Annual Report of Živnostenská banka for the year 2004

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Composition of the Supervisory Board and Board of Directors

The Supervisory Board

Mr Carmine Ferraro, Chairman
Mr Massimiliano Moi, Deputy Chairman
Ms Ivana Burešová
Mr Vladimír Burian
Mr Alberto Devoto (since 11 March 2004)
Mr Uwe Kruschinski
Mr Franjo Luković
Ms Eva Mikulková
Mr Secondino Natale (until 11 March 2004)
Mr Andrea Varese

The Board of Directors

Mr Jiří Kunert, Chairman
Mr Sandro Bianco, Deputy Chairman
Mr Aleš Barabas

Supervisory Board Report

The Supervisory Board reviewed the statutory and consolidated financial statements prepared as at 31 December 2004 together with the Auditor's Report by the company KPMG, which is the independent auditor of Živnostenská banka, a.s. for the year 2004, and the proposal for distribution of profit. The Supervisory Board acknowledge the conclusion drawn in the Auditor's Report that the financial statements clearly evidence the financial situation of Živnostenská banka, a.s. as at 31 December 2004 and its results for the 2004 accounting period. Considering the Auditor's Report, the Supervisory Board, based on their activity, state that the statutory and consolidated financial statements truly reflect assets, liabilities and the financial situation of Živnostenská banka, a.s. in all substantial matters 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 eight 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, among others, a medium-term business plan of the Bank 2005-2007, its budget and the credit policy for 2005.

The Supervisory Board further state that, based on the statutory and consolidated financial statements and other documents provided to the Supervisory Board in 2004, it did not identify any material deficiencies 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 situation of Živnostenská banka, a.s.

The Supervisory Board reviewed 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 2004 as prepared by the Board of Directors of Živnostenská banka, a.s. and provided to the Supervisory Board. The Supervisory Board have no material objections to the Report.

March 2005

Carmine Ferraro
Chairman of the Supervisory Board

Introduction by the Chairman of the Board of Directors to the Board of Directors' Report

Dear Shareholders, Ladies and Gentlemen,
I have been considering for a long time how to briefly and clearly assess the year 2004, how to simply describe what the year, when the Czech Republic joined the European Union, signifies for ŽB, how important it was for its history, in what it particularly differs from previous 135 years of its existence.

Last year we finished the principal structural changes and the full embodiment of Živnostenská banka to UniCredit's New Europe Division. Our Bank started to successfully fulfil its ambitious intentions in retail banking. Its product drive based on Personal Menu packages with a unique conception of "all inclusive" has addressed a wide range of new clients. The Bank succeeded with its new idea of single interest rates with mortgage loans as well as with EUROTOP structured deposits which further move limits in the elimination of risks with investments into shares. The opening of 14 new branches represented the largest extension of a commercial network in one year in the Bank's history.

In traditional segments of private and corporate banking our Bank has confirmed its position in stiff competition. The speeding up of approving processes and our higher flexibility led to the more rapid settlement of clients' requirements. The Bank extended its portfolio by, among others, new operating and investment loans for small companies and entrepreneurs. Modern product innovations resulted in awards received by some products in prestigious competitions. For example the Business Menu XXL+ package was appreciated by specialists as the best business account in the Zlatá koruna competition, in Rhodos, the national competition for the best image, the Bank won one of the leading positions for the third time in succession.

By its basic economic figures Živnostenská banka fulfilled its planned targets for 2004. Net profit according to the Czech Accounting Standards reached CZK 195m. A volume of granted loans has been developing positively. It rose by 7.5 per cent compared to the year 2003 and achieved almost CZK 25b. Revenues also continued to grow and exceeded CZK 1.5b. The Bank's total assets slightly decreased to CZK 47b last year.

The year 2004 has brought wider co-operation with the Pioneer Investments Group. In the first half of the year the process of take-over and merger of the Group with ŽB-Trust and ŽB Asset Management ended. It has integrated UniCredito's activities in the Czech Republic in collective investments and asset management to one company. Živnostenská banka gradually becomes a key distributor not only for local Czech crown funds from former Živnobanka funds but also for Luxembourg funds of the Pioneer Group denominated in foreign currencies.

Last year Živnostenská banka made a significant step in accomplishing its targets, which it had outlined after the entry of UniCredito Italiano, both in retail banking and in traditional private and corporate banking segments. The fact that this has happened shortly after the Bank's take-over by its new shareholder guarantees its further dynamic growth, an increase in its efficiency and ability to compete on the market. In addition to support from UniCredito, we can also rely on our qualified and loyal employees. I am convinced that they are the guarantee that our Bank will further grow and respect its traditional values.

March 2005

Jiří Kunert

Chairman of the Board of Directors

Directors' Report

Dear Clients and Business Partners,
Let us present you the Annual Report of Živnostenská banka, a.s. for 2004.

Czech Economy in 2004
In 2004, the economic environment had a positive impact on the whole banking sector in the Czech Republic. Thanks to revival in Eurozone, the economy continued to grow dynamically as in preceding year. Gross domestic product (GDP) increased 4 per cent, but still lagged behind the economic performance of the majority of countries of Central and Eastern Europe.

A positive attribute of the economic development in 2004 was a healthier structure of an economic growth. While in preceding years the economy had been growing thanks to households consumption expenditures, last year high demand for investments, and also exports, pulled the economy ahead. Such development has laid a basis for more robust economic performance in future and has become an essential precondition for the creation of new labour opportunities, higher labour productivity and more rapid rise in wages. Investments into fixed capital accelerated due to revived inflow of direct foreign investments and improved financial standing of Czech companies. Investments were made; mainly into the transport infrastructure, manufacturing and non-manufacturing plants owned by foreign investors and into the housing industry.

Although the dynamic growth in loans to households remained above 30 per cent during the year, private consumption expenditures have considerably decelerated, mainly due to tax measures adopted by the Government causing the rise in prices, and also due to a record unemployment rate at the beginning of the year. Government consumption expenditures decreased mainly due to savings in costs for material, repairs and maintenance. For the first time within the last three years, a contribution to GDP growth in the form of net exports was positive due to rapidly decreasing foreign trade gap. Traditional surplus of imports over exports expressed in current prices has year-on-year fallen by about CZK 50 billion and achieved the level of 1993. Foreign trade was improved not only owing to ever reviving demand from abroad, but also thanks to the fact that the Czech Republic has officially become a member of the European Union. Foreign trade has improved not only due to an increased demand from abroad, but also due to membership of the CR in the EU which entailed, among others, cancellation of customs duties in trade with EU countries and opened the European market to our exporters. Rapid growth in exports continued despite the strong Czech crown which has strengthened by 6 per cent last year.

Rising costs of housing, changes in a value added tax and higher excise tax have jointly contributed to acceleration of inflation. In an effort to maintain the price growth under control, the Czech National Bank twice increased interest rates. Basic short-term financial market rate had increased by 50 b.p. to 2.50 per cent, however, an absence of inflation pressures on the side of demand and the Czech currency rapidly strengthening at the year end created preconditions for the new interest rate cut.

Due to better collection of tax and due to savings in government consumption expenditures a state budget gap decreased to CZK 93.5 billion thus being lower by CZK 22.2 billion than formerly planned. In addition, a gap in public budgets, which has a key meaning for the assessment of fulfilment of the state convergence programme, has also considerable fallen. However, the improvements were mainly the result of higher taxes and fast economic growth. Unfortunately, last year the government did not show courage to start up deep structural reforms which could guarantee long-time stability of public finances.

Economic and Business Results

Financial results of Živnostenská banka in 2004 were influenced by the Bank's expansion in the retail banking segment and by optimization of its organization structure and selected activities of support providing divisions which was launched as early as in 2003, following the entry of UniCredito Italiano into ŽB.

In the period under consideration Živnostenská banka reported a net profit after tax in the amount of CZK 195 million according the Czech Accounting Standards. Such positive economic result is due to increase in revenues (year-on-year increased by more than 4 per cent) and due to management of costs for the Bank's expansion, in particular, in the retail banking and branch network development.

Although in 2004 the volume of total assets slightly fell to CZK 46.8 billion, the Bank managed to fulfil its objectives in the corporate finance sphere and in a segment of services to citizens and small business clients. The Bank's business has grown mainly in the sphere of loans to individuals, the volume of which amounted to approx. CZK 3.3 billion (year-on-year increase by 50 per cent). By acquiring more than 12 000 clients the Bank created preconditions for the future growth of a client basis, mainly in a segment of affluent clients - individuals and in a segment of medium-size clients. Owing to a traditionally conservative approach to the risk management, the Bank preserved a low risk ratio of granted loans - a proportion of non-performing loans remained below the level of 2 per cent, which is deep below a long-time average in a banking sector.

In 2004 the Bank continued to optimize its organization structure, launched the implementation of projects in the sphere of IT and human resources management, focussing prevailingly on identification of synergy effects within the New Europe Division of the UniCredit Group. In 2004 Živnostenská banka transferred the facility management activities to the company Altys from the Sodexho Aliance Group and operations related to payment cards transactions to the company Transacty Slovakia. In a human resources sphere the Bank enlarged the MBO remuneration system (Management By Objective) and TRS system (Team Reward System) by new criteria of assessment of employees based on the market value of individual jobs. Human Resources Division organized a number of training projects the aim of which was to increase sales skills of the Bank's employees on commercial positions in the Bank.

Private and retail banking

Pursuant to a new business strategy adopted by Živnostenská banka, a.s. after the entry of UniCredito Italiano (UCI) to ŽB, the Bank focused all its efforts on the acquisition of new clients, development of products and services for affluent clients - individuals and small business clients, as well as on expansion of its branch network.

During 2004, the Bank opened 14 new branches in Prague, Brno, Ostrava and other large cities and thus increased the number of its outlets from 26 to 40. It implemented a new organization structure of the retail banking segment, in particular, it split the operating management of its distribution network from the creation of this segment strategy and from the product development and controlling. We anticipate that this change will contribute to more efficient management of the Bank's trading network and to creation of the target-based segment strategy corresponding to the Bank's business objectives and current market conditions.

In 2004, the Bank completed the integration of ŽB-Asset Management and ŽB-Trust into Pioneer Investments Group, UniCredit Group's specialized division, which focuses on the collective investment and assets management. The Bank also enlarged its investment products portfolio by mutual funds from the Pioneer Investments group, which offer certificates denominated in foreign currencies. We assume that close cooperation of Živnostenská banka, a.s. and Pioneer Investments will continue also in future and enable Živnostenská banka to exploit synergy effects arising from the merge of both companies.

During the year the Bank significantly increased its exposure in the residential property financing. It granted more than 600 mortgage loans in the total volume exceeding CZK 1.3 billion (year-on -year increase by 40 per cent). It follows that mortgage loans appeared to be most rapidly growing within the whole retail banking segment and will become one of the main pillars of the Bank's future expansion in a segment of services to individuals.

Last year the Bank enlarged its offer of investment products by new structured EUROTOP deposits, which products combine features of standard time deposits and investments into shares and share index. The Bank complemented its portfolio of services for small business clients by operating and investment loans with simple administration.

In direct banking channels Živnostenská banka enlarged operability and user comfort of Netbanka (internet banking) which, jointly with MiniBanka (GSM Banking) and TeleBanka (phone banking), provides a client with comfort of easy contact with his Bank. Direct banking of Živnostenská banka is widely used and last year the number of its users increased by 44 per cent.

Corporate Banking

In many aspects the year 2004 marked a turning point in the corporate banking segment. The Bank successfully expanded in a segment of medium-size corporate clients, where it acquired about 300 new corporate clients and achieved 16 per cent increase in revenues. The Bank had also strengthened its position in a segment of large corporations.

Last year ŽB continued to implement a business model and risk management standards in accord with UniCredito launched in 2003. Živnostenská banka reorganized its trade financing, integrated documentary payments and guarantees, hitherto independent department, into a newly created department. A corporate banking segment was enlarged by clients from the financial institutions group, which were moved there from the investment banking division.

Trade finance activities were complemented by the factoring which had shortly become a significant alternative of financing requested both by new and existing clients. The Bank developed a new concept of the cash management and derivative trades thus anticipating higher requirements of corporate clients for cashflow management and risk management.

Along with changes carried out in the product sphere the Bank implemented new rules for business and management work, which have been created within the framework of the Sales Force Management project. Živnostenská banka assumed and implemented Corporate Credit Underwriting Tool, a new model of processing loans, thus harmonizing processes with UniCredito standards.

Risk Management
Živnostenská banka has traditionally paid great attention to risk management processes. By early identification and monitoring of risks, by use of high quality of measurement and sophisticated structure of internal limits for individual types of risks and products, the Bank is able to eliminate individual risks to an acceptable level. The proof of this trend is a low volume of non-performing loans, which is deep below the average of the whole banking sector, and generally good business results of the Bank.

Having regard to the Basle Committee's requirements for banking supervision, in 2003-2004 the Bank had been preparing intensively for changes in regulation and will continue so in the years to come. Representatives of the Bank are engaged in the Basle II project jointly with representatives of the CNB, Czech Association of Banks, Chamber of Auditors and other banks.

Basic risk management methodology is a Value at Risk (VaR) method which the Bank has been applying since 2003. In 2004 the Bank implemented a new internal rating system for corporate banking segment. The internal rating is an integral part of the credit process of the Bank.

In the sphere of the operating risk the Bank has built up a sustained database of operating risk events.

Charity and Sponsorship
Last year Živnostenská banka focused its sponsorship support on projects corresponding to values which the Bank has been long developing and representing and which are in line with the sponsorship strategy of UNIDEA, a foundation of UniCredito Italiano, the main shareholder.

In 2004, Živnostenská banka became a sponsor of the Czech Olympic team for the period of 4 years. In our opinion the Olympic movement exactly symbolises values which Živnostenská banka wishes to develop - traditions, dynamism and competitiveness within the framework of fair play rules. Živnostenská banka is a long-time sponsor of the international tennis tournament Živnobanka Czech Open in Prostějov, which is a significant regional event of the international significance.

Last year Živnostenská banka continued to provide support to projects focused on health and charity. The Bank granted a gift to the foundation Kapka naděje which helps children with defects of blood forming. Within the scope of small charity events Živnostenská banka provided support to a number of projects from the humanitarian sphere, health and culture sphere, whether nationwide or regional.

Conclusion

The year 2004 was the first in the realisation of a new business strategy laid down by UniCredito Italiano after the takeover of ŽB in 2003. We are convinced that results achieved in 2004 have become a good basis for further strengthening of traditionally firm position of Živnostenská banka, a.s. on the Czech market.

March 2005

Board of Directors of Živnostenská banka, a.s.

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Auditor's report to the shareholders of Živnostenská banka, a.s.

On the basis of our audit, on 14 February 2005 we issued an auditor's report on the statutory financial statements of Živnostenská banka, a.s., which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of Živnostenská banka, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Živnostenská banka, a.s. as of 31 December 2004 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic."

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

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

Prague
31 March 2005

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

Pavel Závitkovský
Licence number 69

Statutory Financial Statements Audited by Czech Accounting Standards

Balance Sheet as at 31 December 2004

	Assets:	Note	31 December 2004 CZK million	31 December 2003 CZK million
1.	**Cash and deposits with central banks**	**3**	**1 979**	**1 811**
2.	**State treasury and other bills eligible for CNB refinancing**	**6**	**606**	**1 377**
	a) issued by government institutions		606	1 377
3.	**Due from banks**	**4**	**12 428**	**17 368**
	a) repayable on demand		95	86
	b) other receivables		12 333	17 282
4.	**Due from customers**	**5**	**24 520**	**22 786**
	a) repayable on demand		6	5
	b) other receivables		24 514	22 781
5.	**Debt securities**	**6**	**5 170**	**4 194**
	a) issued by government institutions		0	256
	b) issued by other entities		5 170	3 938
6.	**Shares, mutual shares and other interests**	**6**	**22**	**22**
8.	**Participation interests with controlling influence**	**7**	**0**	**5**
9.	**Intangible fixed assets**	**8**	**108**	**85**
10.	**Tangible fixed assets**	**8**	**1 456**	**1 343**
	of which: land and buildings for operating activities		1 196	1 115
11.	**Other assets**	**9**	**479**	**262**
13.	**Prepayments and accrued income**		**19**	**33**
	Total assets		**46 787**	**49 286**

Liabilities:		Note	31 December 2004 CZK million	31 December 2003 CZK million
1.	**Due to banks**	**11**	**5 389**	**4 766**
	a) repayable on demand		104	18
	b) other payables		5 285	4 748
2.	**Due to customers**	**12**	**33 228**	**34 717**
	a) repayable on demand		13 775	15 162
	b) other payables		19 453	19 555
3.	**Liabilities from debt securities**	**13**	**2 654**	**4 164**
	a) issued debt securities		2 654	3 413
	b) other liabilities from debt securities		0	751
4.	**Other liabilities**	**15**	**1 013**	**1 121**
5.	**Accruals and deferred income**		**38**	**31**
6.	**Provisions**	**10, 17**	**293**	**503**
	a) provisions for pensions and similar liabilities		2	2
	b) other provisions		291	501
7.	**Subordinated liabilities**	**14**	**1 000**	**1 000**
8.	**Share capital**	**16**	**1 360**	**1 360**
	a) share capital paid up		1 360	1 360
10.	**Reserve funds and revenue reserves**		**1 083**	**1 083**
	a) statutory reserve funds and risk funds		272	272
	b) other revenue reserves		811	811
14.	**Retained earnings from previous periods**		**534**	**279**
15.	**Profit for the accounting period**		**195**	**262**
	Total liabilities		**46 787**	**49 286**

Off-Balance Sheet as at 31 December 2004

	Assets:	Note	31 December 2004 CZK million	31 December 2003 CZK million
1.	Commitments and guarantees given	**17**	14 337	13 115
3.	Receivables from spot transactions		2 873	4 279
4.	Receivables from term instruments	**26**	16 352	17 206
5.	Receivables from option instruments	**26**	1 182	0
6.	Receivables written-off		85	97
	Total off-balance sheet assets		**34 829**	**34 697**
	Liabilities:			
9.	Commitments and guarantees received	**5**	4 326	5 025
10.	Collaterals received and pledges	**5**	28 467	31 233
	of which: Collaterals - securities	**17**	6 331	12 155
11.	Payables from spot transactions		2 873	4 277
12.	Payables from term instruments	**26**	16 275	17 175
13.	Payables from option instruments	**26**	1 182	0
14.	Assets under management	**17**	41 305	10 461
	Total off-balance sheet liabilities		**94 428**	**68 171**

Income Statement for the Year Ended 31 December 2004

		Note	2004 CZK million	2003 CZK million
1.	**Interest receivable and similar income**	**18**	**1 432**	**1 524**
	of which: interest income from debt securities		143	179
2.	**Interest payable and similar expense**	**19**	**- 571**	**- 704**
	of which: interest expense on debt securities		- 47	- 25
	Interest margin		**861**	**820**
3.	**Income from shares and other interests**		**28**	**61**
	of which: a) income from interests in subsidiary undertakings		28	61
	b) other income from shares and interests		0	0
4.	**Fee and commission income**	**20**	**368**	**323**
5.	**Fee and commission expense**	**20**	**- 52**	**- 42**
	Gains or losses from fee and commission		**316**	**281**
6.	**Gains or losses from financial transactions**	**21**	**251**	**275**
7.	**Other operating income**	**22**	**103**	**60**
	Net income		**1 559**	**1 497**
8.	**Other operating expense**	**23**	**- 86**	**- 29**
9.	**Administrative expense**	**23**	**- 1 020**	**- 861**
	of which: a) staff costs		- 524	- 457
	of which: aa) wages and salaries		- 392	- 345
	ab) social and health insurance		- 132	- 112
	b) other administrative expenses		- 496	- 404
11.	**Depreciation, additions and utilisation of provisions for tangible and intangible fixed assets**	**8**	**- 216**	**- 259**
	Net operating expense		**- 1 322**	**- 1 149**
12.	**Release of provisions and reserves for loans and guarantees, income from receivables already written-off**	**10**	**304**	**264**
13.	**Write-offs, additions and utilisation of provisions and reserves for loans and guarantees**	**10**	**- 340**	**- 214**
14.	**Release of provisions for participating interests with significant and controlling influence**	**10**	**0**	**0**
15.	**Loss from transfer of participating interest with significant and controlling influence**	**10**	**0**	**0**
16.	**Release of other specific provisions**	**10**	**73**	**0**
17.	**Additions and utilisation of other specific provisions**	**10**	**- 21**	**- 1**
	Additions, usage and release of provisions		**16**	**49**
19.	**Profit on current activities before taxation**		**253**	**397**
20.	**Extraordinary income**	**2(x)**	**0**	**0**
21.	**Extraordinary expenses**	**2(x)**	**0**	**0**
22.	**Profit on extraordinary activities before taxation**		**0**	**0**
	Profit on current and extraordinary activities for the year before taxation		**253**	**397**
23.	**Income tax**	**24**	**- 58**	**- 135**
24.	**Profit for the year after taxation**		**195**	**262**

Statement of Changes in Equity for the Year Ended 31 December 2004

	Share capital CZK million	Reserve fund CZK million	Retained earnings CZK million	Profit for the year CZK million	Total CZK million
Balance as at 31 December 2002	**1 360**	**1 083**	**187**	**100**	**2 730**
Undistributed profit	0	0	92	- 92	0
Social fund contributions	0	0	0	- 8	- 8
Profit for the year	0	0	0	262	262
Balance as at 31 December 2003	**1 360**	**1 083**	**279**	**262**	**2 984**
Undistributed profit	0	0	255	- 255	0
Social fund contributions	0	0	0	- 7	- 7
Profit for the year	0	0	0	195	195
Balance as at 31 December 2004	**1 360**	**1 083**	**534**	**195**	**3 172**

Schedule to the Financial Statements for the Year Ended 31 December 2004

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 securities

Available-for-sale 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) Securities held-to-maturity

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

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) Operations in securities carried on for clients

Securities accepted by the Bank for custody or deposition are generally valued by their real value at the moment of their takeover and posted in the off-balance sheet in the item "Values taken over for custody and deposit". Securities taken over by the Bank for the purpose of their management are accounted for in their market value and registered in a off-balance sheet in the item "Values taken over for management". Bank's liabilities toward clients, mainly those from the cash received from clients and designed for the purchase of securities, cash designed to be returned to the client, etc., are accounted for in liabilities of the balance sheet.

(i) 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.

(j) 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.

(k) 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 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.

(l) Interest income and expense

Interest income and expense are recognised for all interest bearing instruments on an accrual basis. 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Tangible and intangible fixed assets

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

	Depreciation period (years)
Buildings and constructions	50
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.

(s) Value added tax

The Bank is registered for value added tax (hereinafter "VAT"). Tangible and intangible fixed 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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.

(x) Extraordinary items and changes in accounting policy

Extraordinary items include significant one-off effects of events outside the scope of the Bank's activities.

(y) Changes in accounting policy

There have been no significant changes in accounting policies during 2004.

3 CASH AND DEPOSITS WITH CENTRAL BANKS

	31 December 2004	31 December 2003
	CZK m	CZK m
Cash on hand	548	399
Obligatory reserves	1 428	1 373
Current accounts with central banks	3	39
	1 979	1 811

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 2.50% p.a. at 31 December 2004 (31 December 2002: 2.00% p.a.).

4 DUE FROM BANKS

	31 December 2004	31 December 2003
	CZK m	CZK m
Current accounts with banks	95	86
Term deposits with CNB		752
Term deposits with other banks	5 428	3 731
Standard loans to banks	437	431
Loans provided in reverse REPO transactions with CNB	6 468	12 368
	12 428	17 368

Related parties deposit

	31 December 2004	31 December 2003
	CZK m	CZK m
Parent company (UCI)	2	3
Companies in the group (UCI)	62	159
	64	162

In 2004 and 2003, the Bank did not restructure any of its receivables from banks. In 2004 and 2003 the Bank classified all claims from banks as standard.

5 DUE FROM CUSTOMERS

	31 December 2004 CZK m	31 December 2003 CZK m
Public sector	98	72
Financial sector	863	1 421
Non-financial sector - legal persons	20 873	19 567
Physical persons	3 307	2 158
	25 141	23 218
Allowance for impaired loans (Note 10)	- 621	- 432
	24 520	22 786

In addition to the allowance for impaired loans the Bank has reflected a general provision for loans of CZK 256 million at 31 December 2004 (31 December 2003: CZK 410 million). This provision has to be utilised or written back to income by 31 December 2005 (Note 2(p), Note 10).

The Bank restructured CZK 159 million of its loans and receivables in 2004 (31 December 2003: CZK 134 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 2004 the Bank led syndicate loans of CZK 167 million (31 December 2003: CZK 167 million).

(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 2004	31 December 2003
	CZK m	CZK m
Standard	20 713	21 675
Watch	3 961	1 093
Substandard	16	132
Doubtful	186	86
Loss	265	232
	25 141	23 218

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

Book value of pledges accepted to secure client's loans:

	31 December 2004	31 December 2003
	CZK m	CZK m
Accepted undertakings	4 326	5 025
Cash	425	272
Securities	462	1 342
Land and buildings	12 709	9 092
Other assets	8 540	8 372
	26 462	24 103

(b) Loans to related parties and major shareholders

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

	31 December 2004	31 December 2003
	CZK m	CZK m
Companies in the group (UCI)	156	167*
Board of Directors of the Bank	11	0
Supervisory Board of the Bank	2	2
Other members of management	23	21
Total loans to related parties	192	190

*The item includes the amount of CZK 2 million, which represents dues from funds under control of the company ŽB – Trust, investiční společnost, a.s

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.

6 SECURITIES

	State treasury and other bills eligible for CNB refinancing at 31 December		Bonds and similar debt securities at 31 December		Shares, mutual share and other interest equity securities at 31 December	
	2004 CZK m	2003 CZK m	2004 CZK m	2003 CZK m	2004 CZK m	2003 CZK m
Trading	606	1 377	4 413	3 423	0	0
- issued by government	606	1 377	0	0	0	0
- issued by financial sector	0	0	4 413	3 325	0	0
- issued by non-financial sector	0	0	0	98	0	0
Available for sale	0	0	757	771	22	22
- issued by government	0	0	0	256	0	0
- issued by financial sector	0	0	524	238	22	22
- issued by non-financial sector	0	0	233	277	0	0
	606	1 377	5 170	4 194	22	22

(a) Trading securities

State treasury bills and other securities accepted by Central bank for re-financing

	31 December 2004 CZK m	31 December 2003 CZK m
State treasury bills	357	1 377
Main or auxiliary market of recognised domestic stock exchanges	249	0
	606	1 377

Other debt securities

	31 December 2004	31 December 2003
	CZK m	CZK m
Main or auxiliary market of recognised foreigner stock exchanges	4 413	3 423
	4 413	3 423

Trading securities at 31 December 2004 include CZK 153 million of bonds issued by the parent company recognised at fair value (31 December 2003: CZK 163 million).

(b) Securities available-for-sale

Bonds and similar debt securities

	31 December 2004	31 December 2003
	CZK m	CZK m
Main or auxiliary market of recognised foreigner stock exchanges	757	771
Unquoted	0	0
	757	771

Shares and similar equity securities

	31 December 2004	31 December 2003
	CZK m	CZK m
Traded on main or auxiliary market of recognised stock exchanges		
Open mutual funds	12	12
Equity indices	0	0
Not traded on main or auxiliary market of recognised stock exchanges		
Joint stock company	10	10
Limited liability and other companies	0	0
Net value	22	22

Securities available-for-sale at 31 December 2004 include securities at fair value of CZK 12 million, which were issued by subsidiary or associated undertakings (at 31 December 2003: CZK 12 million).

(c) Securities held-to-maturity

At 31 December 2004, 2003 the Bank has no securities in a held to maturity portfolio.

7 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

(a) Investments in associated undertakings

At 31 December 2004, 2003 the Bank has no investments in associated undertakings.

(b) Investments in subsidiary undertakings

At 7 January 2004 the Bank sold its interest in associated undertaking, ŽB - Trust, investiční společnost, a.s., to Pioneer Global Asset Management S.p.A.

The selling price was CZK 4 735 800 for one share. Total selling price was CZK 94 million.

At 31 December 2004

Name, registered office and major business	Number of shares pieces	At cost CZK m	Nominal value CZK m	Equity CZK m	Share capital CZK m	Shareholding %
Zivnostenska Finance B. V. Haaksbergweg Zuidoost, The Nenterlands; Financial and investment services	n/a*	1	1	0	1	100
		1	1			
Provision for diminution in value (Note 10)		- 1				
Net value		0				

* n/a – not applicable

At 31 December 2003

Name, registered office and major business	Number of shares pieces	At cost CZK m	Nominal value CZK m	Equity CZK m	Share capital CZK m	Shareholding %
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; Financial and investment services	n/a*	1	1	0	1	100
		6	21			
Provision for diminution in value (Note 10)		- 1				
Net value		5				

* 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 2004, and 2003 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 2003	33	48	39	37
Sale of investment in ŽB - Asset Management, a.s.	- 28	- 27	0	0
Sale of investment in Český leasing, spol. s r.o.	0	0	- 39	- 37
At 31 December 2003	5	21	0	0
Sale of investment in ŽB - Trust, investiční společnost, a.s.	-5	-20	0	0
At 31 December 2004	0	1	0	0

8 INTANGIBLE AND TANGIBLE FIXED ASSETS

Intangible fixed assets

	31 December 2003	Additions	31 December 2004
	CZK m	CZK m	CZK m
Cost			
Software	622	72	694
Other	17	1	18
	639	73	712
Accumulated amortisation			
Software	541	47	588
Other	13	3	16
	554	50	604
Net book amount	85		108

	31 December 2002	Additions	31 December 2003
	CZK m	CZK m	CZK m
Cost			
Software	582	40	622
Other	15	2	17
	597	42	639
Accumulated amortisation			
Software	495	46	541
Other	9	4	13
	504	50	554
Net book amount	93		85

Tangible fixed assets

	31 December 2003 CZK m	Additions CZK m	Disposals CZK m	31 December 2004 CZK m
Cost				
Land and works of art	45	0	0	45
Buildings	1 576	85	0	1 661
Equipment	1 127	142	29	1 240
Assets in course of construction and advances granted	22	52	0	74
	2 770	279	29	3 020
Accumulated depreciation				
Buildings	499	61	0	560
Equipment	928	105	29	1 004
	1 427	166	29	1 564
Net book amount	1 343			1 456

	31 December 2002 CZK m	Additions CZK m	Disposals CZK m	31 December 2003 CZK m
Cost				
Land and works of art	45	0	0	45
Buildings	1 583	1	8	1 576
Equipment	1 087	49	9	1 127
Assets in course of construction and advances granted	9	13	0	22
	2 724	63	17	2 770

Accumulated depreciation

Buildings	431	76	8	499
Equipment	804	133	9	928
	1 235	209	17	1 427
Net book amount	1 489			1 343

Fixed assets held under finance lease contracts

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

Pledged assets

At 31 December 2004, 2003 there were no fixed assets provided by the Bank as security.

9 OTHER ASSETS

	31. December 2004 CZK m	31. December 2003 CZK m
Receivables from securities transactions	1	1
Operating advances granted	35	69
Settlement clearance accounts	0	1
Derivative financial instruments (Note 26(d))	260	111
Deferred tax asset (Note 24)	41	0
Other assets	142	80
	479	262

Derivative financial instruments as at 31 December 2004 include CZK 52 million due from related parties (31 December 2003: CZK 18 million).

10 ALLOWANCES, PROVISIONS AND WRITE OFFS

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

Provisions	31 December 2004	31 December 2003
	CZK m	CZK m
General provisions for loans (Note 5)	256	410
Specific provisions for guarantees (Note 17)	4	8
Others	33	85
	293	503
Allowances		
Impaired loans to customers (Note 5)	621	432
Equity investments (Note 7)	1	1
	622	433

The movements in provisions can be analysed as follows:

	General provisions for loans CZK m	Specific provisions for guarantees CZK m	Others provisions CZK m	Total provisions CZK m
At 31 January 2003	536	12	84	632
Usage	0	0	1	1
Release	- 126	- 4	0	- 130
At 31 December 2003	410	8	85	503
Additions	0	0	21	21
Release	- 154	- 4	- 73	- 231
At 31 December 2004	256	4	33	293

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
At 31 January 2003	363	19	1
Additions	204	0	0
Usage	0	- 19	0
Release	- 134	0	0
Foreign exchange adjustment	- 1	0	0
At 31 December 2003	432	0	1
Additions	348	0	0
Usage	- 17	0	0
Release	- 133	0	0
Foreign exchange adjustment	- 9	0	0
At 31 December 2004	621	0	1

Write-offs and recovery of amounts written off previously

	31 December 2004 CZK m	31 December 2003 CZK m
Amounts due from clients written off	- 18	- 11
Recovery of amounts written off previously	13	0
Net loss amounts written off	- 5	- 11

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 2004 CZK m	31 December 2003 CZK m
Due to other banks	5 389	4 766

Deposits from related parties

	31 December 2004 CZK m	31 December 2003 CZK m
Parent company (UCI)	13	4
Companies in UCI group	47	0
Deposits from related parties Total	60	4

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 2004 CZK m	31 December 2003 CZK m
Amounts due to governmental entities	1 435	3 312
Amounts due to municipalities	18	18
Amounts due to private customers	31 775	31 387
	33 228	34 717

	31 December 2004	31 December 2003
	CZK m	CZK m
Liabilities repayable on demand	13 775	15 162
Term accounts for fixed term	17 785	16 189
Term accounts with fixed notice period	1 460	1 453
Accepted Loans	0	1 693
Other	208	220
	33 228	34 717

Deposits from related parties

	31 December 2004	31 December 2003
	CZK m	CZK m
Subsidiary undertakings	0	39
Companies in UCI group	727	412*
Board of Directors	11	10
Supervisory Board	3	2
Other management	29	22
Deposits from related parties Total	770	485

* The item includes the amount of CZK 284 million, which represents dues to funds under control of the company ŽB – Trust, investiční společnost, a.s.

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 2004 CZK m	31 December 2003 CZK m
Mortgage backed securities	737	746
Promissory notes and bills of exchange	1 725	2 667
Bonds	192	0
Debt securities sold not yet purchased (i.e. short sales)	0	751
	2 654	4 164

14 SUBORDINATED DEBT

On 29 December 2004 the Bank repaid a subordinated debt of CZK 1 billion from parent company UCI, and the same day received a subordinated debt from parent company UCI in the same amount. The subordinated debt bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2009 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2014, with no repayment being possible before 29 December 2009 and 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.

15 OTHER LIABILITIES

	31 December 2004 CZK m	31 December 2003 CZK m
Payables from unsettled securities transactions	0	12
Settlement clearance accounts	731	767
Derivative financial instruments (Note 26(d))	256	201
Current income tax liability	24	139
Social fund	2	2
	1 013	1 121

The item Derivative financial instruments as at 31 December 2004 includes balances with related parties of CZK 23 million (31 December 2003: CZK 18 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 CZK	Number of shares pieces	Nominal value 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 2004 %	31 December 2003 %
Unicredito Italiano SpA	96,61	97,70
Other shareholders holding individually less than 5% of share capital	3,39	2,30
	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 2004 pieces	31 December 2003 pieces
Board of Directors	0	0
Other management	137	137
	137	137

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 2004 is proposed to be allocated, as follows:

	31 December 2004	31 December 2003
	CZK m	CZK m
Social fund contributions	7	7
Retained earnings	188	255
	195	262

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

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.

	31 December 2004	31 December 2003
Net profit attributable to shareholders (in CZK m)	188	255
Number of ordinary shares in issue (in thousand pieces)	1 360	1 360
Basic earnings per share (in CZK)	138,23	187,50

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 2004 a provision of CZK 21 million (31 December 2003: CZK 50 million) was made on the basis of the Bank's assessment of the expected outcome of these legal disputes.

Contingent liabilities include:

	31 December 2004 CZK m	31 December 2003 CZK m
Commitments	12 440	11 647
Guarantees granted on behalf of:		
Customers	1 821	1 442
Letters of credit	76	26
Total value of guarantees	1 897	1 468
Total commitments and guarantees	14 337	13 115

Provisions for guarantees and commitments as at 31 December 2004 was CZK 4 million (31 December 2003: CZK 8 million) (Note 10).

Contingent assets include the following balances with related parties:

	Loan commitments		Guarantees granted	
	31 December 2004 CZK m	31 December 2003 CZK m	31 December 2004 CZK m	31 December 2003 CZK m
Management	2	2	1	1
Companies in UCI group	23	123	0	2
	25	125	1	3

At 31 December 2004 and 2003 the Bank had no assets placed in custody or under management of a third party.

	31 December 2004	31.December 2003
	CZK m	CZK m
Assets under custody		
Shares and mutual shares	1 096	391
Other	1 954	3 564
	3 050	3 955
Assets under management		
Shares and mutual shares	4 839	467
Bonds	33 416	5 455
Other	0	584
	38 255	6 506

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 2004.

The Bank acts as depository for certain mutual, investment and pension funds. The aggregate net asset value of these funds at 31 December 2004 was CZK 39,777 million (31 December 2003: CZK 24,983 million). Management considers that no present obligations were associated with these fiduciary duties at 31 December 2004.

Assets purchased under resale agreements (Reverse Repo transaction)

	31 December 2004	31 December 2003
	CZK m	CZK m
Bonds	6 331	12 155

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

Capital expenditures

At 31 December 2004, the Bank had contractual commitments for capital expenditure of CZK 30 million (31 December 2003: CZK 32 million).

18 INTEREST RECEIVABLE AND SIMILAR INCOME

	31 December 2004 CZK m	31 December 2003 CZK m
Interest on inter-bank transactions	362	405
Interest on loans to customers and state	927	940
Interest and discount on debt securities	143	179
	1 432	1 524

For the year ended 31 December 2004, no interest income on impaired loans was recognised in the income statement (2003: CZK 0 million). Unrecognised penalty interest income outstanding on impaired loans at 31 December 2004 was CZK 6 million (31 December 2003: CZK 2 million).

At 31 December 2004, 2003 the cumulative amount of penalty interest had not been forgiven.

19 INTEREST PAYABLE AND SIMILAR EXPENSE

	31 December 2004 CZK m	31 December 2003 CZK m
Interest on inter-bank transactions	138	222
Interest on deposits from customers and state	386	457
Interest and discount on issued certificates of deposit	21	20
Interest and discount on issued mortgage backed securities	24	5
Interest from financial derivatives	2	0
	571	704

20 COMMISSION AND FEE INCOME AND EXPENSE

	31 December 2004	31 December 2003
	CZK m	CZK m
Commission and fee income		
Domestic and foreign countries payments	110	99
Loans	75	69
Maintenance of accounts	57	29
Transactions with cards	35	33
Assets under management fee	22	22
Cash and checks	20	22
Guarantees	17	13
Direct banking	9	7
Custody fee income	8	2
Brokerage from purchase and sale of securities and derivatives	7	23
Trade finance	6	4
Other	2	0
	368	323
Commission and fee expense		
Transactions in payment cards	23	16
Foreign and domestic payments	11	12
Brokering of trades	8	5
Deposition of, custody of and trading in securities	7	8
Other cost fees and commission	3	1
	52	42
Net profit on fees and commission	**316**	**281**

21 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

	31 December 2004 CZK m	31 December 2003 CZK m
Realised gains less losses from the sale of securities in trading portfolio	45	35
Realised gains less losses from the sale of securities in available-for-sale portfolio	- 2	- 24
Gains less losses from foreign currency transactions	41	51
Other foreign exchange differences	181	176
Realised gains less losses from other transactions derivates	- 14	37
	251	275

22 OTHER OPERATING INCOME

	31 December 2004 CZK m	31 December 2003 CZK m
Gains on sale of subsidiaries and associates	89	40
Income from sale of intangible assets	0	7
Other income	14	13
	103	60

23 ADMINISTRATIVE EXPENSES

	31 December 2004 CZK m	31 December 2003 CZK m
Staff costs	524	457
Advertising & representation	106	56
Information technology	78	75
Telecommunications	73	62
Rent and lease charges	60	42
Consumption of material, fuel & energy	40	32
Stationery and similar expenses	38	37
Consumption of low value fixed assets	15	8
Other consulting	10	27
Audit, tax and legal advisory services	8	8
Other administration expenses	68	57
Total	1 020	861
Insurance of clients' deposits and contribution to Guarantee fund	61	29
Tax penalty	22	0
Other operating expenses	3	0
Total other operating expenses	86	29

Staff costs can be analysed as follows:

	31 December 2004 CZK m	31 December 2003 CZK m
Emoluments of Board of Directors	23	21
Emoluments of Supervisory board	1	1
Management	35	40
Other wages, personnel costs and emoluments of employees	333	283
Social security and health insurance	132	112
	524	457

Staff statistics

	31 December 2004	31 December 2003
Average number of employees	802	799
Number of members of the Board of Directors	3	3
Number of members of the Supervisory Board	9	8

24 TAXATION

	31 December 2004 CZK m	31 December 2003 CZK m
Profit before taxation	253	397
Permanent differences between profit and tax base:		
Non-taxable income	- 132	- 86
Non-deductible expenses	164	122
Net taxable profit/(loss)	285	433
10% investment relief	- 10	- 2
Utilised losses brought forward	0	0
Deductible gifts	- 1	0
Adjusted tax base	274	431
28% (31%) corporate tax charge	77	133
Additional tax charge for the year 2003 (2002)	1	2
Aditional income tax assesment	21	0
Deferred income tax assets	- 41	0
Total	58	135
Deferred income tax liabilities		
Accelerated tax depreciation	-10	- 11
Deferred income tax assets		
Loan loss provisions	44	39
Other provisions	0	0
Tax loss carry forwards	0	0
Expenses tax-deductible on cash flow basis	7	5
	51	44
Potential net deferred tax asset	41	33

On the basis of an audit carried out by the Tax authority the Bank paid an additional income tax assessed for 1999-2002, amounting to CZK 21 million. The Bank filed an appeal against findings presented by the Tax authority in the control report.

A deferred tax asset of CZK 41 million as at 31 December 2004 includes deffered tax liabilities of CZK 10 million, which is difference between tax base and carrying amount of tangible and intangible fixed assets, and deferred tax asset in total amount CZK 51 million. A deferred tax asset was not booked as at 31 December 2003.

25 BUSINESS SEGMENTATION

Assets	Private and retail banking CZK m	Corporate banking CZK m	Other CZK m	Total CZK m
At 31 December 2004				
Cash and balances with central bank	0	0	1 979	1 979
Due from banks	0	0	12 428	12 428
Due from customers	3 292	21 228	0	24 520
Trading securities	0	0	5 019	5 019
Securities available-for-sale	0	0	779	779
Investments	0	0	0	0
Other assets	19	120	1 923	2 062
	3 311	21 348	22 128	46 787
At 31 December 2003				
Cash and balances with central bank	0	0	1 811	1 811
Due from banks	0	0	17 368	17 368
Due from customers	2 150	20 636	0	22 786
Trading securities	0	0	4 800	4 800
Securities available-for-sale	0	0	793	793
Investments	0	0	5	5
Other assets	10	73	1 640	1 723
	2 160	20 709	26 417	49 286

26 FINANCIAL RISKS

(a) Strategy in using financial instruments

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

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

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives. The Bank policy allows to use derivatives only for hedge Bank's position or for clients deals. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day 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.

In the course of 2004, the Bank implemented a new internal rating system for corporate banking segment. The internal rating system was developed in cooperation with the Bank's parent company. The internal rating system reflects both the client's financial system and qualitative indices, such as the quality of management or position of the respective person on the market. Individual entities are classified into nine classes. Based on the internal rating system, clients classified from 6 to 8 are included into the group of watched loans. Class 9 has been reserved for non-performing loans.

Geographical segmentation

At 31 December 2004	Domestic CZK m	European union CZK m	Other Europe CZK m	Other CZK m	Total CZK m
Cash and balances with central bank	1 979	0	0	0	1 979
Due from banks	8 889	3 011	309	219	12 428
Due from customers	23 595	287	285	353	24 520
Trading securities	607	2 875	61	1 476	5 019
Securities available-for-sale	255	524	0	0	779
Investments	0	0	0	0	0
Other assets	1 960	61	41	0	2 062
	37 285	6 758	696	2 048	46 787
At 31 December 2003					
Cash and balances with central bank	1 811	0	0	0	1 811
Due from banks	14 628	2 205	321	214	17 368
Due from customers	21 901	299	482	104	22 786
Trading securities	1 411	3 066	65	258	4 800
Securities available-for-sale	537	256	0	0	793
Investments	5	0	0	0	5
Other assets	1 697	25	1	0	1 723
	41 990	5 851	869	576	49 286

(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 to use “Value at Risk” (“VaR”) during the second half of year 2003 as a tool for estimating market risk of all open positions and the highest expected loss. The estimate 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:

I. Trading derivatives

	31 December 2004			31 December 2003		
	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m
Interest rate derivatives						
Forwards	5 261	4	2	6 853	6	10
Swaps	3 743	15	51	3 381	20	84
	9 004	19	53	10 234	26	94
Foreign exchange derivatives						
Forwards	1 805	27	41	1 387	56	2
Swaps	4 722	163	69	4 836	29	54
	6 527	190	110	6 223	85	56
Equity derivatives						
Option purchased	591	51	0	0	0	0
Option sold	591	0	50	0	0	0
	1 182	51	50	0	0	0
Total	16 713	260	213	16 457	111	150

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. Gains and losses from fair value changes of these derivatives are recognised in the income statement.

II. Fair value hedging derivatives

	31 December 2004			31 December 2003		
	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m
Interest rate derivatives						
Swaps	821	0	43	749	0	51

Changes in fair value of the above qualifying fair value hedging instruments are 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 0,3 million as of 31 December 2004 (31 December 2004: CZK 1 million). The average VaR amount for foreign currency risk for the period from 1 January 2004 to 31 December 2004 was CZK 1 million. Comparative amounts are not available.

As at 31 December 2004

Assets	CZK	EUR	USD	SKK	GBP	Other	Total
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Cash and balances with central bank	1 826	80	38	6	10	19	1 979
Due from banks	8 523	465	2 811	276	33	320	12 428
Due from customers	19 833	3 670	739	0	36	242	24 520
Trading securities	867	2 366	1 351	0	435	0	5 019
Securities available-for-sale	22	326	431	0	0	0	779
Investments	0	0	0	0	0	0	0
Other assets	1 979	70	5	2	3	3	2 062
	33 050	6 977	5 375	284	517	584	46 787
Liabilities							
Due to banks	3 006	1 260	1 016	0	1	106	5 389
Due to customers	21 695	6 048	4 091	299	533	562	33 228
Liabilities from debt securities	2 108	212	278	0	56	0	2 654
Subordinated liabilities	1 000	0	0	0	0	0	1 000
Provisions	293	0	0	0	0	0	293
Other liabilities	3 850	309	56	1	5	2	4 223
	31 952	7 829	5 441	300	595	670	46 787
Net assets/(liabilities)	1 098	- 852	- 66	-16	-78	-86	0
Net off-balance sheet assets from spot transactions and term instruments	- 961	808	63	18	67	82	77
Net open currency position	137	-44	-3	2	-11	-4	77

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	0	36	301	22 786
Trading securities	1 486	1 838	1 015	0	461	0	4 800
Securities available-for-sale	22	0	771	0	0	0	793
Investments	5	0	0	0	0	0	5
Other assets	1 665	52	5	0	0	1	1 723
	37 380	5 979	4 590	96	519	722	49 286
Liabilities							
Due to banks	3 377	681	51	0	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	0	4 164
Subordinated liabilities	1 000	0	0	0	0	0	1 000
Provisions	503	0	0	0	0	0	503
Other liabilities	3 736	278	113	0	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	0
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	0	4	- 9	33

(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 2 million as of 31 December 2004 (31 December 2003: CZK 3 million). The average VaR amount for interest rate risk of the trading book for the period from 1 January 2004 to 31 December 2004 was CZK 2 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 2004

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	0	0	0	0	1 979	1 979
Due from banks	12 083	345	0	0	0	12 428
Due from customers	17 067	4 619	2 970	191	- 327*	24 520
Trading securities	4 214	279	431	95	0	5 019
Securities available-for-sale	0	233	198	326	22	779
Investments	0	0	0	0	0	0
Other assets	133	60	32	0	1 837	2 062
	33 497	5 536	3 631	612	3 511	46 787
Liabilities						
Due to banks	4 674	715	0	0	0	5 389
Due to customers	32 047	550	423	0	208	33 228
Liabilities from debt securities	1 722	0	932	0	0	2 654
Subordinated liabilities	1 000	0	0	0	0	1 000
Provisions	0	0	0	0	293	293
Other liabilities	13	0	205	79	3 926	4 223
	39 456	1 265	1 560	79	4 427	46 787
Net assets/(liabilities)	-5 959	4 271	2 071	533	- 916	0
Net off-balance sheet assets from spot transactions and term instruments	1 094	606	-1 318	-305	0	77
Net open position	-4 865	4 877	753	228	-916	77

* CZK -327 million is stated net of an amount of CZK -621 million representing allowance for impaired loans.

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	0	0	0	0	1 811	1 811
Due from banks	16 543	825	0	0	0	17 368
Due from customers	12 173	7 489	2 887	405	- 168*	22 786
Trading securities	3 862	846	58	34	0	4 800
Securities available-for-sale	0	256	515	0	22	793
Investments	0	0	0	0	5	5
Other assets	43	16	55	0	1 609	1 723
	32 621	9 432	3 515	439	3 279	49 286
Liabilities						
Due to banks	3 816	728	222	0	0	4 766
Due to customers	34 036	444	16	0	221	34 717
Liabilities from debt securities	3 418	0	746	0	0	4 164
Subordinated liabilities	1 000	0	0	0	0	1 000
Provisions	0	0	0	0	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	0
Net off-balance sheet assets from spot transactions and term instruments	2 122	126	- 2 137	- 78	0	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.

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 2004

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	551	0	0	0	1 428	1 979
Due from banks	11 991	164	273	0	0	12 428
Due from customers	5 665	7 247	7 181	4 770	- 343*	24 520
Trading securities	650	697	3 311	361	0	5 019
Securities available-for-sale	0	233	198	326	22	779
Investments	0	0	0	0	0	0
Other assets	129	62	43	0	1 828	2 062
	18 986	8 403	11 006	5 457	2 935	46 787
Liabilities						
Due to banks	4 674	715	0	0	0	5 389
Due to customers	31 992	611	417	0	208	33 228
Liabilities from debt securities	1 722	0	932	0	0	2 654
Subordinated liabilities	0	0	0	1 000	0	1 000
Provisions	0	0	0	0	293	293
Other liabilities	92	30	91	19	3 991	4 223
	38 480	1 356	1 440	1 019	4 492	46 787
Net financial assets/(liabilities)	- 19 494	7 047	9 566	4 438	- 1 557	0

* CZK -343 million is stated net of an amount of CZK -621 million representing allowance for impaired loans.

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	0	0	0	1 373	1 811
Due from banks	16 427	617	324	0	0	17 368
Due from customers	5 996	6 127	7 351	3 499	- 187*	22 786
Debt securities	844	1 203	2 427	326	0	4 800
Other assets	0	256	515	0	22	793
Deposits with central bank	0	0	0	0	5	5
Due from banks	43	49	22	0	1 609	1 723
	23 748	8 252	10 639	3 825	2 822	49 286
Liabilities						
Due to banks	3 816	738	212	0	0	4 766
Due to customers	34 005	696	16	0	0	34 717
Liabilities from debt securities	3 418	0	746	0	0	4 164
Subordinated liabilities	0	0	0	1 000	0	1 000
Provisions	0	0	0	0	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	0

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

27 SUBSEQUENT EVENTS

By the date of signing of financial statements, no significant events occurred.

Date
11 February 2005

Signature of the statutory representative

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Česká republika

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Report of the independent auditors to the shareholders of Živnostenská banka, a.s.

We have audited the accompanying consolidated balance sheet of Živnostenská banka, a.s., ("the Bank"), and its subsidiaries (collectively "the Group") as at 31 December 2004, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004, and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards.

KPMG Česká republika

KPMG Česká republika, s.r.o.

16 March 2005
Prague

KPMG Česká republika, s.r.o, a Czech limited liability company incorporated under the Czech Commercial Code, is a member firm of KPMG International, a Swiss cooperative.

Obchodní rejstřík vedený Městským soudem v Praze oddíl C, vložka 326.

IČ 00553115
DIČ CZ00553115

Živnostenská banka
Praha 1
č.ú./account no.
CZK 40040904/0400
USD 1176210014/0400
EUR 1176210006/0400

Consolidated Financial Statement audited by International Financial Reporting Standards

Consolidated Income Statements for the Year Ended 31 December

	Notes	Year ended 31 December 2004 CZK million	2003 CZK million
Interest income	2	1 432	1 524
Interest expense	2	-571	-704
Net interest income		**861**	**820**
Fee and commission income	3	368	401
Fee and commission expense	3	-52	-52
Net fee and commission income		**316**	**349**
Net trading income	4	254	299
Gains less losses on available for sale securities	5	-3	9
Other operating income	6	87	23
General administrative and other operating expenses	7	-1 350	-1 236
Impairment losses, recovery and write off of loans and advances	8	-107	41
Net operating income		**58**	**305**
Gains on disposal of subsidiaries	9	67	8
Profit before tax		**125**	**313**
Income tax expense	10	-58	-146
Net profit	11	**67**	**167**
Earnings per share (expressed in CZK per share)			
- basic and diluted	11	49.2	122.8

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

Consolidated Balance Sheet for the Year Ended 31 December

	Notes	2004 CZK million	2003 CZK million
		As at 31 December	
ASSETS			
Cash and balances with central bank	12	1 979	1 811
State treasury and other bills eligible for refinancing with central bank	13	606	1 377
Due from other banks	14	12 428	17 368
Trading securities	15	4 413	3 423
Derivative financial instruments	16	260	111
Loans and advances to customers	17	24 269	22 448
Securities available-for-sale	18	779	793
Securities held-to-maturity	19	0	0
Other assets	21	197	199
Current tax asset		0	4
Deffered tax asset	10	41	0
Property, plant and equipment	20	1 456	1 346
Intangible assets	20	108	90
Total assets		**46 536**	**48 970**
LIABILITIES			
Due to other banks	22	5 389	4 766
Due to customers	23	33 228	34 678
Derivative financial instruments and other trading liabilities	16	256	952
Debt securities in issue	24	2 654	3 413
Subordinated debt	25	1 000	1 000
Other liabilities	26	771	826
Provisions	27	37	90
Current tax liability		24	135
Total liabilities		**43 359**	**45 860**
SHAREHOLDERS' EQUITY			
Ordinary shares (1,360,410 shares fully paid)		1 360	1 360
Retained earnings		734	667
Statutory reserve fund		272	272
Other reserves		811	811
Total shareholders' equity		**3 177**	**3 110**
Total shareholders' equity and liabilities		**46 536**	**48 970**

These consolidated financial statements have been approved for issue by the Board of Directors on 16 March 2005 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 Income Statements of Changes in Shareholders' Equity Year Ended 31 December

	Share capital CZK million	Statutory reserve fund CZK million	Other reserves CZK million	Retained earnings CZK million	Total Equity CZK million
Balance at 1 January 2003	**1 360**	**272**	**811**	**500**	**2 943**
Net profit	0	0	0	167	167
Balance at 31 December 2003	**1 360**	**272**	**811**	**667**	**3 110**
Net profit	0	0	0	67	67
Balance at 31 December 2004	**1 360**	**272**	**811**	**734**	**3 177**

Nature and purpose of the reserve balances is presented in Note 27.

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

Consolidated Cash Flow Statement for the Year Ended 31 December

	Notes	Year ended 31 December 2004 CZK million	2003 CZK million
Cash flows from operating activities			
Interest income receipts		1 431	1 524
Interest payments		-562	-708
Fee and commission receipts		316	349
Net trading and other income received		674	1 407
Recoveries on loans previously written off		13	0
Cash payments to employees and suppliers		-1 113	-976
Income taxes paid		-206	-15
Operating cash flows before changes in operating assets and liabilities		553	1 581
Changes in operating assets and liabilities:			
Net decrease in trading securities		-398	219
Net (increase)/decrease in loans and advances to banks		415	-1 163
Net (increase) in loans and advances to customers		-1 959	-696
Net decrease in other assets		-17	115
Net (decrease)/increase in deposits from other banks		610	-3 164
Net (decrease) in amounts due to customers		-1 447	-1 594
Net (decrease) in securities in issue		-758	741
Net increase in other liabilities		-795	66
Net cash (used in)/from operating activities		-3 796	-3 894
Cash flows from investing activities			
Proceeds from disposal of subsidiaries, net of cash and cash equivalents	9	122	27
Purchase of property, plant and equipment and intangible assets		-352	-120
Proceeds from sale of property, plant and equipment and intangible assets		0	23
Dividend receipts		0	0
Purchases of available-for-sale securities		-326	-73
Proceeds from sales and redemption of securities		256	631
Net cash flow from investing activities		-300	488
Effect of exchange rate changes on cash and cash equivalents		-420	-280
Net (decrease)/increase in cash and cash equivalents		**-4 516**	**-3 686**
Cash and cash equivalents at beginning of year	31	17 709	21 395
Cash and cash equivalents at end of year	31	**13 193**	**17 709**

There was no cash flow from financing activities in 2004 and 2003. The following notes form an integral part of these consolidated financial statements.

Schedule to the Consolidated Financial Statements
Year Ended 31 December 2004

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 the 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 on 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. These consolidated financial statements include the Bank's dormant subsidiary Zivnostenska Finance, B.V., but it is not consolidated due to immateriality.

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 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 Bank sold its subsidiaries during 2003 and 2004 (ŽB – Asset Management, a.s. on 30 December 2003 and ŽB – Trust, investiční společnost, a.s. on 7 January 2004) therefore 2004 figures do not include the net assets and the results of both subsidiaries. Comparative figures per 2003 include the results and net assets of ŽB – Trust, investiční společnost, a.s. and the results of ŽB – Asset Management, a.s..

(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. Positive fair value of derivatives is recognized as an asset and negative fair value of derivatives is recognized as a liability.

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 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 16.

(e) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis.

Interest income includes coupons earned on fixed income available-for-sale 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 is provided. 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 revaluated 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 available-for-sale 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. 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) Securities available-for-sale

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.

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 available-for-sale securities.

Interest earned whilst holding available-for-sale securities is reported as interest income.

All spot purchases and sales of available-for-sale securities are recognised at settlement date. All other purchases and sales are recognised as derivative forward transactions until settlement.

(j) Securities held-to-maturity

Securities where management has both the intent and the ability to hold to maturity are classified as held-to-maturity.

At 31 December 2004 and 2003 the Group did not have any securities in the held-to-maturity category.

(k) 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.

(l) 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 over its estimated useful life as follows:

	Useful life (years)
Buildings and constructions	50
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

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.

(m) 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.

(n) 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.

(o) Employee benefits

During the year the Bank provides its employees with contributory pension insurance based on a defined contributory pension plan. These pension insurance contributions are accounted for directly into costs. In addition, in order to finance a state pension system, the Bank makes regular payments into the national pension plan.

(p) 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 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.

(q) 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.

(r) 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.

(s) Fiduciary activities

Assets managed and revenues arising from such assets, as well as obligations to return such assets to clients, are not entered in these financial statements if the Group acts as the agent, trustee or broker.

(t) Comparatives

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

2 NET INTEREST INCOME

	31 December 2004 CZK m	31 December 2003 CZK m
Interest income		
Interest from cash and short term funds	137	116
Interest from trading securities	117	144
Interest from available-for-sale securities	26	35
Interest from securities borrowed and reverse repos	225	289
Interest from loans and advances	927	940
	1 432	1 524
Interest expense		
Interest to banks and customers	483	637
Interest from securities lent and repos	11	12
Other borrowed funds	77	55
	571	704
Net interest income	**861**	**820**

3 NET FEE AND COMMISSION INCOME

	31 December 2004	31 December 2003
	CZK m	CZK m
Fee and commission income		
Domestic and foreigner countries payment	110	99
Commission income	94	64
Credit related fees and commissions	92	82
Fee income in respect of payment card transactions	35	33
Custody fees	22	24
Asset management and related fees	8	76
Fee income from trading securities and derivatives services	7	23
	368	401
Fee and commission expense		
Expense from interbank transactions	11	8
Fee expense in respect of payment card transactions	23	16
Brokerage fees paid	15	26
Expense from other operations	3	2
	52	52
Net fee and commission income	**316**	**349**

4 NET TRADING INCOME

	31 December 2004	31 December 2003
	CZK m	CZK m
Securities and derivative instruments	32	72
Foreign exchange gains	222	227
	254	299

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.

5 GAINS LESS LOSSES FROM AVAILABLE-FOR-SALE SECURITIES

	31 December 2004	31 December 2003
	CZK m	CZK m
Realised (losses)/gains from available-for-sale securities	**1**	**-23**
Unrealised (losses)/gains from available-for-sale securities	**-4**	**32**
	-3	9

6 OTHER OPERATING INCOME

	31 December 2004	31 December 2003
	CZK m	CZK m
Release of provisions for guarantees and other specific provisions (note 27)	74	7
Revenue from sales of tangible and intangible fixed assets	0	10
Other operating income	13	6
	87	23

7 OPERATING EXPENSES

	31 December 2004 CZK m	31 December 2003 CZK m
Operating expenses		
Staff costs (see below)	537	511
Depreciation and amortisation	216	260
Administrative expenses	131	110
Communications	38	34
Advertising and marketing	105	63
Compulsory deposit insurance	58	28
Professional services	19	39
Office and car maintenance	17	18
Operating lease rentals	61	54
IT maintenance	78	75
Office equipment	15	8
Other expenses related to employees	10	10
Addition of specific provisions (note 27)	21	0
Tax penalty	22	0
Loss on sale of property and equipment	0	8
Other	22	18
	1 350	1 236

Staff costs		
Wages and salaries	393	377
Social security costs and social fund contributions	139	130
Pension costs	5	4
	537	511

The average number of employees of the Group during 2004 was 802 (2003: 841).

8 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	31 December 2004 CZK m	31 December 2003 CZK m
Release/(charge) of provision for impairment (Note 17)	-102	52
Amounts due from clients written off	-18	-11
Recovery of loans previously written off	13	0
Total net additions to provisions	-107	41

9 DISPOSAL OF SUBSIDIARIES

On 7 January 2004 the Bank sold its interest in subsidiary, ŽB - Trust, investiční společnost, a.s., to Pioneer Global Asset Management S.p.A. The selling price was CZK 4 735 800 for one share. Total selling price was CZK 94 million and gain on disposal was CZK 67 million.

On 30 December 2003 the Bank sold its interest in subsidiary, ŽB – Asset Management, a.s., to Pioneer Global Asset Management S.p.A. The selling price was CZK 507 000 for one share. Total selling price was CZK 27 million and gain on disposal was CZK 8 million.

	31 December 2004	31 December 2003
	CZK m	CZK m
Due from banks	-39	-128
Tangible and intangible assets	-8	-5
Other assets	-19	-9
Due to clients	0	116
Other liabilities	11	7
Gain on disposal	-67	-8
Selling price	-94	-27
Dividends received	-28	0
Consideration received	-122	-27
Cash and cash equivalents disposed of	0	0
Proceeds from disposal of subsidiaries, net of cash and cash equivalents	-122	-27

10 INCOME TAX EXPENSE

	31 December 2004	31 December 2003
	CZK m	CZK m
Current tax expense	99	146
Deferred tax expense	-41	0
Income tax expense	58	146

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	31 December 2004	31 December 2003
	CZK m	CZK m
Profit before tax	125	313
Prima facie tax calculated at a tax rate of 28% (31%)	35	97
Income not assessable for tax purposes	-132	-27
Expenses not deductible for tax purposes	164	38
10% investment relief	-10	0
Deductible gifts	-1	0
Tax effect of consolidation adjustments including tax shield	128	36
Additional tax charge for the year 2003 (2002)	1	2
Additional income tax assesment	21	0
Movement on deferred tax assets	-41	0
	58	146

The effective tax rate for the Group is 46.4% (31 December 2003: 46.6%).

Deferred income taxes

	31 December 2004	31 December 2003
	CZK m	CZK m
Deferred income tax assets		
Tax non-deductible provisions for loans	44	39
Unused tax losses	0	8
Other timing differences	7	5
	51	52
Deferred income tax liabilities		
Differences between carrying amount and and tax base of fixed assets	-10	-11
Net deferred income tax asset	**41**	**41**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 26% and 24% for the temporary differences expected to be realised in 2005 and the following years respectively (2003: 28%, 26% and 24%).

The net deferred tax asset was not recognized in 2003. In 2004, the Bank recognised net deferred tax asset of MCZK 41 as management believes that future taxable profit will be available against which the temporary differences can be utilised (Note 1(p)).

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

	31 December 2004 CZK m	31 December 2003 CZK m
Net unrecognised deferred tax assets at 1 January	41	35
Effect of change in the corporate tax rate in future years	0	-11
Tax non-deductible provisions for loans	5	2
(Utilisation)/increase of unrecognised tax losses	-8	2
Change in other temporary differences	2	5
Change in differences between accounting and tax depreciation	1	8
Net deferred tax assets at 31 December	41	41

11 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.

	31 December 2004	31 December 2003
Net profit attributable to shareholders (CZK m)	67	167
Weighted average of shares in issue (number)	1 360 410	1 360 410
Basic and diluted earnings per share (CZK per share)	49.2	122.8

12 CASH AND BALANCES WITH CENTRAL BANK

	31 December 2004 CZK m	31 December 2003 CZK m
Cash in hand	548	399
Balances with central bank other than mandatory reserve deposits	3	39
Included in cash and cash equivalents (Note 32)	551	438
Mandatory reserve deposits with central bank	1 428	1 373
	1 979	1 811

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

13 STATE TREASURY AND OTHER BILLS ELIGIBLE FOR CNB REFINANCING

	31 December 2004	31 December 2003
	CZK m	CZK m
State Treasury bills	357	1 377
State bonds	249	0
	606	1 377

State treasury bills include cash equivalents of CZK 160 million (31 December 2003: CZK 560 million) with less than 90 days maturity at balance sheet date (Note 32). Bills are categorised as assets held for trading and carried at their fair value.

14 DUE FROM OTHER BANKS

	31 December 2004	31 December 2003
	CZK m	CZK m
Current accounts	95	86
Reverse repos with central bank	6 468	12 368
Placements with other banks	5 428	4 483
Loans to other banks	437	431
	12 428	17 368

The total balance includes cash equivalents of CZK 11 991 million (31 December 2003: CZK 16 427 million) due from banks with less than 90 days maturity (Note 32).

15 TRADING SECURITIES

	31 December 2004	31 December 2003
	CZK m	CZK m
Bonds included in cash equivalents (Note 32)	491	284
Other bonds and similar listed debt securities	3 922	3 139
	4 413	3 423

Bonds and similar listed debt securities at 31 December 2004 include CZK 452 million of securities bearing fixed interest to maturity (31 December 2003: CZK 164 million).

16 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 2004			31 December 2003		
	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	821	0	43	749	0	51
Derivatives held for trading						
Interest rate derivatives						
Forwards	5 261	4	2	6 853	6	10
Swaps	3 743	15	51	3 381	20	84
	9 004	19	53	10 234	26	94
Foreign exchange derivatives						
Forwards	1 805	27	41	1 387	56	2
Swaps	4 722	163	69	4 836	29	54
	6 527	190	110	6 223	85	56
Equity derivatives						
Option purchased	591	51	0	0	0	0
Option sold	591	0	50	0	0	0
	1 182	51	50	0	0	0
Other trading liabilities						
Treasury bills sold not yet purchased		0	0		0	-751
Total derivatives and other trading liabilities						
Interest rate	9 825	19	96	10 983	26	145
Foreign exchange	6 527	190	110	6 223	85	56
Equity	1 182	51	50	0	0	0
Other trading liabilities	0	0	0	0	0	751
	17 534	260	256	17 206	111	952

The Group undertakes approximately 70% of its transactions in foreign exchange and interest rate contracts with other financial institutions (2003: 58%). Management has established stop loss and maturity limits.

17 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2004	31 December 2003
	CZK m	CZK m
Loans to individuals:		
- Overdrafts	79	46
- Term loans	249	246
- Mortgages	2 979	1 864
Loans to corporate entities:		
- Direct commercial loans	17 901	17 855
- Sub-participation loans	1 412	1 784
- Other	2 512	1 406
Gross loans and advances to customers	25 132	23 201
Revaluation of hedged loans	9	17
Provision for impairment	- 872	-770
Net loans and advances to customers	24 269	22 448

The loan balances as at 31 December 2004 and 2003 include loans to related parties that are described further below.

The gross amounts as at 31 December 2004 and 2003 best represent maximum credit risk exposure of the Group on these transactions without taking account of the fair value of any collateral.

Movements in provisions for impairment are as follows:

	2004	2003
	CZK m	CZK m
Balance at 1 January	770	822
Net change in provisions (Note 8)	102	-52
Balance at 31 December	872	770

18 SECURITIES AVAILABLE-FOR-SALE

		31 December 2004	31 December 2003
		CZK m	CZK m
Other bonds and similar debt securities	- listed	757	771
Shares and similar equity securities	- listed	12	12
	- unlisted	10	10
		779	793

Bonds and other debt securities

Bonds and other debt securities in the available-for-sale portfolio at 31 December 2004 include CZK 757 million of securities bearing fixed interest until maturity (31 December 2003: CZK 771 million).

19 SECURITIES HELD-TO-MATURITY

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

20 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Intangible assets

	31 December 2003 CZK m	Additions CZK m	Disposal/ Transfer CZK m	31 December 2004 CZK m
Cost				
Software	632	72	-10	694
Other intangible assets	17	1	0	18
	649	73	-10	712
Accumulated amortisation				
Software	546	47	-5	588
Other intangible assets	13	3	0	16
	559	50	-5	604
Net book amount	90			108

Property, plant and equipment

	31 December 2003 CZK m	Additions CZK m	Disposal/ Transfer CZK m	31 December 2004 CZK m
Cost				
Land	45	0	0	45
Buildings	1 576	85	0	1 661
Equipment	1 146	142	-48	1 240
Assets in the course of construction	22	52	0	74
	2789	279	-48	3 020
Accumulated amortisation				
Land	0	0	0	0
Buildings	499	61	0	560
Equipment	944	105	-45	1 004
Assets in the course of construction	0	0	0	0
	1 443	166	-45	1 564
Net book amount	1 346			1 456

21 OTHER ASSETS

	31 December 2004 CZK m	31 December 2003 CZK m
Accrued expense	19	35
Estimated receivables	10	12
Other debtors	44	21
Operating advances given	35	70
Other	89	61
	197	199

22 DUE TO OTHER BANKS

	31 December 2004 CZK m	31 December 2003 CZK m
Current accounts	104	18
Loans received from other banks	10	20
Term deposits of other banks	5 275	4 728
	5 389	4 766

23 DUE TO CUSTOMERS

	31 December 2004 CZK m	31 December 2003 CZK m
Corporate customers:		
- Current accounts	7 409	9 016
- Term deposits	5 019	4 837
Retail customers:		
- Current accounts	6 367	6 141
- Term deposits	14 433	14 684
	33 228	34 678

24 DEBT SECURITIES IN ISSUE

	31 December 2004 CZK m	31 December 2003 CZK m
CZK medium term mortgage bonds	737	746
Promissory notes and bills of exchange	1 725	2 667
Bonds	192	0
	2 654	3 413

25 SUBORDINATED DEBT

On 29 December 2004 the Bank repaid a subordinated loan of CZK 1 billion from parent company UCI, and the same day received a subordinated debt from parent company UCI in the same amount. The subordinated loan bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2009 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2014, with no repayment being possible before 29 December 2009 and with the consent of the CNB. The loan, 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

26 OTHER LIABILITIES

	31 December 2004 CZK m	31 December 2003 CZK m
Accruals	88	89
Payments in transit	478	592
Other creditors	100	32
Unsettled securities in transit	0	12
Amounts payable to employees	102	82
Other	3	19
	771	826

27 PROVISIONS

The movements in provisions can be analysed as follows:

	Provisions for guarantees CZK million	Other specific provisions CZK million
Balance at 1 January 2003	**12**	**85**
Unused and reversed of provisions	4	3
Additions of provisions	0	0
Balance at 31 December 2003	**8**	**82**
Unused and reversed of provisions	4	70
Additions of provisions	0	21
Balance at 31 December 2004	**4**	**33**

The Group is the subject of several legal disputes. At 31 December 2004 a provision of CZK 21 million (31 December 2003: CZK 50 million) was made on the basis of the Group’s assessment of the expected outcome of these legal disputes.

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 statutory 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 2004 and 2003.

30 EMPLOYEE BENEFITS

The Bank contributes to a pension fund (Allianz penzijní fond, a.s.) on behalf of its employees. Contributions are made based on a defined pension insurance plan and within the framework of this plan the Bank makes fixed pension insurance contributions on behalf of its employees. In addition, within this contributory pension insurance plan the Bank may pay its employees a certain percentage of the annual net profit proportionately to their 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 2004, the Group had contractual commitments for capital expenditure of CZK 30 million (31 December 2003: CZK 32 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 2004	31 December 2003
	CZK m	CZK m
Original term to maturity of one year or less	6 300	5 054
Original term to maturity of more than one year	6 140	6 593
	12 440	11 647
Guarantees, acceptances and letters of credit	1 893	1 460

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

Year	31 December 2004	31 December 2003
	CZK m	CZK m
Within 1 year	67	49
2 years	64	43
3 years	63	37
4 years	62	36
5 years	36	33
Later than five years	18	35
	310	233

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 2004 was CZK 39 777 million (31 December 2003: CZK 24 983 million). The amount of assets under management and under custody at 31 December 2004 is CZK 41 305 million (31 December 2003: CZK 10 461 million). Management considers that no present obligations were associated with these fiduciary duties at 31 December 2004.

32 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following balances with less than 90 days maturity at balance sheet date:

	31 December 2004	31 December 2003
	CZK m	CZK m
Cash and balances with central bank (Note 12)	551	438
Treasury bills (Note 13)	160	560
Due from other banks (Note 14)	11 991	16 427
Trading securities (Note 15)	491	284
	13 193	17 709

33 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 16).

(b) Capital adequacy

To monitor the adequacy of its capital the Group uses ratios established by the Czech National Bank ("CNB"), which are based on the rules of the Bank for International Settlements ("BIS"). These ratios measure capital adequacy (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	
	2004	2003	2004	2003
	CZK m	CZK m	%	%
CNB Capital Ratios - Czech GAAP				
Tier 1 capital	2 978	2 723	8.02	8.02
Tier 1 + Tier 2 capital	4 234	4 114	11.52	12.25
BIS Capital Ratios – IFRS				
Tier 1 capital	3 111	2 844	8.45	8.46
Tier 1 + Tier 2 capital	4 111	3 844	11.26	11.53

(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 2004

	Total assets	Total liabilities	Credit commitments	Revenues
	CZK m	CZK m	CZK m	CZK m
Czech Republic	37 034	42 640	12 058	n/a
Other OECD countries	8 503	3 187	354	n/a
Non – OECD Central and Eastern Europe countries	621	102	19	n/a
Other countries	378	607	9	n/a
	46 536	46 536	12 440	2 138*

As at 31 December 2003

	Total assets	Total liabilities	Credit commitments	Revenues
	CZK m	CZK m	CZK m	CZK m
Czech Republic	41 674	45 111	11 386	n/a
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	0	n/a
	48 970	48 970	11 647	2 256*

* 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.

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

As an active participant in the international money markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions was CZK 12 549 million at 31 December 2004 of which CZK 121 million consisted of derivative financial instruments (31 December 2003: CZK 17 415 million of which derivative financial instruments: CZK 47 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 2004	Loans and advances to customers		Other credit risk bearing instruments	
	CZK m	%	CZK m	%
Czech Republic	23 344	96	13 917	97
Other OECD countries	285	1	378	3
Non – OECD Central and Eastern Europe countries	333	2	30	0
Other countries	307	1	12	0
	24 269	100	14 337	100

As at 31 December 2004	Loans and advances to customers		Other credit risk bearing instruments	
	CZK m	%	CZK m	%
Czech Republic	21 563	96	12 840	98
Other OECD countries	312	2	252	2
Non – OECD Central and Eastern Europe countries	482	2	22	0
Other countries	91	0	0	0
	22 448	100	13 114	100

Loans and advances are further analysed in Note 17.

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

	31 December 2004		31 December 2003	
	CZK m	%	CZK m	%
Services	11 236	46	11 085	49
Manufacturing	8 686	36	8 267	37
Private individuals	3 090	13	2 004	9
Other	1 257	5	1 092	5
	24 269	100	22 448	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 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%.

(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 0,3 million as of 31 December 2004 (31 December 2003: CZK 1 million). The average VaR amount for foreign currency risk for the period from 1 January 2004 to 31 December 2004 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 2004 and 2003. 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 2004	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	1 826	38	10	80	25	1 979
State treasury and other bills eligible for CNB refinancing	606	0	0	0	0	606
Due from other banks	8 523	2 810	34	465	596	12 428
Trading securities	261	1 351	435	2 366	0	4 413
Derivative financial instruments	251	1	0	8	0	260
Loans and advances to customers	19 582	739	35	3 671	242	24 269
Securities available-for-sale	22	431	0	326	0	779
Intangible assets	108	0	0	0	0	108
Property, plant and equipment	1 456	0	0	0	0	1 456
Other assets	164	5	3	61	5	238
Total assets	32 799	5 375	517	6 977	868	46 536
Liabilities						
Due to other banks	3 006	1 015	1	1 260	107	5 389
Derivative financial instruments and other trading liabilities	197	28	0	31	0	256
Debt securities in issue	2 108	278	56	212	0	2 654
Subordinated debt	1 000	0	0	0	0	1 000
Due to customers	21 695	4 092	533	6 048	860	33 228
Other liabilities	494	28	5	278	3	808
Current tax liability	24	0	0	0	0	24
Total liabilities	28 524	5 441	595	7 829	970	43 359
Net balance sheet position	4 275	-66	-78	-852	-102	3 177
Off balance sheet net notional position	-961	63	67	808	101	78
Credit commitments	11 023	161	8	1 167	81	12 440

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
State treasury and other bills eligible for CNB refinancing	1 377	0	0	0	0	1 377
Due from other banks	13 730	2 158	11	986	483	17 368
Trading securities	109	1 015	461	1 838	0	3 423
Derivative financial instruments	109	2	0	0	0	111
Loans and advances to customers	18 470	599	36	3 042	301	22 448
Securities available-for-sale	22	771	0	0	0	793
Intangible assets	90	0	0	0	0	90
Property, plant and equipment	1 346	0	0	0	0	1 346
Other assets	143	3	0	52	1	199
Current tax asset	4	0	0	0	0	4
Total assets	37 064	4 590	519	5 979	818	48 970
Liabilities						
Due to other banks	3 377	51	76	681	581	4 766
Derivative financial instruments and other trading liabilities	877	69	0	6	0	952
Debt securities in issue	2 695	288	57	349	24	3 413
Subordinated debt	1 000	0	0	0	0	1 000
Due to customers	23 201	4 620	423	5 746	688	34 678
Other liabilities	589	45	2	272	8	916
Current tax liability	135	0	0	0	0	135
Total liabilities	31 874	5 073	558	7 054	1 301	45 860
Net balance sheet position	5 190	-483	-39	-1 075	-483	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

(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 30 471 million (31 December 2003: CZK 31 235 million) of which 45% (31 December 2003: 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 2 million as of 31 December 2004 (31 December 2003: CZK 3 million). The average VaR amount for interest rate risk of the trading book for the period from 1 January 2004 to 31 December 2004 was CZK 2 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 2004	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	0	0	0	0	0	1 979	1 979
State treasury and other bills eligible for CNB refinancing	100	60	197	154	95	0	606
Due from other banks	11 881	202	345	0	0	0	12 428
Trading securities	1 049	3 005	81	278	0	0	4 413
Derivative financial instruments	66	102	60	32	0	0	260
Loans and advances to customers	9 225	7 842	4 619	2 970	191	-578	24 269
Securities available-for-sale	0	0	233	198	326	22	779
Intangible assets	0	0	0	0	0	108	108
Property, plant and equipment	0	0	0	0	0	1 456	1 456
Other assets	0	0	0	0	0	238	238
Current tax asset	0	0	0	0	0	0	0
Total assets	22 321	11 211	5 535	3 632	612	3 225	46 536
Liabilities							
Due to other banks	3 463	1 211	715	0	0	0	5 389
Derivative financial instruments and other trading liabilities	63	35	35	104	19	0	256
Debt securities in issue	1 675	47	0	932	0	0	2 654
Subordinated debt	0	1 000	0	0	0	0	1 000
Due to customers	30 471	1 577	549	423	0	208	33 228
Other liabilities	0	0	0	0	0	808	808
Current tax liability	0	0	0	0	0	24	24
Total liabilities	35 672	3 870	1 299	1 459	19	1 040	43 359
On balance sheet interest sensitivity gap	-13 351	7 341	4 236	2 173	593	2 185	3 177
Off balance sheet interest sensitivity gap	157	937	606	-1 318	-305	0	77

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	0	0	0	0	0	1 811	1 811
State treasury and other bills eligible for CNB refinancing	361	199	817	0	0	0	1 377
Due from other banks	16 360	183	825	0	0	0	17 368
Trading securities	878	2 425	29	57	34	0	3 423
Derivative financial instruments	14	26	16	55	0	0	111
Loans and advances to customers	9 438	2 733	7 490	2 888	405	-506	22 448
Securities available-for-sale	0	0	256	515	0	22	793
Intangible assets	0	0	0	0	0	90	90
Property, plant and equipment	0	0	0	0	0	1 346	1 346
Other assets	1	0	0	0	0	198	199
Current tax asset	0	0	0	0	0	4	4
Total assets	27 052	5 566	9 433	3 515	439	2 965	48 970
Liabilities							
Due to other banks	3 488	327	728	223	0	0	4 766
Derivative financial instruments and other trading liabilities	29	755	40	116	12	0	952
Debt securities in issue	2 577	90	0	746	0	0	3 413
Subordinated debt	0	1 000	0	0	0	0	1 000
Due to customers	31 241	2 756	444	16	0	221	34 678
Other liabilities	1	0	0	0	0	915	916
Current tax liability	0	0	0	0	0	135	135
Total liabilities	37 336	4 928	1 212	1101	12	1 271	45 860
On balance sheet interest sensitivity gap	-10 284	638	8 221	2 414	427	1 694	3 110
Off balance sheet interest sensitivity gap	1 020	1 115	80	-2 138	-77	0	0

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

As at 31 December 2004	CZK %	USD %	GBP %	EUR %
Assets				
Cash and balances with central bank	1,95	0	0	0
State treasury and other bills eligible for CNB refinancing	2,83	0	0	0
Due from other banks	2,50	2,25	4,25	2,57
Trading securities – debt securities	4,78	2,69	5,03	2,36
Loans and advances to customers	4,33	4,97	5,58	4,08
Securities available-for-sale – debt securities	0	7,33	0	4,63
Liabilities				
Due to other banks	2,69	2,30	0	2,26
Due to customers	1,26	0,89	2,97	0,70
Debt securities in issue	2,89	1,84	4,34	1,21

Assuming the financial assets and liabilities at 31 December 2004 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 27 million (31 December 2003: 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 2003	CZK	USD	GBP	EUR
	%	%	%	%
Assets				
Cash and balances with central bank	1.65	0	0	0
State treasury and other bills eligible for CNB refinancing	2.19	0	0	0
Due from other banks	1.94	1.20	0	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
Securities available-for-sale – debt securities	0	7.26	0	0
Liabilities				
Due to other banks	2.31	1.05	3.88	2.25
Debt securities in issue	2.49	0.76	3.74	1.80
Due to customers	1.04	0.25	2.28	0.75

(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 2004	Up to 1 month CZK m	1-3 months CZK m	3-12 months CZK m	1-5 yars CZK m	Over 5 years CZK m	Unspecified CZK m	Total CZK m
Assets							
Cash and balances with central bank	551	0	0	0	0	1 428	1 979
State treasury and other bills eligible for CNB refinancing	100	60	197	154	95	0	606
Due from other banks	11 789	202	164	273	0	0	12 428
Trading securities *	60	431	499	3 157	266	0	4 413
Derivative financial instruments	25	104	62	69	0	0	260
Loans and advances to customers	2 315	3 350	7 247	7 181	4 770	-594	24 269
Securities available-for-sale	0	0	233	198	326	22	779
Intangible assets	0	0	0	0	0	108	108
Property, plant and equipment	0	0	0	0	0	1 456	1 456
Other assets	0	0	0	0	0	238	238
Current tax asset	0	0	0	0	0	0	0
Total assets	14 840	4 147	8 402	11 032	5 457	2 658	46 536
Liabilities							
Due to other banks	2 988	1 686	715	0	0	0	5 389
Derivative financial instruments and other trading liabilities	51	40	30	91	44	0	256
Debt securities in issue	1 674	48	0	932	0	0	2 654
Subordinated debt	0	0	0	0	1 000	0	1 000
Due to customers	28 838	2 946	819	417	0	208	33 228
Other liabilities	0	0	0	0	0	808	808
Current tax liability	0	0	0	0	0	24	24
Total liabilities	33 551	4 720	1 564	1 440	1 044	1 040	43 359
Net liquidity gap	-18 711	-573	6 838	9 592	4 413	1 618	3 177

* 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 2003	Up to 1 month CZK m	1-3 months CZK m	3-12 months CZK m	1-5 years CZK m	Over 5 years CZK m	Unspecified CZK m	Total CZK m
Assets							
Cash and balances with central bank	438	0	0	0	0	1 373	1 811
State treasury and other bills eligible for CNB refinancing	361	199	817	0	0	0	1 377
Due from other banks	16 295	132	617	324	0	0	17 368
Trading securities *	1	283	388	2 426	325	0	3 423
Derivative financial instruments	16	25	48	22	0	0	111
Loans and advances to customers	3 504	2 492	6 127	7 351	3 499	-525	22 448
Securities available-for-sale	0	0	256	515	0	22	793
Intangible assets	0	0	0	0	0	90	90
Property, plant and equipment	0	0	0	0	0	1 346	1 346
Other assets	1	0	0	0	0	198	199
Current tax asset	0	0	0	0	0	4	4
Total assets	20 616	3 131	8 253	10 638	3 824	2 508	48 970
Liabilities							
Due to other banks	3 488	328	738	212	0	0	4 766
Derivative financial instruments and other trading liabilities	44	765	37	102	4	0	952
Debt securities in issue	2 576	91	0	746	0	0	3 413
Subordinated debt	0	0	0	0	1 000	0	1 000
Due to customers	30 106	3 859	696	17	0	0	34 678
Other liabilities	1	0	0	0	0	915	916
Current tax liability	0	0	0	0	0	135	135
Total liabilities	36 215	5 043	1 471	1 077	1 004	1 050	45 860
Net liquidity gap	-15 599	-1 912	6 782	9 561	2 820	1 458	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.

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 2004 CZK m	31 December 2003 CZK m	31 December 2004 CZK m	31 December 2003 CZK m
Financial assets				
Due from other banks	12 428	17 368	12 428	17 368
Loans and advances to customers	24 269	22 448	24 269	22 448
	36 697	39 816	36 697	39 816
Financial liabilities				
Due to other banks	5 389	4 766	5 389	4 766
Due to customers	33 228	34 678	33 228	34 678
Debt securities in issue	2 654	3 413	2 632	3 413
	41 271	42 857	41 249	42 857

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.

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. A substantial majority of the loans and advances to customers reprice within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair value.

Due to other banks

The carrying values of current account balances are, equal to their fair values. For other amounts due to banks with equal or less then one year remaining maturity, it is assumed their carrying values approximate their fair values.

Due to customers

The fair values of current accounts as well as term deposits with equal to or less then one year remaining maturity approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturity. A substantial majority of the term deposits reprice within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair value.

Debt securities in issue

The fair values of issued bonds are estimated by discounting their future cash flows using rates currently offered for bond similar remaining maturities. The carrying values of promissory notes approximate their fair value as all matured within three months.

(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. The amount of assets under management and under custody at 31 December 2004 is CZK 41 305 million (31 December 2003: CZK 10 461 million). At the balance sheet date the Group had investment custody and fund depository accounts amounting to approximately CZK 39 777 million (31 December 2003: CZK 24 983 million).

34 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 or a party and Group are under common control.

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 2004 and 2003 are as follows:

	Parent company		Subsidiaries and associated companies		Board members and other directors	
	2004	2003	2004	2003	2004	2003
	CZK m	CZK m	CZK m	CZK m	CZK m	CZK m
Assets and income						
Loans at 31 December	0	0	217	232	36	23
Term deposits at 31 December	0	0	0	88	0	0
Current accounts at 31 December	2	3	1	0	0	0
Interest income	6	9	16	22	1	1
Fee income	0	0	1	0	0	0
Trading income	0	0	51	0	0	0
Other income	0	5	1	0	0	0
Liabilities and expense						
Term deposits at 31 December	0	0	672	0	10	16
Current accounts at 31 December	13	4	102	128	33	18
Subordinated debt 31 December	1 000	1 000	0	0	0	0
Interest expense	30	31	7	8	1	1
Trading expense	0	0	0	0	0	0
Other expense	5	0	0	0	0	0
Guarantees issued at 31 December	0	0	0	0	1	1

Items are sorted by type of products and include both due from/to banks and due from/to customers.

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 2004 the total remuneration of the Board of Directors and the Supervisory Board was CZK 24 million (31 December 2003: CZK 31 million). This amount consisted solely of short-term benefits.

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.

35 SUBSEQUENT EVENTS

The management of the Group considers that there were no 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 2004.

Date
16. March 2005

Signature of the statutory representative

Non-Audited Supplemental Information to Consolidated Financial Statement For the Year Ended 31 December 2004

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

	As at 31 December 2004			Explanatory note
	CAS CZK m	Bridge CZK m	IFRS CZK m	
ASSETS				
Cash and balances with central bank	1 979	0	1 979	
State treasury and other bills eligible for refinancing with central bank	606	0	606	
Due from other banks	12 428	0	12 428	
Trading securities	4 413	0	4 413	
Derivative financial instruments	0	260	260	(1)
Loans and advances to customers	24 520	-251	24 269	(3), (4)
Securities available-for-sale	779	0	779	
Other assets	498	-301	197	(1), (5)
Current tax asset	0	0	0	
Deffered tax asset	0	41	41	(5)
Property, plant and equipment	1 456	0	1 456	
Intangible assets	108	0	108	
Total assets	**46 787**	**-251**	**46 536**	
LIABILITIES				
Due to other banks	5 389	0	5 389	
Due to customers	33 228	0	33 228	
Derivative financial instruments and other trading liabilities	0	256	256	(2)
Debt securities in issue	2 654	0	2 654	
Subordinated debt	1 000	0	1 000	
Other liabilities	1 320	-549	771	(2), (3), (6)
Provisions	0	37	37	(6)
Current tax liability	24	0	24	
Total liabilities	**43 615**	**-256**	**43 359**	
SHAREHOLDERS' EQUITY				
Ordinary shares	1 360	0	1 360	
Reserves and retained profit	1 812	5	1 817	(4)
Total shareholders' equity	**3 172**	**5**	**3 177**	
Total equity and liabilities	**46 787**	**-251**	**46 536**	

(1) Reclassification of derivative financial instruments of CZK 260 million within the separate caption “Derivative financial instruments” for IFRS purposes from “Other assets”, where derivatives were recorded under CAS.

(2) Reclassification of derivative financial instruments of CZK 256 million within the separate line “Derivative financial instruments and other trading liabilities” for IFRS purposes from item “Other liabilities”, where derivatives were recorded under CAS.

(3) Under CAS, provision of CZK 256 million was included in general provision in the item “Other liabilities”. Under IFRS a portfolio provision of CZK 256 million is included in “Loans and advances to customers”.

(4) “Loans and advances to costumers” are revalued according to IFRS by CZK 5 million.

(5) Reclassification of deffered tax asset of CZK 41 million within the separate caption “Deffered tax asset” for IFRS purposes from “Other assets”, where tax asset were recorded under CAS.

(6) Reclassification of provisions of CZK 37 million within the separate caption “Provisions” for IFRS purposes from “Other liabilities”, where provisions were recorded under CAS.

NON-AUDITED 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 2004			Explanatory
	CAS CZK m	Bridge CZK m	IFRS CZK m	note
Net interest income	861	0	861	
Net fee and commission income	316	0	316	
Dividends income	28	-28	0	(6)
Net trading income	251	3	254	(1)
Gains less losses from available-for-sale securities	0	-3	-3	(1)
Other operating income	103	-16	87	(3), (5), (6), (7)
Genaral administrative and other operating expenses	-1 322	-28	-1 350	(2), (8)
Impairment losses on loans and advances	-36	-71	-107	(3), (4)
Addition and release of other specific provisions	52	-52	0	(7), (8)
Net operating income	**253**	**-195**	**58**	
Gains on disposal of subsidiaries	0	67	67	(6)
Profit from operations	**253**	**-128**	**125**	
Income tax expense	-58	0	-58	
Results from extraordinary activities	0	0	0	
Net profit	**195**	**-128**	**67**	

(1) Under IFRS, reclassification of loss of CZK 3 million from “Net trading income” to “Gains less losses from available-for-sale securities”.

(2) Under IFRS, reclassification of payment to social fund of CZK 7 million from "Reserves and retained profit" to "Operating expenses".

(3) 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.

(4) Under IFRS, negative revaluation of loans of CZK 67 million was included in the income statement within "Impairment losses on loans and advances".

(5) Annulment of decrease of reserve for dormant accounts by CZK 3 million.

(6) Under IFRS, reclassification of gain of selling ZB Trust (CZK 90 million), dividend (CZK 28 million) and postaquisition retain earnings (CZK 51 million) between "Other operating income", "Gains on disposal of subsidiaries" and "Dividends income".

(7) Under IFRS, reclassification of release of other specific provision CZK 73 million from "Addition and release of other specific provisions" to "Other operating income".

(8) Under IFRS, reclassification of addition of other specific provision CZK 21 million from "Addition and release of other specific provisions" to "Operating expense".

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 2004 accounting period.**

During the whole accounting period of 2004 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.

Živnostenská banka controls the company **Zivnostenska Finance B.V.**, Haaksbergweg Ziudoost, the Netherlands. It is a dormant company which did not show any activity during the accounting period. At the beginning of the accounting period, exactly by 7 January 2004, Živnostenská banka controlled **ŽB-Trust, investment company, a.s.**, registered office in Prague 1, Na Příkopě 15, identification No. 63080273, incorporated in the Commercial Register kept by the Municipal Court in Prague, Part B, entry No. 3277 ("ŽB-Trust, investment company" or "ŽBT") which was sold to the related company **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.

Based on the resolution of the Municipal Court in Prague from 27 October 2004 the company ŽB-Trust ceased to exist due to amalgamation by merge with the company Pioneer Czech Investment Company, a.s., registered seat in Prague 8, Karolinská 650/1, postcode 186 00, ID 63078295, which, as a successor company, has assumed net assets of the company ŽB-Trust based on such merge. Due to amalgamation of both companies by merge the management of mutual funds hitherto managed by the company ŽB-Trust has passed to Pioneer Czech Investment Company, a.s. - the successor company.

In the accounting period 2004, other relations existed with other interconnected persons, specifically with the following companies: **UniCredit Banca Mobiliare S.p.A., UniCredit Banca S.p.A., UniCredit Banca d´Impressa S.p.A., Zagrebacka Banka DD, Bank Pekao SA, IKB Deutsche Industriebank AG, UniBanka, a.s., UniCredit Leasing Romania SA (formerly Demir Romlease SA) and ŽB-Asset Management, a.s.**

The Board of Directors of Živnostenská banka hereby declares that only relations with the above mentioned companies existed between Živnostenská banka and persons interconnected with it.

1. **Contracts** concluded between Živnostenská banka and interconnected persons in the 2004 accounting period:

1.1. The following contracts were concluded between Živnostenská banka and **UCI** in the accounting period of 2004:

Name of Contract	Subject of Contract	Date of making
Contract to Hire out Labour	Conditions of hiring labour force between ŽB and UCI	26 January 2004
Contract to sell a share of the company UniCredit Leasing Romania, S.A.	Contract to sell one share representing the 0.000073 per cent share in the company UniCredit Leasing Romania S.A.	18 February 2004
Contract to buy securities of the company UniBanka, a.s.	Conditions of the contract to buy securities	13 April 2004
Contract to exercise shareholder's rights in the company Unibanka, a.s.	Conditions of the Contract to exercise shareholder's rights in the company UniBanka, a.s.	21June 2004
Mandate Contract	Conditions of the Mandat Contract between ŽB and UCI	23 June 2004
Agreement on Subordinated Debt	Conditons of granting a sub-ordinated debt	20 December 2004

1.2. The following contracts were concluded between Živnostenská banka and **Pioneer** in the 2004 accounting period:

Name of Contract	Subject of Contract	Date of making
Contract to sell shares of ŽB- Trust, investiční společnost, a.s.	Terms and conditions of the sale of shares of ŽB- Trust, investiční společnost, a.s.	7 January 2004
Contract for distribution	Contract for distribution of mutual fund certificates	29 March 2004

1.3. The following contracts were concluded between Živnostenská banka and **ŽB-Trust, investment company** in the 2004 accounting period:

Name of Contract	Subject of Contract	Date of making
Contract for the distribution of bonds	Annex No. 4 to the contract for the distribution of bonds of open-end mutual funds	10 February 2004
Contract to provide services	Annex to the contract to provide services entered into on May 1, 1999	31 May 2004

1.4. In addition to the above mentioned contracts, in the accounting period of 2004 Živnostenská banka made interbank, derivatives and other business deals contracts under standard market conditions.

1.5. No contracts between Živnostenská banka and other interconnected persons were made in the accounting period of 2004.

2. Payments provided by Živnostenská banka to interconnected persons and **considerations:**

The Board of Directors declares that between Živnostenská banka and its interconnected persons all payments and considerations were provided within the scope of ordinary trade relations, or under standard business conditions.

3. Other legal actions made by Živnostenská banka in the interest of interconnected persons:

The Board of Directors of Živnostenská banka, a.s. declares that in the accounting period of 2004 Živnostenská banka did not execute any other legal actions in the interest of interconnected persons which are beyond the scope of common legal actions within the scope of ordinary trade relations or usual legal actions executed by Živnostenská banka within the standard exercise of rights of UCI 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 (Živnostenská banka was a sole shareholder of ŽB-Trust, investment company by 7 January 2004).

4. Other measures taken or implemented by Živnostenská banka in the interest or based on initiative of interconnected persons, their advantages and disadvantages:

The Board of Directors of Živnostenská banka declares that in the accounting period of 2004 Živnostenská banka did not take or implement, in the interest or based on initiative of interconnected persons any measures beyond the scope of ordinary trade relations or off the standard exercise of rights of UCI 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 (Živnostenská banka was a sole shareholder of ŽB-Trust, investment company until 7 January 2004).

5. **Detriment** to Živnostenská banka in connection with contracts and measures made:

The Board of Directors of Živnostenská banka declares that Živnostenská banka suffered no detriment in connection with contracts and measures made.

Prague, dated 10 March 2005

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 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	Vice 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	24 June 2004	university and many years of practical experience in banking	none
Vladimír Burian	member	24 June 2004	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	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 BoDir: 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
Andrea Varese	member	12 November 2003	university and many years of practical experience in banking	Chairman of the SupB: Pekao Leasing Sp. zoo Member of the BoDir: KocBank S.A.(Turkey) Locat Leasing Croatia Locat Leasing Russia

*) Mr Franjo Luković resigned from his position as at 19 January 2005 and Mr Giuseppe Vovk was coopted instead of him at the same date (he must be yet elected by the Annual General Meeting in April 2005)

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	22 June 2000	university and many years of practical experience in banking	none
Vladimír Burian	member	22 June 2000	university 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 BoDir: 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

1.3. The Board of Directors as at 31 December 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	Chairman of the SupB: UniBanka, a.s.
Sandro Bianco	Deputy Chairman	5 June 2003	university and many years of practical experience in banking	none
Aleš Barabas	member	17 December 2003	university and many years of practical experience in banking	Executive Director: Zivnostenska Finance B.V.

2. Selected quantitative ratios

- capital adequacy:	11,52 %
- Tier 1:	CZK 2,869,494,000
- Tier 2:	CZK 1,256,142,000
- Tier 3:	CZK 0
- total capital:	CZK 4,125,636,000
- individual capital requirements pursuant to special regulations:	A: CZK 2,726,447,000
	B: CZK 136,315,000
- return on average assets (ROAA):	0.40%
- return on average equity (ROAE):	6.86%
- assets per one employee:	CZK 58,504,000
- administration costs per one employee:	CZK 1,274,000
- net profit per one employee:	CZK 243,142

Additional Information

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

In 2005, Živnostenská banka, a.s. expects stable developments in its financial situation, continuing the trend of the previous three years.

Subject of business of Živnostenská banka, a.s. as per the Articles of Association

Activities resulting from the banking licence:

- the performance of the activities specified in the Act on Banks in Section 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)(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)(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)(a) through (g) of the Securities Act,

- the principal investment service under Section 8(2)(c) of the Securities Act, trading in investment instruments on own 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)(e) of the Securities Act, subscription in respect of issues of investment instruments or placement od such issues, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- supplementary investment services under Section 8(3)(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)(a) through (c) of the Securities Act,

- supplementary investment services under Section 8(3)(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)(e) of the Securities Act, services relating to the subscription of securities pursuant to Section 8(2)(e) of the Securities Act, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- supplementary investment services under Section 8(3)(f) of the Securities Act, advisory activities regarding investments into investment instruments, that being in respect of the investment instruments under Section 8a(1)(a) through (g) of the Securities Act,

- supplementary investment services under Secrion 8(3)(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 2004, the Bank had created a provision of CZK 21 million (31 December 2003: CZK 50 million) based on an estimate by the Bank as to the outcome of these legal disputes. The Bank's management expects that the judicial proceedings for which the provisions 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 2004, Živnostenská banka, a.s., invested CZK 73 million into intangible assets and CZK 280 million into tangible assets.

Future investments into tangible assets will be related in particular to 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

The risk management process is an integral part of activities of the Bank and a basic tool to ensure its sound operation. A need to deepen and improve risk management processes has resulted from the fact that the Bank is exposed to various risks in its dealing with clients, namely credit risk, market risk, liquidity and operational risk. Živnostenská banka pays great attention to the risk management processes and has reduced individual risks to an acceptable level, mainly by identifying risks timely, by their monitoring and measuring, and also due to a sophisticated structure of internal limits for individual types of risks and products. This has been proved by a relatively low volume of classified loans and by general business results of the Bank.

Risk management organization

The risk management process is independent of all types of commercial activities of the Bank. Responsibility for the risk management in Živnostenská banka lays on the following divisions:

- Risk Management Division is responsible mainly for market and operational risks and for a credit risk on a global/portfolio basis
- Credit Division is responsible for credit risk on an individual client basis

Both these divisions are directly accountable to Chief Operating Officer. The Board of Directors cover the whole risk management process and report regularly to the Supervisory Board.

The decision-making authority in the risk management area is in hands of respective committees, i.e. “Asset and Liabilities Committee” and “Credit Committee” permanent members of which are also Directors of the Board.

In 2004, the Bank had been making preparations for changes in the sphere of banking regulation with respect to expected requirements of the Basel Committee for banking supervision and this process will continue also in the years to come. Representatives of the Bank charged with individual spheres of the risk management participate in the mutual project developed jointly with representatives of the ČNB, Banking Association, Chamber of Auditors and with other banks and improve their qualification in various seminars.

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

- Interest rates swaps (subdivided to hedging and trading purposes)
- Currency swaps
- Currency forwards
- Forward rate agreements

Operational risks

Operational risks are such to which the Bank is exposed and which cannot be qualified as market, credit or liquidity risks. In 2003, the operational risk in Živnostenská banka was monitored mainly on the level of individual organisational divisions. During 2003, a project was launched aimed to introduce the active operational risk management on a central basis, including the implementation of instruments for its monitoring and measuring. Output of this project was to build a single database of operational risks on the overall bank's level, in compliance with the Basel Committee's requirements. The project, a guarantor of which is the parent company UniCredito Italiano (UCI), will continue also in future. The UCI Group plans to introduce one of advanced measurement systems. All banks within the UCI Group were familiarized with the Group's strategy and its objectives in the operational risk management sphere and these banks have appointed contact persons and persons responsible for this area matter.

The database having been built has become one of underlying documents for proposing procedures which should lead to a decrease in the number of negative events and to mitigation of their impacts. Such database shall be used as a back control of reliability of the proposed system of measures aimed to restrict operational risks.

Market risks

Due to unfavourable movements in interest rates, foreign exchange rates and due to changes in volatility the Bank is exposed to the risk of potential losses arising from its balance sheet and off balance sheet positions. All these three factors are deemed to be a source of market risks. The Bank has available a number of instruments, such as Value at Risk, gap analysis by maturities and repricing, stress tests and calculators of sensitivity by use of which it is measuring the size of market risks. In co-operation with UCI the Bank created a strategic document "Investment Policy" which describes in detail all sources of market risks and processes through which it is able to identify individual market risks by using the following rules:

- All market risk limits shall be checked on a daily basis
- Risk control shall be independent of the Financial Markets Division
- All new financial markets activities/products must be always thoroughly analyzed from the point of view of impact on the risk management before they are introduced on the market or included into the respective portfolio of the Bank.
- The risk management of UCI and the top management of Živnostenská banka must be always informed of all major changes in the risk profile of the Bank, of any excess of limits, newly planned financial market products and all significant decisions related to market risks.

At least once a year the Risk Management Division of the Bank shall review market risks limits. Newly proposed adjustments of limits must be subsequently approved by the Board of Directors.

The main achievement in the sphere of the market risks management in 2003 was the implementation of Value at Risk methodology. Value at Risk methodology is used to quantify the interest risk of a Trading Book, Available for Sale Portfolio and to quantify the currency risk of the general open-end position in foreign currencies.

Credit risks

In 2004, in cooperation with the parent company, the Bank built a new system of the internal rating of corporate clients. This system was built with regard to assumed requirements of the Basel Committee for the implementation of advanced methods of credit risk management.

Other Top Managers of Živnostenská banka, a.s.

Managing Directors

Mr Pasquale Barbaro - Retail Banking (since 1 August 2004)
Mr Petr Bartel - Risk Management Division
Mr Jan Boček – Marketing Division
Mr Massimiliano Fossati – Credits (since 1 June 2004)
Mr Pavel Chlumský - Corporate Banking
Ms Vladimíra Josefiová, MBA – Human Resources Division
Mr Martin Kryl – Retail Banking (since 1 January 2004 until 31 May 2004)
Mr Josef Pitra – Logistics (since 1 January 2004)
Mr Michal Vančík – Private Banking Division
Mr Josef Vanžura – Organization Division
Mr Tomáš Zralý – Financial Markets (since 1 January 2004)

Directors

Mr Miloš Bádal – Retail Credit Division
Mr Vladimír Bareš – Support Sales Division (since 1 February 2004)
Ms Ivana Burešová – Legal Division
Mr George Briford – Retail Strategy and Controlling Division
Mr Josef Ciglanský – Regional Branch Karlovy Vary, Corporate Banking
Mr Michael Dománek – Regional Branch Liberec, Corporate Banking
Mr Jakub Dusílek – Regional Branch Brno, Retail Banking (since 1 July 2004), Regional Branch Ostrava, Retail Banking (since 1 January 2004)
Mr Jiří Eigel – Retail Sales and Distribution Management Division (since 1 September 2004)
Mr Petr Hladký – Corporate Credit Division
Mrs. Olga Hudcová – Regional Branch Brno, Corporate Banking
Mr Vladimír Chudárek – Regional Branch Zlín, Retail Banking
Mr Vlastislav Klimeš – Regional Branch České Budějovice, Corporate Banking (until 30 September 2004)
Mr Luděk Klíma – Regional Branch Liberec, Retail Banking
Mr František Klufa – Regional Branch České Budějovice, Retail Banking (since 1 November 2004)
Ms Lýdie Matajová – Regional Branch Pardubice, Retail Banking
Mr Miroslav Matoušek – Operations Division
Mr Miloslav Mencl – Regional Branch Praha, Corporate Banking (until 30 June 2004)
Mr Petr Merežko – Structured Finance and Product Management Division
Mr Aleš Novák – Regional Branch Praha, Corporate Banking (since 1 July 2004)
Ms Veronika Panáčková – Financial Division
Ms Jaroslava Pelechová – Internal Audit Division
Mr Michal Provazník – Information Technology Division
Ms Šárka Prudká – Regional Branch Ostrava, Corporate Banking
Mr Pavel Rauscher – Regional Branch Karlovy Vary, Retail Banking
Mr Ladislav Řehák – Regional Branch Pardubice, Corporate Banking
Mrs. Helena Suchánková – Retail Segment and Product Development Division (since 1 August 2004)
Mr Vladimír Štefánik – Regional Branch Zlín, Corporate Banking
Mr Jiří Štégl – Regional Branch Praha, Retail Banking (since 1 April 2004)
Mr Jan Uhlík – Financial Institutions Division (until 30 March 2004)
Mr. Petr Voráček – Regional Branch České Budějovice, Retail Banking

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