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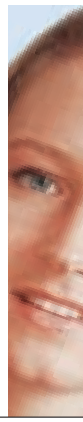


Letter of the Chairman

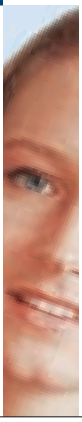
Letter of the Chairman and CEO to Shareholders

Dear Shareholders,

A year ago at the General Shareholders' Meeting I communicated the completion of the ambitious strategic shift as Management has diversified revenue of ČSOB stream across four major different client target groups and, as a result, has made the Bank a well balanced, diversified financial institution.

■ After a successful 600-days-long operational merger with the former IPB, ČSOB has taken a leading position in Retail in its home Czech market, keeping the existing customer base and attracting a quite considerable volume of new deposits. ČSOB completed the complex integration in record time. At the same time we maintained a good balance between our quality and speed, and between the customers' inconvenience and the new benefits made available to them. While the ČSOB/IPB merger process has brought a reduction in surplus job positions, further business growth was achieved. This proves that the merger has not only brought cost savings but other shareholder-value benefits as well.

■ Further, important progress in the financial group of ČSOB has been achieved. A milestone of the merger was the redefinition of the ČSOB Group, that should significantly contribute to the production of consistent and high-quality earnings in the future. By acquiring 100% of IPB Pojišťovna, a.s., the No. 4 insurance company in the country, and its foreseen consolidation with ČSOB Pojišťovna, a.s., an important challenge for ČSOB is the development and implementation of a Bancassurance operating model. The foundation has been laid for consolidation of the asset management activities of three different subsidiaries, and the Private Banking segment has been established to support above-standard service through personal bankers.



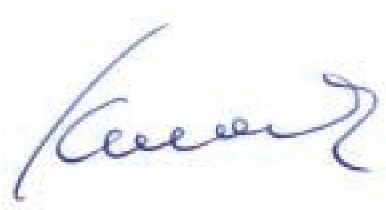
I believe that these three initiatives will provide excellent growth opportunities which will be further enhanced by the large distribution network and massive customer base of ČSOB.

■ In our focus were also business opportunities in the Slovak Republic, the second home market for ČSOB, where the Bank successfully executed its expansion within the local Retail and SME markets. Although the Slovak operations have contributed 7% of ČSOB's profit, the market potential is apparent given the impressive year-to-year increase in the number of retail clients by 38% which should provide future revenue growth.

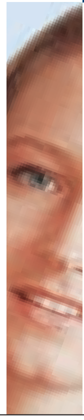
■ As expected, 2001 net profits reached a new high, CZK 5,952m, which resulted in a very respectable return on equity of 16.5% for the year. Although proud of these financial achievements, we are fully aware of the need to focus on sustainable revenue growth, as evidenced by the various initiatives already underway, and cost control to continue to produce increased quality.

■ To the managers and staff of the ČSOB Group, I am fully aware of the challenges you have faced during the integration of the former IPB and ČSOB. It is wholly a result of your work that the ČSOB Group has been able to take full advantage of the opportunties resulting from the integration.

■ Please allow me to summarize: Last year I was optimistic with respect to the strategic position of ČSOB. Today we are focusing on stabilization of a new bank and quality and I am therefore confident that ČSOB, as the largest universal bank in the Czech Republic, is in the best position ever to exceed the expectations of its clients and to bring good returns to its shareholders.



Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer



Profile of the Company

Profile of the Company

ČSOB keeps the position of the strongest, most stable and most powerful bank in the Czech Republic, as well as in the entire region of Central and Eastern Europe. After its successful privatization by KBC, Belgium and the strategic acquisition of IPB, it is dynamically developing its services in order to satisfy both the existing and future needs of its clients.

ČSOB history

ČSOB was established in 1964 by the State Bank of Czechoslovakia (SBČS), which was the majority shareholder, and by other state-controlled entities. ČSOB was the sole bank in Czechoslovakia providing services in the field of foreign trade (financing of foreign trade enterprises, foreign currency services). After 1990 the bank diversified its activities and expanded its client base mainly with businesses, but also natural persons. Today, ČSOB is a universal bank providing its products and services to all clients, from students to seniors, from small businesses to supranational corporations.

ČSOB privatization

After successful privatization, ČSOB has been operating since June 1999 in coordination with its majority holder – KBC Bank NV, Belgium. KBC Bank NV is a member of the financial group KBC Bank and Insurance Holding Company NV, which ranks among the largest and strongest in Europe, operating through its branches and subsidiaries literally all round the world. Other shareholders in ČSOB include the European Bank for Reconstruction and Development and International Financial Corporation of the World Bank Group.

Merger of ČSOB and IPB

On June 19, 2000, upon the Business Sale Contract, ČSOB acquired the assets and liabilities of IPB. This strategic merger gave rise to the bank with capital background, which is beyond compare, offering new and innovative products with the aim to improve its services to clients. ČSOB's priority is still the absolute security for clients, which is guaranteed by the bank tradition, corporation culture and transparent ownership relations. The process of the merger itself confirmed both the capital and management strength of ČSOB. The merger with IPB further increased ČSOB's ability to be where clients need it.

Clients can find in ČSOB and Poštovní Spořitelna branches, which are located in all towns throughout the Czech Republic and in all cities in Slovakia, all banking services they need.

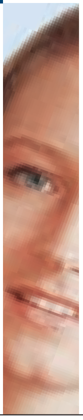
ČSOB clients entrust their money to the best bank in the country and can be assured that their money will be taken care of in a professional way so as to fully satisfy all their needs.

- The offer of ČSOB and its Small Clients Group includes a complex mixture of financial products and services and an extensive network of branches.

- More than thirty-year long know-how in corporate banking has further improved due to the union with KBC – the bank offers its clients direct access to global markets, providing financial strength, which can satisfy even demands of the largest corporations.

Ratings ČSOB

Ratings (as at 15 April 2002)	Long-term	Short-term
Moody's	Baa1	Prime-2
Standard & Poor's	BBB-	A-3
Fitch	BBB+	F2
Capital Intelligence	BBB	A3



Consolidated five year financial summary

(according to International Accounting Standards)

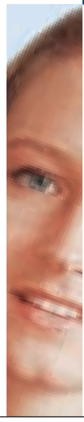
	2001	2000	1999	1998	1997
Results for the year (CZKm)					
Profit before taxation	8,913	6,465	4,566	4,935	4,949
Income tax expense	2,878	1,696	1,683	1,726	2,095
Net profit	5,952	4,691	2,823	3,159	2,798
At year-end (CZKm)					
Shareholders' equity	37,853	34,336	31,478	27,501	24,670
Amounts due to customers	417,743	348,820	126,498	113,328	115,639
Amounts due to banks	27,814	22,891	45,363	67,255	61,708
Debt securities in issue	34,917	66,195	38,750	22,329	15,353
Loans and leases	181,476	164,501	97,046	116,505	112,171
Amounts due from banks	117,194	71,142	115,257	83,883	62,199
Assets	597,860	535,544	257,698	251,166	237,451
Ratios (%)					
Return on average shareholder's equity (ROAE)	16.49	14.26	9.57	12.11	12.03
Return on average total assets (ROAA)	1.05	1.18	1.11	1.29	1.25
Bank capital adequacy ratio – CNB regulations[1) 2)]	15.04	13.70	20.24	18.16	13.33
Total shareholders' equity to total assets[1)]	6.33	6.41	12.22	10.95	10.39
Exchange rate CZK/USD[1)]	36.26	37.81	35.98	29.86	34.64
Average exchange rate CZK/USD	38.04	38.59	34.60	32.27	31.71
Exchange rate CZK/EUR[1)]	31.98	35.09	36.13		
Average exchange rate CZK/EUR	34.08	35.61	36.88		

1) as at 31 December
2) as reported

The Group has adopted IAS 39 prospectively as at 1. 1. 2001. Comparative figures have not been restated, however certain figures of the year 2000 have been reclassified.

Shareholder structure of ČSOB, main shareholders as at 31 December 2001:

Shareholder	Share
KBC Bank NV	75.96%
EBRD – European Bank for Reconstruction and Development	7.47%
KBC Verzekeringen NV	5.55%
IFC – International Finance Corporation	4.39%
The Others	6.63%
Total	**100.00%**



KBC Bank

KBC Bank and Insurance Holding Company NV

KBC Bank and Insurance Holding Company NV (hereinafter KBC Group) was created in 1998 through the merger of three companies: ABB Insurance Group, Almanij-Kredietbank Group and CERA Bank Group. Banking and insurance activities of the KBC Group have been integrated into two subsidiaries: KBC Bank NV and KBC Insurance NV, that are managed jointly by the Holding Company.

■ KBC is a multi-channel bancassurer, with a geographic focus on Europe. In Western Europe, the KBC Group boasts a leading position in Belgium, where it belongs to the top-three financial institutions, with a market share of around 20–25%. In Central Europe, it is one of the premier financial services groups, with a leading position in the Czech Republic and a significant presence in Poland, Hungary, Slovakia and Slovenia. KBC Group via its network of representative offices, branches and subsidiaries, is also present in around 30 countries worldwide.

Presence in Central Europe

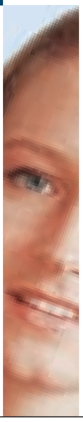
■ In the Czech Republic, the KBC Group apart from the majority in ČSOB has a 100% shareholding in the investment bank Patria Finance, a.s. and 100% in the insurer ČSOB Pojišťovna, a.s.

■ In Hungary, it owns 59.01% of K&H Bank (the second bank of that country, the result of a merger of the former K&H Bank with ABN AMRO Magyar), 50% in the life inssurance company K&H Life (the other 50% being held by K&H Bank) and 98.8% in Argosz (non-life insurance).

■ In Poland, KBC Group owns 66.53% of Kredyt Bank, the fifth bank of that country, 40% of Warta, the second biggest non-life insurer and 49.9% of the non-life insurer Agropolisa (plus 47.9% via Kredyt Bank).

■ In April 2002, KBC and Slovenian authorities signed the agreement to acquire a 34% stake in Nova Ljubljanska banka, the largest bank in Slovenia.

Long-term ratings as at 31 December 2001	Fitch	Moody's	S&P's
KBC Bank NV	AA-	Aa3	A+
KBC Insurance NV	AA	–	A+



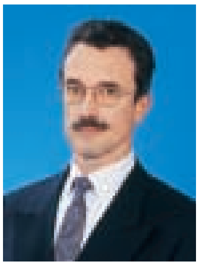
Governing Bodies

Members of the Board of Directors

Pavel Kavánek
(born on December 8, 1948)

Chairman of the Board of Directors and CEO

Education: Prague School of Economics and The Pew Economic Freedom Fellowship at Georgetown University. He has been working in ČSOB since 1972. He has been a member of the Board of Directors since 1991 and its Chairman and CEO since 1993.



Vladimír Staňura
(born on March 18, 1955)

Member of the Board of Directors and Senior Executive Officer

Education: Prague School of Economics, Erasmus University, Rotterdam School of Management. He has been employed in ČSOB since 1978. From 1983 he was adviser and Deputy Director at MBHS in Moscow for 5 years but did not interrupt his employment at ČSOB. In 1990 he was appointed member of the Board of Directors and Senior Executive Officer.

Petr Knapp
(born on May 7, 1956)

Member of the Board of Directors and Senior Executive Officer

Education: Prague School of Economics. He came to ČSOB in 1979. Since 1984, he worked in Teplotechna Praha, first as Deputy Director and later as Director of Foreign Operations. In November 1991 he came back to ČSOB and was appointed Director of Large Enterprises Finance Section and then Director of the Credits Section. Since May 1996, he has been a member of the Board of Directors and Senior Executive Officer.

Jan Lamser
(born December 8, 1966)

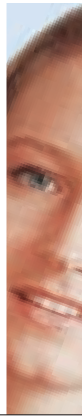
Member of the Board of Directors and Senior Executive Officer

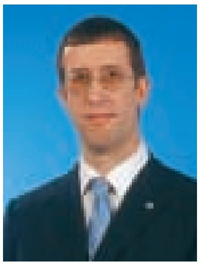
Education: Mathematics-Physics Faculty of Charles University, Prague School of Economics and Ecole des Hautes Etudes Commerciales in Paris. He has been employed in ČSOB since 1995 and has been a member of the Board of Directors since 1997. In 1998 he was appointed Director of the Strategic Development Section and in 1999 Director of the Planning and Financial Controlling.

Carl Rossey
(born on May 16, 1961)

Member of the Board of Directors and Senior Executive Officer

Education: State University in Gent, Belgium. He has been in KBC Bank since June 1995 as an organisational advisor, Director of the Organisation Section and later Senior Executive Officer of the Organisation Division. Since August 1999 he has been a member of the Board of Directors and Senior Executive Officer.





Philippe Moreels

(born on February 25, 1959)

Member of the Board of Directors and Senior Executive Officer since March 1, 2002

He started his work career as an analyst of the pension fund of the Unilever Group, where he also worked as an internal auditor. Further, he worked for seven years as the manager of Back Office in the group Standard Chartered Bank/Westdeutsche Landesbank. From 1993, until joining ČSOB, he worked at Tatra Banka Bratislava in Slovakia – first as the operations manager, and from 1998 as a member of the Board of Directors.

Patrick Daems

(born on April 21, 1948)

Member of the Board of Directors and Senior Executive Officer since April 1, 2002

First, he worked for the U.N., then at the Belgium-based branch of First Interstate Bank. From 1980, he worked as its representative officer in Frankfurt. In the following years, he worked as manager of the bank's Corporate Banking in Los Angeles. From 1987 until 1992, he worked at Swiss Bank Corporation in the U.S.A. as a manager for South-Western Corporate Banking Division. Since 1992, he has been employed at Krediet Bank, first as the leading representative in Los Angeles, then in Brussels as the head of the Head Office Corporate Division. From 1997 he was the general manager of International Banking at the Brussels Head Office. He is a member of Boards of Directors of several banks from the KBC Group.

Ladislav Unčovský

(born on April 15, 1965)

Member of the Board of Directors and Senior Executive Officer

Education: Prague School of Economics and Universite d'Aix in Marseille. He has been working in ČSOB since 1997. He has been a member of the Board of Directors and Senior Executive Officer since June 1998.

With effect from February 28, 2002 Mr. Ladislav Unčovský resigned from the Membership of the Board of Directors.

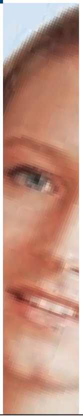
Luc Seynaeve

(born on September 29, 1948)

Member of the Board of Directors and Senior Executive Officer

Education: Louvain University. He has been employed in KBC Bank since 1971, particularly in the commercial and lending fields, both domestic and international. Since September 2000 he has been Senior Executive Officer. He has been a member of the Board of Directors since April 2001.

With effect from March 31, 2002 Mr. Luc Seynaeve resigned from the Membership of the Board of Directors.



Governing Bodies

Members of the Supervisory Board

sitting: Remi Vermeiren
standing, from left: Roman Glasberger, Farida Khambata, Frans Florquin, Petr Korous, Herman Agneessens, Gavin Anderson

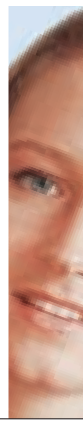
■ Chairman:
Remi Vermeiren,
KBC Bank, President

■ Vice-Chairman:
Herman Agneessens,
KBC Bank, Managing Director

■ Members:
Willy Duron,
KBC Bank, Managing Director
Frans Florquin,
KBC Bank, Managing Director
Farida Khambata,
IFC, Director
Gavin Anderson,
EBRD, Director
Ing. Roman Glasberger,
ČSOB, Deputy Director of the SME in Prague 2 region
Ing. Petr Korous,
ČSOB, Director of FM Sales

Kateřina Součková,
ČSOB, Liberec Branch, Head of the Payment Operations
– with effect from February 2001 resigned from the Membership of the Supervisory Board

Kanako Sekine
EBRD, Director
– member of the Supervisory Board since 17 April 2002
She graduated from university with a M.B.A. degree; she majored in social sciences. First, she worked in the Corporate Banking Division at the bank Smith Barney, Harris Upham& Co in Tokyo, later on in New York. Now, she is the director of Private Equity in the EBRD Financial Services Group in London. She is the director and a member of international commissions and the chairwoman of the Supervisory Board of the Investment Fund for Russia, supported by G 7.



Board of Directors' Report

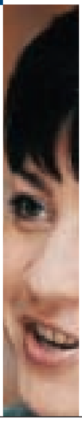
Board of Directors' Report

In the year 2001 ČSOB moved significantly towards the fulfilment of its key strategic priority identified already during the Bank's privatisation in 1999, i.e. strong orientation towards retail clientele.
The acquisition of the former Investiční and Poštovní Banka, a.s. ("IPB") contributed to this significantly. ČSOB's priority for the year 2001 was the integration of operations with the former IPB, that the Bank succeeded to finalise in line with its ambitious plan. Due attention was, however, also paid to the development of business activities. After the stabilisation of the customer and deposit base in 2000, further business growth was achieved in the following year – the trust in ČSOB was reflected in the increase of funds from clients, while the Bank strengthened its position in the area of banking services to retail customers. In the Slovak market, ČSOB is successfully executing its goal to expand in the segment of services to retail customers and small and medium-sized enterprises (SMEs).

ČSOB's position in the market at the end of 2001

	ČSOB's market share (%)	Ranking
Czech Republic		
customers' deposits	24.6	2
loans (net)*	10.5	3
total assets	20.0	1
Slovak Republic		
customers' deposits	7.7	4
loans (net)	3.9	6
total assets	7.5	4

* without non-white assets



The merger resulted in ČSOB's becoming the largest universal bank in the Czech Republic.
In 2001, the Bank confirmed its **leading position in the market of the Czech Republic**, both in terms of its size (by volume of assets) and its strength (by shareholders' equity), as well as in terms of its performance (by business results). The main rating agencies, Moody's, Standard and Poor's and Fitch, confirmed the rating of ČSOB as the highest of the banks in the CR (while the rating awarded by the agencies Moody's and Fitch is at the same level as that of the CR, that is, the highest possible).

Integration with IPB

ČSOB successfully fulfilled its goal to accomplish a fast integration process, while keeping a good balance between its quality and speed. The internal focus was kept as short as possible to give more space for further development of the customer services and expansion of the business. The merger, being large even by European standards, was finalized in record time. The total cost of the integration with IPB was CZK 1.5 bn (from June 2000 to March 2002), roughly one-quarter less than the amount planned at the beginning of the merger. Cost synergies of the integration are driven mostly by the reduction in the headcount – the number of employees decreased by more than 1,500, i.e. 18% (from June 2000 to end-2001) – and related further cost savings.

Major milestones of the integration process:

2000

■ **August 2000**
A decision was made to adopt the transactional IT system of the former IPB (Profile) for processing transactions of retail and SME customers and to adopt the transactional IT system of the former ČSOB (IBIS) for processing transactions of corporate and financial institution customers.

■ **October 2000**
A blueprint of the integrated bank was finalized and all management layers were appointed and fully operational.

■ **November 2000**
All changes in the Profile system, needed to be able to migrate retail and SME customers, were defined. No changes were needed in the IBIS system for migrating corporate customers.

■ **April 2001**
All Head Office units were functionally, organisationally and physically integrated. About 2,800 people were relocated.

■ **May 2001**
The regional structure of the two former banks was integrated and streamlined – some activities were transferred to Head Office units (e.g. some services, IT and financial areas) and back-office tasks of branches were transferred to regional units (e.g., registration of payment transfers, loan registration and documentation).

■ **June 2001**
The merger of branches commenced.

■ **July 2001**
The migration of retail and SME customers from IBIS to Profile started.

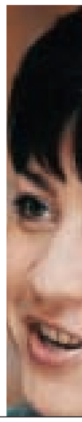
■ **October 2001**
All branch offices' and Head Office buildings were re-branded with the new logo in both the Czech and Slovak Republics.

■ **December 2001**
Headcount reduction of 12.5% was achieved in 2001. The migration of all retail and SME customers was completed.

■ **January 2002**
79 branches were merged into 39, both physically and organisationally, and 8 branches were closed.

■ **March 2002**
The remaining 300 corporate customers were migrated to IBIS.

2002



IPB transaction

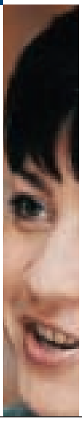
In August 2001, the Agreement on Restructuring Plan, executing the Agreement and State Guarantee, was signed between ČSOB, Konsolidační banka, s.p.ú. (state own institution) and Czech Ministry of Finance. The Agreement on Restructuring Plan lays down a mechanism to separate the ex-IPB assets and liabilities into three groups: those to be retained by ČSOB, those to be transferred to Konsolidační banka (since renamed as Česká konsolidační agentura, "ČKA"), and Other items. ČSOB has the right to exercise a put option on any of those Other items and transfer them to ČKA by 19 June 2002. The transfer of the items from the second group was realised in five waves during the period November 2001 to February 2002. A substantial part of Other items will be transferred to ČKA within a short period of time.

Business results

Services to retail clients and to small- and medium-sized enterprises

Retail segment

After a successful merger with the former IPB, ČSOB, along with Česká Spořitelna, a.s., has taken a leading position in the retail market segment, both in terms of the size of the customer base, as well as in terms of the volume of deposits. In 2001, the trust in ČSOB manifested itself in the ongoing growth of deposits. The unification of the product offering and related IT systems in the Retail and SME segment necessitated a migration of the ex-ČSOB clients from the IBIS system to the chosen real-time Profile system of ex-IPB. This extraordinary effort led to a temporary reduction of customer service, but it was a needed prerequisite to build an integrated bank having more points of sale and having a solid base for new product development and service delivery.



Product innovation:

- On the basis of analyses of the range of products offered by both banks, a unified product portfolio of ČSOB has been prepared, containing products that combine the advantages of the products of ex-ČSOB and ex-IPB.
- The most important newly-introduced product was the **consumer loan** using a modern method of scoring. Its launch was very successful – from May until the end of 2001 the Bank succeeded in concluding almost 21,000 contracts.
- The Bank continued to offer a modern form of service – an electronic banking product called ČSOB Linka 24, which includes the phone banking and GSM banking. In December 2001, ČSOB launched an Internet banking service.
- In 2001, from the range of subsidiaries' products offered within the Bank's sales network, more than 18,000 building savings contracts were concluded for Českomoravská stavební spořitelna, akciová společnost, and more than 4,000 contracts on supplementary pension insurance were concluded for Českomoravský penzijní fond, a.s. and ČSOB Penzijní fond, a.s. ČSOB's branch network also started offering mortgage loans from Českomoravská hypoteční banka, a.s. and capital life insurance from ČSOB Pojišťovna a.s. and insurance of consumer loans by IPB Pojišťovna, a.s.

Poštovní spořitelna (Postal Savings Bank) maintained its important position in serving mass-market clients. Easy access to services was mediated by the largest sales network in the domestic market – by about 3,400 post office outlets and 7 branches.

from left: Carl Rossey, Vladimír Staňura, Pavel Kavánek, Jan Lamser, Patrick Daems, Philippe Moreels, Petr Knapp

Poštovní spořitelna was the only bank on the domestic market to offer a hybrid card (Maxkarta card). In 2001, more than 800,000 clients made use of its advantages. In 2001, consumer loans were newly offered at more than 1,000 selected post office outlets. In the first quarter of 2002, Poštovní spořitelna commenced offering its clients life and travel insurance.

■ The Bank offers VIP clients special products (mostly oriented to investment of available funds) and above-standard service.

■ At the end of 2001, ČSOB decided to create a new customer segment – **Private Banking**, which includes individuals with an average total value of financial assets of CZK 5m. Private Banking will start its operations on 1 April 2002, when the first five regional centres will be established to serve this customer segment. The clients of Private Banking will be given above-standard treatment through personal bankers. The main products of this segment will include asset management, trading in securities and all services related to the maintenance of current and deposit accounts.

Small- and medium-sized enterprises segment

■ ČSOB is commited to strengthen its important position in the customer segment of small- and medium-sized enterprises.

■ In 2001 the Bank launched a new product package, ČSOB Podnikatelské Konto (Entrepreneur's Account), tailor-made for customers from the small- and medium-sized enterprises segment, which is, amongst other things, a component of the ČSOB's **Programme for the Support of Small and Medium-sized Businesses**. Through this programme, clients can obtain information on the systems of state support for the business and also of foreign support from the funds of the European Union, European Investment Bank as well as International Finance Corporation. Cross-selling of subsidiaries' products is also a part of the Programme.

■ The Bank developed an individual approach to selected clients, including a client advisor of their own. To special customer groups (pharmacists, notaries) special product packages are offered.

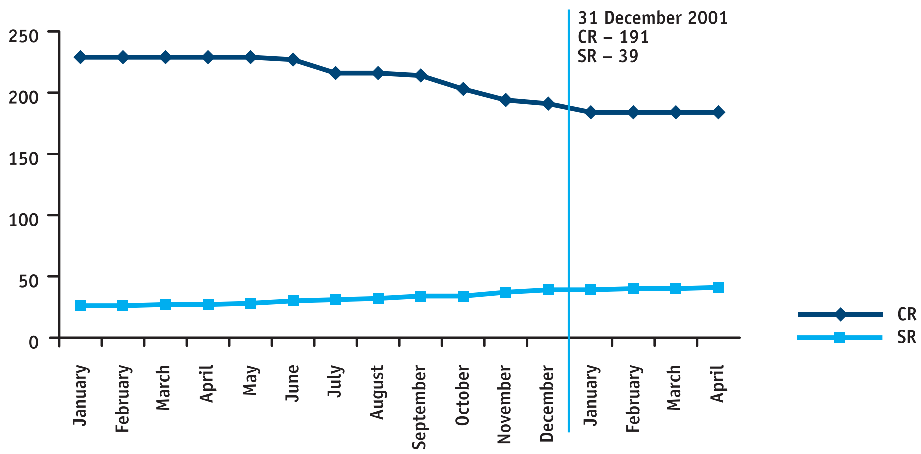
Changes in the branch network:

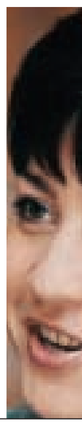
- In connection with the merger with the former IPB, the branch network was optimised and, at the end of 2001, the network comprised 191 branches in the CR and 39 branches in the SR.
- A significant means of improving the quality of customer service was the **implementation of the model of a zone-based customer service** which is in line with modern trends in banking and consists of implementing a self-service zone, a quick service zone and an advisory zone.

Activities in Slovakia

■ ČSOB continued its **expansion** of its business activities in Slovakia also in 2001 – the branch network was enlarged by opening 14 new branches to a total number of 39, an intensive campaign focused on attracting new clients manifested itself in an impressive increase in the number of clients by 38%. The zone-based customer service model has been applied to all of the newly opened branches.

The development of the number of branch offices





The portfolio of products offered was enlarged in mid-2001 by including consumer loans. At the end of 2001, ČSOB obtained a licence in Slovakia to grant mortgage loans. The electronic banking product ČSOB Linka 24 has also been offered with success.

Corporate Banking

ČSOB maintained its position as one of the major market leaders in the corporate segment. Within the framework of the KBC strategy, the Bank is focusing on mid-cap corporate entities, while at the same time defending its dominant position in the area of services for top corporates.

At the beginning of 2001, ČSOB, striving for error-free operational payment services, started an extensive programme to strengthen its position as the market leader in terms of operation payment services and **Cash Management**. In the year 2001, ČSOB was one of the few banks in the CR able to offer same-day electronic domestic transfers. The International Cash Management programme will be completed in the second half of 2002 when ČSOB will then be able to offer fully-fledged domestic and international **Cash Pooling** solutions to even the most demanding clients.

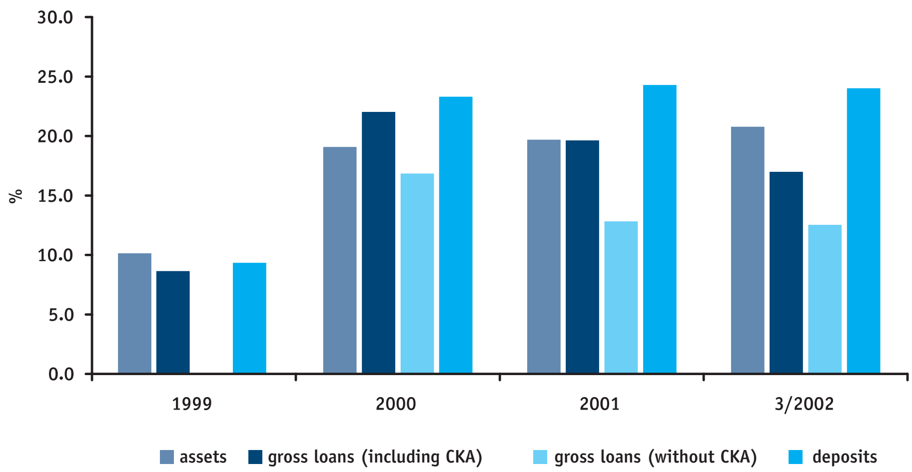
The Bank increased its activity in arranging, and participating in, **syndicated loans** for both domestic and selected foreign corporate clients and financial institutions. ČSOB was one of the arrangers of the new CZK 6bn long-term syndicated loan granted to brewery Plzeňský Prazdroj (Pilsner Urquell), a Czech subsidiary of South African Breweries. This transaction is the biggest loan ever granted to a company based in the Czech Republic and denominated in the local currency. KBC and ČSOB participated in the USD 2bn medium-term syndicated loan granted to LG Philips Displays Holding BV to finance Cathode Ray Tubes – CRT production (the Czech plant in Hranice na Moravě plays a key role in LG Philips' European activities). The growing activities in **project finance** were focused on supporting the Bank's most important corporate clients, top foreign investors and major commercial real estate projects. The Bank succeeded in increasing the efficiency of **documentary transactions**, as a slightly smaller overall number of transactions was successfully handled by a substantially reduced number of staff. In forfaiting and other short-term **trade finance** the volumes increased by 70%, the portfolio of medium and long-term export loans, most of which with EGAP cover, was as high as in the year 2000.

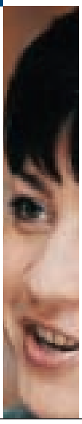
The specialised corporate network consisting of 9 branches in the Czech Republic and 3 in the Slovak Republic with Corporate Relationship Managers as a sole point of contact for customers was implemented during the year 2001 and is fully operational now.

Activities in Slovakia

In Slovakia, ČSOB maintained its important position in the corporate market despite the strengthening competition from foreign banks and from privatised large local banks and, throughout the year 2001, acquired 84 new large companies. The Bank successfully completed several important transactions for leading Slovak companies.

Market share in terms of assets, loans and deposits – ČSOB CR





Services for non-banking financial institutions

In 2001 the most important clients of the former IPB were fully integrated into the model of services provided for this type of clients at a specialised workplace of the Bank's Head Office with the aim to deepen the individual, above-standard approach to these clients through specialised business managers.

ČSOB's market position:

- a dominant position in the Czech market in the area of custody, which was further strengthened, partly due to the merger with IPB,
- clearly the largest bank-depository, providing services in the domestic market in the area of collective investment for investment companies and mutual funds managed by them, investment and pension funds,
- more than a 50% share in the market of pension funds that are serviced by the Bank especially by maintaining their current and deposit accounts, by banking products appreciating their financial means, by services connected with custody of securities in their portfolios and depositary services,
- more than a three-quarters market share in servicing health insurance companies.

In 2001 the Bank intensified its business co-operation with all the biggest pension funds in the CR. A business success was also the confirmation of its participation in the maintenance of accounts for Všeobecná Zdravotní Pojištovna (general health insurance company) in the future. The volume of deposits of non-banking financial institutions increased considerably and reached the volume of more that CZK 16bn at the end of 2001.

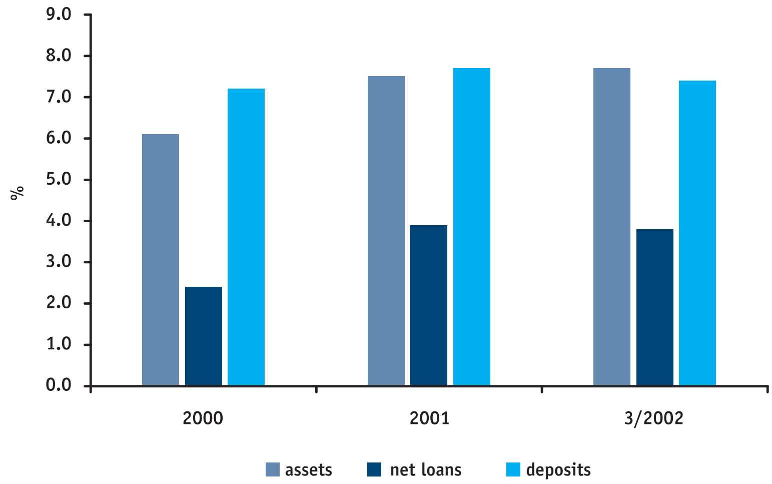
Financial markets operations

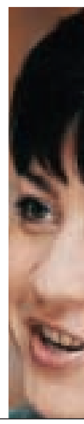
In 2001, the Bank successfully continued in its activities in the financial markets area carried out in former years. The position of ČSOB in the domestic market:

- in the **forex markets** a leading position (20% market share) in convertible currencies/CZK trading,
- in the area of **money market** operations, ČSOB is one of the largest market-makers in the interbank market of deposits and loans, treasury bills, FX swaps as well as Czech crown forward operations – FRA and interest-rate swaps – IRS,
- in the area of **derivatives operations**, ČSOB is an active FX options market-maker enjoying an exclusive market position,
- in the **capital market**:
  - one of the three largest traders for clients
  - one of the three main bond market-makers
  - one of the most important traders in crown eurobonds,
- regarding **asset management**, ČSOB holds one of the foremost places in the market,
- in the area of **primary issues**, ČSOB has a leading position in the market of mortgage bonds as well as in the administration of government bonds.

In the course of the first half of 2001, all processes applied to the financial markets were revised in order to raise the quality of all dealing procedures and

Market share in terms of assets, loans and deposits – ČSOB SR





improve risk management. In November 2001, the implementation of MUREX, a new front-end dealing system used in the whole KBC Group, was started.

In the area of derivatives operations, the Bank has widened the range of its products mainly targeting large corporate clients by including interest-rate options and high-yield promissory notes.

In 2001, the trading on the capital markets went through a major product and personnel restructuring process. After incorporating Patria Finance, a.s. into the KBC Group, in line with KBC's general strategy, ČSOB stopped trading in equities in the CR and transferred these activities as well as the team of traders to Patria Finance, a.s. Conversely, all activities connected with trading in bonds were terminated at Patria Finance, a.s. and transferred to ČSOB together with the respective specialists. Due to the synergic effects of this operation, the volume of trades grew significantly, which had a positive impact on the market position – making ČSOB No 1 in bonds trading and Patria Finance, a.s. No 1 in equities trading.

The trading for clients was also positively affected by the merger with the former IPB, which led to the extension of the customer base. The activities related to the trading for customers were then divided by customer segments into trading for corporate clients and trading for small and medium-sized enterprises (SME) and retail customers. In 2001, the Bank was successfully offering corporate clients derivatives and structured products and tailor-made hedging operations. Small and medium-sized enterprises are acquiring a large share of customer transactions. In order to support the sales of FX market products through the branch network, the Bank decided to launch an "e-dealer" project in the second half of 2001, that will simplify the processing of transactions at branch offices.

In the primary bond market, the Bank organised the 2nd and 3rd tranche of the 7th issue of mortgage bonds of Českomoravská hypoteční banka, a.s. The Bank won all tenders called by the Ministry of Finance in 2001 to select an issuing and paying agent of government bond issues and thus strengthened its leading role in the administration of government bonds. ČSOB won, together with Česká spořitelna, a.s., a tender for the implementation of ČESKÝ TELECOM's bond issue programme. In co-operation with the Czech–German Fund of the Future, the Bank ensures payment of compensations to victims of Nazism.

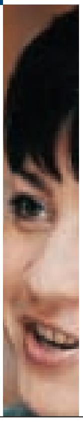
The active support for trading on the financial markets was strengthened by the research unit, which analytically covers, within the framework of KBC Group, countries in Eastern and Central Europe.

Asset Management

In 2001, the Bank successfully continued developing asset management activities. The volume of the managed discretionary client portfolio reached CZK 9.6 bn. The most important customers of the Bank are financial institutions (insurance companies, pension funds) and also, for example, municipalities and enterprises.

In the first half of 2002, the Bank expects:

- in the area of money market operations, the implementation of a new product, overnight index-swaps, to hedge short-term crown positions,
- in the area of derivatives operations, the launching of new structured products containing interest-rate options (so-called floaters) and swaptions,
- the restructuring of analytical support within the KBC Group in the Czech Republic, leading to the formation of one team of financial market analysts in ČSOB,
- the continuing participation in the asset management integration project within the KBC Group in the Czech Republic, which will merge ČSOB activities in this area with those of



Patria Asset Management, a.s. and this will lead to a stronger position of the Bank (and of the KBC Group) as a major asset manager for clients in the domestic market.

Activities in Slovakia

■ Despite increasing competition, the Foreign Branch in Slovakia succeeded in maintaining its position in the local interbank market. Customer operations were also successful in 2001, in particular, the operations in FX markets. The interest in these products contributed to an increase in the number of customers. In co-operation with KBC and ČSOB Head Office the Foreign Branch succeeded in widening the range of products offered to customers by including attractive, structured products. The Branch also achieved an important position in the mutual funds market – a 10% market share.

Electronic Banking

■ Along with the integration of electronic banking services of both banks in 2001, the development of services further continued, which involved not only the launching of new products, but also the enhancement of existing services. ČSOB is fully competitive in this area since, as it is one of only a few banks, which provides all types of services offered by other financial institutions and the services offered utilise all available electronic channels.

■ The Bank succeeded in 2001 to significantly increase the number of active users of electronic banking services – by more than 70%. At the end of 2001, the overall number of users of electronic banking services reached 300,000.

The development of products:

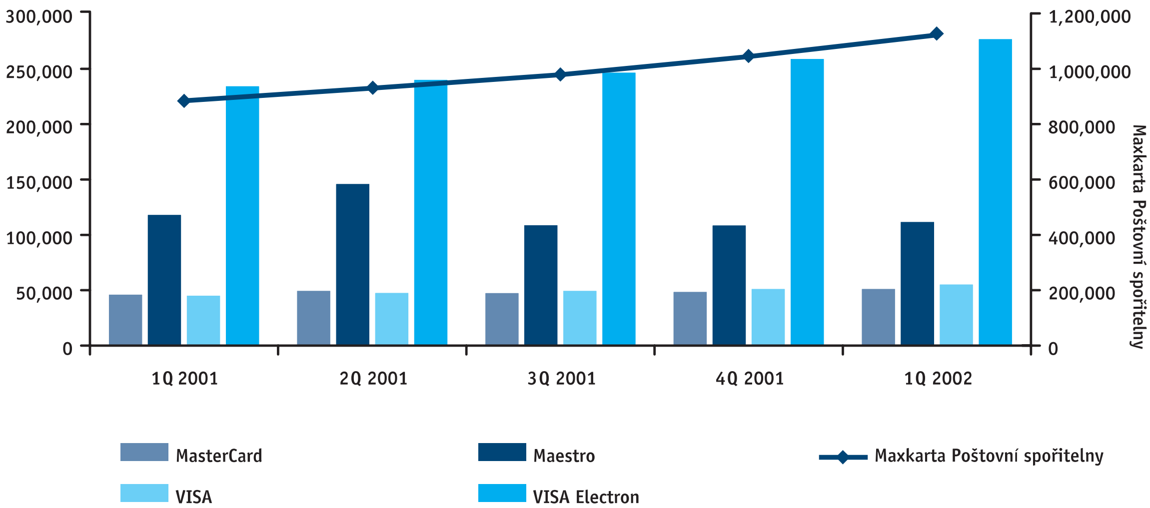
- In the CR, it has been made possible to make payments to mobile operators via payment cards issued by any bank through ATMs.
- ČSOB Homebanking 24 service has been upgraded.
- The offer of a new service – ČSOB Internetbanking 24 using the best available technology – has been started. In the course of the first half of 2002, the ČSOB Internetbanking 24 service will also be offered to clients in Slovakia.
- In the SR, ČSOB Linka 24 service has been launched.

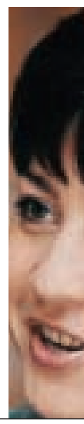
Payment Services and Payment Cards

ČSOB's position:

- the first place in the domestic market in the area of foreign payments,
- the leading position in the market as a provider of financial services in CZK/SKK for foreign banks (at the end of 2001, ČSOB maintained around 480 loro accounts for foreign banks),
- thanks to large network of nostro accounts and correspondent relations, the ability to place payment instructions anywhere in the world (at the end of 2001, ČSOB had around 90 nostro accounts with foreign banks),
- 1,400,000 payment cards issued in the CR and SR (as at 31 December 2001),

Number of active ČSOB cards





– 260 ATMs maintained in the CR and SR (as at 31 December 2001) – **in 2002** the Bank wants to achieve a **significant increase in the number of ATMs.**

In 2001 the centralisation of the processing of non-documentary payments led to greater efficiency. The STP (Straight Through Processing of Incoming and Outgoing International Clean Payments) project was started, the goal of which is to automate the processing of more than 50% of cross-border payments by the end of 2002. Due to the quality of its preparation, the Bank managed the introduction of a new currency, the euro, without any problems.

Prerequisites for the achievement of the business results

Marketing support

In connection with the merger of ČSOB with IPB, a **new logo** of the joint bank was created and, subsequently, a new graphic style as well as basic rules for the graphic style of the companies within the financial group. Part of the implementation of the new style involved placing the new unified brand on all of the Bank's premises. The logo of the new Bank was presented in public media in March 2001, and, at the same time, a **campaign**, based on the Bank's strategy, was launched **to enhance the new brand of ČSOB**. All activities connected with the change of the logo, with the implementation of a new graphic style as well as with the support for the new perception of ČSOB, were also simultaneously conducted in Slovakia.

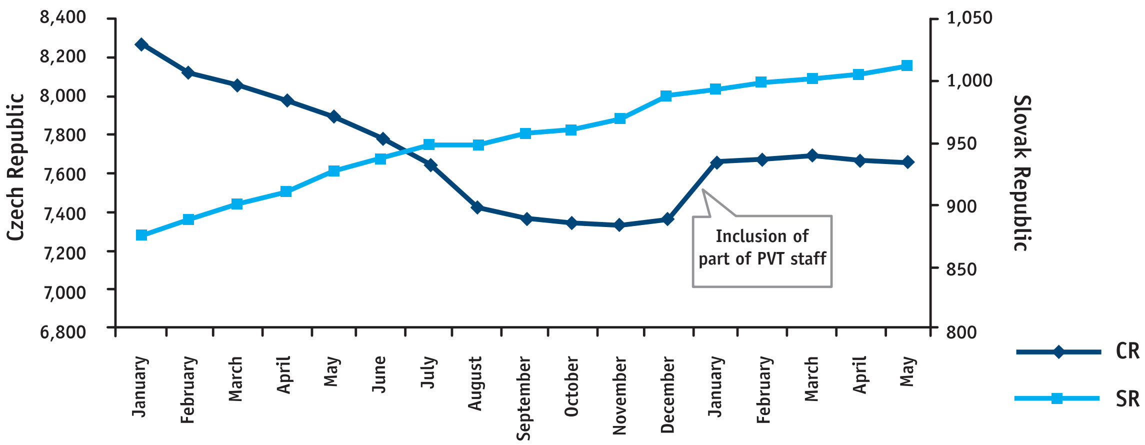
The campaign supporting the brand name was followed by promotional **campaigns supporting new products** of the Bank, which reflected the change in the orientation of the Bank from corporate clients to retail banking clients. Promotional campaigns were focused on consumer loans, investment advisory, programme for the support of the small and medium-sized businesses, electronic banking and other products. In Slovakia, the support was focused on consumer loans, deposit products and phone banking.

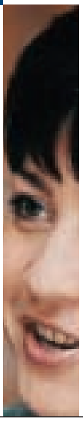
The Bank's investment in human resources

Also in 2001, ČSOB made great efforts to select quality employees and took care of their stabilisation. The employees' motivation involves, amongst other things:

- priority filling of vacancies on the basis of internal tenders,
- salary motivation – the maximisation of remuneration components depending on work performance appraisals and the implementation of specific remuneration systems for selected employee categories depending on the character and objectives of their work,
- improvement in the qualification by providing internal and external training, training within the KBC Group and also the inclusion of prospective young university graduates into an intensive training programme,
- social programmes in the area of health care and cultural and sports activities,
- quality communication with employees through printed periodicals, intranet sites, and meetings of the Bank's management with employees.

Staff number of ČSOB





Major changes in ČSOB's organisation

Several important organisational changes were made **in 2001** to enhance client services of the Bank, to increase the Bank's efficiency and to strengthen risk management in compliance with the regulatory rules:

- The segmented business approach was implemented fully in the Bank's organisational chart (having clear distribution channels in place to serve different segments):
  - support for distribution networks has been fully centralised at the regional and Head Office level,
  - a smoothly functioning system of co-operation between units at the Branch, Region and Head Office levels has been established.
- At the Head Office, the management of Retail, SME, and Poštovní spořitelna business segments has been joined together into the responsibility of one manager.
- In the area of trading and carrying out transactions on financial and capital markets, the front-office, middle-office, and back-office units have been separated and incorporated into the responsibilities of different managers.
- A Compliance unit has been established – see Risk Management.

In February 2002, further organisational changes were approved to simplify the information and management flows – some departments were joined together and the responsibilities for different areas in the Board of Directors were divided also with respect to the two newly appointed members.

On 26 November 2001, an Extraordinary Meeting of ČSOB Shareholders approved the **purchase of part of the company PVT, a.s.** (Podnik Výpočetní Techniky) that, due to a decision of the former IPB, was transferred to PVT, a.s. but continued to work for IPB on the basis of an exclusive arrangement. The reason for the repatriation of this part of PVT, a.s. was the re-institution of ownership control over sensitive information technologies processing transactions of ČSOB and Poštovní spořitelna.

ČSOB's financial performance in the year 2001

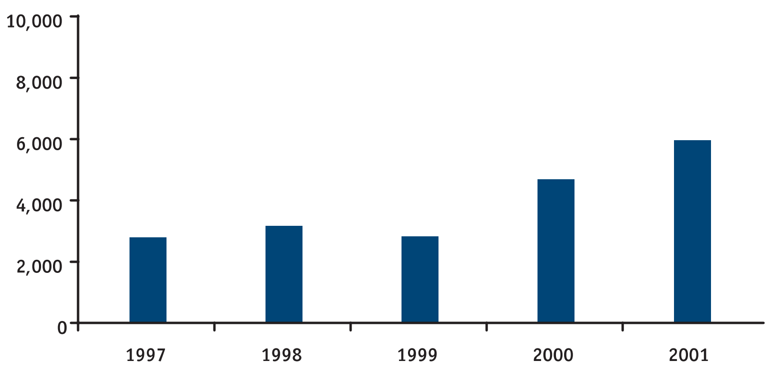
In spite of the fact that ČSOB's priority for the year 2001 was the integration with the former IPB, ČSOB maintained its high profitability. ČSOB achieved very good 2001 financial results showing a net profit of CZK 6.0bn and ROE of 16.5%. Positive financial results have been primarily due to solid growth in customer deposits across all the client segments, expenses and investments under control and successful recoveries of historic bad debts. After the completion of the merger with IPB, a solid foundation for further strategic growth has been laid primarily in the areas of retail banking as well as for further exploitation of the Group synergies being available from the merger.

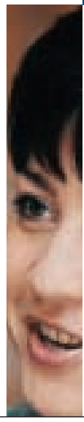
All of the financial figures set out below were extracted from ČSOB's 2001 audited consolidated financial statements prepared in accordance with International Accounting Standards (IAS).

Profit and Loss

Net Profit for the year 2001 of CZK 6.0bn represents a 27% increase on the previous year. The main drivers contributing to 2001 results were a significant increase of

Net Profit (CZKm)





customer deposits, the impact of the merger with IPB for the whole year (against 6 months in the year 2000), net release of provisions as a result of successful recoveries of debts and operating costs under control.

■ **Net Interest Income** increased by CZK 1.7bn (15%), mainly due to impact of good deposit growth during 2001 in all customer segments.

■ **Net Fee and Commission Income** increased by CZK 2.0bn (52%), mainly due to a new pricing structure.

■ **Net Trading Income** showed an increase of CZK 2.2bn (351%) compared to the year 2000, due to a return to high performance after the difficult 2000 year and continued solid contribution of client related FX income.

■ **Operating Expenses** increased by CZK 3.5bn (29%) due to the fact that full-year IPB costs were included (in the year 2000, only 6 months), the merger and integration cost of CZK 1.4bn (including CZK 312m restructuring reserve that covers the expected future costs). In addition, a change in a staff bonus policy resulted in a one-off charge of CZK 425m for 2000 bonuses and also an estimate for 2001 bonuses being included in 2001 expenses. These negative impacts were offset by operating costs for the Bank being under control (and plan) and the positive impact of the decrease in deposit insurance premium (from 0.5% to 0.3%).

■ Group **Cost/Income Ratio** has increased from 65.8% to 66.6% due mostly to one-off integration and restructuring cost and also the change in personnel cost policy.

■ **Credit Loss Provisions** for 2001 contributed positively to the overall result due to the release of provisions after successful recovery and restructuring of historic bad debts.

Balance Sheet

■ At the end of 2001, consolidated **assets** totalled CZK 597.9bn, which represents an increase of 12% over the end of 2000. The increase was mainly driven by increases in customer primary deposits.

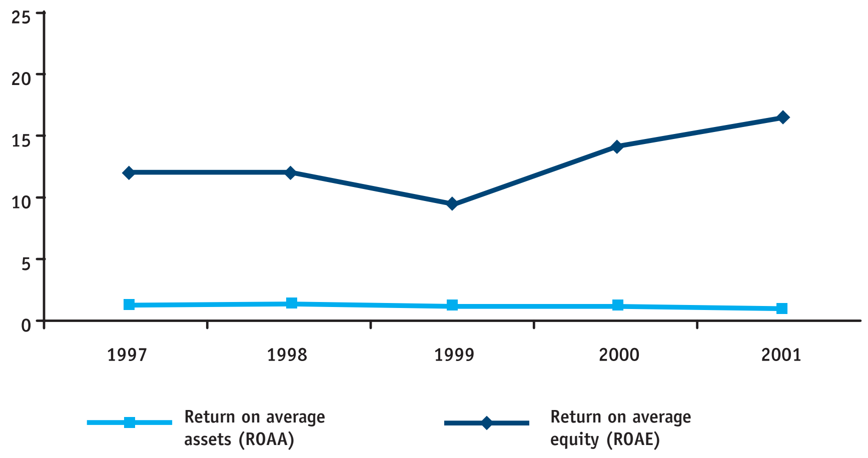
■ **Cash and Balances with Central Banks** shows two significant movements in 2001; an increase in cash position at 2001 year-end due to impact of EUR and an increase in obligatory minimum reserves with CNB as volume of deposits has increased during 2001.

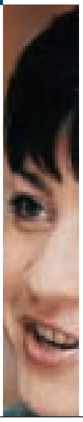
■ **Amounts due from Banks** increased by 65% due to the re-investment of the increase in customer deposits in reverse repo and short-term money market placements.

■ **Trading Assets** decreased by 8% mainly due to a partial change in the investment policy between trading and banking books for the re-investment of surplus client deposits.

■ **Securities** increased by 63% due to the implementation of the policy in 2001 to increase the available for sale and held to maturity bond

Return on Average Equity and Assets (%)





portfolios with the goal to maximize and stabilize the net interest income.

The movements in **"Rescue acquisition state assistance receivable"** are due to the partial transfer of non-white assets to ČKA that commenced in 4th quarter 2001. It is expected that the transfers will be completed before the end of 2nd quarter of 2002.

Goodwill of CZK 1.8bn is formed mostly on the acquisition of IPB.

Trading Liabilities increased by CZK 9.1bn (52%) due to increased trading activities via short-term money market deposits.

Amounts Due to Customers increased by CZK 68.9bn (20%) due to good deposit growth in business segments in ČSOB Bank as well as other group companies.

Debt Securities in Issue have decreased following the repayment of IPB issued bonds in 2001 and transfer by clients from promissory notes into term deposits.

Return on Average Equity (ROAE) increased from 14.3% to 16.5% due to increased profits for the year 2001 and no additional capital required.

Capital Adequacy Ratio (CNB-based unconsolidated) increased from 13.7% to 15.0% mainly due to the transfer of approx. CZK 2bn from 2000 net profits to retained earnings, as decided by the General Meeting in April 2001.

ČSOB strategic objectives

Vision for the Bank and Group

ČSOB will be the prime financial services provider in the Czech and Slovak Republics.

In the year 2001, ČSOB made some major steps towards the fulfilment of its vision:

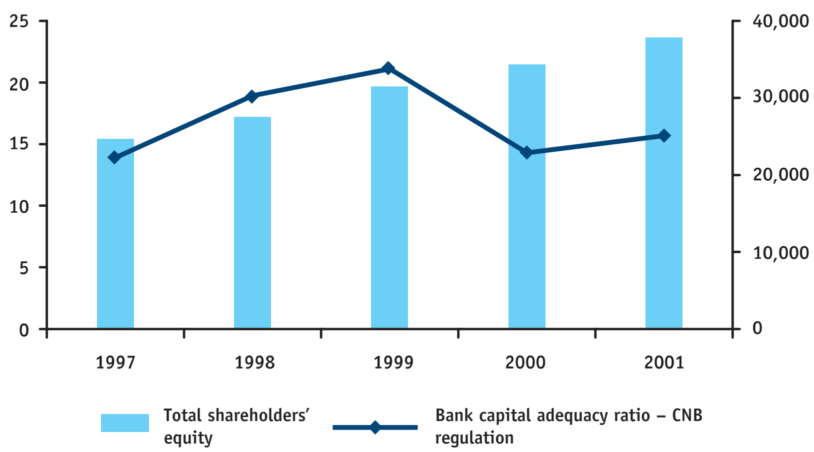
- The successful realization of the merger between the former ČSOB and IPB in 2001 was a breakthrough in becoming the biggest universal bank in the Czech Republic.
- The segmented approach has been fully implemented.
- ČSOB started to build on the strengths of the Group, aiming at higher client penetration. Every day, the ČSOB Group is becoming more and more visible.
- There is a strong commitment to grow aggressively in the Slovak Republic. The first steps in the expansion of the branch network in the SR were realized in 2001.

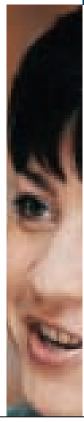
ČSOB's long term objectives

ČSOB's major long-term objectives are as follows:

- sustain the leading position in the Czech financial market
- substantially increase the market presence in the Slovak Republic:
  - continue the retail branch expansion,
  - increase the number of retail clients at a double-digit pace,
  - increase the volume of consumer credits,
  - look for new opportunities in the pension funds and insurance market,
  - focus on mutual funds market,

Capital Adequacy Ratio (%) and Total Shareholders' Equity (CZKm)





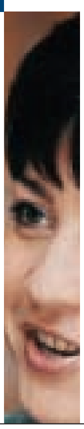
– intensify the segmented approach to customer service,
– improve customer service standards and friendliness of the Bank's services,
– achieve operational excellence in servicing our clients,
– deepen the co-operation within the ČSOB Group, aiming at higher client penetration and the utilisation of cross-selling synergies,
– invest in human capital with the primary focus on building strong client relationship skills,
– improve operating cost-efficiency,
– enhance risk management procedures in the area of market and operational risks.

ČSOB's financial group

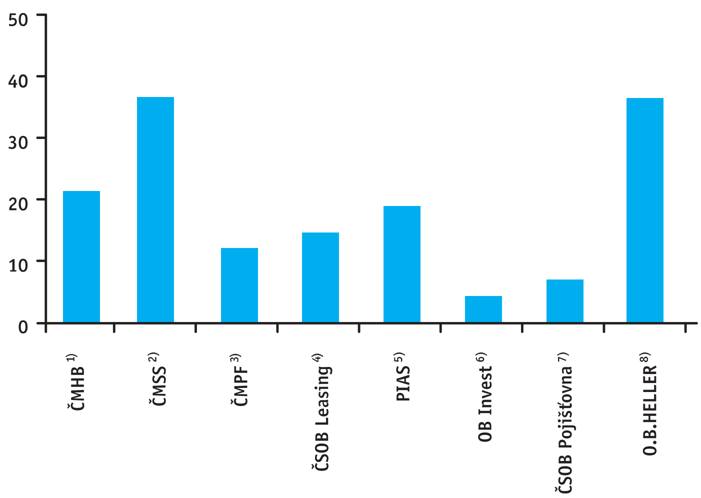
In 2001, significant steps were taken to make full use of the potential of the comprehensive offer of financial services to clients from a strong financial group. A new model of management of the companies belonging to the ČSOB Group was drawn up, mutual information flows were set up, a clear visual identification of the affiliation to ČSOB's Group was established, and a system for utilising cross-selling benefits was created. A client, who is in contact with any of the companies from the ČSOB Group, has access from one place to the comprehensive range of products offered by the other members of the ČSOB Group.

Closer co-operation among the ČSOB Group companies reflected in a significant growth of the market share in selected specialised financial services already in 2001 (ČSOB Leasing, a.s., Českomoravská stavební spořitelna, akciová společnost – a building-savings bank). In Slovakia, it led to a bold penetration of the market by ČSOB Stavebná sporiteľňa, a.s. (a building-savings bank) and the acquisition of a significant market share already in the first year of its operation.

At the beginning of 2002, ČSOB Group is providing its clients with services in the following areas:
– building savings and mortgages
  • Českomoravská stavební spořitelna, akciová společnost
  • ČSOB stavebná sporiteľňa, a.s.
  • Českomoravská hypoteční banka, a.s.
– leasing
  • ČSOB Leasing, a.s.
  • ČSOB Leasing, a.s. (SR)
– insurance
  • IPB Pojišťovna, a.s.
  • ČSOB Pojišťovna a.s.
– investment companies
  • První investiční společnost, a.s. (PIAS)
  • OB Invest, investiční společnost, a.s.
– pension funds
  • Českomoravský penzijní fond, a.s.
  • ČSOB penzijní fond, a.s.
– factoring
  • O.B.HELLER a.s.



Market positions of selected ČSOB subsidiaries in 2001



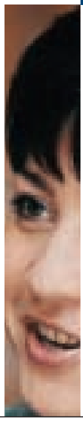
1) number of contracts
2) number of contracts
3) number of clients
4) volume of business
5) volume of administered assets
6) volume of administered assets
7) volume of insurance premium
8) turnover

Acquiring of treasury shares

■ As at 1 January 2001, the Bank possessed 97,300 treasury shares with a nominal value of CZK 1,000/share (this also includes 100 shares in inheritance and other proceedings). This represented 1.90% of share capital. During 2001, the following changes in the number of treasury shares held by ČSOB took place:

■ Overall, 44,300 shares with a nominal value of CZK 1,000/share were bought for CZK 198,233,700 of which six times the shares were bought from minority shareholders on the basis of a resolution of ČSOB's General Meeting of 13 April 2000, and once the shares were bought within the framework of a compulsory buyout (paragraph 9.12 of the Articles of Association). The lowest purchase price was CZK 4,000/share and the highest price was CZK 6,103.37/share.

■ 26,775 shares with a nominal value of CZK 1,000/share were sold for CZK 133,977,725. As at 31 December 2001, the final number of treasury shares was 114,825 with a nominal value of CZK 1,000/share, i.e. 2.25% of the Bank's share capital.



Risk management

Risk management

The Bank's approach to risk management is conservative. The system of risk management, the overall responsibility for which is taken by the Board of Directors of the Bank at the top level, reflects all business activities of the Bank and complies with the standards of the majority owner – KBC. The major risks to which the Bank is exposed are credit, market, liquidity and operational risks.

Bank's risk management policy is guided by:

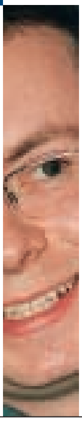
- conservative risk management approach,
- independent risk oversight,
- fully risk covered interbank deals,
- systematic and periodic monitoring of limits,
- consistency with KBC Group risk management policy.

Risk management significantly benefits from a transfer of know-how from KBC.

Credit Risk Management

Credit Policy

Credit policy contains the most important principles determining the risk profile of the whole bank. To these principles belong, amongst others, the Bank's policy towards selected loan products, types of credit transactions, customer segments or industrial sectors which is applied in a differentiated way with regard to the quality of clients. The credit policy also contains basic responsibilities, authorities and controlling mechanisms which are in line with the regulatory requirements of the Czech National Bank (CNB). The Board of Directors approves the basic credit policy document. In the area of retail credits provided to private individuals, the Bank has approved a credit policy that is based on KBC's existing credit policy and which assumes that a centralised assessment



system – the Credit Scoring System will be used to support the decision-making process regarding the granting of credits.

Credit methodology describes the basic procedures for the credit area, all of the decisive phases of the credit process, from the application for the credit, then standard structures of credit proposals, principles of scoring and an internal rating system to the final repayment of the credit. The methodology sets out basic rules for the area of collateral instruments, creation of provisions and reserves, and continuous monitoring. The credit methodology also defines co-operation among individual bank departments (e.g., special procedures for resolving bad debts). Credit methodology also includes basic principles applied to the creation of contractual documentation and standard contractual documentation that is continuously updated with regard to the development of legislation and the Bank's experience.

Organisation – Separate Risk Management

The Bank consistently observes the principle of separate management and independence as the basic principle of credit risk management. The separate department, managed at the member of the board level, comprises all the activities that form the basic component parts of the risk management model and form or influence the credit process – from the credit policy and methodology, then credit and sector analyses, real estate appraisal, credit portfolio monitoring and reporting to the care of bad debts. In compliance with the division of the Bank into segments, the retail segment's credit risk is also managed within this department.

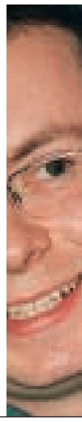
Adherence to the "four eyes" principle means that, with the exception of cases where the scoring system is used, representatives of customer segments as well as representatives of the risk management department always participate in the process of approving all credit limits at individual levels. Credit authorities are granted and confirmed to individuals on the basis of their experience and the results of their regular appraisals. The most experienced employees of the risk management department are involved as lecturers in the training schemes that all employees involved in the credit process gradually go through.

Rating Systems

To evaluate the counterparty risk, the Bank uses internally developed rating systems and the Credit Scoring System specified below. Rating systems are based on the assessment of financial and non-financial criteria combined with checks on the fulfilment of additional conditions. The basic system has been modified for special sub-segments (non-banking financial institutions, municipalities). In 2001, the bank started using a newly developed system, the so-called RIS system, for the small and medium-sized enterprises segment. With regard to the system outputs, the client is assigned the corresponding solvency grade. The bank uses a seven-grade scale (A–G), where the first three grades (A–C) represent standard loans and the four remaining grades (D–G) represent so-called classified loans. On the basis of the assigned rating, a minimum risk margin, the type of the contractual documentation, the intensity of the monitoring, and, if necessary, also the creation of provisions are determined. Moreover, the RIS system makes possible, on the basis of the results achieved, to place the most solvent clients into an accelerated credit process.

Software Support

In May 2001, the Bank implemented the Credit Scoring System into the process of granting credits to private individuals. This system is used to assess and manage the risk of retail customers – of private individuals non-entrepreneurs. It was proposed with regard to the economic and socio-demographic environment in the Czech Republic and is based on



the credit policy of ČSOB for the mentioned retail segment. The supplier of the system is Experian, a renowned foreign company. The outcome of the assessment is a “score” assigned to the client within the framework of the respective product portfolio of the Bank as well as the evaluation of the fulfilment of the decisive criteria designed for individual customer sub-segments.

During 2001, the Bank finished the implementation of the information system RICOS (**RI**sk **CO**ntrol **S**ystem), which significantly simplified the monitoring of credit exposure, especially in the area of drawing credit limits of individual counterparties (including limits for securities positions and dealing limits for financial markets’ products), country credit limits and monitoring of credit risks of economically connected groups of counterparties. The RICOS system makes possible the monitoring of the credit portfolio on a daily basis, which also involves, besides ad hoc enquiries about individual counterparties (banks, non-banks), the preparation of standard reports on drawing credit limits or exceeding credit limits for the whole counterparty portfolio (except for private individuals non-entrepreneurs). Of course, the development of the system continues with the objective to take into account new regulatory requirements and recommendations of the Basle Committee (Basle II).

Collateral Valuation

The Bank applies a prudential approach to the valuation of collateral instruments, especially in the area of valuation of pledged real estate.

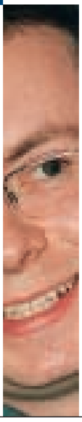
Internal Control of the Credit Process

The controls conducted by the Credit Review Department contribute significantly to the continuous improvement of the Bank’s credit portfolio quality and of processes in the Bank’s credit area. The purpose of the controls carried out is not to penalise, but to back-test and draw attention of both branch network and the Bank’s management to the discovered problem areas and propose their solution. The Credit Review Department is monitoring all the scope of the credit process in the branch network (from the client’s application for credit, then contractual documentation to the monitoring of the client). The main emphasis, however, is placed on proposing an appropriate structure and object of financing, placing clients in the credit rating, setting financial indicators and their transferring to contractual documentation, establishing the price of collateral, the contractual documentation and monitoring of the client (this all in adherence to the Bank’s internal regulations). The benefit of it is the continuous obtaining of impartial and objective information about the performance of the credit process in the branch network, which enables the update of credit policy and the improvement of credit methodology. The credit controls outcomes form a starting point for the regular assessment of the branch network and influence the credit-granting powers assigned to Bank employees.

Ex-IPB Credits

In the same way as for all other assets, the credit receivables of the IPB enterprise, taken over on 19 June 2000 and originally maintained and administered separately from the Bank’s original portfolio, were also divided into three basic groups according to the level of acceptable risk. This division was confirmed by signing the Agreement on Restructuring Plan on 31 August 2001, which is based on, and follows, the Agreement and State Guarantee of 19 June 2000.

White assets are selected assets that by their nature are in line with the overall strategy of the ČSOB/KBC Group and the Bank’s credit policy and which are acceptable from the point of risk. The receivables, which had been taken over, were valued by the Bank and their purchase value was confirmed by two auditors.



Black items are those assets that from the very beginning represented an unacceptable level of risk for the Bank and which were transferred or are being transferred, according to the transaction documents, to the ČKA (Czech Consolidation Agency) in the form of receivable assignment. The transfer took place in five waves and it was completed in February 2002.

The **other items** are the assets and off-balance sheet items of the IPB enterprise, which could not be decided on or where an agreement on their further solution had not been reached by June 2001. Nevertheless, the target solution should be a decision on either **leaving** these items **in the Bank's book** (whitening) or on taking them out of the Bank's balance sheet – a **transfer to the ČKA** (blackening). These receivables are analysed on an item-by-item basis with the goal of evaluating their commercial quality, risk involved, or their transferability, and establishing their fair value in the case of their whitening. ČSOB has the right to exercise the put option related to these assets and transfer them to the ČKA by 19 June 2002.

From the moment of the take-over, ČSOB has been bound to exercise due professional care over all the assets of the IPB enterprise. White items are managed fully in compliance with ČSOB's standard credit procedures, and by their inclusion in ČSOB's portfolio they cease to be monitored separately.

Quality of Loan Exposure

The conservative approach of the Bank to credit risk management has a positive impact on the quality of the credit portfolio. The share of the non-performing loans (NPLs, loans > 90 days overdue) in the credit portfolio (after exclusion of the so-called historical items) is at a level comparable with that of leading European banks, the positive trends of reducing the sector concentration and the concentrations in relation to individual debtors have continued.

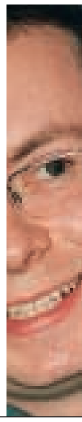
Contrary to the trend appearing in the banking sector of the Czech Republic, the Bank, maintaining its traditional cautious approach, has registered an increase in the volume of loans granted to solvent domestic and foreign entities.

Loans to non-banking customers – IAS unconsolidated, gross amounts (CZKbn)

	31 December 1999	31 December 2000	31 December 2001
Historical exposure	**45.4**	**39.6**	**32.9**
of which: – CI	11.8	8.2	4.7
– MF CR (SI)	18.9	20.5	20.2
– other	14.7	10.9	8.0
Current exposure	**58.3**	**66.9**	**83.5**
Total	**103.7**	**106.5**	**116.4**
Write-offs (during the year)	5.5	2.1	2.9

Historical cases: Česká Inkasní (CI), Slovenská Inkasná (SI) and all other loan clients included in the second stage of ČSOB's consolidation at the end of 1993 (ie, bad loans from the period of the centrally managed economy against which provisions were created in 1993). CI and MF CR (SI) exposure are considered to be non-risky and, therefore, standard rated.

The table above confirms a long-term positive development of the portfolio structure – the growth of new loans of good quality replacing the declining volume of the historical portfolio.



Non-performing loans (NPLs = loans > 90 days overdue) – IAS unconsolidated, gross amounts (CZKbn)

	31 December 2000		31 December 2001	
	Current business	Historical cases	Current business	Historical cases
Total loans	66.9	39.6	83.5	32.9
of which NPLs	1.5	10.6	1.2	6.0
Total provisions	3.5	9.4	4.0	6.4
NPLs to total loans ratio (%)	**2.3**	**26.8**	**1.4**	**18.1**
% coverage of NPLs by provisions	**228.2**	**89.0**	**343.9**	**107.4**

Non-performing loans (NPLs): ČSOB applies a conservative approach – if at least one instalment of principal or interest of a client is more than 90 days overdue, then all loans of that client are indicated as non-performing.

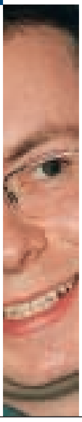
- The table above shows a low share of non-performing loans and also a high level of provision coverage over non-performing loans.

- The table below shows an increase of the share of standard loans under ČSOB's internal classification.

Loans according to ČSOB's internal classification – IAS unconsolidated, gross amounts

	31 December 2000				31 December 2001			
	Loans	% of total loans	Collateral	Provisions	Loans	% of total loans	Collateral	Provisions
	CZKm		CZKm	CZKm	CZKm		CZKm	CZKm
Standard (A–C)	50,206	47.1	18,017	–	57,865	49.7	22,257	–
Classified	27,568	25.9	9,501	11,191	33,624	28.9	12,683	9,836
Watch (D)	12,037	11.3	7,059	461	14,064	12.1	8,808	460
Sub-standard (E)	2,940	2.8	963	567	7,698	6.6	2,225	608
Doubtful (F)	9,289	8.7	1,361	7,208	7,905	6.8	724	6,147
Loss (G)	3,302	3.1	118	2,955	3,957	3.4	926	2,621
MF CR (SI)	20,525	19.3	19,258	1,267	20,223	17.4	–	–
CI	8,183	7.7	8,183	–	4,695	4.0	4,695	–
General provision	–	–	–	504	–	–	–	567
Total	**106,482**	**100.0**	**54,959**	**12,962**	**116,407**	**100.0**	**39,635**	**10,403**

ČSOB's internal classification is in accordance with CNB methodology, however besides the timely repayment criterion, it considers also both the current situation and estimated prospects of the customer. Compared with the CNB classification, ČSOB's internal classification and provisioning system are more conservative.
The decrease in collateral and provisions as at 31. 12. 2001 relates to the change in the MF CR (SI) accounting treatment.



Country and Bank Risks

Organisation

The Credit Risk Management for Banks and Countries unit is in charge of the management of country and bank risks. Proposing country and bank limits falls within the authorization of the Correspondent Banking unit.

Country Risk

ČSOB applies a conservative approach towards country risk management in compliance with the approach of KBC with which it also shares country limits. An individual country's risk is first assessed on the basis of an internal analysis of the political and economic factors. As a supplementary source of information, assessment by rating agencies is used. Having performed the overall assessment, the Bank then follows its own procedures in the management of individual foreign assets.

Bank Risk

The bank is monitoring individual exposure to all of its banking counterparties. In evaluating the creditworthiness of a partner, it analyses the country risk, the bank's position in the market, the financial as well as non-financial risk factors and the probability of support. The approved limits for individual banks structured by asset categories are then entered into the Bank's internal information systems. The bank shares counter-party limits with KBC, but is responsible for evaluating its own proposed transactions and ensuring a proper level of diversification in the credit portfolio.

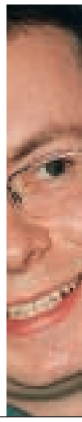
Compared to the Bank's overall credit exposure, the exposure to emerging market countries (with a higher potential risk) is very low.

Country exposures by main geographical regions as at 31 December 2001
IAS unconsolidated, net amounts (CZKm)

Region	Total risk exposure	Of which by type of transaction		
		Dealing	Short-term commercial	Credits
Western Europe	84,805	68,041	947	12,947
North America	5,491	4,760	259	88
Central and Eastern Europe *	2,010	250	355	271
Asia	850	240	322	135
Africa	718	432	104	181
Latin America	62	–	47	15

* the Czech Republic and the Slovak Republic excluded

Note: The figures represent the residual risk only, that is, without the security of the Export Guarantee and Insurance Company (EGAP).
Total risk exposure includes also other specific transactions, different from the transactions tabled above.
Dealing – money market transactions, foreign exchange transactions and financial derivatives
Short-term commercial – confirmed documentary letters of credit, forfaited trade-related paper with bank risk and trade-related bank guarantees
Credits – credits and securities investment portfolio



Country exposures in emerging market countries and with higher risk as at 31 December 2001
IAS unconsolidated, net amounts (CZKm)

Region	Total risk exposure	Of which by type of transaction				
Country		Short-term commercial	Credits	Export financing	Performance risk	Total provisions
Central and Eastern Europe	**564**	**1**	**180**	**46**	**306**	**271**
Russia	518	1	180	–	306	226
Yugoslavia	44	–	–	44	–	44
Romania	2	–	–	2	–	1
Asia	**192**	**123**	**52**	**17**	**–**	**80**
Turkey	140	123	–	17	–	28
Iraq	52	–	52	–	–	52
Latin America	**43**	**43**	**–**	**–**	**–**	**9**
Argentina	1	1	–	–	–	1
Brazil	42	42	–	–	–	8

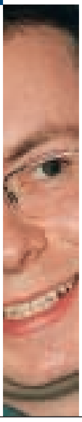
Note: The figures represent the residual risk only, that is, without the security of the Export Guarantee and Insurance Company (EGAP).
Total risk exposure includes also other specific transactions, different from the transactions tabled above.
Performance risk – transactions with the risk of non-fulfilment of an obligation to manufacture or deliver goods

Market risk management

Market risk is the risk of the potential financial loss from open positions of the Bank caused by adverse changes in the level or volatility of market prices (foreign exchange rates, interest rates, share and commodity prices) on financial markets.

Market risk management in the Bank is a process comprising the measurement of individual risks with the aim to manage the negative financial effects that can arise as a result of changes in market prices. The basic tool used for market risk management is a comprehensive set of limits. Individual risks arising from open positions are compared with corresponding limits. If some of the limits are exceeded, the open positions are closed or hedged through appropriate hedging instruments. The market risk management is carried out for both the trading and the banking books. The fulfillment of limits is shown on a regular basis in Risk reports submitted to the Treasury and the Financial Market Committees and also to the Board of Directors and to the Supervisory Board.

Market risk is monitored in consistency with global KBC Group risk methodology. Local ČSOB methodology covers differences between KBC and ČSOB products, develops global KBC methodology in ČSOB or is used temporarily before full implementation of KBC methodology.



The trading book contains the Bank's transactions executed with the aim to make a profit on the difference between the purchase and the sales price of a product in a short-term horizon. Limits on the trading book are checked daily. Basic methodology used in ČSOB to measure the risks of the trading book is Value at Risk (hereinafter "VAR"). VAR is calculated at the 99% one sided confidence level and 10-day holding period by a historical simulation method – the historical period is the last 250 business days.

The banking book mainly includes deals relating to the provision of customer services which include hedging (part of) that portfolio against market risks. Limits on the banking book and Bank-wide limits are checked daily (foreign exchange risk, short-term liquidity), weekly (medium-term liquidity) or monthly (interest rate risk, long-term liquidity).

Foreign exchange risk

Traditionally, the Bank has been active in the area of foreign exchange operations on the domestic and international markets and also in trading with clients.

- open positions are identified in real time through the Bank's information system,
- risk is monitored separately on the banking and trading books,
- risk management on the trading book uses Value at Risk methodology and limits,
- risk management on the banking and trading books uses open currency positions limits – external limits have been established by CNB regulation; internal limits of the Bank are stricter by reason of conservative policy in the area of FX risk.

Limits for the open foreign currency position were not exceeded during 2001.

Interest rate risk

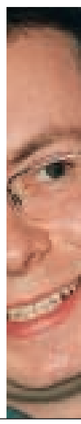
ČSOB has a broad trading activity both in the banking book and the trading book which is naturally associated with interest rate risk. Interest rate risk is monitored separately on the banking book and on the trading book.

Trading book
- Interest rate (hereinafter "IR") risk is evaluated daily,
- IR risk management uses Value at Risk methodology and limits,
- IR risk management uses additional measures, such as GAP analysis (interest rate mismatch) limits,
- IR positions are closed or hedged through derivative transactions.

Banking book
- IR risk is evaluated monthly,
- IR risk management on the banking book uses repricing GAP analysis and cumulative GAP repricing limits (maximum acceptable open interest position is set as a percentage of total assets in a specific currency),
- IR risk is monitored separately by main currencies (CZK, SKK, EUR, USD),
- most of the IR positions are hedged through derivative transactions.

Open foreign currency position (as a % of regulatory capital)

	CNB limit	31 December 2001	31 December 2000
Total open position	20.00	4.33	4.62
CZK open position	15.00	3.51	2.38



The cumulative repricing GAP analysis of the Bank in CZK at the end of 2001 shows that the Bank is interest sensitive on assets. This was due to the interest rate structure of balance sheet items, especially due to the structure of the transaction with the Czech Consolidation Agency. The SKK interest rate position at the end of 2001 was minimal, interest rate risks arising from USD and EUR positions were reduced by new hedging transactions during 2001.

Equity risk, commodity risk

The Bank is not active in the area of equity and commodity trading.

Liquidity risk

Liquidity risk is the risk of shortage of free disposable funds, i. e. the risk of losing the ability to meet its due financial obligations or an inability to finance its assets.

The liquidity risk of the Bank is monitored from two time perspectives:
- short-term (operational) liquidity,
- medium and long-term (structural) liquidity.

Short-term liquidity (on a daily basis)
- in CZK and SKK is managed through monitoring the account balances with CNB and NBS (clearing account/statutory minimum reserves),
- in FX currencies is managed through nostro accounts balances.

On a weekly basis the risk is monitored using liquidity ratios:
- liquid assets ratio (liquid assets/total assets)
- liquidity ratio (customer loans/customer deposits)
- securities ratio (liquid securities/total assets)

If there is a liquidity shortage, the Bank is able, thanks to its strong position on the market, to improve its liquidity position in FX currencies from CZK using FX transactions. Internal limits for liquidity ratios were continuously fulfilled in 2001. The Bank's liquidity was sufficient.

Medium and long-term liquidity (on a monthly basis)
- is managed separately by main currencies (CZK, USD, EUR, SKK),
- is measured by the annual plan of the balance sheet time structure and by the liquidity index,
- is ensured by the liquidity contingency plans for the purposes of liquidity management in emergency situations.

The balance sheet time structure plan indicates the maximum time mismatch and it is valid for a given calendar year.

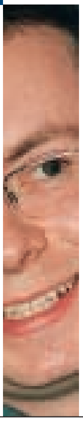
VAR exposures from financial markets trading operations (CZKm)

	Limit for 4 Q 2001	31 December 2001*)	31 December 2000**)
Foreign exchange risk	75	37.8	13.2
Interest rate risk	130	19.0	11.2
Total VAR exposure	150	21.4	n/a

The calculation of Value-at-Risk (VAR) exposure is based on the following parameters:

*)	Holding period:	10 day	**)	Holding period:	1 day
	Probability:	99% one-sided		Probability:	97.5% one-sided
	Linear weighting:	(lambda = 1)		Linear weighting:	(lambda = 1)
	Historical period:	(last) 250 business days		Historical period:	(last) 100 business days

Value-at-Risk expresses the maximum possible loss that can be expected within a defined level of probability.



■ A substantial proportion of deposits which is repayable on demand (current accounts, savings books) is statistically evaluated and makes up a stable deposit base in the balance sheet time structure plan.

Operational risk

■ In 2001, the operational risk management concentrated on two main areas – the development of methodology for operational risk measurement and the implementation of regulations (Internal Control Policy Manual – ICPM).

■ The development of methodology for operational risk measurement results from the capital requirement for covering operational risk. The proposal is based on consultative documents of the Basel Committee on Banking Supervision "New Basel Capital Accord", published in January 2001, and "Working Paper on the Regulatory Treatment of Operational Risk", published in September 2001.

■ These documents suggest three main approaches to calculating capital charge, general criteria and qualitative and quantitative standards for operational risk measurement, classification, parameters and ratios. Documents were commented and discussed within the Czech Banking Association and with CNB.

■ ICPM was created by KBC for enhancement of the general level of the internal control within the whole KBC Group in order to optimise the control over operational risks. The main objective of the Manual is to define a set of bank-wide control principles as minimum standards that meet international best practice in terms of the level of control and effectiveness. These control principles, called policies, are applicable in all entities of KBC Group.

■ It is the first endeavour on that scale in KBC Group. In the first phase the manual concentrated on the risks that have or could have caused considerable operational losses. The first release of ICPM covered most of the business activities in the bank such as financial markets, credits and payments. In December 2001, ČSOB obtained the second release of ICPM which contained areas such as distribution channels, human resources management, IT and accounting. The second release of ICPM will be implemented in ČSOB in the year 2002.

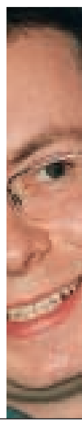
■ Within the implementation process of ICPM in ČSOB, a self-assessment exercise was performed to assess ICPM policies on applicability, criticality and

The liquid assets ratio – liquid assets/total assets (%)

	Internal limit	31 December 2001	31 December 2000
CZK	min. 20.00	26.42	21.95
EUR + USD	min. 20.00	20.27	27.77
SKK	min. 20.00	53.33	31.90

The liquidity ratio – customer loans/customer deposits (%)

	Internal limit	31 December 2001	31 December 2000
CZK	max. 110.00	58.01	51.22
EUR + USD	max. 120.00	59.33	61.43
SKK	max. 110.00	69.94	114.31



the degree of implementation in ČSOB, which means evaluation of the level of compliance of the present procedures used in ČSOB with control policies of ICPM. About 75% of the policies were assessed as already implemented in ČSOB. Action-plans were developed for policies, which were assessed as not fully implemented yet. The self-assessment phase for the first release has already been finished and the implementation of action plans will be completed in 2002. In the area of financial markets, the ICPM implementation has become part of the project Financial Markets-Control and Risk Reengineering.

ČSOB reported the results of self-assessment to KBC internal audit and ČSOB Audit Committee was informed about them. ČSOB internal audit reviews the quality and completeness of the self-assessment and the implementation of action plans when auditing a specific area.

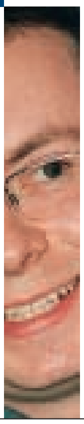
Compliance Risk

During the last quarter of the year 2001, the Compliance function was centralised in ČSOB. A new Compliance officer was appointed as at 1 September 2001 and has become Head of a new Compliance Unit established as at 1 November 2001. He reports directly to the CEO. The reason of this organisational change was to centralise and strengthen the Compliance risk management in the whole Bank.

The new Compliance Unit consists of Special Investigation Section covering investigation of external and internal frauds, co-operation with criminal investigation bodies and prevention and Suspicious Transactions and Financial Ethics Section involved in money laundering, financial ethics, insider trading, banking secrecy and personal data protection and also legal support to the Compliance Unit.

The main goals of the Compliance Unit are, in particular:

- the consolidation and further rationalisation of the Compliance function in the Bank,
- the enlargement of the scope of the Compliance function in the area of Capital Markets operations (according to the planned issue of new laws),
- the implementation of the Compliance function, including corresponding reporting, in the Bank's major participating interests,
- the establishment of a Compliance Committee.



Supervisory Board's Report

Statement by the Supervisory Board of ČSOB

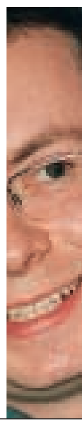
- The Supervisory Board has performed its tasks in accordance with Articles 197–201 of the Commercial code as amended, ČSOB's Articles of Association and Supervisory Board's rules of conduct. The Board of Directors has submitted regular reports on ČSOB's activities and its financial situation to the Supervisory Board.

- The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards. The Bank has also prepared unconsolidated financial statements in accordance with the Act on Accounting and relevant legislation of the Czech Republic.

- The financial statements were audited by PricewaterhouseCoopers Audit, s.r.o., Praha. The auditors have opined that the consolidated financial statements present fairly, in all material respects, the financial position of the consolidated group as at 31 December 2001, and of the consolidated group results of operations and cash flows for the year ended 31 December 2001 in accordance with International accounting Standards. The auditors have also opined that the unconsolidated financial statements present fairly, in all material respects, the assets, liabilities and equity of ČSOB as at 31 December 2001 and the results of its operations for the year ended 31 December 2001 in accordance with the Act on Accounting and relevant legislation of the Czech republic.

- The Supervisory Board has reviewed the 2001 annual financial statements and the proposal for distribution of profit and has accepted the results of the audit of the 2001 annual financial statements and has recommended to the General Meeting to approve them. The Supervisory Board also checked and approved the Report on relations between the controlling person and the controlled person and on relations between the latter and other person controlled by the same controlling person (related persons).

Remi Vermeiren,
Chairman of the Supervisory Board
and President KBC Bank



Chief Economist's Report

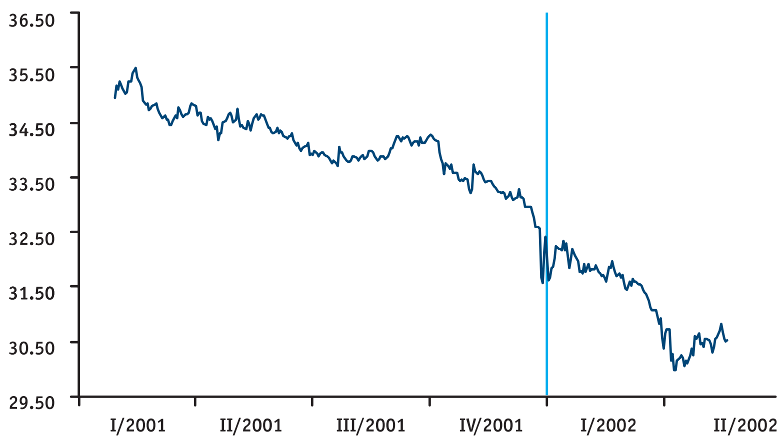
The report on the 2001 macroeconomic development

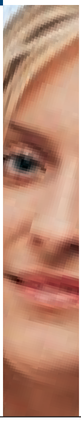
The Czech Republic

Despite less favourable development of the economies in the countries of the European Union, the Czech economic boom continued, being driven primarily by high growth of domestic investment and consumption demand. Also in 2001, the country succeeded in further increasing the export performance of the economy, which reflected in a relatively high growth rate of exports and industrial production. Companies under foreign control (foreign direct investment) participated in these results to a significant extent. The high volume of investment and the dynamic growth of consumption combined with the expected revival of demand in the countries of EU should create favourable conditions for further growth of the Czech economy, without being accompanied by visible inflation pressures.

■ The unfavourable development of import prices and extensive deregulation were the main reason for the growth of the inflation rate in 2001 (from 3.9% to 4.7%). In the second half-year, the inflation trend, nevertheless, changed and the year-on-year growth of consumer prices decreased significantly. The CNB (the Czech National Bank) succeeded, for the first time in four years, in achieving its inflation target and the target net inflation fluctuated within a stipulated interval.

Exchange rate CZK/EUR





The rather high growth of domestic demand (5.6%), together with high crude oil prices and the strong USD, reflected in increased deficits in foreign trade and in the current account of the balance of payments in the first half of 2001. The sharp decrease of import prices caused the decline of current account deficit to 4.7% of GDP in the second half of 2001. In imports, goods having an investment character prevailed, which participates in the development of production and export capacity of the CR.

The unfavourable development of foreign demand in the second half slowed down the growth rate of production in the industry sector. To increase labour productivity, companies started to reduce their staff numbers again. This change was reflected in the labour market, when the number of the unemployed grew (the unemployment rate reached 8.9% at the end of the year). Real wages grew again at a relatively high rate and contributed to the growth in household disposable income.

The problematic development of public finance continued also in 2001. The state budget deficit reached CZK minus 67.7bn. This also included current bond programmes, in particular, for the coverage of the former losses of Konsolidační Banka Praha, s.p.ú. The trend of deficit public finance and growing public debt, which also means a higher demand of the state for resources, will continue in the years to come, too. Temporarily, the state's interest in financial markets' resources may, nevertheless, be mitigated by the inflow of privatisation income.

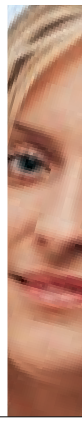
The ongoing high inflow of foreign capital into the CR was the main cause of the almost continuous strengthening of the CZK against the EUR, in relation to which the CZK reached a new historical maximum. The trend of a quick strengthening of the currency called for the intervention of the CNB in the foreign-exchange market. The rapid appreciation of the CZK should also be off-set by an agreement between the government and the CNB on the conversion of all foreign-exchange privatisation income.

In February 2001, favourable inflation development and positive inflation outlook caused the CNB to decrease the main interest rate (two-week repo-rate) by 0.25 percentage points to 5.0%. In July, however, the central bank decided to put the repo-rate (and along with it also the discount and Lombard rates) back up to their previous levels. In November, the CNB,

Macroeconomic indicators of the Czech Republic 1997–2001

Indicator	Unit	1997	1998	1999	2000	2001
GDP	annual growth (%)	(0.8)	(1.2)	(0.4)	2.9	3.6
Industrial production	annual growth (%)	4.5	1.9	(3.1)	5.4	6.8
Construction work	annual growth (%)	(3.9)	(7.0)	(6.5)	5.3	9.6
Inflation rate	annual average (%)	8.5	10.7	2.1	3.9	4.7
Net inflation rate	at year-end (%)	6.8	1.7	1.5	3.0	2.4
Unemployment rate	at year-end (%)	5.2	7.5	9.4	8.8	8.9
Balance of payments						
– Current account	USDm	(3,563.5)	(1,385.5)	(1,567.1)	(2,843.6)	(2,654.0)
– Capital and financial accounts	USDm	1,091.8	2,925.2	3,077.7	3,831.3	4,021.8
Trade balance	CZKbn	(150.5)	(80.2)	(64.4)	(120.8)	(119.0)
Foreign exchan. reserves of CNB	USDbn	9.8	12.6	12.8	13.1	14.5
Gross foreign indebtedness	USDbn	21.4	24.0	22.6	21.4	21.7
Money supply (M2)	annual growth (%)	9.8	5.4	8.1	6.5	12.1
Interest rates on credits	annual average (%)	13.2	12.9	8.7	7.2	7.0
Interest rates on deposits	annual average (%)	7.7	8.1	4.5	3.4	3.0
Exchange rate CZK/USD	annual average	31.71	32.27	34.60	38.59	38.04
Exchange rate CZK/DEM	annual average	18.28	18.33	18.86	18.21	17.43
Exchange rate CZK/EUR	annual average			36.88	35.61	34.08

Source: Czech National Bank (CNB), Czech Statistical Office



influenced by adverse developments in the environment outside the CR and, vice versa, by the very positive inflation outlook, decided to lower the repo-rate by 0.5 percentage points to 4.75%. This step led to a slight decrease in customer interest rates. In January 2002, a further rate cut to the level of 4.25% took place, reaching thus the lowest historical level of interest rates. Another significant change in monetary policy was the introduction of interest payments on compulsory minimum reserves (since July 2001, the CNB has paid interest on these reserves at the two-week repo-rate).

■ The banking sector went through further fundamental changes in 2001. The transformation of Konsolidační Banka, the administrator of the largest part of problem loans, to a non-banking entity (Česká Konsolidační Agentura – the Czech Consolidation Agency) caused a significant decline in the size of the banking credit market in the CR. If we do not consider this change, we can say that the growth of granted credits in the economy was renewed. The CNB says that in November 2001 the overall volume of customer credits grew by 4%. On the other hand, a relatively high rate of growth of deposits (especially non-term deposits) continued, which in a situation where there are limited opportunities for investment led to an even greater interest of banks in repo-operations with the CNB (average monthly volume of CNB treasury bills held by banks reached approximately CZK 272bn in 2001). The banks were focused to an ever larger extent on retail customers, which is evidenced by the high growth rate of credits (in particular, mortgages) provided for this customer segment.

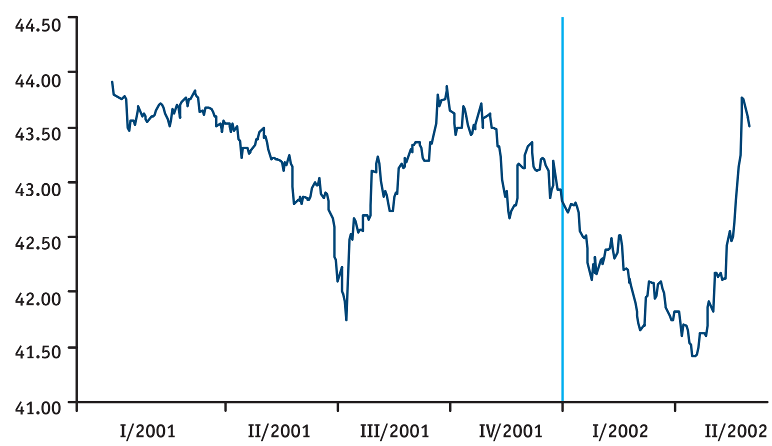
■ The growth of profitability, labour productivity and the quality of credit portfolios was typical of the banking sector in 2001. In that year, the sector's capital adequacy ratio increased again, and as at 31 December 2001 it reached 15.5%. A no less important feature of the development of the sector in 2001 was the marked decrease in classified loans on banks' balance sheets. Banks in 2001 were focused, among other things, on optimising their branch networks and the reducing staff numbers.

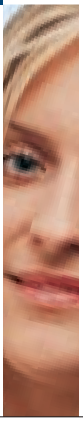
■ By privatising the second-largest domestic bank, Komerční Banka, in 2001, the process of denationalisation of the banking sector in the CR was finished. The sector is now almost entirely possessed by prominent foreign investors.

The Slovak Republic

■ The year 2001 was a very successful year for the Slovak economy. Despite the unfavourable development of the economies of the country's main business partners (the EU countries), Slovakia managed to maintain a relatively high rate of growth of GDP, to lower the rate of inflation and to make significant progress in the consolidation of the banking sector and the restructuring of domestic companies. In 2001, the SR was awarded an investment rating from the major rating agencies (Moody's and Standard & Poor's). The country had made significant progress in negotiations on accession to the EU, when at the end of 2001 it had closed 22 of 29 Chapters within the framework of its accession talks.

Exchange rate SKK/EUR





When compared with the previous year, the rate of economic growth increased and reached 3.3%. This growth was based, in particular, on accelerated domestic demand, especially for investment, which participates in the creation of new, export oriented capacities. Significant growth of domestic demand (+7.3%) led to high imports of goods and to a historically high deficit in the trade balance (SKK 103bn). For this reason, the deficit in the current account of the balance of payments reached a very high level, corresponding to 8.8% of GDP. The extensive external economic imbalance was the main obstacle to easing the restrictive economic policy.

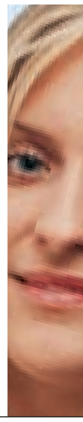
The development of inflation was very positive in 2001 and the NBS (the National Bank of Slovakia) succeeded again in attaining its pre-set target. Year-on-year inflation was decreasing over the whole year and at the end of the year it was only 6.5%. It is very likely that this favourable development of prices will also continue in 2002 when the rate of inflation in the SR might reach a historically minimum level. The significant trade deficit did not enable the easing of monetary policy despite the positive trend of inflation and inflation prospects. The NBS resorted to a change in the main interest rate (two-week repo rate) only once when the bank cut the rate by 0.25 percentage points to 7.75% at the end of March. For this reason, there were no significant movements of rates in the inter-bank market during the year 2001. A slight decrease was recorded in the case of customer deposits and credit interest rates. There was no change in the level of compulsory minimum reserves, which amounted to 5% of the banks' primary deposits. Only as late as 1 January 2002, were the compulsory minimum reserves decreased to 4%; however, still interest-free.

The development of the exchange rate of SKK against the reference currency (EUR) was relatively uneven in 2001. From the beginning of the year until July, SKK strengthened against EUR, then it weakened and, at the end of the year, the tendency for the crown to appreciate reappeared. One of the reasons for a high volatility of SKK exchange rate was the insufficient inflow of foreign capital.

The labour market did not see any significant changes in 2001, and Slovakia still belonged to the countries with a very high rate of unemployment (18.6% at the end of the year). After a two-year decline though, real wages, nevertheless, increased in the SR (by 0.5%), which favourably affected the financial situation of households.

The results of public budgets in 2001 can be considered positive (the deficit corresponded to approximately 3.9% of GDP, that is, it also met the conditions agreed with the International Monetary Fund). The restrained fiscal policy of the government did not create pressures on the financial market, and government bonds represented, from the viewpoint of profitability and risk, a very attractive investment opportunity especially for domestic banks – the largest holders of government bonds.

In 2001, the consolidation of the banking sector entered the final stage. At the beginning of the year, government bonds, the so-called consolidation bonds, were issued in the volume of SKK 105bn and placed on



the balance sheets of the largest banks in exchange for part of their classified loans (these are now in non-banking consolidation institutions). This step led to a radical decline in the volume of loans in the economy. After having taken this step into account, it is possible to say that, in 2001, the process of granting credits was already renewed (or the “credit crunch” was overcome). According to the NBS’s data, the volume of bank credits granted to customers increased by 5.5%. In 2001, the volume of drawn credits increased significantly, especially the short-term operational loans provided to foreign-controlled companies.

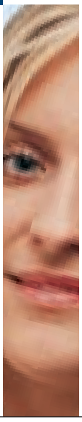
■ The recovery of the banking sector along with a slow increase in bank credit exposures and the high inflow of funds reflected in a significantly higher level of bank liquidity. Surplus liquidity was withdrawn by the NBS whose sterilisation position reached approximately SKK 50.5bn at the end of 2001.

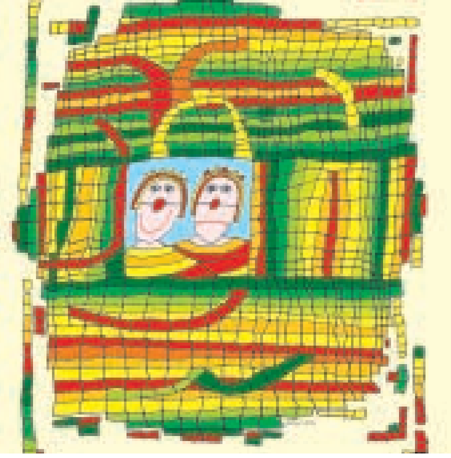
■ In 2001, the privatisation of the largest Slovak bank (VÚB – Všeobecná úverová banka) was completed. In this way, most of the banking sector has been turned over to foreign owners.

Macroeconomic indicators of the Slovak Republic 1997–2001

Indicator	Unit	1997	1998	1999	2000	2001
GDP	annual growth (%)	6.2	4.1	1.9	2.2	3.3
Industrial production	annual growth (%)	2.7	5.0	(3.1)	9.0	4.6
Construction production	annual growth (%)	9.2	(3.5)	(25.8)	(0.4)	0.8
Inflation rate	annual average (%)	6.1	6.7	10.6	12.0	7.3
Core inflation rate	at year-end (%)	–	5.2	7.0	4.6	3.2
Unemployment rate	at year-end (%)	12.5	15.6	19.2	17.9	18.6
Balance of payments						
– Current account	USDm	(1,827.1)	(1,982.0)	(979.7)	(713.0)	(1,755.9)
– Capital and financial accounts	USDm	1,861.9	2,053.0	1,924.1	1,416.5	1,719.0
Trade balance	SKKbn	(70.0)	(82.9)	(45.2)	(41.7)	(103.2)
Foreign exchange reserves of NBS	USDbn	3.3	2.9	3.4	4.1	4.2
Foreign exchange reserves total	USDbn	6.5	6.1	4.4	5.6	5.4
Gross foreign indebtedness	USDbn	9.9	11.9	10.5	10.8	11.3
Money supply (M2)	annual growth (%)	8.8	4.2	11.4	15.4	11.8
Interest rates on credits	annual average (%)	14.9	16.7	15.5	11.7	10.2
Interest rates on deposits	annual average (%)	8.0	10.2	10.5	7.2	5.1
Exchange rate SKK/USD	annual average	33.62	35.24	41.42	46.20	48.35
Exchange rate SKK/DEM	annual average	19.41	20.07	22.56	21.78	22.14
Exchange rage SKK/EUR	annual average			44.12	42.59	43.31

Source: National Bank of Slovakia (NBS), Statistical Office of the Slovak Republic





Sponsorship Programme

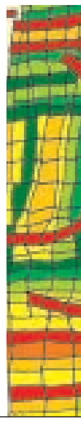
Sponsorship Programme

Just as man is not alone in the world, a bank is not alone either. It is part of the community from which it is drawing its strength and to which it is returning part of the energy. Money, which is its “life”, is not bottled by the bank; in its hands, money is living. Thanks to money, various projects are born, which would not have otherwise appeared.

2001 was for ČSOB a year of the continuance of an unique merger of two banks. The process could not but reflect also in the field of sponsoring where new ČSOB followed up certain traditions of its predecessors. The concept of sponsoring was focused on long-term projects, especially in the field of culture, charity and education.

Last year, we were faithful to well-proven and successful projects. In the first place, ČSOB is a long-term partner of the Goodwill Committee – Olga Havlová Foundation. Our assistance helped tens of socially or physically handicapped children who could study, find new families, friends, their place in the world. Traditionally, ČSOB is standing side by side with the Museum of Decorative Arts in Prague. We helped to bring forth the expanded standing exhibition “Stories of Materials”; art lovers could see numerous partial exhibitions, which took place in the Museum during 2001. The ČSOB seal can be found for numerous years also in the exhibition of professional theater companies Czech Theater, which can boast already seven successful years. We also support film creation where we appear each year in the role of the Main Partner of Czech Film and Television Academy awards on the occasion of awarding Czech Lions for the best film works and performances. Other significant projects supported by ČSOB include our cooperation in selected UNESCO projects, of which the international exhibition of pantomime Open or the reconstruction of the unique architectural jewel of European significance – the greenhouse at Lednice can be mentioned. Last but not least, ČSOB became the general partner of one of the greatest cultural events of the past year – the unique exhibition Glory of Baroque Czechia. The exhibition tried to persuade both the Czech and international public that the so-called period of darkness, as the 17th and 18th centuries in the Bohemia region is often called, was by no means just the epoch of darkness, but it was a period of numerous moments of light as well, in which valuable artistic treasures were created. Through good partners, ČSOB and, above all, the public were able to participate in such events, which – perhaps – would not have taken place, and such projects were implemented, which, otherwise, would have hardly appeared.

Since we are looking for a new form of our sponsorship so as to express and support the new image of the merged bank, the concept of sponsorship in next years will probably go in a different direction. It is still our intention, however, to be a useful member of society and to help where help is needed.



ČSOB Representation

ČSOB Representation in Czech Republic (as at 1 May 2002)

Regional Corporate Branches

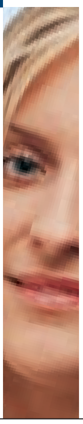
Region	Address	Zipcode
Brno	M. Horákové 6 (P.O.Box 79), Brno	601 79
České Budějovice	Lannova 3, České Budějovice	370 21
Hradec Králové	Ulrychovo náměstí 734, Hradec Králové	500 02
Ostrava	Hollarova 5, Ostrava	702 00
Plzeň	Americká 60, Plzeň	305 55
Praha 1	Na Poříčí 24, Praha 1	115 20
Praha 2	Na Poříčí 24, Praha 1	115 20
Praha 3	Na Poříčí 24, Praha 1	115 20
Ústí nad Labem	Mírové náměstí 20, Ústí nad Labem	400 40

Retail/SME – Regional Branches

Regional Branches	Address	Zipcode
Brno	Joštova 5, Brno	601 79
České Budějovice	Lannova 3, České Budějovice	370 21
Hradec Králové	Ulrychovo náměstí 734, Hradec Králové	500 02
Ostrava	Hollarova 5, Ostrava	702 00
Plzeň	nám. T.G. Masaryka 12, Plzeň	305 05
Praha 1	Perlova 5, Praha 1	114 03
Praha 2	Anglická 20, Praha 2	120 00
Ústí nad Labem	Mírové náměstí 20, Ústí nad Labem	400 40

Poštovní spořitelna Branches

Region	Address	Zipcode
Brno	Orlí 30, Brno	602 00
České Budějovice	Lannova 54, České Budějovice	371 65
Olomouc	Horní náměstí 27, Olomouc	772 00
sub-branch Ostrava	28 října 150, Mariánské Hory-Ostrava	702 00
Pardubice	třída 17. Listopadu, Pardubice	530 01
sub-branch Hradec Králové	Masarykovo nám. 511, Hradec Králové	500 02
Plzeň	nám. Republiky 8, Plzeň	301 16
Praha	Spálená 3, Praha 1	110 00
Ústí nad Labem	Berní 2, Ústí nad Labem	400 01



ČSOB Representation

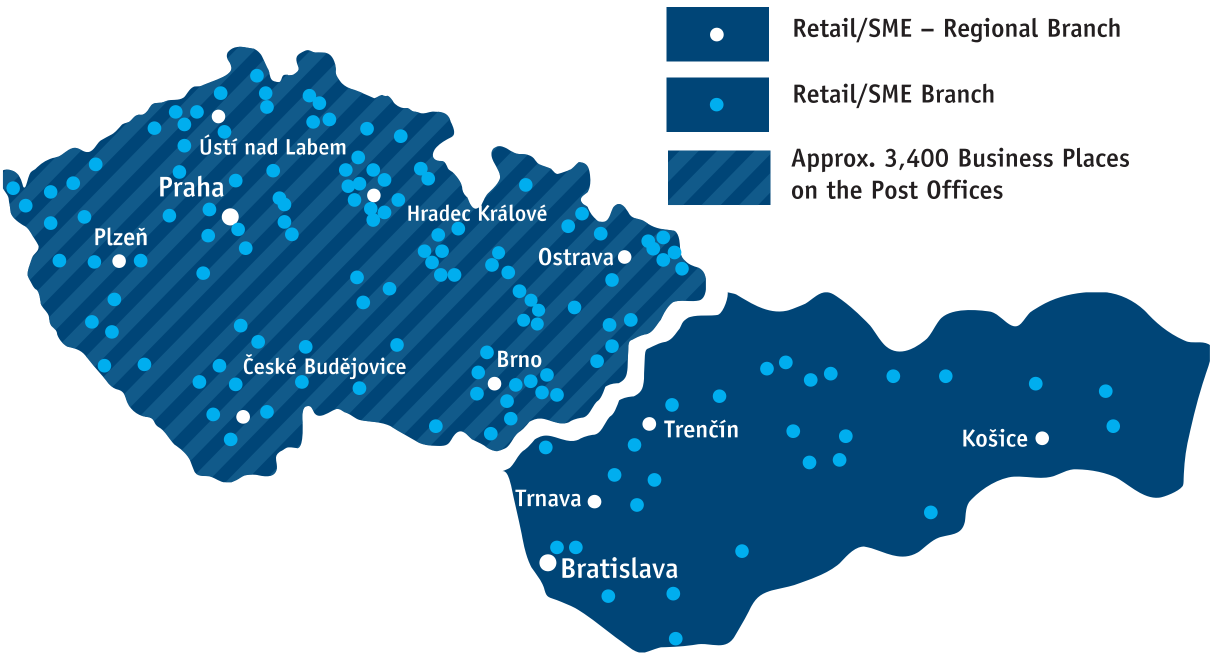
ČSOB Representation in Slovak Republic and Russian Federation (as at 1 May 2002)

Regional Corporate Branches

Region	Address	Zipcode
Bratislava	Nám. SNP 29, Bratislava	812 25
Košice	Nám. Osloboditeľov 5, Košice	040 01
Trenčín	Vajanského 3, Trenčín	911 50

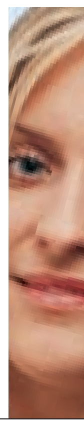
Retail/SME – Regional Branches

Regional Branches	Address	Zipcode
Bratislava	Nám. SNP 29, Bratislava	812 25
Central SR	Vajanského 3, Trenčín	040 01
East SR	Nám. Osloboditeľov 5, Košice	911 50
West SR	Starohájska 11, Trnava	917 01



Representation Russian Federation

Representation	Address	
Moskva	2-ja, Tverskaya Yamskaya 31/35, Moskva	125 047



Organisation Chart of ČSOB

As at 1 June 2002

Board of Directors of ČSOB

Pavel Kavánek
Chairman of the BoD and CEO

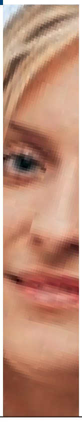
- **Group Communication Management**
- **Internal Audit**
  - Audit of Financial Markets and Credits
  - Audit of Client Operations
  - Audit of Automated Information System
  - Audit of Non-business Activities
  - Inspection
  - Internal Audit SR
  - Analyses, Planning and Audit Support
- **Corporate Office**
- **Risk Management**
  - Market Risk Management
  - Structural Risk Management
- **Compliance**
  - Special Investigations
  - Suspicious Transactions and Financial Ethics
- **Strategy and Organisation**
  - Process Co-ordination
  - Management Consulting
  - Project Office
  - Management of Organisation Systems

Vladimír Staňura
Member of BoD and SEO

- **Corporate Banking**
  - Corporate Segment and Distribution Management
  - International Corporate Desk
  - Credit Administration Unit
  - Non-banking Financial Institutions
  - Regional Corporate Branch – Brno
  - Regional Corporate Branch – České Budějovice
  - Regional Corporate Branch – Hradec Králové
  - Regional Corporate Branch – Ostrava
  - Regional Corporate Branch – Plzeň
  - Regional Corporate Branch – Praha 1
  - Regional Corporate Branch – Praha 2
  - Regional Corporate Branch – Praha 3
  - Regional Corporate Branch – Ústí nad Labem
  - Corporate Country Management SR
- **HRM**
  - HRM Conception and Methodology
  - Budgeting and Compensation
  - HR Recruitment, Appraisal and Career Development
  - HR Administration
  - Training and Education

Carl Rossey
Member of BoD and SEO

- **Distribution and Retail/SME Segments Management**
  - Postal Savings Bank
    - PSB Branch – Brno
    - PSB Branch – České Budějovice
    - PSB Branch – Olomouc
    - PSB Branch – Pardubice
    - PSB Branch – Plzeň
    - PSB Branch – Praha
    - PSB Branch – Ústí nad Labem
  - Retail/SME Distribution Management
  - Retail/SME Segments Management
  - Bankinsurance
  - Retail and SME – region Brno
  - Retail and SME – region České Budějovice
  - Retail and SME – region Hradec Králové
  - Retail and SME – region Ostrava
  - Retail and SME – region Plzeň
  - Retail and SME – region Praha I
  - Retail and SME – region Praha II
  - Retail and SME – region Ústí nad Labem
  - Retail/SME Country Management SR
- **Private Banking**
  - Distribution and Private Banking Segment Management
  - Regional Private Banking Branch – Brno
  - Regional Private Banking Branch – České Budějovice
  - Regional Private Banking Branch – Hradec Králové
  - Regional Private Banking Branch – Ostrava
  - Regional Private Banking Branch – Plzeň
  - Regional Private Banking Branch – Praha I
  - Regional Private Banking Branch – Praha II
  - Regional Private Banking Branch – Ústí nad Labem
- **Marketing**
  - Market Research
  - Planning and Co-ordination
  - Advertisement and Promotion
  - Marketing Services
  - Corporate Communication



Board of Directors of ČSOB

Petr Knapp
Member of BoD and SEO

- **Credits and Bad Debts**
  - Credits
  - Credit Methodology and Credits for Physical Persons
  - Bad Debts
- **Central Services**
  - Services Development and Integration
  - Operation Services for Headquartes
  - Regional Services Distribution
  - Services Economics
  - Investment
  - Security and Safety
  - Central Services SR
- **Central Procurement and Sale**
- **Legal**
  - Central Services and Legal Compliance
  - Credits and Deposits
  - International Banking, Capital Markets and Corporate Banking
  - Corporate Law
- **Administration of Ceded Receivables in ČR**

Jan Lamser
Member of BoD and SEO

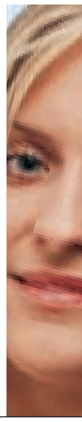
- **Restructuring**
  - Portfolio Restructuring
  - Financial Group Restructuring
  - Industry Group Restructuring I
  - Industry Group Restructuring II
  - Sale of Assets
  - Mergers and Acquisitions
  - Analysis and Documentation
- **Finance**
  - Financial Management
  - FM and CM Back Office
  - FM Transactions Monitoring

Patrick Daems
Member of BoD and SEO

- **Financial Markets**
  - Foreign Exchange Operations
  - Money Market Operations
  - Derivatives Operations
  - Capital Markets
  - FM Sales
  - Client Asset Management
  - Primary Issues
  - Investment Research
  - Financial Markets SR
- **International Finance**
  - Documentary Transactions and Guarantees
  - Export and Import Finance
  - Special Finance (Forfaiting and Comodity Trading)
  - Back Office Trade Finance
  - Structured and Syndicated Loans
  - Project Finance
  - Correspondent Banking
  - Custody/Trustee
- **ALM**
  - Balance Sheet Management
  - Group Transactions Management
  - FX and Operative Liquidity Management
  - Interest Rates Management
  - Balance Sheet Modeling
  - ALM SR

Philippe Moreels
Member of BoD and SEO

- **Payments, Cards and E-banking**
  - Payments and Cards
  - E-Banking
  - Cards
  - Callcentre
- **Information Systems**
  - IS Strategy and Quality Control
  - IT Engineering
  - Application Development
  - Information Support
  - Data Centres Operation
  - Internal Customer Services
- **Foreign Bank Branch in SR**
  - HRM SR
  - Legal SR
  - Marketing SR
  - **Product and Support Services Coordination SR**
  - **Corporate Country Management SR**
    - Financial Institutions SR
    - Credit Administration Unit SR
    - Regional Corporate Branch SR-Bratislava
    - Regional Corporate Branch SR – Košice
    - Regional Corporate Branch SR – Trenčín
  - **Retail/SME Country Management SR**
    - Retail and SME – region Bratislava
    - Retail and SME – region Central
    - Retail and SME – region East
    - Retail and SME – region West



The ČSOB Financial Group

Českomoravská hypoteční banka (ČMHB)

Established 10 January 1991

Registered capital (CZK '000) 1,328,373

Shareholder structure as at 31 December 2001

ČSOB	62.70%
Coutts Bank, AG	9.43%
Finismur, B.V.	8.49%
Maitland Holdings, B.V.	8.49%
C.D.E. Investments, B.V.	8.46%
Other shareholders	2.43%

Subject of business

The provision of mortgage loans and associated loans, as well as other banking activities and services essential to the realisation of mortgage transactions, in accordance with the law on banks. The issue of mortgage bonds, in accordance with special legislation.

	2001	2000	1999
Number of contracts closed	3,180	3,257	2,975
Volume of approved mortgage loans (CZKm)	3,279	3,581	3,186
Volume of mortgage loans drawn (CZKm)	1,882	2,825	1,543
Volume of mortgage bonds issued (CZKm)	2,500	3,500	5,600
Market share in CR (%) (based on business volume)	23	26	29

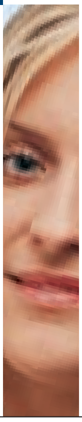
■ ČMHB is the sole specialised mortgage bank in the Czech Republic. It focuses on funding housing and providing compresensive services in this field. Strategic target entities are private individuals, municipalities, housing co-operatives and selected business entities.

■ There are eight entities operating on the mortgage market in the Czech Republic. Thanks to a wide range of services, individual approach to clients and good organisation of the commercial network ČMHB ranks first, in particular with respect to the number of loans drawn down.

■ Despite the rapidly growing competition ČMHB continues to maintain the largest market share regardless of a gradual reduction through being ahead of its rivals. Mortgage loans continue to be the key product. Also combined products are largely sought after, especially those with capital life insurance enabling the client to repay the principal either in one sum or gradually from income from insurance.

■ In 2001, ČMHB launched a mortgage loan whose interest rate is bound to PRIBOR with one year fixing which was due to favourable rates well accepted.

■ In 2002, ČMHB plans further to extend its product portfolio, enlarge external agent network, intesively use the ČSOB Financial Group's commercial network and develop an internet information system.
In co-operation with ČSOB, a new package of products with a larger combination with other products of the ČSOB Financial Group is being prepared.



ČMHB a.s.
člen skupiny ČSOB

Address: Budějovická 409/1, Praha 4, 140 00
Telephone: +420 2 61 12 28 34
Fax: +420 2 61 12 25 63
E-mail: info@cmhb.cz
Internet: www.cmhb.cz

Českomoravská stavební spořitelna (ČMSS)

Established 26 June 1993

Registered capital (CZK '000) 1,500,000

Shareholder structure as at 31 December 2001

ČSOB	55%
Bausparkasse Schwäbisch Hall A/G	45%

Subject of business

Building society savings in the sense of Act no. 96/1993 Coll., on building society savings and state subsidies for building society savings, always as amended.

	2001	2000	1999
Number of valid contracts	1,652,561	1,328,011	1,095,572
Number of newly closed contracts	557,588	437,851	312,704
Number of valid loans and inter-loans	217,232	185,550	148,968
Market share in CR (%) (based on no. of newly closed contracts)	36.7	35.7	31.5

ČMSS's strategic goal is to offer clients an accessible and highly professional advisory service, problem free access to its own products/services and general information in the area of building society savings and housing. Thanks to an emphasis on advisory services oriented towards individual client needs, ČMSS continues to show excellent business results, which in turn ensures that it continues to hold a leading position on the building society savings market in the Czech Republic. For the second year running, it is also the 2nd largest building society in Europe.

ČMSS primarily realises its business goals through its extensive business network, which is unrivalled under the conditions of the building society savings sector in the Czech Republic. At the present time, the ČMSS business network is made up of the Prague Head Office, 5 branches and 84 Information and Advisory Centres. The retail line is further comprised of 1,500 financial advisors, 3,400 postal offices and the ČSOB business network.

Building society savings with ČMSS, continue to be the most advantageous financial product for family finances. As well as the motivational factor of a state subsidy, ČMSS also offers its clients many other benefits:

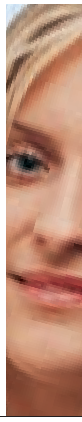
- interest on deposits of 3% p.a.
- insurance of deposits
- favourable interest rates on loans of 6% p.a.
- a wide range of temporary credits with interest rates from 6.3 to 7.9% p.a.
- a guaranteed fixed interest rate on loans and bridging loans for the entire repayment period
- the possibility of reducing the client's income tax base by the amount of interest paid
- free handling of loan administration
- highest loan from building society savings without security (up to CZK 150,000)
- highest loan without the need to pledge real estate (up to CZK 500,000)
- free advisory service of a high professional standard
- most extensive network of business locations and financial advisors in CR

For several years now ČMSS has offered young people, who have not yet reached the age of 31, a popular and advantageous programme from the so called product package range, which combines building society savings with other benefits. The offer for 2002 includes all the advantages of building society savings plus accident and travel insurance.

No major changes are expected on the building society savings market in 2002. In view of the continuing potential of the building society savings market, a further growth in the number of newly closed contracts for building society savings is expected. At the same time, the numbers of clients making use of loans from building society savings or temporary credits to solve their housing needs, will also continue to grow.

Českomoravská stavební spořitelna
Na těchto základech můžete stavět

Address: Vinohradská 169/3218, 100 17 Praha 10
Telephone: +420 2 74 04 11 11
Fax: +420 2 74 04 99 99
E-mail: info@cmss.cz
Internet: www.cmss.cz



ČSOB STAVEBNÁ SPORITEĽŇA (ČSOB SP)

Established 8 June 2000

Shareholder structure as at 31 December 2001
ČSOB 100%
Registered capital (SKK '000) 720,000

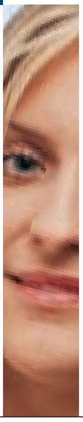
Subject of business
Accepting deposits and providing loans to building society savings participants, providing guarantees to other banks for building loans, mortgage and commercial loans, accepting deposits from banks, payment system administration in relation to building society savings and the provision of advisory services in relation to building society savings.

	2001	2000
Number of current contracts	83,883	26,000
Number of newly closed contracts	61,988	26,000
Number of loans provided	836	0
Market share in SR (%) (based on no. of closed contracts)	15.1	7.5

■ ČSOB SP entered the Slovak building society savings market in December 2000.
In the first year of its operation it confirmed the correctness of the decision to offer people interested in building society savings alternative services as the third building society savings in Slovakia. Up until that time the Slovak market had been unequally divided between two building savings society. ČSOB SP was very successful in winning the favour of building society savings clients and thus acquired a significant percentage of clients. Its clients – physical entities – also include housing co-operatives and apartment owners associations, which can take advantage of building society savings benefits.

■ In 2001, ČSOB SP prepared a new method for calculating building loan repayments for its clients. Loan repayments began to be calculated not on the basis of the total loan amount, but only on the basis of the actual amount owing, which resulted in a reduction in loan repayments.

■ The company's priority goal in 2002 is to maintain the trend begun by ČSOB SP in 2001 and to achieve an optimal share of the building society savings market in Slovakia, which is 20%. Preparations are also underway for an expansion of the product portfolio and links with insurance company and mortgage bank products. ČSOB SP does not plan to expand its existing branch network in 2002, instead focusing attention on improving personnel and service quality and standards.



ČSOB Stavebná sporiteľňa

Address: Radlinského 10, 813 23 Bratislava, SR
Telephone: +421 2 59 88 71 28
Fax: +421 2 59 88 72 10
Internet: www.csobsp.sk

Českomoravský penzijní fond (ČMPF)

Established 26 October 1994

Registered capital (CZK '000) 97,167

Shareholder structure as at 31 December 2001

IPB Group Holding, a.s. v likvidaci	42.3%
CETUS, a.s. v likvidaci*)	41.2%
IPB Pojišťovna, a.s.	16.5%

*) ČSOB – took over the share during 1Q 2002

Subject of business

The operation of supplementary pension insurance, with state contributions.

	2001	2000	1999
Assets on record in favour of participants (CZKm)	5,645.5	4,567.6	2,914.9
of which contributions from participants (CZKm)	4,295.7	3,446.2	2,134.1
Market value of investment portfolio (CZKm)	5,730.6	4,632.6	3,071.6
Appreciation of participants' assets (%)	3.2	4.2	6.1
Market share in CR (%) (based on number of participants)	12.2	13.1	10.1

■ ČMPF has been operating on the supplementary pension insurance market since 1994. It is the legal successor of Občanský penzijní fond, a.s. and Český penzijní fond ZDRAVÍ, a.s., with which it merged in 1999 and 2000.

■ ČMPF operates supplementary pension insurance with state contributions according to Act no. 42/1994 Coll., on supplementary pension insurance with state contributions. ČMPF collects contributions from participants of supplementary pension insurance and state contribution paid in favour of participants, is managing these assets and paying out supplementary pension benefits according to a pension plan.

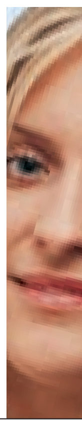
■ ČMPF provides its participants with above standard benefits such as discounts on insurance for family homes, apartments and weekend houses with IPB Pojišťovna and the free issue of EURO<26 cards to new clients under the age of 26. Participants of the supplementary pension insurance scheme are invited to use services under advantageous terms and conditions which meet their individual needs to the fullest, for example the First Company Pension Insurance Plus is intended for employers and their employees providing for free insurance of employees' industrial accidents or maximum tax benefits and state contributions from the OPTIMUM EFEKT programme.

■ The acquisition of new participants in collaboration with traditional business partners continued in 2001. A decisive share of the more than 30,000 new contracts was the work of ČMPF's own distribution network and Czech Post, s.p. The average age of new participants as of contract closure dates, reached 47.8, the average monthly contribution was CZK 436. Further employers were acquired for collaboration with ČMPF and the total number of employers contributing to supplementary pension insurance at ČMPF surpassed 1,500. An important step for ČMPF and its clients in 2001, was the introduction of a new information system in May.

■ In 2002 ČMPF plans to acquire a minimum of 30,000 new participants, maintain 3rd to 4th position on the market, expand its range of benefits for clients, especially in collaboration with ČSOB, and establish regional representation.

ČMPF
člen skupiny ČSOB

Address:	Vinohradská 167/3217, 100 00 Praha 10
Telephone:	+420 2 83 08 01 11
Fax:	+420 2 83 08 03 33
E-mail:	cmpf@cmpf.cz
Internet:	www.cmpf.cz



ČSOB Penzijní fond (ČSOB PF)

Established 14 February 1995

Registered capital (CZK '000) 50,000

Shareholder structure as at 31 December 2001

ČSOB 100%

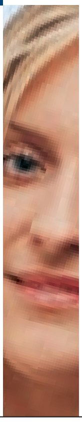
Subject of business

The operation of supplementary pension insurance, with state contributions.

	2001	2000
Number of closed contracts	2,336	2,047
Assets on record in favour of participants (CZKm)	125.6	87.5
of which contributions from participants (CZKm)	116.5	17.6
Market value of investment portfolio (CZKm)	159.2	134.0
Appreciation of participants' assets (%)	3.7	5.6
Market share in CR (%) (based on number of participants)	0.4	0.4

■ ČSOB PF is a dynamic company which was established in 1994 under the name of Penzijní fond spokojenosti. ČSOB took over 100% capital participation in ČSOB PF as at 19 May 2000. For ČSOB this was one of the steps on the road to realising a basic concept of the bank's orientation towards retail clients and securing a full range of financial services for retail and corporate clients through the subsidiary companies making up the ČSOB Financial Group.

■ In 2001 ČSOB PF further consolidated its position on the market and expanded its business network. Products are now sold at circa 60 ČSOB branches and at 70 ČSOB Pojišťovna retail locations. Work on the acquisition of corporate clients began in collaboration with ČSOB branch experts. Product sales are also secured by external representatives. In 2001, 2,336 new contracts for supplementary pension insurance were closed, 1,110 of which were arranged by ČSOB branches. At first the number of ČSOB PF business locations fell due to the merging of ČSOB branches. However with the closure of an agreement with ČSOB Pojišťovna, a.s. the business network grew significantly, with the sale of ČSOB PF products commencing at 70 new business locations, while the number of contractual business representatives working in the field also rose.



■ A new Pension Plan was brought onto the market as at 1 January 2001, which give clients the opportunity to arrange a retirement pension. This ČSOB PF product now includes all the different types of benefits governed by the law on supplementary pension insurance.

■ Product competitiveness was increased with the introduction of an above standard programme for participants, which includes free accident insurance in the case of permanent disability or death as a result of accident. This insurance is provided by ČSOB Pojišťovna a.s. The programme also includes a 10% premium discount on private insurance "RODINA" (Family) at ČSOB Pojišťovna a.s., and also the "KOMFORT" programme which ensures optimisation of the participant's state contribution and tax relief.

■ A demanding business plan has been prepared for 2002 which anticipates a doubling of the number of participants. In order to meet this goal, ČSOB PF plans to establish collaboration with other companies making up the ČSOB Financial Group, especially in the areas of cross selling, product innovation, increasing client comfort and other synergetic effects.

■ The number of ČSOB branches authorised to sell ČSOB PF products increased to 81 locations in 2002, all of which have professionally trained personnel available and effective software sales support. Special attention has been focused on the acquisition of corporate and SME clients, which represent a certain degree of untapped potential on the supplementary pension insurance market.

ČSOB Penzijní fond

Address Head Office: Na Příkopě 14, Praha 1
Contact address and administration:
Brigádnická 124, 538 43 Třemošnice
Telephone: +420 455 66 14 32
+420 455 66 13 56
+420 2 24 11 20 78
Fax: +420 455 66 19 19
Internet: www.csobpf.cz

První investiční společnost (PIAS)

Established	5 December 1990
Shareholder structure as at 31 December 2001	
ČSOB	81.30%
Auxilium, a.s.	11.15% *)
Other shareholders	7.55% **)

Registered capital (CZK '000)	60,000
Subject of business	
Collective investment.	

*) 17,02% **) 1,68% – change during 1Q 2002

■ The company was established in 1990 as První investiční akciová společnost. The company business mainly became pooling the financial resources of physical and legal entities in the form of the sale of mutual shares in its open ended and closed ended funds and their subsequent investment on the capital market. As at 31 December 2001, the company had a total of CZK 17bn under its management (CZK 11.2bn in open shares funds and CZK 5.8bn in investment funds). Based on the volume of managed assets, the company had an approximately 20% share of the Czech market.

■ In 2001 preparations continued for opening up investment funds managed by PIAS. The Securities Commission approved the transformation of the remaining investment funds with the exception of Investiční fond bohatství, a.s. whose request is still under proceedings. The City Court is currently considering a proposal for these to be struck from the Register of Companies.

■ Preparations for the transformation of the autonomous fund P.I.F. a.s. – 1. Privatizační investiční fond to 1.IN – PIF, open ended fund of První investiční společnost, were completed and realised as at 1 January 2002.

■ The planned merger of the Fond majetku (Property fund), Fond prosperity (Prosperity fund) and Fond pravidelných příjmů (Regular income fund) with 1.IN – Středoevropský fond was completed in 2001 in accordance with the announced time table.

■ As part of an expansion of client services, PIAS introduced the sale of mutual shares over the internet.

■ In the long term period, the company's economic situation is stabilised, with only positive economic results being posted for several years, including secured liquidity and favourable cash flow. The company's financial economic development was further strenghtened in 2001, where the repayment of a long term investment loan meant the complete elimination of foreign sources. Company management continually strives for the rational use of funds and the minimisation of costs. Despite pressure from the competition, second place on the collective investment market can be considered a success.

■ PIAS expects to complete the transformation of all remaining investment funds during the course of 2002.

■ In connection with the integration of PIAS into the ČSOB structure, a restructuralisation of products will be undertaken so that PIAS will be able to offer a family of clearly profiled funds in 2003 and thus optimally supplement other products in the ČSOB product range in this area.

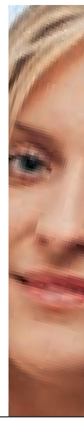
■ Funds managed by PIAS as at 31 December 2001:

Investment funds
- IF bohatství, a. s.
- IF obchodu, cestovního ruchu a služeb, a.s.
- Křišťálový IF, a.s.
- Rentiérský IF 1.IN, a.s.

Open shares funds
- 1.IN – Restituční fond
- 1.IN – Výnosový fond
- 1.IN – Dluhopisový fond
- 1.IN – Akciový fond
- 1.IN – Středoevropský fond
- 1.IN – Fond peněžního trhu
- 1.IN – Fond fondů

1.IN
První investiční
společnost, a.s.

Address: Bělehradská 110, 120 00 Praha 2
Telephone: +420 2 22 07 31 11, Fax: +420 2 22 52 31 21
Info line: 0800/11 14 45
E-mail: info@pias.cz, Internet: www.pias.cz



OB INVEST, INVESTIČNÍ SPOLEČNOST (OB INVEST)

Established 2 November 1991

Registered capital (CZK '000) 25,000

Shareholder structure as at 31 December 2001
ČSOB 100%

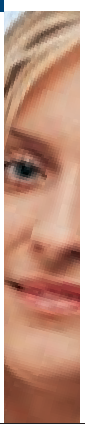
Subject of business
Collective investment.

	2001	2000	1999
Volume of managed assets (CZKbn)	3.9	2.6	2.6

The investment company, OB Invest, with more than a decade of tradition, is one of the oldest and largest investment companies on the Czech market and is an important member of the Union of Investment Companies CR.

2001 was an important year for OB Invest and its managed funds. Apart from the company's active involvement in the ČSOB Financial Group's integration process, there was also a further improvement in the quality of client services over the course of the year. One such step was updating the statute of all open shares funds, which included a more detailed specification of their investment strategy, a unification of conditions for the acquisition of participation shares by shareholders and for the purchase of participation certificates from shareholders by the investment company.

Another important step was the transformation of the ČSOB český akciový fund to ČSOB výnosový fund, intended for corporate clients. At the same time, the management of the Patria – Evropský akciový fund of Patria investiční společnost, a.s. was transferred to OB Invest. As part of the transfer the statute of the fund was also changed, which included a change of the fund's name in order to clearly reflect its affiliation with the strong ČSOB Financial Group. The investment funds managed by OB Invest also moved further towards their transformation into open shares funds.



OB Invest manages two investment funds and six open ended funds with a total value of almost CZK 3.9bn, for circa 57,000 clients. Investors can purchase and sell their participation certificates through the ČSOB branch network. Assets in open ended funds managed by OB Invest increased sharply in 2001, rising from CZK 2.6bn to almost CZK 3.9bn, largely due to changes in investment strategy and the management principles of the ČSOB český akciový fund, which was transformed into the ČSOB výnosový fund and is intended for corporate clients. The company's market share thus increased from circa 3% to circa 5%.

Funds managed by the OB Invest

Investment funds:
- KVANTO, investiční privatizační fond a.s.
- Zlatý investiční fond Kvanto a.s.

Open ended funds:
- ČSOB světový akciový, OB Invest, investiční společnost, a.s., open ended fund
- ČSOB český dluhopisový, OB Invest, investiční společnost, a.s., open ended fund
- ČSOB český peněžní trh, OB Invest, investiční společnost, a.s., open ended fund
- ČSOB český evropský akciový, OB Invest, investiční společnost, a.s., open ended fund
- ČSOB smíšený, OB Invest, investiční společnost, a.s., open ended fund
- ČSOB výnosový, OB Invest, investiční společnost, a.s., open ended fund

OB INVEST
SPRÁVCE FONDŮ ČSOB

Address: Milíčova 6, 130 00 Praha 3
(Škrétova 490/12, 120 00 Praha 2
– change during 1.Q.2002)
Telephone: +420 2 22 11 15 11 (+420 2 21 42 43 25)
Fax: +420 2 22 78 14 02 (+420 2 21 42 43 23)
E-mail: klient@obinvest.cz, Internet: www.obinvest.cz
Info line: 0800/10 00 30

IPB Pojišťovna

Established 17 April 1992

Shareholder structure as at 31 December 2001

ČSOB	65%
CETUS, a.s. v likvidaci[*)]	35%

*) ČSOB – took over the share during 1Q 2002

Registered capital (CZK ’000) 500,000

Subject of business

Insurance of private and business subjects in the area of life and non-life insurance.

	2001	2000	1999
Number of closed contracts	241,069	304,961	523,923
Volume of prescribed premiums (CZKm)	5,507	6,153	5,975
of which life insurance	3,165	3,640	4,420
of which non-life insurance	2,342	2,513	1,555
Volume of benefits paid out (CZKm)	3,318	3,206	1,795
Number of settled insurance events (no.)	145,425	121,080	66,482
Share of insurance market (%)	7.00	9.00	9.64

■ IPB Pojišťovna is a universal insurance company which provides insurance cover for private and business subjects in the area of life and non-life insurance. A pivotal type of life insurance is capital life insurance, while in the non-life insurance area, it is industrial risk insurance and third party motor vehicle insurance.

■ In 2001 the company failed to meet its planned volume of gross business production by CZK 339m. The company’s unclear ownership relations with respect to its main shareholder and the company’s business name, which continues to influence client perceptions, both had a negative impact on the development of business activities. These negative factors resulted in a disintegration of the external distribution network and a weakening of the internal distribution network. Business production stagnated, the numbers of cancelled insurance contracts continued to grow. In order to stop the decline in the development of business activities, organisational changes were undertaken within the company. In order to eliminate further negative factors in the development of business activities, conditions for insurance were tightened and the company’s approach to evaluating risks was changed.

■ Two new products were introduced onto the market in life insurance. From 1 April 2001, the sale of life insurance with tax advantages began – DA1 and on 1 September 2001 capital life insurance was launched – KZP 13, which replaced the present product KZP 1. Both products received marketing support from September with one year’s free supplementary risk insurance (supplementary insurance for serious illness and accident).

■ In the non-life insurance area, business risk insurance products were introduced onto the market. These were professional liability insurance for auctioneers, windscreen insurance for motor vehicles, debtor’s insurance on consumer loans for physical entities.

■ An important change in life insurance in 2002 will be the transition to a new, higher (3%) technical interest rate. Another goal for this type of insurance is the introduction of new products like Unit Linked and Universal Life. In the non-life insurance area, there will be an improvement in the quality of existing insurance products for motor vehicles, buildings and travel insurance. At the same time work will start on the development of so the called packages – “Rodina” (Family – private property insurance plus assistance services, general household liability insurance, legal protection insurance, accident cover and household pet insurance) and “Mobilita” (third party motor vehicle insurance, CASCO insurance, assistance services, accident cover for the owner and driver, luggage and transported goods insurance) – with the goal of putting these into operation in September 2003. In the non-life insurance area we also expect an expansion of the product range in corporate clientele insurance, with insurance cover for transport, liability, financial and bank risks.

■ The development of the branch network will focus on the transition to a new organisational structure in 2002, a stabilisation of the client base, stabilisation of the distribution network (internal and external) and the expansion of collaboration within the ČSOB Financial Group.

IPB POJIŠŤOVNA
člen skupiny ČSOB

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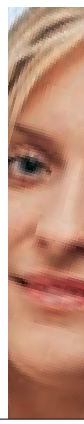
E-mail: info@ipbpojistovna.cz
Internet: www.ipbpojistovna.cz



ČSOB Pojišťovna

Established 13 March 1995

Shareholder structure as at 31 December 2001
KBC Verkeringen N.V. 100%

Registered capital (CZK '000) 400,000
Subject of business
Insurance activities, assurance activities and other activities related thereto.

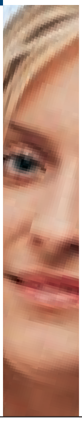
	2001	2000	1999
Number of contracts closed	19,037	50,333	28,000
Volume of prescribed premiums (CZKm)	455	290	178
of which life insurance	15	9	5
of which non-life insurance	440	281	173
Volume of paid out benefits (CZKm)	223	144	87
Number of settled insurance events (no.)	5,700	3,474	2,497
Share of insurance market (%)	0.53	0.42	0.28

With a more than a six year tradition, ČSOB Pojišťovna is one of the prominent insurance subjects on the Czech insurance market. ČSOB Pojišťovna offers a full and complex range of services for business subjects and private individuals.

It offers the following basic types of insurance:

- all types of property and liability insurance for businesses and organisations
- motor vehicle accident insurance
- third party motor vehicle insurance
- property and liability insurance for private individuals
- life and accident insurance
- agricultural risk insurance

2001 was an important milestone for ČSOB Pojišťovna. Belgian KBC Verkeringen N.V., a prestigious company belonging to the KBC Financial Group which holds a majority share in ČSOB, became the company's sole shareholder. In June 2001, the company received a new graphic business logo which fully reflects affiliation of ČSOB Pojišťovna, a.s. with the ČSOB Financial Group.



ČSOB Pojišťovna was actively involved in all transformation projects within the ČSOB Financial Group. Thus launching a new phase of collaboration whose goal is to make maximum use of synergetic effects in the provision of a complex range of ČSOB Financial Group products. This is the first step in fulfilling the company's main goal – to share in the provision of insurance services to bank and subsidiary clients.

The subject of ČSOB Pojišťovna's interest lies primarily in the SME, municipal and retail client sectors, with the application of cross selling and utilising the retail channels of the bank and other members of the financial group. ČSOB Pojišťovna is the main partner of the ČSOB life project – the sale of bank-insurance products at ČSOB branches.

At the end of 2001, the company's sole shareholder KBC Verkeringen N.V. decided to increase the company's registered capital to CZK 400m, largely in connection with preparations for the sale of life insurance at ČSOB branches, so called bank-insurance, and the development of other insurance products.

ČSOB Pojišťovna

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Info line: 0800/18 59 37
Internet: www.csobpoj.cz

O.B.HELLER

Established 18 June 1992

Registered capital (CZK '000) 35,400

Shareholder structure as at 31 December 2001

ČSOB	50%
NMB-Heller Holding N.V., Netherland	50%

Subject of business

factoring

		2001	2000	1999
Debt turnover	total	16.7	12.6	8.3
(CZKbn)	factoring	11.68	10.3	8.3

O.B.HELLER is a factoring company established in 1992. Thanks to its capital base, flexibility and know-how in the provision of complex financial solutions for its clients, it has maintained a leading position on the market from its very inception. Its turnover in 2001 once again confirmed this position. In 1997 O.B.HELLER established a subsidiary, OB HELLER Factoring a.s., in Slovakia.

The basis of the company's collaboration is the financing of debts, to which solutions for the financing of stock supplies, orders, acquisition of fixed assets and last but not least, the financing of acquisitions and MBO are progressively offered.

In 2001, O.B.HELLER offered the following products:

- Domestic factoring with recourse
- Domestic factoring without recourse
- Export factoring without recourse
- Ledgering (debt management)
- Import factoring

Members of the Association of Factoring Companies recorded a total turnover of CZK 46bn as at 31 December 2001, CZK 39.9bn of which was factoring turnover. Based on these figures, it follows that O.B.HELLER's market share of total turnover is 36.3% and 29.3% of factoring turnover.

The subsidiary company OB HELLER Factoring a.s., with registered offices in Bratislava, recorded turnover of SKK 4.24bn as at 31 December 2001, and an estimated market share of approximately 40%.

The company's financial plan for 2002 anticipates an increase in factoring turnover of 18%. The company also expects a smooth transition to the new Factor-Link information system. The company also plans to relocate to new premises in 2002.

OB HELLER
člen skupiny ČSOB

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(+420 2 22 72 59 96 – change during 1Q 2002)
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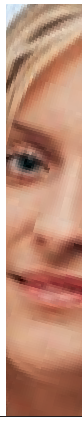


ČSOB Leasing

Established	31 October 1995	**Registered capital (CZK '000)**	600,000

Shareholder structure as at 31 December 2001
ČSOB 100%

Subject of business
financial services (leasing, hire purchase)

	2001	2000	1999
Volume of leasing business in CR (CZKbn)	15.3	12.1	8.1
Number of closed contracts in CR	23,412	20,868	14,800
Market share in CR (%) (based on business volume)	14.6	13.5	10.0

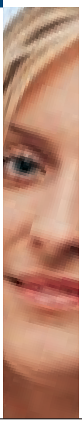
■ ČSOB Leasing is a universal leasing company with a nationwide network of its own branches which provide leasing services to business and private – non-business subjects. The company also operates on the Slovak leasing market through its subsidiary company whose head office is in Bratislava and its branch network. In 2001 ČSOB Leasing achieved historical success – 1st place on the leasing market with a market share of almost 15%.

■ The company provides financing for all types of transport vehicles, whether new or used, from motorcycles to freight vehicles, including exclusive brand name leasing for motor vehicle importers Citroën, Hyundai, Kia, Mazda and Suzuki. In the area of machine, equipment, technology and investment unit leasing, the company realises business transactions with a minimal acquisition value of CZK 500,000. This limit may be lower on financing offered by the company in collaboration with selected suppliers of these commodities.

■ ČSOB Leasing offers a complete range of leasing products – from financial leasing (including financing options in EUR and USD), through operating leasing, to full service operating leasing for transport vehicles, with various accompanying services. As well as leasing, ČSOB Leasing also offers hire purchase for private individuals, business subjects and customers from the municipal sector on all of the aforementioned commodities. For all types of products, the company also provides related services such as insurance, economic and tax consulting, etc.

■ In 2001 ČSOB Leasing introduced operating leasing onto the market, including accompanying service options, so called full service leasing. While simple operating leasing is, thanks to its tax and accounting benefits, primarily used to finance computer and office technology, ČSOB Leasing offers full service leasing to companies who wish to finance their vehicle fleet in this way.

■ In 2002 ČSOB Leasing is preparing to expand its range of operating leasing to certain other commodities, together with a further improvement in the quality of customer care.



ČSOB Leasing

Address: Roháčova 1148/63, 130 00 Praha 3
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Internet: www.obleasing.cz

Financial Statements

Consolidated Financial Statements

Report of Independent Auditors

Auditor's Opinion on the Consolidated Financial Statements (IAS)

Report of Independent Auditors to the Shareholders of Československá obchodní banka, a.s.

We have audited the accompanying consolidated balance sheet of Československá obchodní banka, a.s. and its subsidiaries ("the Group") as at 31 December 2001 and the related consolidated profit and loss and cash flow statements and statement of changes in equity for the year then ended. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2001, and the results of its operations, its changes in shareholders' equity and cash flows for the year then ended, in accordance with International Accounting Standards.

16 April 2002

PricewaterhouseCoopers Audit, s.r.o.

Consolidated Financial Statements (IAS)

Consolidated Statement of Income for the Year Ended 31 December 2001

(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

(CZKm)	Notes	2001	2000
Interest income		33,134	27,401
Interest expense		(20,050)	(16,062)
Net interest income	**3**	**13,084**	**11,339**
Net fee and commission income	4	5,927	3,893
Net trading income	11	2,767	613
Other income	5	1,512	2,359
Non-interest income		**10,206**	**6,865**
Operating income		**23,290**	**18,204**
Personnel expenses	6	(5,402)	(4,255)
Depreciation of property and equipment	16	(1,406)	(1,373)
Other general administrative expenses	7	(6,390)	(5,056)
Other expenses	8	(2,302)	(1,291)
Operating expenses		**(15,500)**	**(11,975)**
Operating profit before provisions		**7,790**	**6,229**
Provisions for credit losses	15	1,367	362
Other provisions	24	(244)	(126)
Operating profit		**8,913**	**6,465**
Income tax expense	23	(2,878)	(1,696)
Net profit before minority interests		**6,035**	**4,769**
Minority interests		(83)	(78)
Net profit		**5,952**	**4,691**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet as at 31 December 2001

(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

(CZKm)	Notes	31. 12. 2001	31. 12. 2000
ASSETS			
Cash and balances with central banks	9	21,700	18,958
Due from banks	10	117,194	71,142
Trading assets	11	49,928	54,403
Securities	12	43,574	26,798
Loans and leases	14	181,476	164,501
Rescue acquisition state assistance receivable	13	158,279	172,924
Property and equipment	16	13,501	14,411
Goodwill	17	1,831	692
Other assets, including tax assets	18	5,817	7,984
Prepayments and accrued income		4,560	3,731
Total assets		**597,860**	**535,544**
LIABILITIES			
Due to banks	19	27,814	22,891
Trading liabilities	11	26,456	17,406
Due to customers	20	417,743	348,820
Rescue acquisition state assistance payable	13	6,804	–
Debt securities in issue	21	34,917	66,195
Other liabilities, including tax liabilities	22	26,213	26,867
Accruals and deferred income		2,633	3,674
Other provisions	24	16,680	13,277
Total liabilities		**559,260**	**499,130**
Minority interests	**36**	**747**	**2,078**
SHAREHOLDERS' EQUITY			
Share capital	25	5,105	5,105
Share premium account		1,006	1,006
Statutory reserve		19,224	18,686
Cumulative losses not recognised in the income statement		(102)	(128)
Treasury shares		(536)	(338)
Retained earnings		13,156	10,005
Total shareholders' equity		**37,853**	**34,336**
Total liabilities, minority interests and shareholders' equity		**597,860**	**535,544**

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 16 April 2002 and signed on its behalf by:

Pavel Kavánek
Chairman of the Board of Directors
and Chief Executive Officer

Jan Lamser
Member of the Board of Directors
and Senior Executive Officer

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2001

(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

(CZKm)	Share capital	Share premium account	Statutory reserve	Cumulative gains/(losses) not recognised in the income statement[1]	Treasury shares	Retained earnings	Total Equity
At 1 January 2000	5,105	1,006	18,686	(33)	(68)	6,782	31,478
Foreign currency translation	–	–	–	(95)	–	–	(95)
Purchase of treasury shares	–	–	–	–	(270)	–	(270)
Net profit	–	–	–	–	–	4,691	4,691
Dividends paid	–	–	–	–	–	(1,468)	(1,468)
At 31 December 2000	**5,105**	**1,006**	**18,686**	**(128)**	**(338)**	**10,005**	**34,336**
Effect of adopting IAS 39	–	–	–	(141)	–	34	(107)
At 1 January 2001 – as restated	**5,105**	**1,006**	**18,686**	**(269)**	**(338)**	**10,039**	**34,229**
Net after-tax unrealised gains on available-for-sale securities	–	–	–	211	–	–	211
Net after-tax gains on derivatives used as cash flow hedges	–	–	–	37	–	–	37
Foreign currency translation	–	–	–	(224)	–	–	(224)
Net after-tax (gains) on available-for-sale securities transferred to net profit	–	–	–	(1)	–	–	(1)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	–	–	–	144	–	–	144
Net after-tax gains not recognised in the income statement	–	–	–	167	–	–	167
Net profit	–	–	–	–	–	5,952	5,952
Transfer to statutory reserve	–	–	538	–	–	(538)	–
Purchase of treasury shares	–	–	–	–	(198)	–	(198)
Dividends paid	–	–	–	–	–	(2,297)	(2,297)
At 31 December 2001	**5,105**	**1,006**	**19,224**	**(102)**	**(536)**	**13,156**	**37,853**

[1] Accumulated gains/(losses) not recognised in the income statement consists of the after-tax valuation allowance for foreign currency translation adjustments of CZK (33)m, CZK (128)m and CZK (352)m as at 1 January 2000, 1 January 2001 and 31 December 2001, respectively; net gains on available-for-sale securities of CZK 2m and CZK 212m as at 1 January 2001 and 31 December 2001, respectively; net gains on derivatives used as cash flow hedges of CZK (143)m and CZK 38m as at 1 January 2001 and 31 December 2001, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for The Year Ended 31 December 2001

(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

(CZKm)	Note	2001	2000
Cash flow from operating activities			
Profit before tax and minority interests		8,913	6,465
Adjustments for:			
Credit loss provisions		(1,367)	(362)
Other provisions		419	126
Depreciation of property and equipment		1,406	1,373
Property impairment charge		232	–
Amortisation of goodwill		(96)	(313)
Net (gain)/loss on disposal of financial investments		(2)	34
Net loss (gain) on disposal of property and equipment		10	(46)
Other		815	246
Net (increase)/decrease in operating assets:			
Due from banks, non-demand		(47,185)	45,799
Trading assets		1,870	(24,194)
Loans and leases		(10,692)	(13,417)
State-assisted rescue acquisition receivable		886	6,815
Other assets		2,243	1,454
Prepayments and accrued income		(823)	(291)
Net increase/(decrease) in operating liabilities:			
Due to banks, term		559	(53,820)
Trading liabilities		9,050	17,406
Due to customers		68,823	17,477
Promissory notes and certificates of deposit		(25,262)	9,017
Other liabilities		729	(7,672)
Accruals and deferred income		(1,042)	(484)
Net cash flow from operating activities before income tax		*9,486*	*5,613*
Net income tax paid		(872)	(852)
Net cash flow from operating activities		*8,614*	*4,761*
Cash flow (used in)/from investing activities			
Acquisition of IPB, net of cash paid		12,046	17,123
Change in consolidation scope		138	(102)
Purchase of investment securities		(39,529)	(17,170)
Maturity/disposal of investment securities		23,834	6,607
Purchase of property and equipment		(2,115)	(1,214)
Disposal of property and equipment		69	258
Net cash flow (used in)/from investing activities		*(5,557)*	*5,502*
Cash flow from/(used in) financing activities			
Issue of bonds		1,123	549
Repayment of bonds		(7,067)	(6,085)
(Purchase) of treasury shares		(198)	(270)
Decrease in minority interests		(14)	(274)
Increase/(decrease) in borrowings		2,464	(6,317)
Dividends paid		(2,297)	(1,468)
Net cash flow (used in) financing activities		*(5,989)*	*(13,865)*
Effect of exchange rate changes on cash and cash equivalents		(243)	(274)
Net (decrease) in cash and cash equivalents	**29**	**(3,175)**	**(3,876)**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

1. INTRODUCTION

Československá obchodní banka, a.s. (the Bank or ČSOB) is a Czech joint-stock company. It is a universal bank operating in the Czech Republic and the Slovak Republic providing a wide range of financial services and products in Czech Crowns and foreign currencies to its domestic and foreign customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The consolidated financial statements comprise the accounts of the Bank and its subsidiary and joint-venture companies (together the Group) which have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB). They have been prepared under the historical cost convention modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative contracts. The financial statements are expressed in millions of Czech Crowns (CZKm). Certain prior period amounts have been reclassified to conform to current year classifications. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

b) Change in accounting policy – adoption of IAS 39

The Group adopted International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) prospectively from 1 January 2001. IAS 39 provides comprehensive guidance on accounting for Financial instruments, which include conventional financial assets and liabilities and derivatives. All financial instruments are required to be recognised on the balance sheet by IAS 39.

The financial impacts of adopting IAS 39 resulted in a net after-tax transition charge of CZK 107m in Shareholders' equity and significant balance sheet reclassifications.

A summary of the significant transition impacts on the Group's financial statements from adopting IAS 39 follow:

(i) To comply with IAS 39 the Group introduced a new equity account – Cumulative gains/(losses) not recognised in the income statement. It includes net after-tax unrealised gains or losses on available-for-sale investments and on derivatives designated as cash flow hedges as well as after-tax foreign currency translation movements.

Transition adjustments

(ii) The after-tax charge of CZK 107m in opening Shareholders' equity comprised net losses of CZK 141m in Cumulative gains/(losses) not recognised in the income statement and a net credit of CZK 34m in Retained earnings both of which are detailed further below:

- Net losses of CZK 141m in Cumulative gains/(losses) not recognised in the income statement comprised a net charge of CZK 143m to carry the cash flow hedging derivatives at their fair value, rather than the previous accruals basis, and a net credit of CZK 2m to carry available-for-sale securities at their fair value, rather than the previous basis of cost less permanent diminution in value.

- The net credit of CZK 34m in Retained earnings comprised a credit adjustment of CZK 86m to reflect the carrying value of certain

bonds at their effective interest rate, a charge of CZK 68m to carry non-qualifying hedging derivatives at fair value, rather than their previous accruals basis, and a credit adjustment of CZK 16m to carry certain trading assets and liabilities at fair value which were previously carried at amortised cost.

Significant balance sheet reclassifications

(iii) The Group now categorises its financial assets individually as either: financial assets held for trading, loans and receivables originated by the Group (originated loans), investments held to maturity or financial assets available for sale. Financial liabilities are now categorised by the Group individually as either financial liabilities held for trading or other financial liabilities. Derivative financial assets and derivative financial liabilities are now categorised by the Group as held for trading unless they are designated and effective hedging instruments.

(iv) Investment securities have been separated by the Group into three categories: originated loans, held-to-maturity securities and available-for-sale securities. Originated loans are primary market debt security purchases which have been reclassified, depending on the issuer type, to either Due from banks or Loans and leases. Debt securities purchased in the secondary market are categorised as either held-to-maturity securities or available-for-sale securities and are now classified as Securities. Equity shares in unconsolidated subsidiaries, associates not accounted for under the equity method and other participation interests are categorised as available-for-sale securities and now classified as Securities.

Under IAS 39, originated loans and held-to-maturity securities are carried at amortised cost including any write-down for impairment whilst available-for-sale securities are carried at fair value. The Group has decided that changes in the fair value of available-for-sale securities will be recorded directly to equity until such an asset is disposed of or until a financial asset is determined to be impaired. Previously, all investment debt securities were carried at amortised cost and all investment equity shares at cost, both reduced by any permanent diminution in value.

(v) All financial assets and liabilities held for trading are now classified by the Group as Trading assets and Trading liabilities under IAS 39. Previously, the only items segregated in the financial statements as trading were securities and derivatives. Also, certain inter-bank term deposits placed and taken are now classified as Trading assets and Trading liabilities (Note 2h). Trading derivatives' carrying values have been reclassified to Trading assets and Trading liabilities.

(vi) Under IAS 39, all derivatives are separately identified, (excluding certain embedded derivatives not required to be separated from their respective host contracts), and carried on the balance sheet at fair value. Further, IAS 39 introduced strict criteria to enable a derivative to qualify for hedge accounting – the symmetric offsetting income effect on the item being hedged. Previously, only trading derivatives were carried at fair value and hedging derivatives, which required less strict hedging qualification criteria, were accounted for on the same basis as the underlying item being hedged.

Derivatives that were previously classified as hedging derivatives but do not qualify as such under IAS 39 have had their carrying values restated and reclassified to Trading assets or Trading liabilities. Embedded derivatives that

now qualify for separation under IAS 39 have had their carrying values restated and reclassified to Trading assets or Trading liabilities. Hedging derivatives that qualify as hedging derivatives under IAS 39 have had their carrying values (accrual basis) restated and reclassified to Other assets or Other liabilities.

As IAS 39 has been adopted by the Group prospectively, comparative financial information has not been restated. However, certain reclassifications of accounting balances have been effected to facilitate comparability to the extent possible of the periods presented in these financial statements. Where valuation policies differ in the periods presented, the differences have been indicated in the notes to the financial statements. A full explanation of the accounting and valuation policies used by the Group in 2000 can be found in note 1 of the Group's 2000 financial statements. Accordingly, all of the remaining accounting policies of the Group set out below reflect the adoption of IAS 39.

c) Consolidation

Consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries) and all companies jointly controlled by the Bank (joint ventures), other than those excluded because control or joint control is assumed to be temporary or because they are immaterial, in aggregate, to the Group. Subsidiaries and joint ventures excluded from consolidation are treated as available-for-sale securities and recorded at fair value.

Control over a subsidiary company is presumed to exist when one of the following circumstances exists:
- more than one-half of the subsidiary company's voting power is controlled by the Bank;
- the Bank is able to govern the financial and operating policies of the subsidiary company;
- the Bank can control the removal or appointment of a majority of the subsidiary company's Board of Directors.

Joint control exists when two or more venturers are bound by a contractual arrangement, which includes the establishment of joint control.

Subsidiary companies included in the Group consolidation are fully consolidated, which includes the elimination of all significant inter-group balances and transactions and a separate disclosure for minority interests. Joint ventures included in the Group consolidation are proportionally consolidated, which requires a venturer's share of the assets, liabilities, incomes and expenses in the joint venture to be combined with those of the venturer on a line-by-line basis.

d) Fair valuation

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Financial instruments that are traded with sufficient liquidity on recognised markets are fair valued using quoted market prices. For financial instruments that are not traded with sufficient liquidity on recognised markets or not traded on any recognised market, their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate and estimates of future cash flows. Accordingly, the fair values presented may not be realised in an immediate settlement of the instrument.

e) Recognition and derecognition of financial instruments

Financial assets and liabilities are recognised on the balance sheet when the Group becomes party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the balance sheet when the Group loses control of the contractual rights that comprise that asset (or a portion of that asset). A financial liability is derecognised from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets, defined in b)(i), the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the balance sheet on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For trading and available-for-sale financial assets, fair value movements between "trade date" and "settlement" date in connection with purchases and sales are recognised in Net trading income and Gains/losses not recognised in the income statement, respectively. On settlement date, a resulting financial asset or liability is recognised in the balance sheet at the fair value of the consideration given or received.

f) Foreign currency translation

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at official rates of exchange effective on the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the statement of income.

Statements of income of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the year-end exchange rates. Exchange differences arising from retranslating the net investments in the foreign subsidiaries and exchange differences arising from retranslating the annual results of foreign entities from the average rate to the exchange rate ruling at year-end are accounted for, after-tax, in Cumulative gains/(losses) not recognised in the income statement. Other exchange differences are recognised in the statement of income.

g) Securities repurchase and reverse repurchase transactions

Securities repurchase and reverse repurchase transactions are treated as collateralised financing transactions. Securities sold under a commitment to repurchase at a predetermined price (repos) remain on the balance sheet and a trading or non-trading borrowing is recorded equal to the amount of consideration received. Conversely, securities purchased under a commitment to resell (reverse repos) are not recorded on the balance sheet and the amount of consideration paid is treated as a trading or non-trading loan. It is the Group's policy to take possession of securities purchased under reverse repo transactions.

h) Trading activities, including trading derivative financial instruments

Trading activities comprise trading positions held in trading assets, liabilities and derivatives in order to generate a profit from short-term fluctuations in price or margin. Financial assets and liabilities used in the Group's trading activities are recorded in Trading assets and Trading liabilities and carried at fair value with changes in fair value recorded in Net trading income. Interest income and expense arising from trading assets and liabilities are recorded separately in Net interest income.

Certain term deposits are placed with and taken from banks in connection with activities that are similar to trading; therefore, they are presented together with Trading assets and Trading liabilities, respectively. As these positions are generally short-term in nature, there is no material difference between their fair value and amortised cost.

i) Securities

Securities are classified based on management's intention at inception. Debt securities that Group management has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortised cost. Amortised cost is the initial measurement amount less principal repayments, plus or minus the cumulative amortisation to interest of any difference between the initial amount recognised and the maturity amount, and minus any write-down for impairment. Declines in the fair value of held-to-maturity securities below their cost that are deemed to be other than temporary (impairment losses) are recorded as realised losses in Other expenses.

Securities that are bought and held principally for the purpose of resale in the near term are classified as trading instruments and are stated at fair value with net unrealised gains and losses included in Net trading income.

All other securities are classified as available-for-sale and carried at fair value with net unrealised gains and losses included in Cumulative gains/(losses) not recognised in the income statement on an after-tax basis. Interest income arising from available-for-sale assets is recorded separately in Net interest income. Dividends received from equity shares are recorded in Other income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in Cumulative gains/(losses) not recognised in the income statement is reversed and included in Other income or Other expense. An impairment loss on an available-for-sale security is recognised by first reversing the cumulative impairment loss previously recognised in Cumulative gains/(losses) not recognised in the income statement and then charging the entire loss amount to Other expense.

j) Loans and leases

Loans are carried at amortised cost adjusted for unamortised deferred origination fees less allowance for credit losses. Interest income accrues on the unpaid principal balance. Loan origination fees are deferred and recognised as adjustments to income over the lives of the related loans.

Finance leases are carried at the aggregate level of lease payments receivable plus estimated residual value of the leased property, less unearned income. Unearned income is amortised over the lease terms using methods that approximate the effective interest rate.

Generally, loans are placed on non-accrual status when they become 90 days overdue as to principal or interest including loans that are individually identified as being impaired (see Note 2h)). At that point, all accrued and unpaid interest is reversed and any subsequent payments are accounted for on the cash-basis until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

k) Allowance for credit losses

The Allowance for credit losses is available to absorb Group management's estimate of probable incurred losses in the loan portfolio. Additions to the Allowance for loan losses are made by charges to Provisions for credit losses. Loans deemed to be uncollectible are charged, or written off, against the Allowance for credit losses. Recoveries of previously written off amounts are credited to the allowance for credit losses.

On a regular basis Group management evaluates the level of credit losses based on the collectibility of credit exposures in light of historical experience, the nature and volume of the credit portfolios, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the respective agreement. Group management uses financial and non-financial criteria, in addition to number of days in arrears, to determine whether a loan is impaired.

Once a loan has been identified as individually impaired, management measures the impaired loan as the present value of payments expected to be received discounted at the loan's effective interest rate or, for loans that are solely dependent on collateral for repayment, the estimated fair value of collateral. If the recorded investment in the impaired loan exceeds the measure of estimated fair value, a valuation allowance is raised for the excess to carry the loan at its estimated recoverable amount.

The Group also raises credit loss provisions for losses contained in the loan portfolio that have not yet been specifically identified but are expected based upon historical experience and the judgement of Group management.

Probable incurred credit losses in the off-balance sheet credit portfolios are recognised as Provisions for guarantees and undrawn credit lines in Other liabilities and additions are charged to Provisions for credit losses.

l) Property and equipment

Property and equipment includes bank occupied properties, investment properties, software, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and periodically reviewed for permanent impairment in value.

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

Buildings	30 years
Furniture	6 years
Equipment	4–12 years

m) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company at the date of acquisition. Goodwill is deferred and amortised on a straight-line basis over 10 years to Other expense.

The calculation of goodwill requires Bank management to make estimates in connection with the fair valuation of the identifiable assets and liabilities acquired. Subsequent information, obtained by the end of the first annual accounting period commencing after acquisition, that provides better evidence as to the fair value of the identifiable assets and liabilities will be used to adjust the carrying value of the particular identifiable assets and liabilities acquired. Against that, goodwill is adjusted with changes to its amortisation reflected prospectively over its remaining useful life.

Required additional acquisition compensation payments that become probable and reliably estimable are charged to goodwill with future amortisation adjusted accordingly.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary company over its cost of acquisition at the date of acquisition. Negative goodwill arising from 1 January 2000 that exceeds reliably measurable future losses and expenses of an acquired entity (not reflected in its identifiable assets and liabilities) and the fair values of its non-monetary assets are recognised in the income statement immediately. Negative goodwill arising before 1 January 2000 is included in Goodwill and amortised through Other income over five years on a straight-line basis.

n) State assistance granted in connection with the acquisition of Investiční a Poštovní banka, a.s. (IPB)

State assistance granted in connection with the rescue acquisition of IPB is recognised to the extent that receipt is probable and the amount is reasonably estimable. The fair value of such assistance is recognised as an identifiable asset on acquisition.

When the receipt and amount of state financial assistance becomes probable and reasonably estimable, its fair value is recorded as a reduction of goodwill before the end of the first annual accounting period commencing after acquisition. Accordingly, goodwill amortisation is adjusted prospectively over its remaining useful life.

State assistance has also been issued by the Czech state in the form of embedded derivative financial instruments in connection with the IPB acquisition. These derivatives generally provide two types of financial assistance on unwanted IPB assets: 1) fair value assistance on the date of acquisition and 2) revenue assistance after the date of acquisition. Derivative revaluation gains, providing fair value assistance, are recognised in the carrying values of the particular assets hedged at the date of acquisition. Such revalued assets are recorded in Rescue acquisition state

assistance receivable. Derivative gains providing revenue assistance are recognised in income. Income which is equivalent to the return on Czech sovereign debt is recorded under Interest income whilst income in excess of that return for managing the assets on behalf of the Czech state whilst in the possession of ČSOB is presented as Commission income.

■ Other financial assistance income is accrued and recognised in the period in which it is earned.

■ Loss reimbursement state assistance under an indemnification agreement is recognised as a receivable at the point the respective loss provision is raised, when the losses are considered probable and the amounts estimable. As indemnity claims cannot be brought until losses are realised, no interest accrues on the state assistance recognised and the loss provision is not discounted.

■ Prior period financial statement impacts from changes in the state assistance recognised are included in the current period.

o) Income taxes

■ There are two components of income tax expense: current and deferred. Current income tax expense approximates cash to be paid or refunded for taxes for the appropriate period. Deferred tax assets and liabilities are recognised due to differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements. Deferred tax expense or benefit is recognised for the change in deferred tax liabilities and assets between periods.

■ All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are netted only within the individual Group companies.

■ The Group records a net deferred tax asset under Other assets, including tax assets and a net deferred tax liability under Other liabilities, including tax liabilities.

p) Due to banks, Due to customers and Debt securities in issue (Funding)

■ Funding is recognised initially as the fair value of the consideration received and then carried subsequently at amortised cost. Interest on such funding is recognized using the effective yield method.

q) Derivative financial instruments

■ All derivatives are recognised in the balance sheet at fair value. The Group designates a derivative as held for trading or hedging purposes when it enters into a derivative contract. Derivatives designated as held for trading activities are included in the Group's trading portfolio with changes in fair value reflected in Net trading income.

■ The Group uses derivatives designated for hedging purposes solely as cash flow hedges to manage the Group's interest rate sensitivity. Cash flow hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations. A derivative qualifies for hedging if its relationship with the risk being hedged is considered highly effective, one in which the Group achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being

hedged. If the hedging relationship is no longer considered to be highly effective, hedge accounting is discontinued and the hedging derivative is reclassified as a trading instrument.

- Cash flow hedge derivatives are carried in the balance sheet at fair value and classified as Other assets or Other liabilities if they have a positive or negative value, respectively. The effective portion of the change in fair value of a cash flow hedging derivative is recorded in Cumulative gains/(losses) not recognised in the income statement. The ineffective portion (the amount by which the fair value change of a cash flow hedging derivative exceeds the fair value change of the hedged item) and gains or losses on the excluded component of a derivative in assessing hedge effectiveness are recorded directly in Other income or Other expense. Amounts in Cumulative gains/(losses) not recognised in the income statement are reclassified into earnings in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated, the hedge designation removed or if the anticipated transaction is no longer expected to occur, related remaining amounts in Cumulative gains/(losses) not recognised in the income statement are reclassified into earnings in the same period during which the hedged item affects income.

- The Group occasionally purchases or issues financial instruments containing embedded derivatives. The embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not clearly and closely related to the economic characteristics of the host contract. If the separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Group cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value on the balance sheet with changes in fair value reflected in earnings.

r) Employee retirement benefits

- Pensions are provided by the Czech Republic and Slovak Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

- Certain Group companies contribute to a defined contribution retirement benefit scheme for participating Czech Republic employees, which is in addition to the employer social security contributions required by the Czech Republic. Contributions are charged to the statement of income as they are made.

s) Treasury shares

- Own shares of the Group held at the balance sheet date are designated as Treasury shares. Treasury shares are recorded at cost and deducted from the Group's equity. Gains and losses on sales of treasury shares are credited and charged to Share premium account net of taxation and related costs.

t) Offsetting

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

u) Cash and cash equivalents

- For the purposes of the cash flow statement, cash and cash equivalents comprise balances with

less than 3 months maturity from the date of acquisition including: cash and balances with central banks, trading assets, debt securities, loans and leases (only originated treasury bills), due from banks (demand) and due to banks (demand).

v) Recently issued accounting pronouncements

- IAS 39 has been subject to continuous revision and interpretation by the IASB; accordingly, the effect on the Group's future financial statements as a result of these possible future changes cannot be predicted.

3. Net Interest Income

(CZKm)	2001	2000
Interest income		
Mandatory minimum reserves with central banks	186	30
Due from banks	5,391	5,315
Trading assets	2,851	2,484
Debt securities	2,240	1,518
Loans and leases	14,229	12,747
Rescue acquisition state assistance receivable (Note 13)	8,237	5,307
	33,134	**27,401**
Interest expense		
Due to banks	1,640	1,856
Trading liabilities	1,293	1,133
Due to customers	13,961	10,537
Debt securities in issue	2,298	2,399
Rescue acquisition NAV surplus payable (Note 13)	522	–
Borrowing cost amortisation on other provisions (Note 24)	336	137
	20,050	**16,062**
Net interest income	**13,084**	**11,339**

4. Net Fee and Commission Income

(CZKm)	2001	2000
Commission income	7,116	4,474
Commission expense	(2,289)	(1,181)
State financial assistance for managing the unwanted IPB assets (Note 13)	1,100	600
	5,927	**3,893**

5. Other Income

(CZKm)	2001	2000
Negative goodwill amortisation (Note 17)	304	372
Net gains from derecognition of available-for-sale financial assets	2	–
Other	1,206	689
Non-banking service revenues	–	1,298
	1,512	**2,359**

6. Personnel Expenses

(CZKm)	2001	2000
Salaries and bonuses	3,963	3,130
Social security costs	1,329	1,086
Other pension costs, including retirement benefits	110	39
	5,402	**4,255**

■ During 2001, the Bank changed its compensation policy to convert a portion of the employees' current salary to a performance-related bonus that is linked to objectives set in the previous year. The effect of this was a one-off catch-up charge of CZK 425m in 2001 to Salaries and bonuses for performance relating to 2000.

■ The time-weighted average number (in full-time equivalents) of Group personnel and Executive Board members during 2001 was 9,748 (2000: 9,109). The number (in full-time equivalents) of Group personnel and Executive and Supervisory Board members as at 31 December 2001 was 9,759 (31 December 2000: 12,834, of which 2,399 were from Podnik výpočetní techniky, a.s., which was deconsolidated in 2001).

Retirement benefits

■ The Bank provides its Czech Republic employees with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries to a pension fund to which the Bank contributes 3% or 4% of their salaries, respectively. As an alternative, the Bank provided its employees who contributed 1% or 1.5% of their salaries to the Českomoravský penzijní fond, a.s. (ČMPF) a company controlled by ČSOB, or the ČSOB pension fund, a wholly-owned subsidiary of ČSOB, with a contribution of 2% or 2.5%, respectively.

7. Other General Administrative Expenses

(CZKm)	2001	2000
Rent and maintenance	992	760
Telecommunications and postage	965	723
Information technology	858	650
Marketing and public relations	801	581
Fees to Česká Pošta	714	358
Professional fees	574	364
Administration	539	495
Travel and transportation	138	133
Other	809	992
	6,390	**5,056**

8. Other Expenses

(CZKm)	2001	2000
Deposit insurance	1,055	1,048
Property impairment charge (Note 16)	232	–
Amortisation of goodwill (Note 17)	208	59
Other	807	184
	2,302	**1,291**

9. Cash and Balances with Central Banks

(CZKm)	31. 12. 2001	31. 12. 2000
Cash on hand	9,708	8,588
Balances with central banks	10,440	8,783
Other cash values	1,552	1,587
	21,700	**18,958**
Balances with central banks include:		
Mandatory minimum reserves with central banks – interest earning	8,967	1,866
Mandatory minimum reserves with central banks – non-interest earning	–	6,319

From 12 July 2001, the Czech National Bank (CNB) has paid interest on mandatory minimum reserve balances based on the official CNB two-week Repo rate. The National Bank of Slovakia has paid interest on mandatory minimum reserve balances since 1999 at 1.5%.

10. Due from Banks

(CZKm)	31. 12. 2001	31. 12. 2000
Analysed by product and bank domicile:		
Current accounts		
domestic	94	411
foreign	862	1,257
Term placements		
domestic	8,106	7,392
foreign	54,888	4,362
Loans		
domestic	36,876	42,749
foreign	16,497	15,221
	117,323	**71,392**
Allowance for credit losses (Note 15)	(129)	(250)
Net due from banks	**117,194**	**71,142**
Analysed by internal classification:		
Standard	116,228	71,100
Watch	908	–
Sub-standard	–	–
Doubtful	101	164
Loss	86	128
	117,323	**71,392**

Financial assets were accepted as collateral from a related party as at 31 December 2001 and 2000 (Note 37).

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2001 was CZK 30,601m, none of which has been sold or repledged (31 December 2000: CZK 43,742m and CZK Nil respectively). Under reverse repo transactions, the Group maintains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

11. Trading Activities

Trading-related net income

Trading-related net income represents the net amount earned from the Group's trading positions from both non-derivative and derivative activities. These transactions include positions to meet customer demand as well as for the Group's own trading account.

Net trading income, as reported in the Consolidated Statement of Income, does not include net interest recognised on interest-earning and interest-bearing trading positions.

Net trading income and trading-related net interest income ("trading-related net income") are set out in the table below to provide a fuller presentation of the Group's trading income.

Net foreign exchange gains include results arising from both customer and trading activities in foreign exchange cash, spot, forward, swap and option operations.

(CZKm)	2001	2000
Net trading income – as reported	2,767	613
Net interest income (Note 3)	1,558	1,351
Total trading-related net income	**4,325**	**1,964**
Foreign exchange	2,666	3,027
Fixed-income securities and money market	1,526	1,251
Interest rate contracts	(3)	(2,410)
Equity shares	136	96
Total trading-related net income	**4,325**	**1,964**

On 11 December 2000, large unauthorised and unrecorded short forward derivative positions in certain foreign government bonds at ČSOB were discovered and closed immediately. The resulting losses from these derivative trading operations totalled CZK 2,443m (CZK 1,686m after-tax).

Trading Assets and Liabilities

The fair value of the components of the Group's trading assets and liabilities as at 31 December 2001 and 2000 were:

	Fair value	
(CZKm)	31. 12. 2001	31. 12. 2000
Trading assets		
Treasury bills	–	6,915
Reverse repo transactions	8,017	–
Debt securities	4,221	4,725
Equity shares	1,589	643
Derivative contracts (Note 28)	2,169	1,958
Term deposits placed with Banks	33,932	40,162
	49,928	**54,403**
Trading liabilities		
Securities sold, not yet purchased	241	–
Repo transactions	1,861	–
Derivative contracts (Note 28)	2,871	2,615
Term deposits taken from Banks	21,483	14,791
	26,456	**17,406**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2001 was CZK 3,538m, of which CZK 3,438m has been either sold or repledged (31 December 2000: CZK Nil and CZK Nil respectively). Under reverse repo transactions, the Group maintains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

The carrying value of trading assets pledged as collateral to secure borrowed funds in connection with trading repo transactions as at 31 December 2001 was CZK 3,235m (31 December 2000: CZK Nil).

See Note 28 for additional information on trading derivative contracts, including credit risk.

12. Securities

The carrying values of the available-for-sale and held-to-maturity security portfolios as at 31 December 2001 and 2000 were:

(CZKm)	31. 12. 2001	31. 12. 2000
Securities available-for-sale		
Debt securities – at fair value (2000: at amortised cost)	13,300	4,885
Equity securities – at fair value (2000: at cost)	1,839	3,037
Provision for impairment	–	(353)
Total available-for-sale portfolio	**15,139**	**7,569**
Securities held-to-maturity		
Treasury bills	3,139	1,831
Debt securities – at amortised cost	25,296	17,398
Total held-to-maturity portfolio	**28,435**	**19,229**
Total securities	**43,574**	**26,798**

The carrying value of the Group's securities pledged as collateral to secure borrowed funds in connection with non-trading repurchase transactions as at 31 December 2001 was CZK 4,521m (31 December 2000: CZK Nil).

Schedule of Activity in Investment Securities

(CZKm)	2001			2000
	Available-for-sale	Held-to-maturity	Total	Total
At 1 January	7,569	19,229	26,798	2,910
Fair value adjustment on adoption of IAS 39	1	–	1	–
Exchange adjustments	(120)	(1)	(121)	12
Purchases	20,367	21,516	41,883	18,157
Movements in IPB securities retained (Note 13)	(15)	138	123	12,953
Disposals (sales or redemption)	(12,562)	(12,257)	(24,819)	(6,736)
Change in consolidation scope	(414)	–	(414)	(788)
Transfer to trading portfolio	–	–	–	(743)
Transfer from trading portfolio	–	–	–	1,055
Amortisation of discounts and premiums	–	(193)	(193)	(5)
Gains from changes in fair value	313	–	313	–
Other	–	3	3	43
Provision for impairment losses	–	–	–	(60)
At 31 December	**15,139**	**28,435**	**43,574**	**26,798**

13. Rescue Acquisition of IPB

Introduction

IPB was placed under forced administration on 16 June 2000 by the Czech National Bank (CNB) to protect IPB's depositors and preserve the stability of the Czech banking sector. At 7am on 19 June 2000 ČSOB purchased the net assets of IPB, from IPB's forced administrator, in a state-assisted bank rescue acquisition. Simultaneously, the Ministry of Finance of the Czech Republic (CMoF) and the Czech National Bank (CNB) granted ČSOB state financial assistance in connection with the rescue acquisition.

Summaries of the four main agreements executed in connection with the rescue acquisition that day follow:

- **Purchase Agreement.** Executed between IPB's forced administrator and ČSOB, this agreement transferred IPB's assets and liabilities (IPB enterprise) to ČSOB. The final level of purchase consideration will be determined after the completion of a special-purpose valuation of the IPB enterprise.

- **Agreement and State Guarantee.** Executed between the CMoF and ČSOB, this agreement (CMoF Agreement) guarantees that ČSOB will be compensated for any shortfall in IPB's net assets through various mechanisms. One of the mechanisms is a specific asset swaption, discussed further below. Another is a guarantee to fund any IPB net assets shortfall (as defined in the CMoF Agreement) after considering the valuation effect of the specific asset swaptions.

- **Agreement and Indemnity.** Executed between the CNB and ČSOB, this agreement (CNB Agreement) sets out the indemnities granted by the CNB to reimburse ČSOB for losses and damages it may incur arising from contingencies and commitments in connection with the purchase of the IPB enterprise.

- **Compensation for State Guarantee.** Executed between the CMoF and ČSOB, this agreement sets out a level of net compensation ČSOB is to pay for the state guarantee issued through the CMoF Agreement. The net compensation is based upon the risk-weighting of IPB's assets ČSOB intends to retain in its portfolio.

Restructuring Plan, CMoF Agreement Amendment and Financing Framework Agreement

The CMoF agreement required Konsolidační banka, s.p.ú. (KoB) and ČSOB to agree on a restructuring plan to set out more comprehensively the CMoF's state assistance and an asset restructuring programme. Accordingly, on 31 August 2001 the following agreements and amendment were executed:

- **Agreement on Restructuring Plan.** Executed between ČSOB and KoB, this agreement (Restructuring Plan) segregates the assets and liabilities of IPB (collectively "items") into the following three categories as at 31 August 2001:

  White: items ČSOB intends to retain with all the related risks and returns. This category also includes assets that were already transferred to KoB, by 31 August 2001, and compensation received.

  Black: unwanted assets and contingent liabilities (ie, potential future assets arising from the satisfaction of credit obligations) ČSOB intends to transfer to KoB. The Restructuring

Plan sets out a framework for the transfer of such assets and future assets by type.

Other: assets and contingent liabilities on which it has not yet been decided whether they should be retained or transferred to KoB. ČSOB has until 18 June 2002 to determine whether the assets and contingent liabilities are unwanted, and then to exercise put options on them, or whether they should be retained. Conversely, KoB may, until 18 June 2002, exercise its call option on most of the Other assets and contingent liabilities.

– **Amendment to the Agreement and State Guarantee.** Executed between the CMoF and ČSOB, this amendment (CMoF Agreement Amendment) contains changes to align the CMoF Agreement with the Restructuring Plan and updates the process and deadlines for auditing IPB's net asset shortfall or surplus.

– **Financing Framework Agreement.** Executed between ČSOB and KoB, this agreement establishes a CZK 100bn committed credit line to KoB for financing IPB asset transfers to KoB. As at 31 December 2001, there has been no drawing under this financing commitment.

On 1 September 2001, KoB was legally succeeded by Česká konsolidační agentura (ČKA). Therefore, all of the rights and obligations of KoB contained in the above contractual agreements have been transferred legally to and assumed by ČKA.

Special-purpose valuation of the IPB enterprise

The final amount of purchase consideration for the IPB enterprise is contingent upon the value of the IPB enterprise as at 18 June 2000, the day before ČSOB purchased IPB and before any state financial assistance was granted to ČSOB in connection with the purchase. The investment banks hired by ČSOB and IP Banka (successor of IPB, in forced administration), respectively, could not agree on a value, which triggered the appointment of a third valuer to arbitrate. Although the valuation work of the third valuer is near completion, the valuation results are not yet known as at the reporting date of these financial statements. However, management believes that based on its own estimate of the value of the IPB enterprise as at 18 June 2000 no additional purchase consideration will result and, therefore, none has been accrued as at 31 December 2001.

State Assistance – Specific Asset Swaption

Pursuant to the CMoF Agreement, as amended, and the Restructuring Plan, ČSOB has been granted an option to put any IPB asset to ČKA by 18 June 2002. On put option exercise, ČKA receives from ČSOB the IPB asset in exchange for cash or a security in an amount comprising the originally-recorded 19 June 2000 net book value of the IPB asset transferred and interest on that amount based on an appropriate three-month interbank offer rate (for the particular currency) plus 90 basis points accruing from 19 June 2000 until option exercise or transfer date. Further, net cash flows received/paid by ČSOB on the asset from 19 June 2000 to option exercise or transfer date are paid to/received from ČKA including interest. This embedded derivative is an option to swap an identified IPB asset for cash or a financial asset from ČKA (specific asset put swaption) which is, in substance, a state financial assistance mechanism granted to ČSOB in connection with its purchase of IPB's net assets. A similar regime exists for future assets arising from the settlement of contingent credit-based obligations.

Pursuant to the Restructuring Plan ČSOB has, conversely, granted ČKA the option to call from

ČSOB the majority of the Other assets under the same terms and conditions as ČSOB's specific asset put swaption (specific asset call swaption).

ČSOB's and ČKA's rights to exercise their respective specific asset swaptions expire on 18 June 2002.

Valuation of the Specific Asset Swaptions

ČSOB's Board of Directors passed a resolution on 16 January 2002 confirming the division of IPB's assets and liabilities as at 19 June 2000 into those the Bank will retain, those it has already transferred to KoB/ČKA and those on which it intends to exercise the specific asset put swaptions.

To recognise state financial assistance on the remaining unwanted assets as at 31 December 2001, ČSOB has valued the respective specific asset put swaptions on those unwanted assets which has resulted in the following financial statement effects:

- Recognition of a synthetic receivable from ČKA with a notional value equal to the 19 June 2000 originally-recorded net book value of the remaining unwanted IPB assets at the balance sheet date but with Czech sovereign risk. For assets arising from the settlement of contingent credit-based obligations, the net book value of the settlement paid comprises the notional value.

- Derecognition of the corresponding unwanted IPB assets as at 19 June 2000, or on settlement date in the case of a subsequently-settled contingent credit-based obligation.

- Income accrues on the recognised synthetic receivable at the respective three-month interbank offer rate plus 90 basis points. This income is further decomposed into interest income and commission fee for managing the unwanted IPB assets until their actual transfer to ČKA (Note 2n).

Cash inflows from 19 June 2000 on the remaining unwanted IPB assets are added to the synthetic receivable from ČKA and outflows are deducted. Interest accrues individually on each subsequent cash flow using the respective three-month interbank offer rate plus 90 basis points.

The above financial statement effects reflect the intrinsic value of the embedded specific asset swaptions as at 31 December 2001.

IPB Assets and Liabilities which ČSOB Intends to Retain

On the individual IPB assets and liabilities ČSOB has retained in its portfolio, all respective risks and rewards have been recognised from 19 June 2000. No specific state financial assistance has been provided or recognised on the individual IPB assets ČSOB will retain in its portfolio.

State Assistance – Compensation for IPB Net Assets Shortfall/Surplus

Should the net assets of IPB at 19 June 2000 be negative (after considering the valuation effects on the unwanted IPB assets from specific asset put swaption valuation) ČSOB is entitled, pursuant to the CMoF Amendment, as amended, to receive compensation from the Czech Republic for the amount of the net assets shortfall. Should the net assets of IPB at 19 June 2000 be positive, however, ČSOB is obliged, pursuant to the CMoF Agreement, as amended, to pay compensation to the Czech Republic for the amount of the net asset surplus. Interest accrues on either the receivable or payable balance at the three-month Prague interbank offer rate plus 90 basis points.

The amount of IPB's net assets will be set out, according to the CMoF Agreement, as amended, in the IPB Net Asset Value Statement as at 19 June 2000 (NAV Statement). This NAV Statement will be prepared by ČSOB by 19 August 2002 based on the valuation principles contained in the CMoF Agreement, as amended. The NAV Statement will be presented to two independent audit companies (one appointed by ČSOB and the other by CMoF) to carry out the audits of IPB's net assets as at 19 June 2000. The auditors are expected to issue their audit opinions by 19 November 2002.

The IPB net assets, as estimated by ČSOB management pursuant to the CMoF Agreement amounted to a positive CZK 6,282m as at 19 June 2000. Accordingly, ČSOB has recognized a payable to the CMoF in the amount of CZK 6,804m (including accrued interest of CZK 522m).

State Assistance – CNB Indemnity

The CNB Agreement indemnities ČSOB for losses and damages in connection with the purchase of IPB. These losses and damages represent estimated litigation and other losses of former IPB. As at 31 December 2000, the Compensation for Net Assets Shortfall state assistance was used to cover the estimated losses of CZK 8,165m. However, in 2001 it was decided that such losses should fall under the CNB Indemnity state assistance. Accordingly, in 2001, a CNB indemnity receivable of CZK 8,165m was recognised and a reversal of the NAV shortfall receivable in the same amount was recognised thus resulting in a payable balance as described in the previous paragraph.

The movements in each of the state-assistance rescue acquisition balances during 2001 are set out as follows:

		2001	
(CZKm)	Specific asset swaption receivable	NAV shortfall/ (surplus) receivable/ (payable)	CNB indemnity receivable
At 1 January	**168,942**	**3,982**	**–**
Assets transferred to KoB/ČKA	(26,032)	–	–
Change in principal from net cash flow receipts on unwanted items	(9,252)	–	–
Transfer litigation and other loss coverage from NAV shortfall to CNB indemnity	–	(8,165)	8,165
Interest income accrued and recognised	8,369	(132)	–
Interest expense accrued and recognised	–	(522)	–
Commission accrued and recognised	1,100	–	–
Additional losses recognised	–	–	3,771
Reimbursement of damages claimed	–	–	(479)
Other movements	3,695	(1,967)	–
At 31 December	**146,822**	**(6,804)**	**11,457**
of which:			
Principal	133,880	(6,282)	11,457
Accrued interest receivable/(payable)	11,325	(522)	–
Accrued commission receivable	1,616	–	–

The decision to retain certain individual net assets of IPB acquired by ČSOB as at 19 June 2000 in the 2000 financial statements was based on management's intention as at the date of those financial statements, and the estimated fair values of the individual IPB net assets to be retained by ČSOB were based upon the best information available at that time. Because of certain subsequent events and information, management has decided to reclassify some of those individual IPB net assets as "unwanted" which requires retrospective derecognition from 19 June 2000. Conversely, management has decided subsequently to "retain" certain other individual IPB net assets that were previously classified as "unwanted" which requires retrospective recognition from 19 June 2000. Further, the original 19 June 2000 fair values of certain individual IPB net assets classified as "retain" were changed in 2001 as a result of subsequent information and events. A summary of the above-mentioned movements in the fair value of the IPB net assets retained by ČSOB as at 19 June 2000 is set out below according to their respective balance sheet captions.

Movements in the IPB net assets retained by ČSOB as at 19 June 2000

(CZKm)	19 June 2000
Cash and balances with central banks	(12)
Due from banks	(429)
Trading assets	118
Securities (Note 12)	123
Loans and leases	8,679
Property and equipment (Note 16)	(1,251)
Other assets	283
Due to banks	14
Due to customers	(100)
Other liabilities	897
Movements in IPB provisions retained (Note 15)	812
Other provisions (Note 24)	(2,984)
Other	54
Movements in the IPB net assets retained by ČSOB	**6,204**
Movements in State assistance balances	**(7,114)**
Change in fair value of IPB net assets acquired	**(910)**

Goodwill

IPB goodwill movements from rescue acquisition activity in 2001 are summarised as follows:

(CZKm)		2001
At 1 January		1,000
Purchase consideration adjustments	(199)	
Additional costs directly attributable to the acquisition	279	
Add: Change in fair value of IPB net assets acquired	910	
Net changes in IPB goodwill (gross) (Note 17)		**990**
Amortisation		(208)
31 December		**1,782**

14. Loans and Leases

(CZKm)	31. 12. 2001	31. 12. 2000
Analysed by category of borrower:		
Czech Ministry of Finance (see Slovenská inkasná note below)	20,223	–
Slovenská inkasná (see Slovenská inkasná note below)	–	20,525
Česká inkasní	4,695	8,179
Government bodies	41,932	19,480
Industrial companies	35,951	33,472
Other service companies	28,012	28,316
Retail customers	21,707	23,580
Trade companies	18,665	17,331
Finance lease customers	14,670	11,200
Other	8,169	17,209
Gross loans and leases	194,024	179,292
Allowance for credit losses (Note 15)	(12,548)	(14,791)
Net loans and leases	**181,476**	**164,501**

Finance lease receivables may be analysed as follows:

Not later than 1 year	8,039	6,478
Later than 1 year and not later than 5 years	9,370	7,425
Gross investment in finance leases	**17,409**	**13,903**
Unearned future finance income on finance leases	(2,739)	(2,703)
Net investment in finance leases	**14,670**	**11,200**

The net investment in finance leases may be analysed as follows:

Not later than 1 year	6,410	4,859
Later than 1 year and not later than 5 years	8,260	6,341
Net investment in finance leases	**14,670**	**11,200**

■ The allowance for uncollectable finance lease receivables included in the provision for credit losses amounted to CZK 507m at 31 December 2001 (31 December 2000: CZK 305m).

■ The recorded (gross) investment in impaired loans and leases was CZK 36,572m at 31 December 2001 (31 December 2000: CZK 40,886m). The Group's current management reporting systems do not yet enable the extraction of interest recognised on impaired loans and leases without suffering undue expense and effort; accordingly, this information has not been disclosed for 2001 and 2000.

■ Gross non-accrual loans and leases amounted to CZK 7,368m at 31 December 2001 (31 December 2000: 11,270m).

Analysed by internal classification:

Gross loan exposures, estimated net realisable collateral values and net loan exposures (excluding allowance for credit losses) according to the Group's internal credit risk classification system are as follows:

	31. 12. 2001			31. 12. 2000		
(CZKm)	Gross loan exposure	Collateral value	Net loan exposure	Gross loan exposure	Collateral value	Net loan exposure
Standard	157,451	60,738	96,713	138,406	75,127	63,279
Watch	14,693	9,237	5,455	18,932	12,780	6,152
Sub-standard	8,060	2,506	5,554	7,410	5,031	2,379
Doubtful	8,013	805	7,208	9,381	1,466	7,915
Loss	5,807	1,244	4,563	5,163	587	4,576
	194,024	**74,531**	**119,493**	**179,292**	**94,991**	**84,301**

1993 restructuring

In 1993, the Bank's assets and capital were restructured by the governments of the Czech Republic and the Slovak Republic. As part of this restructuring, the Ministries of Finance of the Czech Republic and the Slovak Republic created separate collection companies (Česká inkasní and Slovenská inkasná, respectively) which assumed certain loans and off-balance sheet obligations of identified non-performing customers. Repayment of collection company loans is scheduled through to the year 2003. The Ministries of Finance agreed to fully support their respective collection companies; however, the Slovak Ministry of Finance has not provided financial support to Slovenská inkasná (hereinafter SI), as described below.

SI

Background

Pursuant to the Agreement on Basic Principles of Financial Consolidation of ČSOB (Consolidation Agreement), on 31 December 1993 the Bank assigned and transferred to Slovenská inkasná, s.r.o., a wholly-owned subsidiary of the Slovak Ministry of Finance (SMoF), certain non-performing customer credit receivables in the Slovak Republic that had arisen under the previous command economy. In exchange for the receivables so assigned and to finance their purchase the Bank extended credit in the form of loans to SI. Also pursuant to the Consolidation Agreement, the SMoF committed financial support to SI to enable it to satisfy fully its payment obligations to the Bank.

Proceeds from the assigned receivables were not sufficient to cover SI's scheduled payment obligations to the Bank. In addition, the SMoF did not provide any of the financial support to SI that it was contractually obliged to extend under the terms of the Consolidation Agreement. Consequently, SI defaulted on its debt to the Bank. On 10 April 1997 the Bank's Board of Directors decided to exercise its right, under the applicable agreements, to call the entire SI debt immediately due and payable.

Legal proceedings

On 18 April 1997, the Bank filed a request for arbitration under the auspices of the International Centre for Settlement of Investment Disputes (ICSID) in Washington, D.C. of its claim against the Slovak Republic arising from the Slovak Republic's failure to perform under the Consolidation Agreement. The Slovak Republic

objected to ICSID's jurisdiction over the Bank's claims. The ICSID Tribunal rendered its decision on 24 May 1999, ruling that it has jurisdiction over the matter and ordered the parties to proceed to the merits of the Bank's claims. On 15 November 1999, the Bank filed its memorial on the merits, which included a calculation of the damages that it claims. On 21 December 1999, the Slovak Republic raised further and partial objections to the ICSID Tribunal's jurisdiction. On 1 December 2000, the Tribunal unanimously rejected the Slovak Republic's further and partial objections and ordered the parties to continue the proceedings on the merits of the case. The written phase of the proceedings on the merits was completed at the end of February 2002. An oral hearing is expected to be convened in the second half of 2002. A final award on the merits is not expected before the end of 2003. Based on the opinion of legal experts, the Bank believes that its position in the arbitration is very strong and that recovery on the obligation as well as the damage claims is likely.

State coverage

■ In 1997 the Bank's Czech-state shareholders pledged their support in principle to protect the Bank against negative financial or regulatory impacts that may arise from the SI issue. On 14 April 1998 the Czech Government adopted resolution No. 269 specifying the form of its support. In accordance with that resolution the Czech Ministry of Finance (CMoF) agreed, in a contract dated 24 April 1998 (Coverage Agreement), to advance on 31 December 2002, an amount equal to 90% of the outstanding balance of SI's debt to the Bank including interest. As a condition for receiving that support, the Bank is obliged to continue using its best efforts to enforce its rights as creditor of SI and against the Slovak Republic by all means available to it.

■ In view of the legal considerations arising from the SI bankruptcy (see below), a second coverage agreement was executed on 25 June 1998 between the Bank and the CMoF pursuant to which the CMoF agreed to provide support to the Bank as above.

■ An amendment to the Coverage Agreement was concluded on 31 October 2001 (Amendment) with the CMoF including the effect of postponing by two years, to 31 December 2004, the date on which the CMoF will advance state support as above to ČSOB.

SI bankruptcy

■ On 6 May 1998, SI was declared bankrupt by the Bratislava Regional Court (the Bankruptcy petition had been filed pursuant to the Slovak Bankruptcy and Composition Act by SI itself). The Bank, as SI's sole creditor, submitted its outstanding claims to the Court in the total amount of SKK 16,676m (SKK 15,271m and CZK 1,326m). The Bank also petitioned the bankruptcy court to dismiss the bankruptcy proceedings and on 19 September 2001 the Supreme Court of Slovakia affirmed a decision of the Regional Court of Bratislava dismissing the SI bankruptcy proceedings due to the lack of a plurality of creditors required by the Slovak Bankruptcy and Composition Act. The decision took effect on 16 November 2001.

Accounting treatment

■ Due to the clarification provided by the Amendement including the CMoF's agreement to provide support to the Bank in an amount as at 31 October 2001 equal to 90% of the then outstanding SI loan balance, the Bank recognizes its receivable from the CMoF with interest accruing from that date (in accordance with the terms of the Coverage Agreement as amended). As of 31 October 2001 the Bank transferred the SI loan balance off balance sheet where it continues to accrue interest in accordance with the agreed loan terms.

15. Credit Losses

The table below summarises the changes in the Allowance for credit losses and the Provisions for guarantees and undrawn credit lines for 2001 and 2000:

(CZKm)	2001	2000
At 1 January	18,809	20,050
Movements in IPB credit provisions retained (Note 13)	(812)	1,455
Change in consolidation scope	(5)	(146)
Exchange adjustments	(457)	46
Net (credit) charge against profits	(1,367)	(362)
Amounts written off	(1,908)	(2,402)
Recoveries of loans previously written off	363	168
At 31 December	**14,623**	**18,809**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2001 and 2000 are distributed as follows:

(CZKm)	31. 12. 2001	31. 12. 2000
Allowance for credit losses		
Loans and leases (Note 14)	12,548	14,791
Due from banks (Note 10)	129	250
Provisions for guarantees and undrawn credit lines (Note 26)	1,946	3,768
	14,623	**18,809**

16. Property and Equipment

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost				
At 1 January 2001	12,256	8,639	802	21,697
Exchange adjustments	(92)	(50)	(4)	(146)
Change in consolidation scope	58	96	73	227
Movements in IPB assets retained (Note 13)	(1,129)	(1,584)	(104)	(2,817)
Transfers	120	1,046	(1,166)	–
Additions	8	48	2,059	2,115
Disposals	(53)	(378)	(7)	(438)
At 31 December 2001	11,168	7,817	1,653	20,638
Accumulated depreciation				
At 1 January 2001	1,456	5,830	–	7,286
Exchange adjustments	4	176	–	180
Change in consolidation scope	(9)	(33)	–	(42)
Movements in IPB assets retained (Note 13)	(257)	(1,309)	–	(1,566)
Disposals	(19)	(340)	–	(359)
Property impairment charge (Note 8)	232	–	–	232
Charge for the year	342	1,064	–	1,406
At 31 December 2001	1,749	5,388	–	7,137
Net book value				
At 1 January 2001	**10,800**	**2,809**	**802**	**14,411**
At 31 December 2001	**9,419**	**2,429**	**1,653**	**13,501**

17. Goodwill

(CZKm)	Positive	Negative	Net
Net book value			
At 1 January 2001	1,004	(312)	692
Other acquisitions	89	(36)	53
Change in fair value of IPB net assets retained (Note 13)	990	–	990
Amortisation (Notes 5 and 8)	(208)	304	96
31 December 2001	**1,875**	**(44)**	**1,831**
Gross amount acquired	2,142	(1,482)	660
Accumulated amortisation	(267)	1,438	1,171
31 December 2001	**1,875**	**(44)**	**1,831**

18. Other Assets, Including Tax Assets

(CZKm)	31. 12. 2001	31. 12. 2000
Other debtors, net of provisions	1,124	898
Other clearing accounts	1,109	600
VAT and other tax receivables	1,075	1,031
Net deferred tax asset (Note 23)	729	801
Hedging derivative contracts (Note 28)	541	201
Residual value in Prager Handelsbank	522	600
Items in the course of collection	283	809
Other receivables from clients	198	1,047
Current income tax receivable	115	497
Estimated receivables	107	175
Receivables from securities clearing entities	14	1,325
	5,817	**7,984**

19. Due to Banks

(CZKm)	31. 12. 2001	31. 12. 2000
Analysed by product and bank domicile:		
Current accounts		
domestic	477	387
foreign	2,890	1,302
Term deposits		
domestic	1,504	271
foreign	–	452
Borrowings		
domestic	16,328	8,069
foreign	6,615	12,410
Total due to banks	**27,814**	**22,891**

20. Due to Customers

(CZKm)	31. 12. 2001	31. 12. 2000
Analysed by product:		
Current accounts	140,534	109,742
Term deposits	277,209	239,078
Total due to customers	**417,743**	**348,820**
Analysed by customer type:		
Individuals and households	244,585	217,455
Private companies and entrepreneurs	88,521	73,030
Foreign	46,354	27,841
Government bodies	22,516	15,399
Other financial institutions	10,242	6,563
Insurance companies	4,415	6,268
Other	1,110	2,264
Total due to customers	**417,743**	**348,820**

21. Debt Securities in Issue

Issue date	Currency	Maturity date	Effective interest rate	31. 12. 2001 (CZKm)	31. 12. 2000 (CZKm)
Bonds issued:					
May 1996	CZK	May 2001	5.64%	–	5,010
September 1996	CZK	September 2001	11.00%	–	972
December 1996	CZK	December 2001	11.00%	–	542
July 1997	CZK	July 2002	PRIBOR+0.1%	6,000	6,000
March 2000	SKK	March 2003	14.00%	77	80
April 1998	CZK	April 2003	6.54%	6,206	6,222
June 1998	CZK	June 2003	12.00%	675	639
February 1999	CZK	February 2004	8.90%	2,785	3,174
February 1999	CZK	February 2004	6.76%	3,121	3,118
June 1999	CZK	June 2004	8.20%	756	579
May 2000	CZK	May 2005	6.40%	1,738	1,948
December 2000	CZK	December 2005	6.85%	1,318	408
				22,676	**28,692**
Promissory notes				10,633	35,928
Certificates of deposit				1,608	1,575
Total debt securities in issue				**34,917**	**66,195**

22. Other Liabilities, Including Tax Liabilities

(CZKm)	31. 12. 2001	31. 12. 2000
Items in the course of transmission	11,149	11,355
Other creditors	2,869	2,693
Estimated payables	2,711	1,806
Other clearing accounts	2,378	2,826
Current income tax payable	2,347	1,514
Provisions for guarantees and undrawn credit lines (Note 26)	1,946	3,768
Net deferred tax liability (Note 23)	1,626	700
VAT and other tax payables	409	997
Payables to securities clearing entities	204	70
Current accounts from which value was collected	183	758
Hedging derivative contracts (Note 28)	5	–
Other	386	380
	26,213	**26,867**

23. Income Taxes

(CZKm)	2001	2000
Current tax expense	2,594	1,322
Previous year under (over) accrual	(498)	46
Deferred tax expense relating to the origination and reversal of temporary differences	782	328
	2,878	**1,696**
Profit before taxation	8,913	6,465
Applicable tax rates	31%	31%
Taxation at applicable tax rates	2,763	2,004
Previous year under (over) accrual	(498)	46
Tax effect of non-taxable income	(1,515)	(732)
Tax effect of non-deductible expenses	2,122	385
Effect of foreign taxes	4	(2)
Other	2	(5)
	2,878	**1,696**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 31% (2000: 31%).

The movement on the deferred income tax account is as follows:

(CZKm)	2001	2000
At 1 January – as previously reported	101	(106)
Effect of adopting IAS 39	49	–
At 1 January – as restated	150	(106)
Change in consolidation scope	(87)	–
Income statement (charge)/credit	(782)	(328)
IPB acquisition	–	549
Available-for-sale securities		
Fair value remeasurement	(99)	–
Transfer to net profit	1	–
Cash-flow hedges		
Fair value remeasurement	(17)	–
Transfer to net profit	(64)	–
Exchange differences	1	(14)
At 31 December	**(897)**	**101**

Deferred income tax assets and liabilities are attributable to the following items:

(CZKm)	31. 12. 2001	31. 12. 2000
Deferred income tax assets		
Allowances for credit losses	311	341
Tax loss carryforward	280	287
Interest rate bonus	91	59
Impairment of occupied properties	73	119
Unrealised foreign exchange results	20	34
Trading assets valuation	9	12
Securities valuation	–	–
	784	**852**
Deferred income tax liabilities		
Trading valuation	46	45
Available-for-sale securities	3	–
Accelerated tax depreciation	6	6
	55	51
Net deferred income tax asset	**729**	**801**
Deferred income tax assets		
Allowances for credit losses	117	390
Derivatives valuation	–	–
Impairment of occupied properties	57	–
Other provisions	53	–
Trading assets valuation	50	283
Securities valuation	50	135
Tax loss carryforward	–	3
	327	**811**
Deferred income tax liabilities		
Shares in Group companies	1,400	1,185
Finance lease valuation	308	232
Available-for-sale securities	90	–
Accelerated tax depreciation	80	53
Credit provisions	43	
Cash flow hedges	17	–
Securities valuation	15	41
	1,953	1,511
Net deferred income tax liability	**1,626**	**700**

The deferred tax charge in the income statement comprises the following temporary differences:

(CZKm)	31. 12. 2001	31. 12. 2000
Allowances for credit losses	(301)	(342)
Trading assets valuation	(267)	–
Shares in Group companies	(215)	(161)
Finance lease valuation	(70)	23
Accelerated tax depreciation	(27)	(4)
Securities valuation	(20)	85
Unrealised foreign exchange results	(13)	6
Tax loss carryforward	(6)	30
Other provisions	53	–
Impairment of occupied properties	51	(25)
Interest rate bonus	33	(8)
Goodwill amortization	–	(6)
Derivatives valuation	–	74
	(782)	**(328)**

■ Bank management believes it is probable that the Group will fully realise its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities.

24. Other Provisions

(CZKm)	Litigation and other losses	Loan repurchase losses	Combination restructuring charges	Onerous rent contract losses	Total
At 1 January 2001	8,390	4,448	–	439	13,277
Movements in IPB liabilities retained (Note 13)	3,270	(208)	–	(78)	2,984
Net provision charge (release)	(68)	–	312	–	244
Borrowing cost amortisation (Note 3)	–	320	–	16	336
Utilised during year	(97)	(10)	–	(54)	(161)
At 31 December 2001	**11,495**	**4,550**	**312**	**323**	**16,680**

Litigation losses

■ The balance at 1 January 2001 includes an estimate of CZK 8,200m in assumed litigation and other losses from IPB that were probable and reliably estimable.

Loan repurchase losses

■ ČSOB assumed from IPB obligations to repurchase former Banka Haná bad loans from Česká Finanční, s.r.o. in connection with the CNB-sponsored restructure of that bank. Those loans, with an estimated value of zero, will be repurchased in 2004 and 2005 at their nominal value. This provision represents the present value of the future loan repurchase losses that will arise.

Combination restructuring charges

■ As part of its efforts to gain cost synergies from the acquisition of IPB, ČSOB announced a programme to close redundant branches throughout the Czech Republic. The Group recorded a pre-tax charge of CZK 312m at year-end 2001 to cover building- and equipment-related losses.

Onerous rent contract losses

■ ČSOB assumed a number of leasehold property arrangements from IPB in which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000. This provision represents the present value of the future net rental losses that will arise.

25. Share Capital and Treasury shares

- The total authorised share capital as at 31 December 2001 and 2000 is CZK 5,105m made up of 5,105,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

- All shareholders are entitled to one vote for every CZK 1,000 of nominal value owned. Shares are transferable upon approval of the Bank's Supervisory Board.

- The number of Treasury shares held by the Group as at 31 December 2001 was 141,325 (2000: 97,300 shares).

- The carrying value of treasury shares pledged to secure a related party borrowing transaction amounted to CZK 125m as at 31 December 2001 (31 December 2000: CZK Nil).

26. Contingent Asset, Liabilities and Commitments

	31. 12. 2001		31. 12. 2000	
(CZKm)	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
Contingent asset				
Slovenská inkasná loan	22,676	–	2,140	–
Contingent liabilities				
Czech Ministry of Finance	22,676	–	–	
Acceptances and endorsements	423	242	810	488
Guarantees issued	10,911	4,177	15,569	5,986
	34,010	**4,419**	**16,379**	**6,474**
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	138,542	14,345	36,284	14,880
Documentary credits	980	389	1,294	522
Forward forward deposits placed	3,247	649	8,008	1,602
	142,769	**15,383**	**45,586**	**17,004**
Provisions for guarantees and undrawn credit lines (Notes 15 and 22)	1,946		3,772	

The above contractual amounts represent the maximum credit risk which would arise if the contracts are fully drawn, the customers default and the value of any existing collateral becomes worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements. Risk weighted amounts represent the on-balance sheet credit risk equivalents of the contractual amounts, weighted by customer risk factors, calculated in accordance with the Czech National Bank guidelines for capital adequacy measurement purposes. The calculation aims to achieve a measure of credit exposure arising from those instruments.

The Slovenská inkasná loan contingent asset is accruing interest at the originally contracted rates. Should ČSOB receive payments on that loan they will be used, among other things, to offset the Czech Ministry of Finance receivable (see Note 14 for further explanation). This obligation is represented above by the Czech Ministry of Finance contingent liability.

Undrawn credit lines as at 31 December 2001 contain a CZK 100bn credit commitment granted to ČKA to finance the transfer of unwanted IPB assets to ČKA (see Note 13).

27. Other Contingent Liabilities

a) Litigation

Other than the litigation for which provisions have already been raised in Note 24, the Group is named in and defending a number of legal actions in various jurisdictions arising in the ordinary course of business. Management does not believe a material impact on the financial position of the Group will result from the ultimate resolution of these legal actions. Further, the Group has initiated a number of legal actions to protect its assets.

b) Taxation

Czech and Slovak tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

c) Assets under management and custody

Assets managed by the Group on behalf of others amounted to CZK 26,692m as at 31 December 2001 (31 December 2000: CZK 33,905m). Assets held by the Group under custody arrangements amounted to CZK 117,958m as at 31 December 2001 (31 December 2000: CZK 123,396m).

d) Operating lease commitments

Future minimum lease payments under land and building operating leases are as follows:

(CZKm)	31. 12. 2001	31. 12. 2000
Not later than 1 year	581	610
Later than 1 year and not later than 5 years	2,201	2,055
Later than 5 years	1,968	2,030
	4,750	**4,695**

The above operating leases can be technically cancelled under Czech law; however, the Group is commercially bound to continue with these leases for the periods set out above.

28. Derivatives

Derivative instruments are utilised by the Group for trading and asset and liability management (ALM) purposes. Certain derivatives have been issued by the Czech government to ČSOB as state assistance in connection with its acquisition of IPB. However, those derivatives are embedded in the unwanted IPB assets and, thus, are not separated and accounted for as derivatives in the financial statements (see Note 13).

Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future. These option agreements can be transacted on organised exchanges or directly between parties.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of nonperformance by counterparties to the derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Further, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

There are no significant concentrations of trading and ALM derivative credit exposures other than with the international banking sector, which are the usual counterparties to transactions undertaken for trading and managing the Group's own risks.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2001 and 2000 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

(CZKm)	31. 12. 2001 Contract/ Notional	31. 12. 2001 Fair value Positive	31. 12. 2001 Fair value Negative	31. 12. 2000 Contract/ Notional	31. 12. 2000 Fair value Positive	31. 12. 2000 Fair value Negative
Interest rate related contracts						
Swaps	33,178	883	1,116	36,248	1,210	1,152
Forwards	82,581	196	200	66,551	62	53
	115,759	**1,079**	**1,316**	**102,799**	**1,272**	**1,205**
Foreign exchange contracts						
Swaps	74,845	219	465	64,232	341	551
Forwards	15,720	482	432	15,176	412	210
Written options	39,594	–	619	16,708	–	86
Purchased options	18,039	389	–	8,225	62	–
	148,198	**1,090**	**1,516**	**104,341**	**815**	**847**
Equity contracts						
Forwards	1,433	–	20	1,433	–	–
Written options	1,659	–	19	2,493	–	791
	3,092	**–**	**39**	**3,926**	**–**	**791**
Total derivatives held for trading	**267,049**	**2,169**	**2,871**	**211,066**	**2,087**	**2,843**

Trading derivatives as at 31 December 2000 include non-qualifying hedging derivative contracts with nominal values of CZK 16,733m and positive and negative fair values of CZK 180m and CZK 359m, respectively.

Also included in Trading derivatives as at 31 December 2000 is an embedded derivative with a nominal value of CZK 734m and a negative fair value of CZK 31m, which was previously classified in Loans and leases.

The carrying values of the Group's outstanding trading derivatives as at 31 December 2001 and 2000 are set out as follows:

(CZKm)	31. 12. 2001 Carrying value Positive	31. 12. 2001 Carrying value Negative	31. 12. 2000 Carrying value Positive	31. 12. 2000 Carrying value Negative
Trading derivatives at fair value	2,169	2,871	1,907	2,453
Non-qualifying hedging derivatives at historical cost accrual basis	–	–	51	162
Total derivatives held for trading	**2,169**	**2,871**	**1,958**	**2,615**

Asset and Liability Management activities

The Group's Asset and Liability Management unit (ALM) utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading, or ALM, activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to eliminate the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of cash flow hedges. Fair value hedging was not used by the Group in the reporting period to manage interest rate risk.

The Group used single currency interest rate swaps to convert floating-rate loans to fixed rates. Asset-linked currency interest rate swaps were used to exchange a series of foreign currency cash flows originating from a foreign currency asset for a series of cash flows appropriately structured in the required currency and maturity to match the respective liabilities.

There was no significant cash flow hedge ineffectiveness as at 31 December 2001.

The contract or notional amounts and positive and negative fair values of the Group's outstanding hedging derivatives as at 31 December 2001 and 2000 are set out as follows:

	31. 12. 2001			31. 12. 2000		
(CZKm)	Contract/ Notional	Fair value		Contract/ Notional	Fair value	
		Positive	Negative		Positive	Negative
Single currency interest rate swaps	10,220	405	1	–	–	–
Cross currency interest rate swaps	9,970	136	4	6,904	1	7
Total hedging derivatives	**20,190**	**541**	**5**	**6,904**	**1**	**7**

The carrying values of the Group's outstanding hedging derivatives as at 31 December 2001 and 2000 are set out as follows:

	31. 12. 2001		31. 12. 2000	
(CZKm)	Carrying value		Carrying value	
	Positive	Negative	Positive	Negative
Interest rate swaps	405	1	–	–
Currency interest rate swaps	136	4	201	–
Total hedging derivatives (Notes 18 and 22)	**541**	**5**	**201**	**–**

29. Consolidated Statements of Cash Flow

Analysis of changes in cash and cash equivalents during the year

(CZKm)	2001	2000
At 1 January	25,043	28,919
Net (decrease) in cash and cash equivalents	(3,175)	(3,876)
At 31 December	**21,868**	**25,043**

Analysis of the balances of cash and cash equivalents as shown in the balance sheets

(CZKm)	31. 12. 2001	31. 12. 2000
Cash and balances with central banks	21,700	18,959
Trading portfolio assets	368	2,712
Securities	2,354	987
Loans and leases (only originated treasury bills)	–	2,200
Due from banks, demand	961	1,786
Due to banks, demand	(3,515)	(1,601)
Cash and cash equivalents	**21,868**	**25,043**

30. Segment Reporting

The Group's primary segment reporting is by customer segment. Geographical segment information is not presented for 2001 and 2000 as the Group's Czech Republic results are not materially different from Group in aggregate.

Segment reporting information by customer segments for 2001

(CZKm)	Retail	SME	Financial Institutions	Corporate	Historic	State assisted balances	Other	Group Total
Net interest income	6,292	1,527	222	2,172	79	(182)	2,974	13,084
Non-interest income	3,895	1,494	211	1,272	208	1,100	2,026	10,206
Segment expenses	(6,458)	(1,219)	(99)	(967)	(154)	(766)	(5,837)	(15,500)
Segment result	*3,729*	*1,802*	*334*	*2,477*	*133*	*152*	*(837)*	*7,790*
Provisions	(385)	(8)	15	(116)	1,816	–	(199)	1,123
Operating profit before taxation	*3,344*	*1,794*	*349*	*2,361*	*1,949*	*152*	*(1,036)*	*8,913*
Income tax (expense)/benefit	(1,037)	(556)	(108)	(732)	(604)	(47)	206	(2,878)
Segment profit	*2,307*	*1,238*	*241*	*1,629*	*1,345*	*105*	*(830)*	*6,035*
Minority interests	(64)	–	–	–	–	–	(19)	(83)
Net profit	**2,243**	**1,238**	**241**	**1,629**	**1,345**	**105**	**(849)**	**5,952**
Assets	**323,562**	**42,730**	**28,913**	**90,578**	**32,105**	**146,822**	**(66,850)**	**597,860**

Segment reporting information by customer segments for 2000

(CZKm)	Retail	SME	Financial Institutions	Corporate	Historic	State assisted balances	Other	Group Total
Net interest income	4,898	1,393	108	1,868	208	(33)	2,897	11,339
Non-interest income	1,753	2,105	91	817	92	739	1,268	6,865
Segment expenses	(4,880)	(1,177)	(49)	(789)	(84)	(312)	(4,684)	(11,975)
Segment result	*1,771*	*2,321*	*150*	*1,896*	*216*	*394*	*(519)*	*6,229*
Provisions	(93)	(95)	–	732	(167)	–	(141)	236
Operating profit before taxation	*1,678*	*2,226*	*150*	*2,628*	*49*	*394*	*(660)*	*6,465*
Income tax (expense)/benefit	(520)	(690)	(47)	(815)	(15)	(163)	554	(1,696)
Segment profit	*1,158*	*1,536*	*103*	*1,813*	*34*	*231*	*(106)*	*4,769*
Minority interests	–	–	–	–	–	–	(78)	(78)
Net profit	**1,158**	**1,536**	**103**	**1,813**	**34**	**231**	**(184)**	**4,691**
Assets	**292,722**	**44,310**	**9,807**	**73,946**	**32,017**	**172,924**	**(90,182)**	**535,544**

Definitions of customer segments:

- Retail: private individuals.
- SME (small- and medium-sized enterprises): entrepreneurs and companies with a turnover less than CZK 300m.
- Financial Institutions: banking and non-banking institutions in the financial sector.
- Corporate: companies with a turnover greater than CZK 300m.
- Historic: exceptional loans with Czech state coverage (see Note 14) and certain other loans granted by the Group to previously state-owned companies.
- State assistance balances: Czech state assistance balances in connection with the acquisition of IPB (see Note 13).
- Other: non-banking subsidiaries, Asset Liability Management segment, Dealing segment, unallocated expenses and eliminating and reconciling items.
- The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.6m customer accounts with deposits amounting to approximately CZK 78bn and a network that spans across approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail Banking customer segment.

31. Currency Risk

- The significant net foreign exchange asset (liability) positions of the Group are as follows:

(CZKm)	31. 12. 2001	31. 12. 2000
EUR	(1,332)	(2,368)
SKK	209	358
USD	112	(102)
JPY	(83)	(13)

- The foreign currency management policy for ČSOB's banking book is to minimise foreign currency positions to the extent practicable. Trading foreign currency positions are subject to limits and controlled continuously.

32. Interest Rate Risk

- The Group's interest rate exposures are monitored and managed using interest rate sensitivity gap reports, amongst other methods. Those reports contain both on- and off-balance sheet net interest rate sensitive positions (interest rate sensitive assets less interest rate sensitive liabilities) of the Group (both non-trading and trading) which are segregated by currency and repricing time bands at a single point in time.

Set out below is management's estimate of the interest rate sensitivity gap positions for the Group in the major currencies as at 31 December 2001.

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(81,844)	141,223	3,366	13,795	40,942
EUR	(9,994)	7,658	(3,317)	(2,411)	3,637
USD	(2,076)	5,743	803	(1,062)	2,331
SKK	(2,857)	1,385	363	83	(75)

The above table was extracted from the management information systems of the Bank and other Group companies.

Set out below is management's estimate of the interest rate sensitivity gap positions for the Group in the major currencies as at 31 December 2000.

(CZKm)	Up to 1 month	1–3 months	3–6 months	6–12 months	Over 12 months
CZK	(59,312)	12,921	20,012	1,532	47,609
EUR	7,109	4,382	1,188	3,697	745
USD	(2,157)	2,053	508	(13)	(514)
SKK	5,248	550	(1,371)	(2,428)	1,920

The above tables set out the interest rate sensitivity gap positions as at the year-end and are not, therefore, indicative of such positions that existed during the year or will exist in the future.

Risk-free interest yield curves that were used by the Group in the process of estimating the fair value of financial instruments not traded, with sufficient liquidity, on a recognised market as at 31 December 2001 and 2000 are set out below:

	31. 12. 2001				31. 12. 2000			
(%)	CZK	EUR	USD	SKK	CZK	EUR	USD	SKK
1 week	4.740	3.365	1.878	7.750	5.235	4.865	6.613	7.910
1 month	4.710	3.347	1.874	7.750	5.270	4.856	6.561	7.930
3 months	4.570	3.297	1.881	7.750	5.350	4.855	6.399	7.830
6 months	4.430	3.283	1.981	7.730	5.520	4.834	6.204	7.810
9 months	4.425	3.324	2.181	7.730	5.695	4.781	6.063	7.830
1 year	4.477	3.388	2.503	7.730	5.852	4.784	5.983	7.830
5 years	5.093	4.661	5.211	7.722	7.007	5.013	6.002	7.722
10 years	5.583	5.229	5.919		7.293	5.493	6.148	

33. Liquidity Risk

The following table sets out the financial assets and liabilities of the Group by remaining maturity as at 31 December 2001:

(CZKm)	Demand	Up to 3 months	3–12 months	1–5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	21,543	–	157	–	–	–	21,700
Due from banks	961	90,392	16,249	8,625	–	967	117,194
Trading assets	6	17,097	25,771	2,459	944	3,651	49,928
Securities	–	7,998	5,430	21,356	6,929	1,861	43,574
Loans and leases	3,715	58,196	30,714	45,383	25,612	17,856	181,476
Other financial assets	122	43	4	–	–	3,538	3,707
Total assets	26,347	173,726	78,325	77,823	33,485	27,873	417,579
Liabilities							
Due to banks	3,515	6,085	4,159	9,471	4,584	–	27,814
Trading liabilities	511	19,733	3,574	–	–	2,638	26,456
Due to customers	140,540	210,664	34,130	29,688	2,588	133	417,743
Debt securities in issue	3,109	7,046	7,260	11,296	6,206	–	34,917
Other financial liabilities	46	1,435	8	–	–	14,883	16,372
Total liabilities	147,721	244,963	49,131	50,455	13,378	17,654	523,302
Net liquidity gap	**(121,374)**	**(71,237)**	**29,194**	**27,368**	**20,107**	**10,219**	**(105,723)**

The following table sets out the financial assets and liabilities of the Group by remaining maturity as at 31 December 2000:

Assets							
Cash and balances with central banks	18,562	–	–	–	396	–	18,958
Due from banks	1,788	48,016	14,472	7,071	150	42	71,539
Trading assets	12	38,220	10,565	4,549	414	643	54,403
Securities	–	4,327	3,157	13,990	2,447	2 877	26,798
Loans and leases	57,930	48,960	44,970	59,310	28,466	35,129	274,765
Other financial assets	–	–	–	–	–	4,263	4,263
Total assets	78,292	139,523	73,164	84,920	31,873	42,954	450,726
Liabilities							
Due to banks	1,601	1,089	4,228	11,999	3,974	–	22,891
Trading liabilities	–	10,511	5,598	1,160	136	–	17,406
Due to customers	109,742	175,124	36,640	25,852	1,462	–	348,820
Debt securities in issue	1,957	30,347	10,928	16,741	6,222	–	66,195
Other financial liabilities	–	–	–	–	–	19,156	19,156
Total liabilities	113,300	217,071	57,394	55,752	11,794	19,156	474,468
Net liquidity gap	**(35,008)**	**(77,548)**	**15,770**	**29,168**	**20,079**	**23,798**	**(23,742)**

Since the maturity of the synthetic receivable from the state (Note 13) cannot be precisely determined the above tables include IPB assets which ČSOB does not want to retain in its portfolio, amounting to CZK 146,822m and 163,167m as at 31 December 2001 and 2000, respectively, at their original residual maturities. The actual maturities of those assets will be based upon the date on which ČSOB/ČKA exercises the specific asset swaptions embedded in those assets.

A positive liquidity gap means expected cash receipts should exceed expected cash payments (including theoretically-possible customer deposit withdrawals) in a given period. Conversely, a negative liquidity gap means expected cash payments (including theoretically-possible customer deposit withdrawals) should exceed expected cash receipts in a given period.

Although Due to customers are strictly divided into maturity time bands according to their remaining contractual maturities (e.g. Current accounts are contained within the "Demand" column), statistical evidence shows it is unlikely a majority of those customers will actually withdraw their deposits from the Bank on maturity.

Group liquidity management is carried out using various techniques including market operations which aim to ensure sufficient cash is available to satisfy its cash requirements.

The above tables set out the liquidity gaps as at the year-end and are not, therefore, indicative of such gaps that existed during the year or will exist in the future.

34. Fair Values of Financial Assets and Liabilities

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

	31. 12. 2001		31. 12. 2000	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Due from banks	117,194	117,288	71,142	71,150
Securities (held-to-maturity: 2001)	28,435	28,464	26,798	26,918
Loans and leases	181,476	182,816	164,501	165,250
Specific asset swaption receivable	146,822	146,822	168,942	168,942
Rescue acquisition NAV shortfall receivable	–	–	3,982	3,982
Financial Liabilities				
Due to banks	27,814	28,002	22,891	22,891
Due to customers	417,743	417,792	348,820	348,866
Debt securities in issue	34,917	35,702	66,195	66,420
Rescue acquisition NAV surplus payable	6,804	6,804	–	–

The following methods and assumptions were used in estimating fair values of the Group’s financial assets and liabilities:

Due from banks

The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans and advances reprice within relatively short time spans; therefore, it is assumed their carrying values approximate their fair values.

Securities

In 2001, securities include only interest-bearing securities held to maturity, as securities available-for-sale are now measured at fair value. Fair values for held to maturity securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

Loans and leases

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 values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates.

Specific asset swaption receivable and Rescue acquisition NAV shortfall/surplus receivable/payable

The Specific asset swaption receivable, Rescue acquisition NAV shortfall receivable and Rescue acquisition NAV surplus payable all have floating-rate characteristics; accordingly, their carrying values represent estimates of their fair values.

Due to banks

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts due to banks with equal to or less than one year remaining maturity, it is assumed their carrying values approximate their fair values. The fair values of other amounts due to banks are estimated by discounting their future cash flows using current interbank market rates.

Due to customers

The fair values of current accounts as well as term deposits with equal to or less than 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 maturities.

Debt securities in issue

Bonds issued are publicly traded and their fair values are based upon quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

35. Condensed Financial Information of the Bank

(ACCORDING TO PRINCIPLES OF RECOGNITION AND MEASUREMENT OF INTERNATIONAL ACCOUNTING STANDARDS)

Condensed statement of income

(CZKm)	2001	2000
Net interest income	10,748	9,460
Net commission income	5,216	3,844
Net trading income	2,880	668
Other income	2,237	1,647
Operating income	*21,081*	*15,619*
Operating expenses	(13,754)	(9,781)
Operating profit before provisions	*7,327*	*5,838*
Provisions	1,528	525
Operating profit	*8,855*	*6,363*
Income tax expense	(2,868)	(1,672)
Net profit	**5,987**	**4,691**

Condensed balance sheet

(CZKm)	31. 12. 2001	31. 12. 2000
Assets		
Cash and balances with central banks	21,519	18,292
Due from banks	110,855	64,295
Trading assets	49,605	54,659
Securities	32,140	18,978
Loans and leases	143,863	135,119
Subsidiary companies	9,005	8,606
Rescue acquisition state assistance receivable	158,279	172,924
Other assets	21,417	20,160
Total assets	**546,683**	**493,034**
Liabilities		
Due to banks	16,236	15,085
Trading liabilities	27,242	17,406
Due to customers	389,772	326,778
Debt securities in issue	26,618	60,380
Other liabilities	48,926	39,049
Shareholders' equity	37,889	34,336
Total liabilities and shareholders' equity	**546,683**	**493,034**

Included in shareholders' equity are non-distributable statutory reserves of CZK 19,224 and 18,686m as at 31 December 2001 and 2000, respectively.

Condensed cash flow statement

(CZKm)	2001	2000
Net cash flow from operating activities before income tax	9,473	6,300
Net income tax paid	(665)	(831)
Net cash flow from operating activities	8,808	5,469
Net cash flow (used in)/from investing activities	(2,562)	4,963
Net cash flow (used in) financing activities	(9,011)	(15,534)
Effect of exchange rate changes on cash and cash equivalents	(243)	(274)
Net (decrease) in cash and cash equivalents	**(3,008)**	**(5,376)**

36. Significant Subsidiary and Joint Venture Companies

■ The following are the significant subsidiaries and joint ventures of ČSOB as at 31 December 2001:

Name	Country of incorporation	Direct ownership
ČSOB Leasing Group	Czech Republic	100%
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100%
Business Center, s.r.o.	Slovak Republic	100%
FINOP HOLDING a.s.	Czech Republic	95%
První investiční společnost, a.s.	Czech Republic	81%
Českomoravská hypoteční banka, a.s.	Czech Republic	59%
Českomoravská stavební spořitelna, akciová společnost (joint-venture)	Czech Republic	55%
O.B.HELLER a.s. (joint-venture)	Czech Republic	50%

■ ČSOB controlled PVT, a.s. (Podnik výpočetní techniky, hereinafter PVT) in 2000 as a result of its acquisition of IPB, but decided not to retain this former IPB asset in 2001. Accordingly, ČSOB deconsolidated PVT from 1 January 2001. The direct ownership holding of ČSOB in PVT from the date of acquiring IPB (19 June 2000) to 31 December 2000 was 37%. As at 31 December 2000, CZK 1,316m of the CZK 2,078m in total Minority interests on the balance sheet related to PVT. The financial effect of movements in the classification of former IPB assets, which includes the ownership of PVT, is set out in note 13.

■ In 2001, ČSOB commenced consolidating ČSOB stavebná sporiteľňa, a.s. as its operations became material to the Group.

■ ČSOB raised its ownership in FINOP HOLDING a.s. from 92% to 95% in 2001.

37. Related Parties

■ Parties are considered to be related 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. KBC Bank and Insurance Holding Company N.V. controls directly and indirectly 83.83% of ČSOB voting shares. Almanij N.V. has control of KBC Bank and Insurance Holding Company N.V. through its 71.59% voting power.

■ A number of banking transactions are executed with related parties and employees in the normal course of business. These transactions were carried out on normal commercial terms and conditions and at market rates, except for certain transactions with ČSOB directors and eligible employees, who can obtain better loan and deposit rates. ČSOB's directors are offered the same transaction terms that are available to other

eligible ČSOB employees. The outstanding balances from related party and employee banking transactions are as follows:

(CZKm)	Due from banks and Loans and leases		Due to banks and customers	
	31. 12. 2001	31. 12. 2000	31. 12. 2001	31. 12. 2000
Directors and employees	480	539	3,070	3,051
KBC Bank N.V.	13,610	18,577	65	79
Unconsolidated subsidiaries and associated companies – former ČSOB assets and IPB assets to be kept	5,334	7,235	2,161	986

■ Interest recognised on the KBC Bank N.V. loans in 2001 amounted to CZK 379m (2000: CZK 591m).

■ The loans to KBC Bank N.V., as at 31 December 2001, were collateralised by Belgian-state obligations of market value of CZK 11,412m (31 December 2000: CZK 9,525m), held directly in the name of ČSOB and can, therefore, be readily sold but only in case of default.

■ The compensation of the Executive Board members is approved by the shareholders in General Meeting. In addition, bonuses of the Executive Board amounting to CZK 19m in 2001 (2000: CZK 20m) were approved by the Compensation Committee of the Supervisory Board.

38. Dividends

■ Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 17 April 2002, a dividend in respect of 2001 of CZK 670 per share (2000 actual dividend CZK 460 per share) amounting to a total of CZK 3,353m (2000 actual CZK 2,297m) is to be proposed. The financial statements for the year ended 31 December 2001 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2002.

39. Post Balance Sheet Events

Acquisition of remaining stakes in IPB Pojištovna, a.s. (IPBP) and ČMPF

■ On 11 February 2002 the Group settled litigation in connection with the ownership of IPBP and ČMPF enabling it to increase its ownership stakes in both entities to 100%. Consideration paid for the remaining ownership stakes in IPBP and ČMPF was CZK 708m and CZK 558m, respectively.

40. ČSOB's Shareholders

■ The significant shareholder structure of ČSOB as at 31 December 2001 is as follows:

	%
KBC Bank N.V.	78.12
European Bank for Reconstruction and Development	7.68
KBC Verzekeringen N.V.	5.71
International Finance Corporation	4.51
Others	3.98
Total	100.00
KBC Group	83.83