guarantees	1,468	1,357	827
Provision for guarantees granted (Note 10)	(8)	(12)	(16)
Net value	1,460	1,345	811

Contingent assets include the following balances with related parties:

	Loan commitments			Guarantees granted		
	31 December 2003	31 December 2002	31 December 2001	31 December 2003	31 December 2002	31 December 2001
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Subsidiaries	-	-	6	-	2	2
Associates	n/a*	333	86	-	-	-
Management	2	1	1	1	-	2
Companies in UCI group	123	n/a*	n/a*	2	n/a*	n/a*
	125	334	93	3	2	4

*n/a – not applicable

At 31 December 2003, 2002 and 2001 the Bank had no assets placed in custody or under management of a third party.

	31 December 2003 CZK m	31.December 2002 CZK m	31 December 2001 CZK m
Assets under custody			
Shares and mutual shares	391	234	*
Other	3,564	2,727	*
	3,955	2,961	2,940
Assets under management			
Shares and mutual shares	467	688	-
Bonds	5,455	3,940	-
Other	584	81	-
	6,506	4,709	-

* The Bank's system is not able to provide the historical split for 2001, which was not required prior to 2002.

These assets are generally measured at fair value at the inception date.

Management considers that no present obligations were associated with these fiduciary duties at 31 December 2003.

Assets purchased under resale agreements (Reverse Repo transaction)

	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2001 CZK m
Bonds	12,155	12,891	10,789

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

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 2003 was CZK 24,983 million (31 December 2002: CZK 15,237 million, 31 December 2001:

CZK 14,203 million). Management considers that no present obligations were associated with these fiduciary duties at 31 December 2003.

Capital expenditures

At 31 December 2003, the Bank had contractual commitments for capital expenditure of CZK 32 million (31 December 2002: CZK 3 million; 31 December 2001: CZK 1 million).

18 INTEREST RECEIVABLE AND SIMILAR INCOME

	2003	2002	2001
	CZK m	CZK m	CZK m
Interest on inter-bank transactions	405	682	1,154
Interest on loans to customers and state	955	1,121	1,329
Interest and discount on debt securities	214	315	678
Interest from financial derivatives	10	17	118
	1,584	2,135	3,279

For the year ended 31 December 2003, no interest income on impaired loans was recognised in the income statement (2002: CZK 1 million, 2001: CZK 0 million). Unrecognised penalty interest income outstanding on impaired loans at 31 December 2003 was CZK 2 million (31 December 2002: CZK 1 million, 31 December 2001: CZK 2 million).

At 31 December 2003, 2002, 2001 the cumulative amount of penalty interest had not been forgiven.

19 INTEREST PAYABLE AND SIMILAR EXPENSE

	2003	2002	2001
	CZK m	CZK m	CZK m
Interest on inter-bank transactions	222	306	997
Interest on deposits from customers and state	457	780	1,157
Interest and discount on issued certificates of deposit	20	25	25
Interest and discount on issued mortgage backed securities	5	-	-
Interest from financial derivatives	25	63	116
Interest and discount on other financial transactions	-	-	20
	729	1,174	2,315

20 COMMISSION AND FEE INCOME

	2003	2002	2001
	CZK m	CZK m	CZK m
Domestic and foreign countries payments	99	95	92
Loans	69	61	54
Transactions with cards	33	31	26
Cash and checks	22	30	30
Maintenance of accounts	29	25	22
Custody fee income	22	17	22
Guarantees	13	10	7
Brokerage from purchase and sale of securities and derivatives	23	7	7
Trade finance	4	4	5
Direct banking	7	5	4
Other	2	-	-
	323	285	269

21 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

	2003 CZK m	2002 CZK m	2001 CZK m
Realised gains less losses from the sale of securities in trading portfolio	35	15	131*
Realised gains less losses from the sale of securities in available-for-sale portfolio	(48)	(14)	-
Gains less losses from foreign currency transactions	51	9	23
Other foreign exchange differences	176	190	202
Realised gains less losses from other transactions derivates	27	(110)	18
	241	90	374

* In 2001 new definitions for portfolios of securities, rules for transfers between portfolios and valuation on individual bases (trading securities, securities held-to-maturity, securities available-for-sale) have been set. Due to this fact the Bank is not able to split the result of realised gains and losses from the sale of securities according to individual portfolios. Therefore it is shown within the realised gains less losses from the sale of securities in the trading portfolio.

22 OTHER OPERATING INCOME

	2003	2002	2001
	CZK m	CZK m	CZK m
Gains on sale of subsidiaries and associates	40	-	-
Income from sale of intangible assets	7	12	-
Other income	13	32	19
	60	44	19

23 ADMINISTRATIVE EXPENSES

	2003	2002	2001
	CZK m	CZK m	CZK m
Staff costs	457	431	391
Rent and lease charges	42	42	43
Audit, tax and legal advisory services	9	11	11
Other consulting	30	13	34
Advertising & representation	56	72	84
Information technology	75	83	83
Telecommunications	62	60	60
Stationery and similar expenses	37	43	39
Consumption of material, fuel & energy	32	33	34
Consumption of low value fixed assets	8	7	10
Other administration expenses	67	60	65
Total	875	855	854
Insurance of clients' deposits and contribution to Guarantee fund	28	30	100
Other operating expenses	12	-	1
Total other operating expenses	40	30	101

Staff costs can be analysed as follows:

	2003	2002	2001
	CZK m	CZK m	CZK m
Emoluments of Board of Directors	21	18	26
Emoluments of Supervisory board	1	1	1
Management	40	16	19
Other wages, personnel costs and emoluments of employees	283	289	249
Social security and health insurance	112	107	96
	457	431	391

Staff statistics

	2003	2002	2001
Average number of employees	799	794	774
Number of members of the Board of Directors	3	5	5
Number of members of the Supervisory Board	8	6	6

24 TAXATION

	2003	2002	2001
	CZK m	CZK m	CZK m
Profit before taxation	397	104	156
Permanent differences between profit and tax base:			
Non-taxable income	(86)	(45)	(768)
Non-deductible expenses	122	45	598
Net taxable profit/(loss)	433	104	(14)
10% investment relief	(2)	(11)	-
Utilised losses brought forward	-	(78)	-
Deductible gifts	-	(1)	-
Adjusted tax base	431	14	-
31% corporate tax charge	133	4	-
Additional tax charge for the year 2002	2	-	-
Total	135	4	-
Deferred income tax liabilities			
Accelerated tax depreciation	(11)	(20)	(21)
Deferred income tax assets			
Loan loss provisions	39	48	19
Other provisions	-	-	44
Tax loss carry forwards	-	-	28
Expenses tax-deductible on cash flow basis	5	-	-
	44	48	91
Potential net deferred tax asset	33	28	70

The potential deferred tax asset has been decreased by CZK 11 million at 31 December 2003 due to a change in the corporate tax rate in future years in which such an asset may be realised.

A deferred tax asset of CZK 33 million at 31 December 2003 (31 December 2002: CZK 28 million) on unutilised tax losses, non-deductible provision and reserves has not been recognised as it is not probable, that it will be utilised in the future.

A deferred tax asset of CZK 70 million at 31 December 2001 on unutilised tax losses, non-deductible provision and reserves was not recognised as it was not beyond reasonable doubt that future taxable profit would be available against which the unused tax credits could be utilised.

25 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.

Geographical segmentation

At 31 December 2003

	Domestic	European union	Other Europe	Other	Total
	CZK m	CZK m	CZK m	CZK m	CZK m
Cash and balances with central bank	1,811	-	-	-	1,811
Due from banks	14,628	1,260	1,266	214	17,368
Due from customers	21,901	114	667	104	22,786
Trading securities	1,411	3,066	65	258	4,800
Securities available-for-sale	537	-	256	-	793
Investments	5	-	-	-	5
Other assets	1,697	25	1	-	1,723
	41,990	4,465	2,255	576	49,286

At 31 December 2002

	Domestic	European union	Other Europe	Other	Total
Cash and balances with central bank	988	-	-	-	988
Due from banks	13,294	5,926	1,533	157	20,910
Due from customers	17,982	3,156	1,074	30	22,242
Trading securities	1,483	2,610	455	461	5,009
Securities available-for-sale	629	305	407	50	1,391
Investments	33	39	-	-	72
Other assets	1,749	86	2	-	1,837
	36,158	12,122	3,471	698	52,449

At 31 December 2001	Domestic	European union	Other Europe	Other	Total
	CZK m	CZK m	CZK m	CZK m	CZK m
Cash and balances with central bank	1,483	-	-	-	1,483
Due from banks	11,672	7,409	941	260	20,282
Due from customers	15,429	2,786	721	40	18,976
Trading securities	2,880	2,485	474	471	6,310
Securities available-for-sale	674	428	924	30	2,056
Investments	16	39	-	-	55
Other assets	1,997	175	11	7	2,190
	34,151	13,322	3,071	808	51,352

Business segmentation

At 31 December 2003	Retail banking	Corporate banking	Investment banking	Other	Total
Assets	CZK m	CZK m	CZK m	CZK m	CZK m
Cash and balances with central bank	-	-	1,412	399	1,811
Due from banks	-	-	17,368	-	17,368
Due from customers	2,150	20,636	-	-	22,786
Trading securities	-	118	4,682	-	4,800
Securities available-for-sale	-	537	256	-	793
Investments	-	5	-	-	5
Other assets	18	91	29	1,585	1,723
	2,168	21,387	23,747	1,984	49,286

Assets	Retail banking CZK m	Corporate banking CZK m	Investment banking CZK m	Other CZK m	Total CZK m
At 31 December 2002					
Cash and balances with central bank	-	-	583	405	988
Due from banks	-	-	20,910	-	20,910
Due from customers	1,178	21,064	-	-	22,242
Trading securities	-	243	4,766	-	5,009
Securities available-for-sale	-	1,077	314	-	1,391
Investments	-	72	-	-	72
Other assets	38	99	48	1,652	1,837
	1,216	22,555	26,621	2,057	52,449
At 31 December 2001					
Cash and balances with central bank	-	-	890	593	1,483
Due from banks	-	-	20,282	-	20,282
Due from customers	569	18,407	-	-	18,976
Trading securities	-	311	5,999	-	6,310
Securities available-for-sale	-	1,240	816	-	2,056
Investments	-	55	-	-	55
Other assets	31	167	255	1,737	2,190
	600	20,180	28,242	2,330	51,352

(c) Market risk

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

The Bank started been using “Value at Risk” (“VaR”) during the second half of year 2003 as a tool for estimating market risk of all open positions. The estimation is based on several assumptions of changes of market conditions. The Board of Directors sets the limits of maximum acceptable risk. The limits are monitored on a daily basis.

Daily VaR is considered to be an estimate of the potential loss with a 99% confidence level on the assumption that the actual position will not be changed in the following working day. The value of VaR is thus the value of loss, which the

Bank can incur within one day and with a 99% probability the loss will not be higher than the VaR calculated. The Bank uses a methodology based on historical simulation for the VaR calculation. The calculation is set up in such a way, that a daily loss exceeding the VaR will not occur (on average) more frequently than each 100th working day. Daily revaluation of portfolios is compared to VaR on a daily basis (so-called “back testing”) with the purpose of potential re-calibration of parameters of the VaR model.

The Bank performs stress testing for main trading currencies (CZK, USD, EUR) on parallel shift of the yield curve by 2%. The Bank also performs stress testing describing foreign currency shocks, if exchange rates change by 3%.

(d) Derivative financial instruments

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

	31 December 2003			31 December 2002			31 December 2001		
	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 m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Trading derivatives									
Interest rate derivatives									
Forwards	6,853	6	10	7,569	25	2	6,441	10	2
Swaps	3,826	20	120	3,014	62	160	1,998	71	65
	10,679	26	130	10,583	87	162	8,439	81	67
Foreign exchange derivatives									
Forwards	1,387	56	2	1,262	31	5	868	16	15
Swaps	4,836	29	54	3,761	16	55	5,085	104	89
	6,223	85	56	5,023	47	60	5,953	120	104
Credit derivatives									
Embedded derivative	-	-	-	320	-	102	385	-	70
Option purchased	-	-	-	320	-	-	-	-	-
Option sold	-	-	-	(320)	-	-	-	-	-
	-	-	-	320	-	102	385	-	70
Total	16,902	111	186	15,926	134	324	14,777	201	241

Changes in fair value of trading derivatives are 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.

	31 December 2003			31 December 2002			31 December 2001		
	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 m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Fair value hedging derivatives									
Interest rate derivatives									
Swaps	304	-	15	449	2	28	1,771	5	43

Changes in 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 within interest on loans to customers and state (Note 18).

(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.

Other assets includes also prepayments and accrued income. The item Other liabilities includes Other liabilities, Accruals and deferred income and Provisions.

The VaR amount for foreign currency risk for all open foreign currency positions was CZK 1 million as of 31 December 2003. The average VaR amount for foreign currency risk for the period from 1 July 2003 to 31 December 2003 was CZK 1 million. Comparative amounts are not available.

As at 31 December 2003

Assets	CZK CZK m	EUR CZK m	USD CZK m	SKK CZK m	GBP CZK m	Other CZK m	Total CZK m
Cash and balances with central bank	1,664	61	42	7	11	26	1,811
Due from banks	13,730	986	2,158	89	11	394	17,368
Due from customers	18,808	3,042	599	-	36	301	22,786
Trading securities	1,486	1,838	1,015	-	461	-	4,800
Securities available-for-sale	22	-	771	-	-	-	793
Investments	5	-	-	-	-	-	5
Other assets	1,665	52	5	-	-	1	1,723
	37,380	5,979	4,590	96	519	722	49,286
Liabilities							
Due to banks	3,377	681	51	-	76	581	4,766
Due to customers	23,239	5,746	4,620	71	423	618	34,717
Liabilities from debt securities	3,445	349	289	24	57	-	4,164
Subordinated liabilities	1,000	-	-	-	-	-	1,000
Provisions	503	-	-	-	-	-	503
Other liabilities	3,736	278	113	-	2	7	4,136
	35,300	7,054	5,073	95	558	1,206	49,286
Net assets/(liabilities)	2,080	(1,075)	(483)	1	(39)	(484)	-
Net off-balance sheet assets from spot transactions and term instruments	(2,030)	1,011	535	(1)	43	475	33
Net open currency position	50	(64)	52	-	4	(9)	33

As at 31 December 2002

Assets	CZK CZK m	EUR CZK m	USD CZK m	SKK CZK m	GBP CZK m	Other CZK m	Total CZK m
Cash and balances with central bank	817	90	46	2	10	23	988
Due from banks	15,730	2,130	2,400	164	30	456	20,910
Due from customers	17,174	3,355	1,452	64	27	170	22,242
Trading securities	1,577	1,657	1,288	-	487	-	5,009
Securities available-for-sale	21	1	1,369	-	-	-	1,391
Investments	72	-	-	-	-	-	72
Other assets	1,800	12	24	-	-	1	1,837
	37,191	7,245	6,579	230	554	650	52,449
Liabilities							
Due to banks	5,099	404	2,162	151	88	72	7,976
Due to customers	23,640	5,883	5,746	69	441	639	36,418
Liabilities from debt securities	2,195	205	308	-	-	-	2,708
Subordinated liabilities	1,000	-	-	-	-	-	1,000
Provisions	632	-	-	-	-	-	632
Other liabilities	3,256	160	284	1	5	9	3,715
	35,822	6,652	8,500	221	534	720	52,449
Net assets/(liabilities)	1,369	593	(1,921)	9	20	(70)	-
Net off-balance sheet assets from spot transactions and term instruments	(1,320)	(644)	1,886	(9)	1	70	(16)
Net open currency position	49	(51)	(35)	-	21	-	(16)

As at 31 December 2001

Assets	CZK CZK m	EUR CZK m	USD CZK m	SKK CZK m	GBP CZK m	Other CZK m	Total CZK m
Cash and balances with central bank	1,181	225	47	-	8	22	1,483
Due from banks	12,779	3,632	3,488	20	36	327	20,282
Due from customers	14,203	3,248	1,136	101	60	228	18,976
Trading securities	2,987	1,470	1,590	-	263	-	6,310
Securities available-for-sale	23	273	1,691	-	69	-	2,056
Investments	55	-	-	-	-	-	55
Other assets	2,028	103	52	-	3	4	2,190
	33,256	8,951	8,004	121	439	581	51,352
Liabilities							
Due to banks	3,352	1,363	1,104	-	-	-	5,819
Due to customers	22,487	6,596	7,788	7	476	703	38,057
Liabilities from debt securities	2,213	113	131	-	-	-	2,457
Subordinated liabilities	1,000	-	-	-	-	-	1,000
Provisions	629	-	-	-	-	-	629
Other liabilities	3,058	131	171	16	6	8	3,390
	32,739	8,203	9,194	23	482	711	51,352
Net assets/(liabilities)	517	748	(1,190)	98	(43)	(130)	-
Net off-balance sheet assets from spot transactions and term instruments	(388)	(804)	1,119	(101)	41	148	15
Net open currency position	129	(56)	(71)	(3)	(2)	18	15

(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.

The VaR amount for interest rate risk of the trading book was CZK 3 million as of 31 December 2003. The average VaR amount for interest rate risk of the trading book for the period from 1 July 2003 to 31 December 2003 was CZK 4 million. Comparative amounts are not available.

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

At 31 December 2003

	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Unspecified	Total
Assets	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Deposits with central bank	-	-	-	-	1,811	1,811
Due from banks	16,543	825	-	-	-	17,368
Due from customers	12,173	7,489	2,887	405	(168)*	22,786
Trading securities	3,862	846	58	34	-	4,800
Securities available-for-sale	-	256	515	-	22	793
Investments	-	-	-	-	5	5
Other assets	43	16	55	-	1,609	1,723
	32,621	9,432	3,515	439	3,279	49,286
Liabilities						
Due to banks	3,816	728	222	-	-	4,766
Due to customers	34,036	444	16	-	221	34,717
Liabilities from debt securities	3,418	-	746	-	-	4,164
Subordinated liabilities	1,000	-	-	-	-	1,000
Provisions	-	-	-	-	503	503
Other liabilities	34	40	116	12	3,934	4,136
	42,304	1,212	1,100	12	4,658	49,286
Net assets/(liabilities)	(9,683)	8,220	2,415	427	(1,379)	-
Net off-balance sheet assets from spot transactions and term instruments	2,122	126	(2,137)	(78)	-	33
Net open position	(7,561)	8,346	278	349	(1,379)	33

* CZK (168 million) is stated net of an amount of CZK (432 million) representing allowance for impaired loans.

At 31 December 2002

Assets	Within 3 months CZK m	3 – 12 months CZK m	1 – 5 years CZK m	Over 5 years CZK m	Unspecified CZK m	Total CZK m
Deposits with central bank	582	-	-	-	406	988
Due from banks	20,207	703	-	-	-	20,910
Due from customers	16,641	3,840	1,460	486	(185)*	22,242
Debt securities	4,139	989	1,019	232	93	6,472
Other assets	41	45	51	-	1,700	1,837
	41,610	5,577	2,530	718	2,014	52,449
Liabilities						
Due to banks	5,695	2,050	231	-	-	7,976
Due to customers	35,763	546	26	-	83	36,418
Liabilities from debt securities	2,708	-	-	-	-	2,708
Subordinated liabilities	1,000	-	-	-	-	1,000
Provisions	-	-	-	-	632	632
Other liabilities	44	28	238	43	3,362	3,715
	45,210	2,624	495	43	4,077	52,449
Net assets/(liabilities)	(3,600)	2,953	2,035	675	(2,063)	-
Net off-balance sheet assets from spot transactions and term instruments	1,111	716	(1,450)	(393)	-	(16)
Net open position	(2,489)	3,669	585	282	(2,063)	(16)

* CZK (185 million) is stated net of an amount of CZK (363 million) representing allowance for impaired loans.

At 31 December 2001

Assets	Within 3 months CZK m	3 – 12 months CZK m	1 – 5 years CZK m	Over 5 years CZK m	Unspecified CZK m	Total CZK m
Deposits with central bank	890	-	-	-	593	1,483
Due from banks	17,736	2,546	-	-	-	20,282
Due from customers	14,299	2,354	1,834	487	2*	18,976
Debt securities	5,202	1,484	1,020	537	178	8,421
Other assets	118	32	57	1	1,982	2,190
	38,245	6,416	2,911	1,025	2,755	51,352
Liabilities						
Due to banks	4,379	1,143	297	-	-	5,819
Due to customers	34,560	783	15	-	2,699	38,057
Liabilities from debt securities	2,453	-	4	-	-	2,457
Subordinated liabilities	1,000	-	-	-	-	1,000
Provisions	-	-	-	-	629	629
Other liabilities	100	32	144	27	3,087	3,390
	42,492	1,958	460	27	6,415	51,352
Net assets/(liabilities)	(4,247)	4,458	2,451	998	(3,660)	-
Net off-balance sheet assets from spot transactions and term instruments	1,240	558	(1,059)	(724)	-	15
Net open position	(3,007)	5,016	1,392	274	(3,660)	15

* CZK 2 million is stated net of an amount of CZK (204 million) representing allowance for impaired loans.

The Bank monitors interest sensitivity of assets, liabilities and off balance sheet items over interest rate changes on models, that simulate shifts of yield curves by 1%.

(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.

In case of unexpected outflow of liquid resources, the Bank has a back up portfolio of highly liquid government bonds and back up liquidity line with its main shareholder.

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 2003

Assets	Within 3 months CZK m	3 – 12 months CZK m	1 – 5 years CZK m	Over 5 years CZK m	Unspecified CZK m	Total CZK m
Deposits with central bank	438	-	-	-	1,373	1,811
Due from banks	16,427	617	324	-	-	17,368
Due from customers	5,996	6,127	7,351	3,499	(187)*	22,786
Trading securities	844	1,203	2,427	326	-	4,800
Securities available-for-sale	-	256	515	-	22	793
Investments	-	-	-	-	5	5
Other assets	43	49	22	-	1,609	1,723
	23,748	8,252	10,639	3,825	2,822	49,286
Liabilities						
Due to banks	3,816	738	212	-	-	4,766
Due to customers	34,005	696	16	-	-	34,717
Liabilities from debt securities	3,418	-	746	-	-	4,164
Subordinated liabilities	-	-	-	1,000	-	1,000
Provisions	-	-	-	-	503	503
Other liabilities	59	37	101	4	3,935	4,136
	41,298	1,471	1,075	1,004	4,438	49,286
Net financial assets/(liabilities)	(17,550)	6,781	9,564	2,821	(1,616)	-

* CZK (187 million) is stated net of an amount of CZK (432 million) representing allowance for impaired loans.

At 31 December 2002

	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Unspecified	Total
Assets	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Deposits with central bank	488	-	-	-	500	988
Due from banks	20,128	545	237	-	-	20,910
Due from customers	5,191	5,943	8,725	2,572	(189)*	22,242
Debt securities	824	1,198	3,818	539	93	6,472
Other assets	41	45	58	1	1,692	1,837
	26,672	7,731	12,838	3,112	2,096	52,449
Liabilities						
Due to banks	5,695	2,060	221	-	-	7,976
Due to customers	35,726	666	26	-	-	36,418
Liabilities from debt securities	2,708	-	-	-	-	2,708
Subordinated liabilities	-	-	-	1,000	-	1,000
Provisions	-	-	-	-	632	632
Other liabilities	44	28	245	44	3,354	3,715
	44,173	2,754	492	1,044	3,986	52,449
Net financial assets/(liabilities)	(17,501)	4,977	12,346	2,068	(1,890)	-

* CZK (189 million) is stated net of an amount of CZK (363 million) representing allowance for impaired loans.

At 31 December 2001

Assets	Within 3 months CZK m	3 – 12 months CZK m	1 – 5 years CZK m	Over 5 years CZK m	Unspecified CZK m	Total CZK m
Deposits with central bank	694	-	-	-	789	1,483
Due from banks	17,520	2,650	112	-	-	20,282
Due from customers	5,159	4,404	7,160	2,251	2*	18,976
Debt securities	1,814	1,484	3,725	1,220	178	8,421
Other assets	102	32	68	6	1,982	2,190
	25,289	8,570	11,065	3,477	2,951	51,352
Liabilities						
Due to banks	4,379	1,155	285	-	-	5,819
Due to customers	37,102	816	15	-	124	38,057
Liabilities from debt securities	2,453	-	4	-	-	2,457
Subordinated liabilities	-	-	-	1,000	-	1,000
Provisions	-	-	-	-	629	629
Other liabilities	88	32	144	28	3,098	3,390
	44,022	2,003	448	1,028	3,851	51,352
Net financial assets/(liabilities)	(18,733)	6,567	10,617	2,449	(900)	-

* CZK 2 million is stated net of an amount of CZK (204 million) representing allowance for impaired loans

26 SUBSEQUENT EVENTS

On 7 January 2004 the Bank signed an agreement to sell its 100% share in the ŽB - Trust, investiční společnost, a.s. to Pioneer Global Asset Management SpA, a related party.

On 7 January 2004 the Bank sold its interest in ŽB - Trust, investiční společnost, a.s. to Pioneer Global Asset Management SpA, a related party. The selling price was CZK 4,735,800 per share. Total selling price was CZK 94 million.

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:

13 February 2004

REPORTOF INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ŽIVNOSTENSKÁ BANKA, A. S.

We have audited the accompanying consolidated balance sheet of Živnostenská banka, a. s. and its subsidiaries ("the Group") as at 31 December 2003, the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended ("consolidated financial statements") presented in the annual report of the Bank on pages 80 to 137. These consolidated financial statements 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 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, 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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2003, the results of its operations, its changes in shareholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

10 March 2004

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner and Auditor, Licence No. 1140

Consolidated Income Statement

	Notes	2003	2002
		Year ended 31 December	
		CZK million	CZK million
Interest income	5	1,584	2,125
Interest expense	5	(729)	(1,173)
Net interest income		**855**	**952**
Fee and commission income	6	401	397
Fee and commission expense	6	(38)	(44)
Net fee and commission income		**363**	**353**
Net trading income	7	289	122
Gains less losses from investment securities	8	(7)	7
Other operating income	9	24	45
Net operating income		**1,524**	**1,479**
Impairment losses on loans and advances	10	51	(82)
Loss on sale of discontinuing operations	2	-	-
Operating expenses	11	(1,262)	(1,277)
Profit from operations		**313**	**120**
Income tax expense	12	(146)	(7)
Net profit	13	**167**	**113**
Earnings per share (expressed in CZK per share)			
- basic and diluted	13	122.8	83.1

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

Consolidated Balance Sheet

	Notes	As at 31 December 2003	2002
		CZK million	CZK million
ASSETS			
Cash and balances with central bank	14	1,811	988
Treasury bills	15	1,377	1,428
Due from other banks	16	17,360	20,867
Trading securities	17	3,405	3,566
Derivative financial instruments	18	111	136
Loans and advances to customers	19	22,382	21,711
Investment securities	20	775	1,532
Intangible assets	21	90	99
Property, plant and equipment	21	1,346	1,495
Other assets	22	309	323
Current tax asset		4	4
Total assets		**48,970**	**52,149**
LIABILITIES			
Due to other banks	23	4,738	7,930
Other deposits		2,667	2,708
Derivative financial instruments and other trading liabilities	18	952	352
Debt securities in issue	24	740	-
Subordinated debt	25	1,000	1,000
Due to customers	26	34,667	36,388
Other liabilities	27	961	824
Current tax liability		135	4
Total liabilities		**45,860**	**49,206**
SHAREHOLDERS' EQUITY			
Ordinary shares (1,360,410 shares fully paid)		1,360	1,360
Retained earnings		662	495
Statutory reserve fund		277	277
Other reserves		811	811
Total shareholders' equity		**3,110**	**2,943**
Total shareholders' equity and liabilities		**48,970**	**52,149**

These consolidated financial statements have been approved for issue by the Board of Directors on 10 March 2004 and signed on its behalf by Mr Jiří Kunert, 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 in Changes in Shareholders' Equity

	Share capital	Statutory reserve fund	Other reserves	Retained earnings	Total equity
	CZK million	CZK million	CZK million	CZK million	CZK million
Balance at 1 January 2002	**1,360**	**277**	**811**	**382**	**2,830**
Net profit	-	-	-	113	113
Balance at 31 December 2002	**1,360**	**277**	**811**	**495**	**2,943**
Net profit	-	-	-	167	167
Balance at 31 December 2003	**1,360**	**277**	**811**	**662**	**3,110**

Nature and purpose of the reserve balances is presented in Note 28.

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

Consolidated Cash Flow Statement

	Notes	2003 CZK million	2002 CZK million
		Year ended 31 December	
Cash flows from operating activities			
Interest income receipts		1,584	2,331
Interest payments		(733)	(1,311)
Dividend receipts		-	-
Fee and commission receipts		363	370
Net trading and other income received		1,212	466
Recoveries on loans previously written off		-	9
Cash payments to employees and suppliers		(1,102)	(981)
Income taxes paid		(15)	(6)
Operating cash flows before changes in operating assets and liabilities		1,309	878
Changes in operating assets and liabilities:			
Net decrease in trading securities		234	993
Net (increase)/decrease in loans and advances to banks		(161)	1,941
Net (increase) in loans and advances to customers		(671)	(3,852)
Net decrease in other assets		18	38
Net (decrease)/increase in deposits from other banks		(3,233)	2,430
Net (decrease) in amounts due to customers		(1,721)	(1,467)
Net increase in other liabilities		137	68
Net cash (used in)/from operating activities		(4,088)	1,029
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(94)	(134)
Proceeds from sale of property, plant and equipment and intangible assets		9	13
Purchases of investment securities		(73)	(131)
Proceeds from sales and redemption of securities		830	799
Net cash from investing activities		672	547
Effect of exchange rate changes on cash and cash equivalents		(280)	(163)
Net (decrease)/increase in cash and cash equivalents		**(3,696)**	**1,413**
Cash and cash equivalents at beginning of year	32	21,395	19,982
Cash and cash equivalents at end of year	32	**17,699**	**21,395**

There was no cash flow from financing activities in 2003 and 2002. 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 regional branches. The representative office in Bratislava, Slovak Republic was closed as at 30 June 2003 due to restructuring of Unicredito Italiano SpA (hereinafter referred to as “UCI”) activities in Slovakia.

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 in inter-bank money market;
- providing foreign trade finance and related banking services;
- financial instruments trading and portfolio management.

These consolidated financial statements include the 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 Bank sold its interest in ŽB – Asset Management, a.s. to a related party, Pioneer Global Asset Management SpA (“PGAM”), with the effect from 30 December 2003 and subsequent to the year-end, on 7 January 2004, the interest in ŽB – Trust, investiční společnost, a.s. was also sold to PGAM (Note 2).

Since 11 February 2003 the Bank has been controlled by UCI. Until then the Bank had been controlled by Bankgesellschaft Berlin AG (hereinafter referred to as “BGB”).

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 (hereinafter referred to as “IFRS”) including International Accounting Standards (“IAS”) 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 millions 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., which is a wholly owned subsidiary of the Bank and the results of ŽB – Asset Management, a.s. which was a wholly owned subsidiary of the Bank until 30 December 2003.

(c) 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.

All resulting foreign exchange gains and losses are recognised in net trading income.

(d) 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.

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.

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 the income statement.

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

(e) 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 and other discounted instruments.

(f) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. 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.

(g) 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.

(h) 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 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.

(i) 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 2003 and 2002 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 information from market makers 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.

Interest earned whilst holding investment securities is reported as interest income.

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

(j) 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 the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each type of loan. 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.

(k) Property, plant and equipment and intangible assets

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

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

	Depreciation period (years)
Equipment	4 to 12
Software	2 to 5
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.

(l) 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 excluding mandatory reserve deposits, treasury bills, amounts due from other banks and trading securities except equities.

(m) 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.

(n) 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.

(o) 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.

(p) Leases

For operating leases, lease payments are recognised as an expense in the income statement over the lease term. The Group did not enter into any (material) finance lease contracts.

(q) 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.

(r) 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.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing specific 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% or more of all the segments are reported separately.

(t) Comparatives

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

2 DISCONTINUING OPERATIONS

The Group has two segments (Note 4). Asset management segment has been considered inconsistent with the strategy of the Bank. The Bank has decided, therefore, to dispose of the asset management segment. On 22 December 2003 the Bank sold its interest in ŽB - Asset Management, a.s. and on 7 January 2004 sold its interest in ŽB - Trust, investiční společnost, a.s. (Note 34) to related party Pioneer Global Asset Management SpA which is the holding company for UCI asset management activities.

The income, results and cash flows of the asset management segment were as follows:

	Discontinuing operations	
	Year ended 31 December	
	2003	2002
	CZK m	CZK m
Interest income	-	2
Fee and commission income	84	119
Fee and commission expense	(9)	(15)
Net trading income	-	18
Gains less losses from investment securities	1	14
Other operating income	3	2
Net operating income	**79**	**140**
Operating expenses	(80)	(91)
(Loss)/profit from operations	**(1)**	**49**
Income tax expense	(11)	(3)
Net (loss)/profit	**(12)**	**46**

The assets and liabilities of the asset management segment were as follows:

	31 December 2003	31 December 2002
	CZK m	CZK m
Total assets	66	183
Total liabilities	(10)	(32)
Net assets	56	151

The result of disposal of ŽB – Asset Management, a.s. was determined as follows:

	2003
	CZK m
Proceeds from sale	27
Cost of investment	(27)
Result of disposal	-
Tax thereon	-
After tax result on disposal	-

	2003	2002
	CZK m	CZK m
Cash flows from operating activities	(26)	60
Cash flows from investing activities	87	(80)
Cash flows from financing activities – intercompany dividend paid	(61)	-
Total cash flows	-	(20)

3 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 acceptances and letters of credit.

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 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 ("BIS"). These ratios measure capital adequacy (the required minimum is 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.

The Group's capital adequacy level was as follows:

	Capital		Capital adequacy	
	2003	2002	2003	2002
	CZK m	CZK m	%	%
CNB Capital Ratios - Czech GAAP				
Tier 1 capital	2,723	2,631	8.02	7.52
Tier 1 + Tier 2 capital	4,114	4,015	12.25	11.75
BIS Capital Ratios – IFRS				
Tier 1 capital	2,844	2,747	8.46	8.00
Tier 1 + Tier 2 capital	3,844	3,747	11.53	11.08

(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 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.

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.

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, 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.

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

As at 31 December 2003

	Total assets	Total liabilities	Credit commitments	Revenues	Capital expenditure
	CZK m	CZK m	CZK m	CZK m	CZK m
Czech Republic	41,674	45,111	11,386	n/a	124
Other OECD countries	6,297	3,020	250	n/a	-
Non – OECD Central and Eastern Europe countries	856	88	11	n/a	-
Other countries	143	751	-	n/a	-
	48,970	48,970	11,647	2,291*	124

As at 31 December 2002

	Total assets	Total liabilities	Credit commitments	Revenues	Capital expenditure
	CZK m	CZK m	CZK m	CZK m	CZK m
Czech Republic	35,857	45,897	7,540	n/a	129
Other OECD countries	15,520	5,455	888	n/a	-
Non – OECD Central and Eastern Europe countries	766	422	-	n/a	-
Other countries	6	375	-	n/a	-
	52,149	52,149	8,428	2,696*	129

* The information system of the Bank is not able to distinguish revenues 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.

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 17,407 million at 31 December 2003 of which CZK 47 million consisted of derivative financial instruments (31 December 2002: CZK 20,913 million of which derivative financial instruments: CZK 46 million).

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, credit commitments and guarantees given.

As at 31 December 2003

	Loans and advances to customers		Other credit risk bearing instruments	
	CZK m	%	CZK m	%
Czech Republic	21,501	96	12,840	98
Other OECD countries	312	2	252	2
Non – OECD Central and Eastern Europe countries	478	2	22	-
Other countries	91	-	-	-
	22,382	100	13,114	100

As at 31 December 2002

	Loans and advances to customers		Other credit risk bearing instruments	
	CZK m	%	CZK m	%
Czech Republic	17,372	80	8,713	89
Other OECD countries	3,881	18	1,063	11
Non – OECD Central and Eastern Europe countries	452	2	9	-
Other countries	6	-	-	-
	21,711	100	9,785	100

Loans and advances are further analysed in Note 19 and Note 31.

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

	31 December 2003		31 December 2002	
	CZK m	%	CZK m	%
Services	11,043	49	10,743	49
Manufacturing	8,250	37	8,841	41
Private individuals	1,998	9	1,104	5
Other	1,091	5	1,023	5
	22,382	100	21,711	100

(d) Market risk

The Bank 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 market risk limits, which are monitored on a daily basis.

The Bank has started using "Value at Risk" ("VaR") since the second half of 2003 as a tool for estimating market risk of all open positions. The Board of Directors sets the limits of maximum acceptable risk. The limits are monitored on a daily basis.

Daily VaR is considered to be an estimate of the potential loss with a 99% confidence level on the assumption that the actual position will not be changed in the following working day. The value of VaR is thus the value of loss, which the Bank can incur within one day and with a 99% probability the loss will not be higher than the VaR calculated. The Bank uses the methodology based on historical simulation for the VaR calculation. The calculation is set up in such a way, that a daily loss exceeding the VaR will not occur (on average) more frequently than each 100^{th} working day. Daily revaluation of portfolios is compared to VaR on a daily basis (so-called "back testing") with the purpose of potential re-calibration of parameters of the VaR model.

The Bank performs stress testing for main trading currencies (CZK, USD, EUR) on parallel shift of the yield curve by 2%. The Bank also performs stress testing describing foreign currency shocks, if exchange rates change by 3%.

(e) Currency risk

The Bank 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 VaR amount for foreign currency risk for all open foreign currency positions was CZK 1 million as of 31 December 2003. The average VaR amount for foreign currency risk for the period from 1 July 2003 to 31 December 2003 was CZK 1 million.

Comparative figures are not available.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2003 and 2002. Included in the table are the Bank'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 Bank's exposure to currency movements, and their fair values.

Concentrations of assets, liabilities and off balance sheet items

The Group has the following significant currency positions:

As at 31 December 2003	CZK CZK m	USD CZK m	GBP CZK m	EUR CZK m	Other CZK m	Total CZK m
Assets						
Cash and balances with central bank	1,664	42	11	61	33	1,811
Treasury bills	1,377	-	-	-	-	1,377
Due from other banks	13,726	2,156	11	983	484	17,360
Trading securities	104	1,012	459	1,830	-	3,405
Derivative financial instruments	109	2	-	-	-	111
Loans and advances to customers	18,414	597	36	3,034	301	22,382
Investment securities	22	753	-	-	-	775
Intangible assets	90	-	-	-	-	90
Property, plant and equipment	1,346	-	-	-	-	1,346
Other assets	209	27	2	70	1	309
Current tax asset	4	-	-	-	-	4
Total assets	37,065	4,589	519	5,978	819	48,970
Liabilities						
Due to other banks	3,359	51	76	678	574	4,738
Other deposits	1,948	289	57	349	24	2,667
Derivative financial instruments and other trading liabilities	878	68	-	6	-	952
Debt securities in issue	740	-	-	-	-	740
Subordinated debt	1,000	-	-	-	-	1,000
Due to customers	23,193	4,619	423	5,744	688	34,667
Other liabilities	620	47	2	277	15	961
Current tax liability	135	-	-	-	-	135
Total liabilities	31,873	5,074	558	7,054	1,301	45,860
Net balance sheet position	5,192	(485)	(39)	(1,076)	(482)	3,110
Off balance sheet net notional position	(2,030)	535	43	1,011	474	33
Credit commitments	10,537	269	1	757	83	11,647

As at 31 December 2002	CZK CZK m	USD CZK m	GBP CZK m	EUR CZK m	Other CZK m	Total CZK m
Assets						
Cash and balances with central bank	817	46	10	90	25	988
Treasury bills	1,428	-	-	-	-	1,428
Due from other banks	15,723	2,399	31	2,096	618	20,867
Trading securities	152	1,285	485	1,644	-	3,566
Derivative financial instruments	118	17	-	1	-	136
Loans and advances to customers	16,624	1,450	27	3,374	236	21,711
Investment securities	187	1,344	-	1	-	1,532
Intangible assets	99	-	-	-	-	99
Property, plant and equipment	1,495	-	-	-	-	1,495
Other assets	223	33	2	62	3	323
Current tax asset	4	-	-	-	-	4
Total assets	36,870	6,574	555	7,268	882	52,149
Liabilities						
Due to other banks	5,060	2,158	87	402	223	7,930
Other deposits	2,195	308	-	205	-	2,708
Derivative financial instruments and other trading liabilities	134	210	-	8	-	352
Subordinated debt	1,000	-	-	-	-	1,000
Due to customers	23,617	5,743	441	5,880	707	36,388
Other liabilities	575	75	6	157	11	824
Current tax liability	4	-	-	-	-	4
Total liabilities	32,585	8,494	534	6,652	941	49,206
Net balance sheet position	4,285	(1,920)	21	616	(59)	2,943
Off balance sheet net notional position	(1,320)	1,886	1	(644)	61	(16)
Credit commitments	7,271	329	2	757	69	8,428

(f) Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items

The Bank 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.

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 31,235 million (31 December 2002: CZK 33,720 million) of which 49% (31 December 2002: 49%) represent balances on current accounts considered by the Group as a relatively stable core source of funding of its operations.

The VaR amount for interest rate risk of the trading book was CZK 3 million as of 31 December 2003. The average VaR amount for interest rate risk of the trading book for the period from 1 July 2003 to 31 December 2003 was CZK 4 million. Comparative figures are not available.

The table below summarises the Bank’s exposure to interest rate risks. Included in the table are the Bank’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.

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets							
Cash and balances with central bank	1,811	-	-	-	-	-	1,811
Treasury bills	361	199	817	-	-	-	1,377
Due from other banks	16,354	182	824	-	-	-	17,360
Trading securities	873	2,416	28	55	33	-	3,405
Derivative financial instruments	14	26	16	55	-	-	111
Loans and advances to customers	8,909	2,718	7,474	2,878	403	-	22,382
Investment securities	-	-	247	506	-	22	775
Intangible assets	-	-	-	-	-	90	90
Property, plant and equipment	-	-	-	-	-	1,346	1,346
Other assets	35	25	27	21	3	198	309
Current tax asset	-	-	-	-	-	4	4
Total assets	28,357	5,566	9,433	3,515	439	1,660	48,970
Liabilities							
Due to other banks	3,475	324	719	220	-	-	4,738
Other deposits	2,577	90	-	-	-	-	2,667
Derivative financial instruments and other trading liabilities	29	755	40	116	12	-	952
Debt securities in issue	-	-	-	740	-	-	740
Subordinated debt	-	1,000	-	-	-	-	1,000
Due to customers	31,235	2,752	443	16	-	221	34,667
Other liabilities	20	7	10	9	-	915	961
Current tax liability	-	-	-	-	-	135	135
Total liabilities	37,336	4,928	1,212	1,101	12	1,271	45,860
On balance sheet interest sensitivity gap	(8,979)	638	8,221	2,414	427	389	3,110
Off balance sheet interest sensitivity gap	1,020	1,115	80	(2,138)	(77)	-	-

As at 31 December 2002

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets							
Cash and balances with central bank	988	-	-	-	-	-	988
Treasury bills	563	-	865	-	-	-	1,428
Due from other banks	19,284	883	700	-	-	-	20,867
Trading securities	1,003	2,415	30	93	25	-	3,566
Derivative financial instruments	14	26	45	51	-	-	136
Loans and advances to customers	9,874	6,331	3,696	1,340	470	-	21,711
Investment securities	148	-	92	988	203	101	1,532
Intangible assets	-	-	-	-	-	99	99
Property, plant and equipment	-	-	-	-	-	1,495	1,495
Other assets	52	54	27	28	7	155	323
Current tax asset	-	-	-	-	-	4	4
Total assets	31,926	9,709	5,455	2,500	705	1,854	52,149
Liabilities							
Due to other banks	3,820	1,845	2,036	229	-	-	7,930
Other deposits	2,698	10	-	-	-	-	2,708
Derivative financial instruments and other trading liabilities	12	30	28	238	44	-	352
Subordinated debt	-	1,000	-	-	-	-	1,000
Due to customers	33,720	2,016	543	26	-	83	36,388
Other liabilities	21	26	18	3	-	756	824
Current tax liability	-	-	-	-	-	4	4
Total liabilities	40,271	4,927	2,625	496	44	843	49,206
On balance sheet interest sensitivity gap	(8,345)	4,782	2,830	2,004	661	1,011	2,943
Off balance sheet interest sensitivity gap	912	220	712	(1,451)	(393)	-	-

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

As at 31 December 2003	CZK	USD	GBP	EUR
	%	%	%	%
Assets				
Cash and balances with central bank	1.65	-	-	-
Treasury bills	2.19	-	-	-
Due from other banks	1.94	1.20	-	2.41
Trading securities – debt securities	6.35	1.44	4.15	2.33
Loans and advances to customers	3.77	3.85	4.65	4.29
Investment securities – debt securities	-	7.26	-	-
Liabilities				
Due to other banks	2.31	1.05	3.88	2.25
Other deposits	2.49	0.76	3.74	1.80
Due to customers	1.04	0.25	2.28	0.75
Debt securities in issue	3.23	-	-	-

Assuming the financial assets and liabilities at 31 December 2003 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 million (31 December 2002: CZK 13 million).

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 Group 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’s equity.

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

As at 31 December 2002	CZK	USD	GBP	EUR
	%	%	%	%
Assets				
Cash and balances with central bank	1.68	-	-	-
Treasury bills	2.95	-	-	-
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	-	-
Liabilities				
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
Debt securities in issue	-	-	-	-

(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 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.

In case of unexpected outflow of liquid resources, the Bank has a back up portfolio of highly liquid government bonds and back up liquidity line with its main shareholder.

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

Maturities of assets and liabilities

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets							
Cash and balances with central bank	438	-	-	-	-	1,373	1,811
Treasury bills	361	199	817	-	-	-	1,377
Due from other banks	16,289	131	616	324	-	-	17,360
Trading securities *	-	281	384	2,416	324	-	3,405
Derivative financial instruments	16	25	48	22	-	-	111
Loans and advances to customers	2,954	2,474	6,111	7,348	3,495	-	22,382
Investment securities	-	-	247	506	-	22	775
Intangible assets	-	-	-	-	-	90	90
Property, plant and equipment	-	-	-	-	-	1,346	1,346
Other assets	33	21	30	22	5	198	309
Current tax asset	-	-	-	-	-	4	4
Total assets	20,091	3,131	8,253	10,638	3,824	3,033	48,970
Liabilities							
Due to other banks	3,475	324	729	210	-	-	4,738
Other deposits	2,577	90	-	-	-	-	2,667
Derivative financial instruments and other trading liabilities	44	766	37	101	4	-	952
Debt securities in issue	-	-	-	740	-	-	740
Subordinated debt	-	-	-	-	1,000	-	1,000
Due to customers	30,099	3,856	695	17	-	-	34,667
Other liabilities	20	7	10	9	-	915	961
Current tax liability	-	-	-	-	-	135	135
Total liabilities	36,215	5,043	1,471	1,077	1,004	1,050	45,860
Net liquidity gap	(16,124)	(1,912)	6,782	9,561	2,820	1,983	3,110

* Item is split according to residual 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.

As at 31 December 2002	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets							
Cash and balances with central bank	488	-	-	-	-	500	988
Treasury bills	563	-	865	-	-	-	1,428
Due from other banks	19,224	864	542	237	-	-	20,867
Trading securities *	8	249	90	2,888	331	-	3,566
Derivative financial instruments	12	28	45	51	-	-	136
Loans and advances to customers	1,796	3,149	5,772	8,500	2,494	-	21,711
Investment securities	-	-	240	988	203	101	1,532
Intangible assets	-	-	-	-	-	99	99
Property, plant and equipment	-	-	-	-	-	1,495	1,495
Other assets	34	58	27	40	9	155	323
Current tax asset	-	-	-	-	-	4	4
Total assets	22,125	4,348	7,581	12,704	3,037	2,354	52,149
Liabilities							
Due to other banks	3,821	1,845	2,045	219	-	-	7,930
Other deposits	2,698	10	-	-	-	-	2,708
Derivative financial instruments and other trading liabilities	12	31	130	136	43	-	352
Subordinated debt	-	-	-	-	1,000	-	1,000
Due to customers	32,338	3,361	663	26	-	-	36,388
Other liabilities	21	26	18	3	-	756	824
Current tax liability	-	-	-	-	-	4	4
Total liabilities	38,890	5,273	2,856	384	1,043	760	49,206
Net liquidity gap	(16,765)	(925)	4,725	12,320	1,994	1,594	2,943

* Item is split according to residual 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.

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 estimated fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	Carrying value		Fair value	
	31 December 2003 CZK m	31 December 2002 CZK m	31 December 2003 CZK m	31 December 2002 CZK m
Financial assets				
Due from other banks	17,360	20,867	17,360	20,867
Loans and advances to customers	22,382	21,711	22,382	21,711
	39,742	42,578	39,742	42,578
Financial liabilities				
Due to other banks	4,738	7,930	4,738	7,930
Due to customers	34,667	36,388	34,667	36,388
Other deposits	2,667	2,708	2,667	2,708
Debt securities in issue	740	-	740	-
	42,812	47,026	42,812	47,026

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.

Loans and advances to customers

Loans and advances are net of specific and portfolio 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. The difference between charging and fair value of loans and advances to customers is recognized in the income statement in Impairment losses on loans and advances.

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 24,983 million (31 December 2002: CZK 15,237 million).

4 SEGMENT REPORTING

The Group has two distinct business 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. Balance sheet items of the asset management segment at 31 December 2003 do not include the balances of ŽB – Asset Management, a.s. as it was sold before year end 2003 (see Introduction and Note 2).

- Banking activities – include 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 - include funds management, collective investment, providing investment advisory services and provision of main and supplementary investment services (see Note 2).

Business segments

Year ended 31 December 2003

	Banking (continuing segment)	Asset management (discontinuing segment)	Group
	CZK m	CZK m	CZK m
Revenues	2,203	88	2,291
Net operating income	1,445	79	1,524
Operating result of segment before tax	314	(1)	313
Income tax	(135)	(11)	(146)
Net profit	179	(12)	167
Segment assets	48,904	66	48,970
Segment liabilities	45,850	10	45,860
Capital expenditure	105	19	124
Depreciation	202	4	206
Amortisation	50	4	54

Year ended 31 December 2002

	Banking (continuing segment)	Asset management (discontinuing segment)	Group
	CZK m	CZK m	CZK m
Revenues	2,541	155	2,696
Net operating income	1,339	140	1,479
Operating result of segment before tax	71	49	120
Income tax	(4)	(3)	(7)
Net profit	67	46	113
Segment assets	51,966	183	52,149
Segment liabilities	49,174	32	49,206
Capital expenditure	122	7	129
Depreciation	221	5	226
Amortisation	52	4	56
Other non-cash expenses	97	-	97

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.

Geographical segments

The majority of revenue from external customers originates from the Czech Republic.

5 NET INTEREST INCOME

	2003	2002
	CZK m	CZK m
Interest income		
Interest from cash and short term funds	116	298
Interest from trading securities	144	210
Interest from investment securities	70	105
Interest from securities borrowed and reverse repos	289	387
Interest from loans and advances	955	1,108
Other	10	17
	1,584	2,125
Interest expense		
Interest to banks and customers	637	1,013
Interest from securities lent and repos	12	27
Other borrowed funds	55	70
Other	25	63
	729	1,173
Net interest income	855	952

6 NET FEE AND COMMISSION INCOME

	2003	2002
	CZK m	CZK m
Fee and commission income		
Commission income	166	203
Credit related fees and commissions	82	65
Fee income from trading securities services	21	6
Portfolio and other management fees	26	15
Asset management and related fees	74	77
Income from other operations	32	31
	401	397
Fee and commission expense		
Expense from interbank transactions	8	2
Brokerage fees paid	12	17
Expense from other operations	18	25
	38	44
Net fee and commission income	363	353

7 NET TRADING INCOME

	2003	2002
	CZK m	CZK m
Securities and derivative instruments	62	(63)
Equities	-	(13)
Foreign exchange gains	227	198
	289	122

Foreign exchange gains include 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

	2003	2002
	CZK m	CZK m
Realised and unrealised (losses)/gains from investment securities	(7)	7

9 OTHER OPERATING INCOME

	2003	2002
	CZK m	CZK m
Revenue from sales of tangible and intangible fixed assets	10	13
Revenue from consulting services	-	15
Other operating income	14	17
	24	45

10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	2003	2002
	CZK m	CZK m
Provision release/(charge) for credit risk impairment	52	(90)
Recovery of loans written off previously	-	9
Change in fair value of hedged loans	(11)	8
Change in fair value of related hedging derivatives	10	(9)
Total net additions to provisions (Note 19)	51	(82)

11 OPERATING EXPENSES

	2003	2002
	CZK m	CZK m
Operating expenses		
Staff costs (see below)	511	480
Depreciation and amortisation	260	282
Administrative expenses	122	124
Communications	34	35
Advertising and marketing	63	85
Compulsory deposit insurance	28	30
Professional services	42	28
Office and car maintenance	18	25
Operating lease rentals	54	54
IT maintenance	75	79
Office equipment	8	7
Other expenses related to employees	10	9
Loss on sale of property and equipment	8	13
Other	29	26
	1,262	1,277

	2003	2002
Staff costs		
Wages and salaries	377	353
Social security costs and social fund contributions	130	124
Pension costs	4	3
	511	480

The average number of employees of the Group during 2003 was 841 (2002: 835).

12 INCOME TAX EXPENSE

	2003	2002
	CZK m	CZK m
Current tax expense	146	7
Deferred tax expense	-	-
Income tax expense	146	7

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:

Group	2003 CZK m	2002 CZK m
Profit before tax	313	120
Prima facie tax calculated at a tax rate of 31%	97	37
Income not assessable for tax purposes	(27)	(49)
Expenses not deductible for tax purposes	38	44
Tax effect of consolidation adjustments including tax shield	36	(30)
Additional tax charge for 2002	2	-
Additions to unrecognised tax losses carried forward	-	5
	146	7

The effective tax rate for the Group is 46.6% (31 December 2002: 5.8%).

The main reason for this high effective tax rate for the Group in comparison with effective tax for Bank are gross dividends of CZK 72 million paid by ŽB-Trust, investiční společnost, a.s., to the Bank where the resulting withholding tax of CZK 11 million is included in Group's tax expense.

Deferred income taxes

	31 December 2003 CZK m	31 December 2002 CZK m
Deferred income tax assets		
Tax non-deductible provisions for loans	39	48
Unused tax losses	8	7
Other timing differences	5	-
	52	55
Deferred income tax liabilities		
Differences between accounting and tax depreciation	(11)	(20)
Net unrecognised deferred income tax asset	**41**	**35**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28%, 26% and 24% for the temporary differences expected to be realised in 2004, 2005 and the following years respectively (2002: 31%).

The net deferred tax asset has not been recognised, as its recoverability is not considered probable.

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

	2003	2002
	CZK m	CZK m
Net unrecognised deferred tax assets at 1 January	35	71
Effect of change in the corporate tax rate in future years	(11)	-
Tax non-deductible provisions for loans	2	28
Tax non-deductible provisions for securities	-	(44)
(Utilisation)/increase of unrecognised tax losses	2	(20)
Change in other temporary differences	5	-
Change in differences between accounting and tax depreciation	8	-
Net unrecognised deferred tax assets at 31 December	41	35

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.

	2003	2002
Net profit attributable to shareholders (CZK m)	167	113
Weighted average of shares in issue (number)	1,360,410	1,360,410
Basic and diluted earnings per share (CZK per share)	122.8	83.1

14 CASH AND BALANCES WITH CENTRAL BANK

	31 December 2003	31 December 2002
	CZK m	CZK m
Cash in hand	399	406
Balances with central bank other than mandatory reserve deposits	39	82
Included in cash and cash equivalents (Note 32)	438	488
Mandatory reserve deposits with central bank	1,373	500
	1,811	988

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

15 TREASURY BILLS

	31 December 2003	31 December 2002
	CZK m	CZK m
State Treasury bills	1,377	1,428

State treasury bills include cash equivalents of CZK 560 million (31 December 2002: CZK 562 million) with less than 90 days maturity (Note 32). Bills are categorised as assets held for trading and carried at their fair value.

16 DUE FROM OTHER BANKS

	31 December 2003	31 December 2002
	CZK m	CZK m
Items in course of collection from other banks	86	136
Reverse repos with central bank	12,364	13,062
Placements with other banks	4,481	7,355
Loans to other banks	429	314
	17,360	20,867

The total balance includes cash equivalents of CZK 16,420 million (31 December 2002: CZK 20,088 million) due from banks with less than 90 days maturity (Note 32).

17 TRADING SECURITIES

	31 December 2003	31 December 2002
	CZK m	CZK m
Bonds included in cash equivalents (Note 32)	281	257
Other bonds and similar listed debt securities	3,124	3,309
	3,405	3,566

Bonds and similar listed debt securities at 31 December 2003 include CZK 157 million of securities bearing fixed interest to maturity (31 December 2002: CZK 193 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 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 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.

	31 December 2003			31 December 2002		
	Nominal value	Fair value positive	Fair value negative	Nominal value	Fair value positive	Fair value negative
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Derivatives designated as fair value hedges						
Interest rate swaps	304	-	(15)	449	2	(28)
Derivatives held for trading						
Interest rate derivatives						
Forwards	6,853	6	(10)	7,569	25	(2)
Swaps	3,826	20	(120)	3,014	62	(160)
	10,679	26	(130)	10,583	87	(162)
Foreign exchange derivatives						
Forwards	1,387	56	(2)	1,262	31	(5)
Swaps	4,836	29	(54)	3,761	16	(55)
	6,223	85	(56)	5,023	47	(60)
Credit derivatives						
Embedded derivative	-	-	-	320	-	(102)
Option purchased	-	-	-	320	-	-
Option sold	-	-	-	(320)	-	-
	-	-	-	320	-	(102)
Other trading liabilities						
Treasury bills sold not yet purchased		-	(751)		-	-
Total derivatives and other trading liabilities						
Interest rate	10,983	26	(145)	11,032	89	(190)
Foreign exchange	6,223	85	(56)	5,023	47	(60)
Credit	-	-	-	320	-	(102)
Other trading liabilities	-	-	(751)	-	-	-
	17,206	111	(952)	16,375	136	(352)

The Group undertakes approximately 58% of its transactions in foreign exchange and interest rate contracts with other financial institutions (2002: 56%). Management has established stop loss and maturity limits.

19 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2003	31 December 2002
	CZK m	CZK m
Loans to individuals:		
- Overdrafts	46	10
- Term loans	246	167
- Mortgages	1,860	998
Loans to corporate entities:		
- Direct commercial loans	17,788	18,118
- Sub-participation loans	1,784	2,316
- Other	1,411	896
Gross loans and advances to customers	23,135	22,505
Revaluation of hedged loans	17	28
Provision for credit risk impairment	(770)	(822)
Net loans and advances to customers	22,382	21,711

The loan balances as at 31 December 2003 and 2002 include loans to associates and related parties that are described further below.

The gross amounts as at 31 December 2003 and 2002 best represent maximum credit risk exposure of the Group on these transactions without taking account of the fair value of any collateral.

In 2000 the Bank provided to a related party incorporated abroad a five-year loan of USD 11 million due in 2005. Underlying this loan was a portfolio of credit default swaps on reference assets with aggregate nominal value of USD 43 million of which the Bank's investment was 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. 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 was equivalent to the aggregate market values of the individual credit default swaps comprising the portfolio. The derivative element embedded in this loan was separated out of the host contract and included at fair value under Derivative financial instruments (Note 18) as at 31 December 2002 with changes in fair value being included in Net trading income (Note 7) for the year then ended.

Since 11 February 2003 the company is no longer a related party for the Bank. Continuance of the loan arrangement was also subject to an early termination option held by the Bank (Note 18) and BGB. In April 2003, the Bank exercised this option and terminated the deal at the prevailing market value.

Movements in provisions for impairment are as follows:

	2003	2002
	CZK m	CZK m
Balance at 1 January	822	743
Net additions to provisions (Note 10)	(51)	82
Foreign exchange differences	(1)	(3)
Balance at 31 December	770	822

20 INVESTMENT SECURITIES

(a) Securities held-to-maturity

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

(b) Securities available-for-sale

		31 December 2003	31 December 2002
		CZK m	CZK m
Other bonds and similar debt securities	- listed	753	1,345
Shares and similar equity securities	- listed	12	11
	- unlisted	10	176
		775	1,532

Bonds and other debt securities

Bonds and other debt securities in the available-for-sale portfolio at 31 December 2003 include CZK 753 million of securities bearing fixed interest until maturity (31 December 2002: CZK 1,197 million).

Movements in investment portfolio

	Available-for-sale securities
	CZK m
31 December 2001	2,199
Addition	132
Revaluation	(12)
Disposal	(787)
31 December 2002	1,532
Addition	73
Revaluation	(199)
Disposal	(631)
31 December 2003	775

21 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Intangible assets

	Software	Assets in the course of construction	Total
	CZK m	CZK m	CZK m
At 31 December 2002			
Cost	595	18	613
Accumulated amortisation	(514)	-	(514)
Net book amount	81	18	99
Year ended 31 December 2003			
Opening net book amount	81	18	99
Additions	49	2	51
Disposals / transfers	(6)	-	(6)
Amortisation charge	(54)	-	(54)
Closing net book amount	70	20	90
At 31 December 2003			
Cost	638	20	658
Accumulated amortisation	(568)	-	(568)
Net book amount	70	20	90

Property, plant and equipment

	Land	Buildings	Equipment	Assets in the course of construction	Total
	CZK m	CZK m	CZK m	CZK m	CZK m
At 31 December 2002					
Cost	45	1,583	1,117	9	2,754
Accumulated depreciation	-	(428)	(831)	-	(1,259)
Net book amount	45	1,155	286	9	1,495
Year ended 31 December 2003					
Opening net book amount	45	1,155	286	9	1,495
Additions	-	1	51	13	65
Disposals / transfers	-	(8)	(22)	-	(30)
Depreciation charge	-	(71)	(113)	-	(184)
Closing net book amount	45	1,077	202	22	1,346
At 31 December 2003					
Cost	45	1,576	1,146	22	2,789
Accumulated depreciation	-	(499)	(944)	-	(1,443)
Net book amount	45	1,077	202	22	1,346

22 OTHER ASSETS

	31 December 2003	31 December 2002
	CZK m	CZK m
Accounts receivable	35	37
Prepayments and accrued items	122	187
Other debtors	21	23
Operating advances given	70	48
Other	61	28
	309	323

23 DUE TO OTHER BANKS

	31 December 2003	31 December 2002
	CZK m	CZK m
Items in course of collection	18	23
Loans received from other banks	20	219
Term deposits of other banks	4,700	7,688
	4,738	7,930

24 DEBT SECURITIES IN ISSUE

	31 December 2003	31 December 2002
	CZK m	CZK m
CZK medium term mortgage bonds	740	-

The Bank has issued 5-year mortgage bonds on 9 October 2003 to cover its mortgage loans. The effective interest rate on these bonds is 3.23% p.a.

25 SUBORDINATED DEBT

On 29 December 1999 the Bank received a subordinated debt from BGB. 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 3(b)) as defined by the CNB for the purposes of determination of its capital adequacy. In February 2003 the subordinated debt was taken over under the same terms and conditions by UCI from BGB.

26 DUE TO CUSTOMERS

	31 December 2003	31 December 2002
	CZK m	CZK m
Corporate customers:		
- Current accounts	9,016	10,803
- Term deposits	4,835	3,585
Retail customers:		
- Current accounts	6,141	5,565
- Term deposits	14,675	16,435
	34,667	36,388

27 OTHER LIABILITIES

	31 December 2003	31 December 2002
	CZK m	CZK m
Accruals and estimated items	134	156
Payments in transit	592	419
Other creditors	32	37
Unsettled securities in transit	12	-
Amounts payable to employees	82	74
Provisions for guarantees and other provisions	90	97
Other	19	41
	961	824

The Group is subject to several legal disputes. At 31 December 2003, a provision of CZK 50 million (31 December 2002: CZK 50 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 the 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.

The same expectation existed at 31 December 2002, however, due to the delay in the litigation process, the court's decision has not been taken in 2003. In the light of this expected timeframe, the provision was not discounted.

28 RESERVES AND RETAINED PROFIT

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

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

29 DIVIDENDS PER SHARE

No dividends were paid in 2003 and 2002.

30 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.

31 CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceeding. The Group is subject to several legal disputes (Note 27) related to its business activities.

Capital commitments. At 31 December 2003, the Group had contractual commitments for capital expenditure of CZK 32 million (31 December 2002: CZK 3 million).

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.

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.

Credit commitments	31 December 2003	31 December 2002
	CZK m	CZK m
Original term to maturity of one year or less	5,054	5,368
Original term to maturity of more than one year	6,593	3,060
	11,647	8,428
Guarantees, acceptances and letters of credit	1,460	1,345

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:

Year	31 December 2003	31 December 2002
	CZK m	CZK m
Within 1 year	49	51
2 years	43	43
3 years	37	39
4 years	36	35
5 years	33	36
Later than five years	35	56
	233	260

Assets held in custody and depository

The Group acts as depository for certain mutual, investment and pension funds. The aggregate net asset value of these funds at 31 December 2003 was CZK 24,983 million (31 December 2002: CZK 15,237 million). Management considers that no present obligations were associated with these fiduciary duties at 31 December 2003.

32 CASH AND CASH EQUIVALENTS

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

	31 December 2003	31 December 2002
	CZK m	CZK m
Cash and balances with central bank (Note 14)	438	488
Treasury bills (Note 15)	560	562
Due from other banks (Note 16)	16,420	20,088
Trading securities (Note 17)	281	257
	17,699	21,395

33 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 2003 the Bank was controlled by UCI. 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.

The volumes of other related party transactions, outstanding balances as at the balance sheet date, and relating expense and income for the year 2003 and 2002 are as follows:

	Parent company		Affiliated companies		Board members and other directors	
	2003	2002	2003	2002	2003	2002
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets and income						
Loans						
At 1 January	-	-	626	903	11	10
Issued during the year	-	-	232	-	13	2
Repayments	-	-	(622)	(212)	(1)	(1)
Foreign exchange difference	-	-	(4)	(65)	-	-
At 31 December	-	-	232	626	23	11
Deposits placed at 31 December	-	2,400	88	-	-	-
Placements at 31 December	3	44	-	21	-	-
Interest income earned	9	63	22	38	1	-
Fee income	-	-	-	-	-	-
Other income	5	13	-	-	-	-
Liabilities and expense						
Deposits accepted						
At 1 January	127	-	151	-	11	18
At 31 December	-	127	-	151	16	11
Placements at 31 December	4	14	128	-	18	15
Subordinated debt 31 December	1,000	1,000	-	-	-	-
Interest expense	31	133	8	-	1	-
Other expense	-	10	-	-	-	-
Guarantees issued at 31 December	-	-	-	-	1	-

* Includes loan provided to an affiliated company, which was sold during 2003. Unpaid amount of the loan as at the date of sale was CZK 484 million.

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

A listing of the members of the Board of Directors and directors is shown in the annual report. In 2003 the total remuneration of the Board of Directors and the Supervisory Board was CZK 31 million (31 December 2002: CZK 20 million).

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.

34 SUBSEQUENT EVENTS

On 7 January 2004 the Bank signed a contract and sold its interest in ŽB - Trust, investiční společnost, a.s. to Pioneer Global Asset Management SpA, a related party (Introduction and Note 2). The total selling price was CZK 94 million. The realised gain of CZK 89 million will be recognised in the 2004 income statement.

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 2003.

UNAUDITED SUPPLEMENTARY INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS

RECONCILIATION OF FINANCIAL STATEMENTS

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

	As at 31 December 2003			Explanatory
	CAS	Bridge	IFRS	note
	CZK m	CZK m	CZK m	
ASSETS				
Cash and balances with central bank	1,811	-	1,811	
Treasury bills	1,377	-	1,377	
Due from other banks	17,368	(8)	17,360	(1)
Trading securities	3,423	(18)	3,405	(1)
Derivative financial instruments	-	111	111	(2)
Loans and advances to customers	22,786	(404)	22,382	(1), (4), (7)
Investment securities	798	(18)	780	(1)
Intangible assets	85	-	85	
Property, plant and equipment	1,343	-	1,343	
Other assets	295	(1)	294	(1), (2)
Total assets	**49,286**	**(338)**	**48,948**	
LIABILITIES				
Due to other banks	4,766	(28)	4,738	(5)
Other deposits	3,419	(752)	2,667	(5), (6)
Derivative financial instruments and other trading liabilities	-	952	952	(3), (6)
Debt securities in issue	745	(5)	740	(5)
Subordinated debt	1,000	-	1,000	
Due to customers	34,717	(11)	34,706	(5)
Other liabilities	1,520	(569)	951	(3), (4), (5), (9)
Current tax liability	135	-	135	
Total liabilities	**46,302**	**(413)**	**45,889**	
SHAREHOLDERS' EQUITY				
Ordinary shares	1,360	-	1,360	
Reserves and retained profit	1,624	75	1,699	(4), (7), (8), (9)
Total shareholders' equity	**2,984**	**75**	**3,059**	
Total equity and liabilities	**49,286**	**(338)**	**48,948**	

(1) Under IFRS, accrued interest on due from other banks of CZK 8 million was reclassified to “Other assets” from “Due from other banks”, accrued interest on bonds of CZK 18 millions was reclassified to “Other assets” from items “Trading securities”, CZK 18 million from “Investment securities” and CZK 66 million from “Loans and advances to customers”.

(2) Reclassification of derivative financial instruments of CZK 111 million within the separate caption “Derivative financial instruments” for IFRS purposes from “Other assets”, where derivatives were recorded under CAS.

(3) Reclassification of derivative financial instruments of CZK 201 million within the separate line “Derivative financial statements and other trading liabilities” for IFRS purposes from item “Other liabilities”, where derivatives were recorded under CAS.

(4) Under CAS, provision of CZK 410 million was included in general provision in the item “Other liabilities”. Under IFRS a portfolio provision of CZK 358 million is included within “Loans and advances to customers” and the remaining CZK 52 million is released.

(5) Under IFRS, accrued interest on due to other banks of CZK 28 million was reclassified to “Other Liabilities”, accrued interest on due to customers of CZK 11 million was reclassified to “Other Liabilities” and accrued interest on other deposits of CZK 1 million and debt securities in issue of CZK 5 million was reclassified to “Other Liabilities”.

(6) Reclassification of debt securities sold not yet purchased (i.e. short sales) of CZK 751 million to “Derivative financial instruments and other trading liabilities” for IFRS purposes from item “Other deposits”.

(7) Loans and advances to costumers are revalued according to IFRS by CZK 20 million.

(8) Under IFRS, reclassification of payment to social fund of CZK 8 million from “Reserves and retained profit” to “Operating expenses”.

(9) Reduction of reserve for dormant accounts by CZK 3 million.

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 2003			Explanatory
	CAS	Bridge	IFRS	note
	CZK m	CZK m	CZK m	
Net interest income	855	-	855	
Net fee and commission income	294	-	294	
Dividends income	61	-	61	
Net trading income	241	48	289	(1)
Gains less losses from investment securities	-	(16)	(16)	(1), (2), (7)
Other operating income	60	(33)	27	(4), (6), (7)
Net operating income	**1,511**	**(1)**	**1,510**	
Impairment losses on loans and advances	61	(10)	51	(4), (5)
Operating expenses	(1,175)	(8)	(1,183)	(3)
Income from associates	-	-	-	
Profit from operations	**397**	**(19)**	**378**	
Income tax expense	135	-	135	
Results from extraordinary activities	-	-	-	
Net profit	**262**	**(19)**	**243**	

(1) Under IFRS, reclassification of loss of CZK (48 million) from “Net trading income” to “Gains less losses from investment securities”.
(2) Cancellation of fair value revaluation of CZK 8 million of Český leasing, spol. s r.o. made in 2002.
(3) Under IFRS, reclassification of payment to social fund of CZK 8 million from “Reserves and retained profit” to “Operating expenses”.
(4) Reclassification of release of specific provision for guarantees of CZK 4 million from

“Impairment losses on loans and advances” to “Other operating income” for IFRS purposes.

(5) Under IFRS, negative revaluation of loans of CZK 6 million was included in the income statement within “Impairment losses on loans and advances”.

(6) Decrease of reserve for dormant accounts by CZK 3 million.

(7) Under IFRS, reclassification of gain of CZK 40 million from “Other operating income” to “Gains less losses from investment securities”.

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 2003			Explanatory
	CAS	Bridge	IFRS	note
	CZK m	CZK m	CZK m	
ASSETS				
Cash and balances with central bank	-	-	-	
Due from other banks	39	-	39	
Trading securities	-	-	-	
Investment securities	-	-	-	
Intangible assets	5	-	5	
Property, plant and equipment	3	-	3	
Other assets	15	-	15	
Current tax asset	4	-	4	
Total assets	**66**	**-**	**66**	
LIABILITIES				
Other liabilities	9	1	10	(1)
Total liabilities	**9**	**1**	**10**	
SHAREHOLDERS' EQUITY				
Ordinary shares	20	-	20	
Reserves and retained profit	37	(1)	36	(1)
Total shareholders' equity	**57**	**(1)**	**56**	
Total equity and liabilities	**66**	**-**	**66**	

(1) Under IFRS, reclassification of CZK 1 million representing the social fund from “Reserves and retained profit” to “Other liabilities”.

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

	For the year ended 31 December 2003			Explanatory
	CAS	Bridge	IFRS	note
	CZK m	CZK m	CZK m	
Net interest income	-		-	
Net fee and commission income	64	-	64	
Net trading income	1	(1)	-	(1)
Gains less losses from investment securities	-	1	1	(1)
Other operating income	2	-	2	
Net operating income	**67**	**-**	**67**	
Operating expenses	(74)	-	(74)	
Profit from operations before tax	**(7)**	**-**	**(7)**	
Income tax expense	-	-	-	
Results from extraordinary activities	-	-	-	
Net profit	**(7)**	**-**	**(7)**	

(1) A total of CZK 1 million 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”.

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

There were no reconciling items in the income statement of ŽB – Asset Management for the year 2003.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003

	Živnostenská banka, a.s. 2003 CZK m	ŽB - Trust, investiční společnost, a.s. 2003 CZK m	Eliminations 2003 CZK m	Group 2003 CZK m	Group 2002 CZK m
ASSETS					
Cash and balances with central bank	1,811	-	-	1,811	988
Treasury bills	1,377	-	-	1,377	1,428
Due from other banks	17,360	39	(39)	17,360	20,867
Trading securities	3,405	-	-	3,405	3,566
Derivative financial instruments	111	-	-	111	136
Loans and advances to customers	22,382	-	-	22,382	21,711
Investment securities	780	-	(5)	775	1,532
Intangible assets	85	5	-	90	99
Property, plant and equipment	1,343	3	-	1,346	1,495
Other assets	294	15	-	309	323
Current tax asset	-	4	-	4	4
Total assets	**48,948**	**66**	**(44)**	**48,970**	**52,149**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003

	Živnostenská banka, a.s. 2003 CZK m	ŽB - Trust, investiční společnost, a.s. 2003 CZK m	Eliminations 2003 CZK m	Group 2003 CZK m	Group 2002 CZK m
LIABILITIES					
Due to other banks	4,738	-	-	4,738	7,930
Other deposits	2,667	-	-	2,667	2,708
Derivative financial instruments and other trading liabilities	952	-	-	952	352
Debt securities in issue	740	-	-	740	-
Subordinated debt	1,000	-	-	1,000	1,000
Due to customers	34,706	-	(39)	34,667	36,388
Other liabilities	951	10	-	961	824
Current tax liability	135	-	-	135	4
Total liabilities	**45,889**	**10**	**(39)**	**45,860**	**49,206**
SHAREHOLDERS' EQUITY					
Ordinary shares	1,360	20	(20)	1,360	1,360
Reserves and retained profit	1,699	36	15	1,750	1,583
Total shareholders' equity	**3,059**	**56**	**(5)**	**3,110**	**2,943**
Total equity and liabilities	**48,948**	**66**	**(44)**	**48,970**	**52,149**

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Živnostenská banka, a.s.	ŽB - Trust, investiční společnost, a.s.	ŽB - Asset Management, a.s.	Eliminations	Group	Group
	2003	2003	2003	2003	2003	2002
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Interest and discount income	1,584	-	-	-	1,584	2,125
Interest expense	(729)	-	-	-	(729)	(1,173)
Net interest income	**855**	**-**	**-**	**-**	**855**	**952**
Fee and commission income	323	77	23	(22)	401	397
Fee and commission expense	(29)	(13)	(1)	5	(38)	(44)
Net fee and commission income	**294**	**64**	**22**	**(17)**	**363**	**353**
Dividend income	61	-	-	(61)	-	-
Net trading income/(expense)	289	-	-		289	122
Gains less losses from investment securities	(16)	1	-	8	(7)	7
Other operating income	27	2	3	(8)	24	45
Net operating income	**1,510**	**67**	**25**	**(78)**	**1,524**	**1,479**
Impairment losses on loans and advances	51	-	-	-	51	(82)
Operating expenses	(1,183)	(74)	(30)	25	(1,262)	(1,277)
Profit/(loss) from operations before tax	**378**	**(7)**	**(5)**	**(53)**	**313**	**120**
Income tax	(135)	-	-	(11)	(146)	(7)
Net profit/(loss)	**243**	**(7)**	**(5)**	**(64)**	**167**	**113**

REPORT ON RELATIONS BETWEEN THE CONTROLLING PERSON AND THE CONTROLLED PERSON AND ON RELATIONS BETWEEN THE CONTROLLED PERSON AND OTHER PERSONS CONTROLLED BY THE SAME CONTROLLING PERSON

Under Section 66a (9) of Act No. 513/1991 Coll., the Commercial Code as amended, the Board of Directors of Živnostenská banka, a.s., registered office Prague 1, Na Příkopě 858/20, identification number 00001368 incorporated in the Commercial Register kept by the Municipal Court in Prague, Part B, entry No. 1350 ("Živnostenská banka" or "ŽB") has worked out the **Report on Relations between the Controlling Person and the Controlled Person and on Relations between the Controlled Person and other Persons Controlled by the Same Controlling Person for the 2003 accounting period.**

At the beginning of the 2003 accounting period, from 1 January 2003 to 11 February 2003, Živnostenská banka was controlled by **Bankgessellschaft 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-10890 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). In the period from 12 February 2003 to 31 December 2003 Živnostenská banka was controlled by **UniCredito Italiano S.p.A.** ("UCI"), registered office Via Dante 1, 16121 Genoa, Italy, incorporated in the Register of Companies under No. 1812 and in the Commercial Register under the number GE025-22 maintained with the Commercial, Industrial, Handicraft and Agricultural Chamber for Genoa. UCI controls **Pioneer Global Asset Management S.p.A.** ("Pioneer"), registered office Galerie San Carlo, 6-20122, Milano, Italy, incorporated in the register under the number 13250740159.

Živnostenská banka controls **ŽB-Trust, investment company, a.s.**, registered office Prague 1, Na Příkopě 15, identification No. 63080273, incorporated in the Commercial Register kept by the Municipal Court in Prague, Part B, entry 3277 ("ŽB-Trust, investment company" or "ŽBT") and from 1 January 2003 to 30 December 2003 it controlled **ŽB-Asset Management, a.s.**, registered office Prague 1, Na Příkopě 15, postal code 110 00, identification No. 25684558, incorporated in the Commercial Register kept by the Municipal Court in Prague, Part B, entry 5483 ("ŽB-Asset Management").

The Board of Directors of Živnostenská banka hereby declares that between Živnostenská banka and persons interconnected with it there were only relations with BGB, UCI, Pioneer, Magrathea 3, ŽB-Trust, investment company and ŽB-Asset Management in the 2003 accounting period.

1. **Contracts** entered into between Živnostenská banka and BGB, UCI, Pioneer, Magrathea 3, ŽB-Trust, investment company and ŽB-Asset management in the 2003 accounting period:

1.1 The following trilateral agreement was made between Živnostenská banka, **Magrathea 3** and **BGB** in the 2003 accounting period. This agreement was made in period when Magrathea 3 and BGB were no longer related parties of Živnostenská banka.

Name of Contract	**Subject of Contract**	**Date of making**
Termination agreement	Termination of loan agreement	10 April 2003

1.2 No contract was entered into between Živnostenská banka and **BGB** in the 2003 accounting period with the exclusion of the trilateral agreement specified in paragraph 1.1.

1.3 The following contracts were entered into between Živnostenská banka and **UCI** in the 2003 accounting period:

Name of Contract	**Subject of Contract**	**Date of making**
Agreement on some aspects related to the including into the UniCredito Italiano banking group	Definition of mutual relationship of the contracting parties in connection with the performance of consolidated supervision over ŽB by the Bank of Italy	12 February 2003
Factoring Contract	Terms and conditions and a description of the factoring contract	3 November 2003
Licensing Agreement	Licence of the "UniCredit" trade mark including the pictorial logo, reg. No. 797844 for classes 9, 16, 35, 36, 38, 39, 41, and 42	18 November 2003
Consultancy Agreement	Agreement on consultancy related to big corporate loans	11 December 2003

1.4 The following contracts were entered into between Živnostenská banka and **Pioneer** in the 2003 accounting period:

Name of Contract	**Subject of Contract**	**Date of making**
Contract for the sale of shares of ŽB-Asset Management, a.s.	Terms and conditions of the sale of shares of ŽB-Asset Management, a.s.	22 December 2003

1.5 No contract was made between Živnostenská banka and **Magrathea 3** in the 2003 accounting period with the exclusion of the trilateral agreement specified in paragraph 1.1.

1.6 The following contracts were entered into between Živnostenská banka and **ŽB-Trust, investment company** in the 2003 accounting period:

Name of Contract	Subject of Contract	Date of making
Contract for costs and compensation for the sale of the combined product – VISA SPOROKONTO payment card	Terms and conditions of the compensation for costs during the sale of the product	2 January 2003
Contract for the termination of the general agreement on the borrowing of securities	Terms and conditions of the termination of the general agreement on the borrowing of securities	14 May 2003
Contract for the termination of the agreement on the temporary positioning of an employee for execution of work	Terms and conditions of the termination of the temporary positioning of an employee	30 June 2003
Contract for the termination of the agreement on the brokerage of an issue of participation certificates and their custody	Terms and conditions of the termination of the contract for the brokerage of an issue of participation certificates and their custody	20 November 2003
Contract for the custody of collective participation certificates	Terms and conditions of custody of collective participation certificates managed by ŽBT	20 November 2003
Contract for the termination of the licensing agreement	Terms and conditions of the termination of the licensing agreement	15 December 2003
Contract for the termination of the lease contract	Termination of the lease contract for the premises of ŽBT's organizational unit in Slovakia	31 March 2003
Contract for maintaining an escrow account No. 175/03-120	Terms and conditions of maintaining an escrow account	16 December 2003
Contract for current accounts	Terms and conditions of maintaining current accounts	28 May 2003 19 November 2003
Contract for the performance of the office of a depositary	Terms and conditions of the performance of the office of a depositary for ŽBT funds	25 November 2003 15 December 2003

1.7 The following contracts were entered into between Živnostenská banka and **ŽB-Asset Management** in the 2003 accounting period:

Name of Contract	Subject of Contract	Date of making
Contract for the termination of the licensing agreement	Terms and conditions of the termination of the licensing agreement	15 December 2003

2. **Payments** provided by Živnostenská banka to BGB, UCI, ŽB-Trust, investment company and ŽB-Asset management in 2003 and **their considerations:**

2.1 Payments provided by Živnostenská banka to **BGB** during period from 1 January 2003 to 11 February 2003 and their considerations are listed in the table below. All performances and consideration were granted within usual commercial relations or under usual business terms and conditions.

Payments to BGB – Živnostenská banka's **expenses**	Payments in CZK million
Interest on subordinated debt	5
Interest on IRS transactions	7
	12
Considerations of BGB – Živnostenská banka's **revenues**	
Interest on term deposits	3
Interest on IRS transactions	2
	5

2.2 Payments provided by Živnostenská banka to **UCI** during period from 12 February 2003 to 31 December 2003 and their considerations are listed in the table below. All performances and consideration were granted within usual commercial relations or under usual business terms and conditions.

Payments to UCI – Živnostenská banka's **expenses**	Payments in CZK million
Interest on subordinated debt	19
	19
Considerations of UCI - Živnostenská banka's **revenues**	
Interest on securities	4
Fees for custody	3
Other fees	2
	9

2.3 Payments provided by Živnostenská banka to **Pioneer** during period from 12 February 2003 to 31 December 2003 and their considerations are listed in the table below. All performances and consideration were granted within usual commercial relations or under usual business terms and conditions.

Considerations of Pioneer – Živnostenská banka's **revenues**	Payments in CZK million
Yields on the sale of ŽB-Asset Management, a.s.	27
	27

2.4 Payments provided by Živnostenská banka to **Magrathea 3** during period from 1 January 2003 to 11 February 2003 and their considerations are listed in the table below. All performances and consideration were granted within usual commercial relations or under usual business terms and conditions.

Considerations of Magrathea 3 – Živnostenská banka's **revenues**	Payments in CZK million
Interest on loan	1
	1

2.5 Payments provided by Živnostenská banka to **ŽB-Trust, investment company** in 2003 and their considerations are listed in the table below. All performances and consideration were granted within usual commercial relations or under usual business terms and conditions.

Considerations of ŽB-Trust investment company – Živnostenská banka's **revenues**	Payments in CZK million
Commission from the sale of mutual shares	3
Lease of the Živnostenská banka group logo	2
Issue, custody, deposit and management of securities, settlement of securities transactions and related services	1
Other services	2
	8

2.6 Payments provided by Živnostenská banka to **ŽB-Asset Management** in 2003 and their considerations are listed in the table below. All performances and consideration were granted within usual commercial relations or under usual business terms and conditions.

Considerations of ŽB-Asset management – Živnostenská banka's **revenues**	Payments in CZK million
Lease of the Živnostenská banka group logo	1
Issue, custody, deposit and management of securities and related services	1
Other services	2
	4

3. Other legal acts carried out by Živnostenská banka in the interest of BGB, UCI, Magrathea 3, ŽB-Trust, investment company and ŽB-Asset Management:

The Board of Directors of Živnostenská banka, a.s. declares that Živnostenská banka executed no other legal acts in the interest of BGB, UCI, Magrathea 3, ŽB-Trust, investment company and ŽB-Asset Management in the 2003 accounting period which are beyond the scope of usual legal acts within ordinary trade relations or usual legal acts executed by Živnostenská banka within the standard exercise of rights of BGB as the majority shareholder of Živnostenská banka or within the standard exercise of rights of Živnostenská banka as the sole shareholder of ŽB-Trust, investment company and ŽB-Asset Management.

4. Other measures taken or implemented by Živnostenská banka in the interest or on the initiative of BGB, UCI, ŽB-Trust, investment company and ŽB-Asset Management, and their benefits and drawbacks:

The Board of Directors of Živnostenská banka declares that Živnostenská banka took or implemented in the interest or on the initiative of BGB, UCI, ŽB-Trust, investment company and ŽB-Asset Management no measures in the 2003 accounting period beyond the scope of ordinary trade relations or of the standard exercise of rights of BGB as the majority shareholder of Živnostenská banka or within the standard exercise of rights of Živnostenská banka as the sole shareholder of ŽB-Trust, investment company and ŽB-Asset Management.

5. **Damage** suffered by Živnostenská banka in connection with contracts made and measures taken or implemented:

The Board of Directors of Živnostenská banka declares that Živnostenská banka suffered no damage in connection with contracts made and measures taken or implemented.

Prague, 15 March 2004

On behalf of the Board of Directors of Živnostenská banka

Jiří Kunert
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 2003

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Carmine Ferraro	Chairman	29 July 2003	university and many years of practical experience in banking	Chairman of the SupB: Unibanka, a.s.
Massimiliano Moi	Deputy Chairman	29 July 2003	university and many years of practical experience in banking	none
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
Uwe Kruschinski	member	12 March 2003	University and many years of practical experience in banking	Member of the BoDir: Bankgesellschaft Berlin AG
Franjo Luković	member	10 September 2003	university and many years of practical experience in banking	Chairman of the SupB: Zagrebaćka banka Chairman of the SupB: Pliva Zagreb
Eva Mikulková	member	10 June 2003	secondary school and many years of practical experience in banking	none
Secondino Natale	member	12 March 2003	university and many years of practical experience in banking	Member of the BoDir: UniCredito Italiano Bank (Ireland); Unicredito Suisse SA; Clarima SpA; I-Faber SpA; Service Lab SpA
Andrea Varese	member	12 November 2003	university and many years of practical experience in banking	Chairman of the SupB: Bank Pekao Ukraine S.A. Pekao Leasing Sp. zoo Leasing Fabriczyne Sp. zoo

1.2. The Supervisory Board as at 11 March 2004

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Carmine Ferraro	Chairman	29 July 2003	university and many years of practical experience in banking	Chairman of the SupB: Unibanka, a.s.
Massimiliano Moi	Deputy Chairman	29 July 2003	university and many years of practical experience in banking	none
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
Alberto Devoto	member	11 March 2004	university and many years of practical experience in banking	Member of the BoDir: Tayar Receivables Company Cassa di Risparmio di Trieste CassaMarca
Uwe Kruschinski	member	12 March 2003	university and many years of practical experience in banking	none
Franjo Luković	member	10 September 2003	university and many years of practical experience in banking	Chairman of the SupB: Zagrebaćka banka Chairman of the SupB: Pliva Zagreb
Andrea Varese	member	12 November 2003	university and many years of practical experience in banking	Chairman of the SupB: Bank Pekao Ukraine S.A. Pekao Leasing Sp. zoo Leasing Fabriczyne Sp. zoo

1.3. The Board of Directors as at 31 December 2003

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Jiří Kunert	Chairman	12 May 2003	university and many years of practical experience in banking	None
Sandro Bianco	Deputy Chairman	5 June 2003	university and many years of practical experience in banking	None
Pavel Chlumský	member	12 March 2003	university and many years of practical experience in banking	None
Josef Pitra	member	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	Executive Director: Zivnostenska Finance B.V.
Martin Kryl	member	19.October 2001	university and many years of practical experience in banking	None
Tomáš Zralý	member	1 March 1992	university and many years of practical experience in banking	Executive Director: Zivnostenska Finance B.V.

1.4. The Board of Directors as at 1 January 2004

Name	Post	Commencement of post	Qualification	Membership in the bodies of other companies
Jiří Kunert	Chairman	12 May 2003	university and many years of practical experience in banking	none
Sandro Bianco	Deputy Chairman	5 June 2003	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	Executive Director: Zivnostenska Finance B.V.

2. Selected quantitative ratios

Capital adequacy:	12.25%
Tier 1:	CZK 2,637,977,000
Tier 2 and Tier 3:	CZK 1,390,421,000
Sum of items deductible from Tier 1 and Tier 2 or from the sum of Tier 1 and Tier 2:	CZK 85,127,000
Total capital:	CZK 4,028,196,000
Individual capital requirements pursuant to special regulations:	A: CZK 2,497,270,000
	B: CZK 132,855,000
Return on average assets (ROAA):	0.5191%
Return on average equity (ROAE):	9.7870%
Assets per one employee:	CZK 61,685,000
Administration costs per one employee:	CZK 1,145,000
Net profit per one employee:	CZK 327,910

ADDITIONAL INFORMATION

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

In 2004, 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

Activities resulting from the Bank's licence:

- the performance of the activities specified in the Act on Banks in Section 1 (1), letter

a) acceptance of deposits from the public,
b) provision of credits

- the performance of the activities specified in the Act on Banks in Section 1 (3), letter

a) investments in securities for own account,
b) financial leases,
c) money transmission services and settlement of payments,
d) issuance and administration of means of payment,
e) provision of guarantees,
f) opening of letters of credit,
g) arrangement of payment collection,
h) provision of investment services including

- the principal investment service under Section 8(2) letter (a) of Act No. 591/1992 Coll.; on Securities, as amended (the "Securities Act"), reception and transmission of orders relating to investment instruments on the client's account, that being in respect of the investment instruments under Section 8a (1)(a) through (g) of the Securities Act,
- the principal investment service under Section 8(2) letter (b) of the Securities Act, execution of orders relating to investment instruments on a foreign account, that being in respect of the investment instruments under Section 8a(1) letter (a) through (g) of the Securities Act,
- the principal investment service under Section 8(2) letter (c) of the Securities Act, trading in investment instruments on own account, that being in respect of the investment instruments under Section 8a(1) letter (a) through (g) of the Securities Act,
- the principal investment service under Section 8(2) letter (e) of the Securities Act, subscription in respect of issues of investment instruments or placement

of such issues, that being in respect of the investment instruments under Section 8a(1) letter (a) through (g) of the Securities Act,
- supplementary investment services under Section 8(3) letter (a) of the Securities Act, safekeeping and administration of one or several investment instruments, that being in respect of the investment instruments under Section 8a(1) letter (a) through (c) of the Securities Act,
- supplementary investment services under Section 8(3) letter (d) of the Securities Act, advisory activities regarding capital structure, industrial strategy and related matters, as well as the provision of advice and services regarding mergers and acquisitions of businesses,
- supplementary investment services under Section 8(3) letter (e) of the Securities Act, services relating to the subscription of securities pursuant to Section 8(2) letter (e) of the Securities Act, that being in respect of the investment instruments under Section 8a(1) letter (a) through (g) of the Securities Act,
- supplementary investment services under Section 8(3) letter (f) of the Securities Act, advisory activities regarding investments into investment instruments, that being in respect of the investment instruments under Section 8a(1) letter (a) through (g) of the Securities Act,
- supplementary investment services under Section 8(3) letter (g) of the Securities Act, execution of foreign exchange transactions related to the provision of investment services,

i) issuance of mortgage bonds,
j) financial brokerage,
k) acting as a depositary,
l) currency exchange services (purchases of foreign exchange),
m) provision of banking information,
n) trading for own account or for account of clients in foreign exchange and gold,
o) lease of safe deposit boxes,
p) activities directly associated with the activities specified in the banking license of the bank.

Information about judicial proceedings

Živnostenská banka, a.s. is party to several legal disputes. As at 31 December 2003, the Bank had created a provision of CZK 50 million (31 December 2002: CZK 50 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 2003, Živnostenská banka, a.s., invested CZK 42 million into intangible assets and CZK 63 million into 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.

Risk Management

Risk management process is an inseparable part of the bank and is a basic tool ensuring health business activities of the bank. The needs of improving of risk management processes arises from the fact, that the Bank is during client's business activities more and more often exposed to various types of risks - notably credit risk, market risk, liquidity and operational risk. Živnostenská banka dedicates big attention to the risk management processes and thanks to well-timed identification of risks, their monitoring, measurement and highly sophisticated structure of internal limits for particular type of risks and products the Bank mitigates all type of risks to acceptable level, what is vindicated by relatively low volume of classified loans and satisfactory business results.

Risk management organization

Risk management processes are independent on all types of business activities of the Bank. Risk management in Živnostenská banka is in responsibility of following divisions:

- Risk management division with the responsibility for market risk, operational risk and credit risk on portfolio basis
- Credit division with the responsibility for credit risk of individual business cases

Both these divisions are directly reporting to Deputy Chief Executive Officer (see organizational chart of the Bank). Board of Directors covers whole risk management process and informs Supervisory Board on regular basis.

The executive power in the risk management area is in hands of “Asset and liabilities management committee” and “Credit committee” where permanent members are also the members of Board of Directors.

The bank has been during year 2003 intensively prepared on changes of bank regulation with respect to expected requirements of Basel Committee on Banking Supervision. This process of preparation will also continue in following years. The respective Bank’s representatives are taking part in mutual project together with representatives of ČNB, Banking association, The Chamber of auditors and other banks. The respective Bank’s representatives are also taking part in courses and seminars aimed on risk management and upcoming new Basel Accord problems.

The Bank deals on OTC markets and uses following financial derivatives for risk management purposes:

- Interest rates swaps (with distinction between hedging and trading purposes)
- Currency swaps
- Currency forwards
- Forward rate agreements

<u>Operational risk</u>

Risks to which is the Bank exposed and which are not possible to be qualified as market, credit or liquidity, are supposed to be qualified as operational risks. The operational risk was monitored mainly on the level of individual organisational units in year 2003. There was launched the project with the objectives of set up the active management of operational risk on central basis level including the implementation of monitoring and measurement tools during the year 2003. Guarantor of this project is the parent company UniCredito Italiano (UCI) and the project is planned to continue within the forthcoming years. The UCI Group plans to set up one of the advanced measurement approaches. The banks within the UCI Group were introduced with the group strategy and objectives in the operational risk management area and the contact and responsible persons for this area were appointed in every single bank.

The next step planned by Živnostenská banka in the operational risk management area and initiated at the beginning of the year 2004 is the creation of centralised database of individual events of operational risk according to rules for requirements on capital adequacy defined by Basel Committee on Banking Supervision. This database is supposed to be a basis for set up the procedures, which should lead to decrease of individual events incidence and to decrease of its impacts. This database will be subsequently used as the infallibility backward control of the suggested system for operational risk limitation.

<u>Market risk</u>

The Bank is exposed to the risk of potential losses in on and off balance sheet positions due to adverse movement in interest rates, foreign exchange and market volatility. All these three factors are considered as a source of market risk. The bank has set of tools like Value at Risk, reprising and liquidity gap analysis, stress tests and sensitivity analysis, which are measuring the market risk value. In co-operation with UCI the Bank created strategic document – Investment policy, which describes in detail all sources of market risk and processes, how to quantify all types of market risks with following principles:

- All market risk limits are monitored on daily basis
- Risk control is independent from Financial Markets Division and reports directly to the Board of Directors
- All new activities/products of financial markets must be always in detail analyzed from the risk management point of view before they are offered to clients or booked into the Bank's books.
- Risk management of UCI and top management of Živnostenská banka must be always informed of the major change in risk profile, limit breaches, new instruments or any important decision regarding market risk

Risk management of the Bank reviews at least once a year all type of market risk limits. Newly adjusted limits must be subsequently approved by the Board of Directors.

Main achievement of Risk management in year 2003 was the implementation of Value at Risk methodology (VaR). VaR methodology is used for quantifying of interest rate risk of Trading book, Available for Sale book and for FX risk of whole Bank's FX position.

OTHER SENIOR MANAGERS OF ŽIVNOSTENSKÁ BANKA, A.S.

Managing Directors

Mr Petr Bartel – Risk Management Division
Mr Jan Boček – Marketing Division (since 15 September 2003)
Mr Pavel Chlumský – Corporate Banking (until 11 March 2003)
Mr Peter Kenneth Medlock – Financial Markets Division
Ms Vladimíra Josefiová, MBA – Human Resources Division (since 6 March 2003)
Mr Michal Vančík – Private Banking Division (since 16 April 2003)
Mr Josef Vanžura – Organizazion Division (since 20 February 2003)

Directors

Mr Miloš Bádal – Retail Credit Division
Ms Ivana Burešová – Legal Division
Mr Vladimír Burian – Prague Branch, Retail Banking
Mr George Briford – Retail Product Development and Management Division (since 1 September 2003)
Mr Josef Ciglanský – Karlovy Vary Branch, Corporate Banking
Ms Anna Čápová – Private Banking Division (until 16 April 2003)
Mr Michael Dománek – Liberec Branch, Corporate Banking
Mr Petr Hladký – Corporate Credit Division
Mr Vladimír Chudárek – Zlín Branch, Retail Banking
Mr Vlastislav Klimeš – České Budějovice Branch, Corporate Banking
Mr Luděk Klíma – Liberec Branch, Retail Banking (entrusted with management since 1 July 2003)
Mr Ladislav Louka – Financial Markets (temporarily entrusted with management since 1 July 2003)
Ms Lýdie Matajová – Pardubice Branch, Retail Banking (since 1 July 2003)
Mr Miroslav Matoušek – Operations Division
Mr Miloslav Mencl – Prague Branch, Corporate Banking (since 1 July 2003)
Ms Eva Mirolová – Ostrava Branch, Retail Banking (temporarily entrusted with management since 1 July 2003)
Mr Petr Merežko – Structured Finance Division
Mr Aleš Novák – Brno Branch, Retail Banking
Mr Petr Novák – Support Division
Ms Veronika Panáčková – Financial Division (since 1 December 2003)

Ms Jaroslava Pelechová – Internal Audit Division
Mr Michal Provazník – Information Technology Division
Ms Šárka Prudká – Ostrava Branch, Corporate Banking (since 1 July 2003)
Mr Pavel Rauscher – Karlovy Vary Branch, Retail Banking (since 1 July 2003)
Mr Ladislav Řehák – Pardubice Branch, Corporate Banking
Mr Jaroslav Řezníček – Personnel Division (until 10 March 2003)
Ms Anna Smutná – Financial Division (until 29 November 2003)
Mr Vladimír Štefánik – Zlín Branch, Corporate Banking (since 1 July 2003)
Mr Jan Uhlík – Financial Institutions Division
Mr Jiří Uklein – Ostrava Branch, Corporate Banking (until 31 August 2003)
Mr Tomáš Vilím – Retail Sales and Distribution Management Division
(until 31 October 2003)
Mr. Petr Voráček – České Budějovice Branch, Retail Banking (since 1 July 2003)

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