Československá obchodní banka, a. s.

Annual Report 2003

Československá obchodní banka, a. s.

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LETTER OF THE CHAIRMAN AND CEO

Ladies and gentlemen, dear shareholders,

A year and a month ago, I stood in front of you expressing my conviction that the prospects for further growth of the ČSOB Group were stable despite the ongoing environment of super-low interest rates. Today, I can say that ČSOB in 2003 confirmed the *long-term stable trend of high profitability* and registered a strong business growth. The business expansion, investments as well as the rate of profit are in line with the strategic plan.

We registered a robust increase in both non-interest income and interest income. It was based on a *dynamic growth of business transactions supported by investments* into technologies and into the development of the branch network in the Slovak Republic. The speed and flexibility of processes boosted the growth of lending across all customer segments. After the settlement of the IPB-related rescue operation, which required both the attention and the capacity of management, a full focus on business growth with an accent on the active side of the balance sheet is our important priority. However, we do not lose sight of the high demands regarding the quality of the credit portfolio. The unconsolidated NPL ratio dropped to 3.1%, and total provisioning to NPL has remained high - it has reached 187%. The historical portfolio and also its rate of return is, in fact, already a history.

ČSOB Group is an exceptionally *strongly capitalised*. The reported profit was achieved while equity simultaneously grew to CZK 46bn. The undistributed profit grew more quickly than the weighted assets according to both current and newly conceived Basel II rules. A consequence of the current over-capitalization is a lower return on capital in nominal terms. A partial lowering of the surplus capital realised through paying out part of retained earnings has the following context:

- The recommended medium level of capital adequacy for economies in transition in Central Europe is moving around 10%; at the end of 2003, ČSOB's capital adequacy was 15.36%.
- According to new Basel II rules, the rapidly growing volume of retail transactions will require a relatively lower level of capital than it has so far been required for the same operations.
- By the accession of the Czech Republic and Slovakia, where we are operating as a bank, to the European Union, we consider the period of transformation of the economies of these countries finished and the fluctuations stemming from this period of transformation as overcome.
- With a view to the size of both national markets and their opportunities, and with regard to ČSOB's high current performance, it is not necessary to maintain such a voluminous capital cushion.
- Nor do we need this capital cushion, either, because ČSOB is a significant part of the very strong supranational KBC Group.

Therefore, today we are paying out CZK 9,699.5m in dividends, that is, CZK 1,900 per 1 share. With equity of more than CZK 36bn., ČSOB continues to be one of the best-capitalised banks in the Central European region. When the results of the year 2003 are translated into capital adequacy achieved after the payment of dividend - i.e., 12.5% - we show a return of capital (ROE) amounting to 18.5%.

Allow me some short comments on our transactions last year.

The innovation and simplification of processes brought a *better position in the retail market*. ČSOB led its clients to a better diversification of their saved funds. By innovations in the offer of guaranteed shares funds we purposefully increased clients' appetite for investments on the capital market, which had been so critically stigmatized by their experience with the voucher privatisation. By combining offers of products with higher added value and advisory, we have started a long-term strategic shift of the ČSOB Group from the area of transaction services to the area of wealth management. We have become a leader in the sales of guaranteed shares funds with a market share of 80%. The assets managed by the Private Bank grew, year-on-year, by CZK 9.9bn. The assets under the Group's management grew by 5% to CZK 547bn.

In the segment of small and medium-sized firms, we endeavoured to become a bank of first choice for our clients. Therefore, the emphasis was also put on credit products. The credit portfolio grew by almost 40%, while the quality of assets was maintained. In the segment of *corporate clients*, we continue to be a prime bank in the market.

A significantly denser branch network (of 73 branches) and our experience with the acceptance of our products and with the success of their distribution in the Czech market continue to serve us as a robust fundament for increasing our penetration *in the market of the Slovak Republic*. In terms of competition, the Slovak market is extremely difficult. From the No. 4 position, that is, from the second echelon, we must manage to strengthen our business position even more. The credit portfolio grew by 55%, i.e. 40% above the Slovak market. So far, however, our position and the 8% share of the Slovak operations in the Group's income do not correspond with our potential at this quickly growing market.

The *firms from the ČSOB Group* performed very well. Their contribution to the Group's overall income grew, year-on-year, by 45%. They took first or second market positions in the segments of their operations, i.e., in areas such as leasing, building savings and construction loans as well as in the mortgage market. Measured by the size and scope of operations, by the service for two national markets, by the length of the list of 5 million clients and by our offer of services, we have, as a Group, very good fundaments for further growth. However, we are a very complex and not yet quite homogenous Group. Unjustified process-, organisation- and distribution-related complexities sometimes go against the "straightforwardness" of the retail business culture and result in unproductive costs. Therefore, we do not yet achieve the corresponding savings of scale, nor do we utilise business synergies in full. We must concentrate more on building up "ČSOB's United Family", and the projects initiated by the Board of Directors are directed to this goal.

We would not have achieved such results if it had not been for motivated *managers and employees of the Group*. They deserve my thanks and admiration. It is due to their work that customer *satisfaction* with services provided under the brand of ČSOB was awarded, in 2003, an average mark of 1.4 on a one-to-five-point scale, like at school. Due to their efforts, we have taken the second-highest place in the Czech banking sector in the *service quality* index.

Our clients are at the centre of our interest and efforts. We believe that by creating value for them, we will get, in return, new value not only for you, the shareholders, but also for our employees. Therefore, we have focused on a long-term, mutually beneficial partnership with our clients. In this respect, I am not going to slacken my efforts to make ČSOB a strong and reliable partner for our clients. I know that we are now on a good track that will continue to bring you new values.

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

CONSOLIDATED FIVE YEAR FINANCIAL SUMMARY

(according to International financial reporting standards / International accounting standards)

	2003	2002	2001	2000	1999
Results for the year (CZKm)					
Operating profit	7,253	9,286	8,913	6,465	4,566
Income tax expense	946	2,580	2,878	1,696	1,683
Net profit	6,240	6,591	5,952	4,691	2,823
At year-end (CZKm)					
Shareholders´ equity	46,001	41,275	37,853	34,336	31,478
Due to customers	439,999	418,143	417,743	348,820	126,498
Due to banks	20,254	26,472	27,814	22,891	45,363
Debt securities in issue	16,731	28,169	34,917	66,195	38,750
Loans and leases	230,100	213,682	181,476	164,501	97,046
Due from banks	131,059	142,355	117,194	71,142	115,257
Total assets	606,480	597,044	586,426	535,544	257,698
Ratios (%)					
Return on average shareholder´s equity (ROAE)	14.30	16.65	16.49	14.26	9.57
Return on average assets (ROAA)	1.04	1.11	1.05	1.18	1.11
Bank capital adequacy ratio - CNB regulations[1) 2)]	15.36[3)]	13.99	15.04	13.70	20.24
Total shareholders´ equity to total assets[1)]	7.58	6.91	6.45	6.41	12.22
Exchange rate CZK / USD[1)]	25.65	30.14	36.26	37.81	35.98
Average exchange rate CZK / USD	28.23	32.74	38.04	38.59	34.60
Exchange rate CZK / EUR[1)]	32.41	31.60	31.98	35.09	36.13
Average exchange rate CZK / EUR	31.84	30.81	34.08	35.61	36.88

1) as at 31 December
2) as reported
3) Group capital adequacy ratio was 13.56%

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

Ratings (as at 25 March 2004)	Long-term:	Short-term:	Financial strength:	Individual:	Support:
Fitch	A-	F2	-	C	1
Moody´s	A1	Prime-1	C-	-	-
Standard & Poor´s	BBB	A-2	-	-	-
Capital Intelligence	BBB	A3	BBB+	-	2

PROFILE OF THE COMPANY

Československá obchodní banka, a. s. operates on two national markets - i.e. in the Czech Republic and Slovakia. It is the largest bank in the Czech Republic and one of the two largest banks in Central Europe. As a universal bank, it is offering a full range of banking services to individuals as well as to companies.

ČSOB was established by the State in 1964 as the sole bank in then Czechoslovakia providing foreign trade financing and convertible currency operations. After 1989 ČSOB expanded its activity by including services for new entrepreneurial entities and individuals as well. A significant milestone in ČSOB's history was its privatisation in June 1999, when the Belgian KBC Bank, a member of the KBC Bank and Insurance Group, became the majority owner of ČSOB. The goal of this group is to build up and to develop the bancassurance concept in Central European countries considered by KBC as its second home market. Another milestone in the history of ČSOB was the take-over of the Investiční a Poštovní banka, a.s. in June 2000. In such a way, ČSOB promptly strengthened its position in retail banking.

Today, ČSOB's business profile evenly comprises segments of retail banking, small and medium-sized companies (SMEs), corporate banking, financial markets and private banking. In compliance with the KBC Group's strategy, ČSOB is developing services primarily for retail and SMEs and bancassurance products.

In retail banking, ČSOB operates under two brand names - *ČSOB and Poštovní spořitelna*, or Postal Savings Bank, which uses the large network of the Czech Post for distribution of banking and insurance products.

ČSOB continues developing activities in the Slovak Republic through its foreign branch whose business transactions have similar features as business activities undertaken in the Czech Republic.

As at 31 December 2003, ČSOB had about 3.2 million clients overall in the Czech and Slovak Republics. The clients were served through 208 branches in the Czech Republic (sales points of the Postal Savings Bank not included) and through 73 sales points in the Slovak Republic and through various direct-banking channels.

As at 31 December 2003, the long-term ratings as well as the short-term ratings of ČSOB awarded by Moody's and Fitch were at the same level as the rating of the Czech Republic (i.e. the highest rating possible). The Moody's rating of the financial strength of ČSOB and the individual rating of ČSOB awarded by Fitch are the highest ratings among Czech banks.

Annual Reports and other information about ČSOB are available at the web site www.csob.cz.

The ČSOB Group

At present, the ČSOB Group provides its clients with financial services in the following areas:
construction savings and mortgages, life and non-life insurance, asset management, collective investment, pension funds, leasing and factoring.

The achieved market share has placed individual Group companies in a significant position in their respective business both in the Czech Republic and Slovakia.

The ČSOB Group has focused on the full utilisation of its business potential arising from a strong customer base and a far-reaching distribution radius of the entire Group with the aim to satisfy, in all respects, financial needs of its clients.

PROFILE OF KBC BANK AND INSURANCE GROUP

ČSOB is a member of the **KBC Bank and Insurance Group**, which was created in 1998 through the merger of ABB Insurance Group, the Almanij-Kredietbank Group and CERA Bank Group. The banking and insurance activities of the KBC Group have been integrated into KBC Bank N.V. and KBC Insurance N.V., respectively, and are managed jointly by the KBC Bank and Insurance Holding Company N.V., which is listed on Euronext Brussels.

The KBC Bank and Insurance Group is focusing on bancassurance activities for retail clients and is also active in asset management, services to corporations and market activities. Its geographic focus is on Europe. It belongs to the top-three banks and insurance companies in Belgium, its first home market, and figures as one of the largest financial groups in Central Europe, defined by the Group as its second home market.

Main Central European KBC-Group companies and participations (as at 29 February 2004)

Country	Company	Interest percentage (direct and indirect)
Czech Republic	ČSOB	90%
	ČSOB Pojišťovna	100%
	Patria Finance	100%
Hungary	K&H Bank (bank)	59%
	K&H Life (insurance company)	80%
	Argosz (insurance company)	99%
Poland	Kredyt Bank (bank)	81%
	Warta (insurance company)	75%
Slovakia	ČSOB (bank)	see Czech Republic
	Ergo poisťovňa (insurance company)	75%
Slovenia	NLB (bank)	34%
	NLB Vita (insurance company)	67%

Some key figures for the KBC Bank and Insurance Group as at 31 December 2003 are given below. The latest annual report and other information regarding the KBC Group can be found on its corporate website www.kbc.com.

Total assets (EURm)			**225,587**
Market capitalization (EURm)			11,502
Net profit (EURm)			1,119
Capital Adequacy ratio KBC Bank			13.4%
Solvency ratio KBC Insurance			316%
Number of staff (FTEs)			50,000
Long-term ratings (as at 29 February 2004)	Fitch	Moody's	S&P's
KBC Bank	AA-	Aa3	A+
KBC Insurance	AA	-	A+

BOARD OF DIRECTORS

Pavel Kavánek

(born on 8 December 1948)

Chairman of the Board
of Directors and
Chief Executive Officer

Education: Prague School of Economics and The Pew Economic Freedom Fellowship at Georgetown University, U.S.A. He has been working for ČSOB since 1972. He has been a member of the Board of Directors since October 1990 and its Chairman and CEO since January 1993.

Membership in other company bodies: Vice-chairman of the Supervisory Board of Českomoravská stavební spořitelna, a.s., Member of the Supervisory Board of ČSOB Asset Management, a.s.

Jan Lamser

(born 8 December 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 since May 1999 he has been Senior Executive Officer.

Membership in other company bodies: Chairman of the Supervisory Board of ČSOB Leasing, a.s. In the year 2003 he has been a Member of the Board of Directors of Finop Holding, a.s. (in December 2003 this company merged with ČSOB Investment Banking Services, a.s.).

Petr Knapp

(born on 7 May 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 Prague, first as Deputy Director and later as Director of Foreign Operations. In November 1991 he came back to ČSOB. In 1993 he was appointed Head of Credits. Since May 1996, he has been a member of the Board of Directors and Senior Executive Officer.

Membership in other company bodies: Chairman of the Supervisory Board of O. B. Heller.

Patrick Daems

(born on 21 April 1948)

Member of the Board
and Senior
Executive Officer

Education: University of Economics, Antwerp. First, he worked for 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 was a member of Boards of Directors of several banks from the KBC Group. Since April 2002, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.

Membership in other company bodies: Member of the Supervisory Board of ČSOB Asset Management, a.s., Chairman of the Supervisory Board of ČSOB Investment Banking Services, a.s.

Philippe Moreels

(born on 25 February 1959)

Member of the Board
of Directors and
Senior Executive Officer

Education: Solvay Business School, Free University of Brussels, Belgium. Started his career as an analyst, later internal auditor with the Unilever Group. Afterwards, worked in various managerial functions for Standard Chartered Bank and Westdeutsche Landesbank. From 1993, until joining ČSOB, he worked at Tatra Banka in Slovakia, first as Operations Manager and from 1998 as a Member of the Board of Directors. Since March 2002, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.

Membership in other company bodies: Chairman of the Supervisory Board of Českomoravská hypoteční banka, a.s., Member of the Supervisory Board of ČSOB Asset Management, a.s., Chairman of the Supervisory Board of ČSOB Stavebná sporiteľna, a.s.

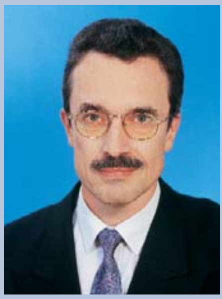
Carl Rossey

(born on 16 May 1961)

Member of the Board
of Directors and
Senior Executive Officer

Education: Graduated from the University of Ghent, Masters Degree from Industrial Management and also an MBA. He has been working for KBC since 1995 and was in charge of restructuring initiatives of the bank. He was seconded from KBC to ČSOB in July 1999 at the time of bank's privatisation and was in charge of restructuring activities and managed the operational merger with the IPB. His areas of responsibility have included Strategy and Organization, IT, e-banking, and Financial Markets. Then he was responsible for Retail/SME, the Post Bank, Private Banking, Marketing and insurance activities of the ČSOB Group.

With effect from 15 July 2003, Mr. C. Rossey resigned from the Membership of the Board of Directors.



Vladimír Staňura

(born on 18 March 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 Director of Foreign Exchange Unit. In 1991 he was appointed Member of the Board of Directors and Senior Executive Officer.

With effect from 10 April 2003, Mr. V. Staňura resigned from the Membership of the Board of Directors.

SUPERVISORY BOARD

Jan Švejnar

an independent economist,
Professor

Chairman of the Supervisory Board of ČSOB from 9 October 2003.

University education: Industrial and Work Relations - Cornell University, USA, Ph. D. in Economics - Princeton University - USA. He has been living in abroad since 1970. Concurrently with his activity in the USA - Executive Director of the William Davidson Institute and Professor at the University of Michigan Business School, Mr. Švejnar maintained strong background in the Czech Republic. He is a Chairman of the Board of the Center for Economic Research and Graduate Education - CERGE of Charles University and Member of the Academic Council of the Faculty of Social Affairs at Charles University.

Francois Florquin

KBC Bank,
Managing Director

Member of the Supervisory Board.
In Supervisory Board of ČSOB from 10 August 1999.

Education: University degree in economics. From 1972 he has been working in CERA Bank on positions - Inspector, Head Inspector, Manager, Secretary General, Member of the Board of Directors and Member of the Executive Committee. Currently he is Managing Director KBC Bank and Member of the Executive Committee.

Membership in other company bodies: K&H Bank, Kredyt Bank, CBC Bangue, Centea, Belgische Raiffeisenstichting, VZW, KBC Asset Management.

Dirk Mampaey

KBC Bank, Assistant General
Manager Strategy and Expansion
Co-ordination Central Europe

Member of Supervisory Board.
In Supervisory Board of ČSOB from 9 October 2003.

Education: University degree - Commercial engineer at Free University in Brussels.

In Kredyt Bank since 1993 in different positions, currently in Headquaters for Central Europe.

Membership in other company bodies: member of the Supervisory Board of Kredyt Bank, member of the Board of Directors of K&H Bank, member of the Supervisory Board of NLB.

Farida Khambata

IFC, Director

Member of the Supervisory Board.
In Supervisory Board of ČSOB from 13 April 2000.

Education: Economics and Business Management in Cambridge and London Business School, certificated financial analyst, Warton School - program "Executive Development".

First she worked in the World Bank, from 1986 in IFC as the Director of Capital Markets Central Europe, currently Treasurer, Investment Programme and Asset Liquidity Management in IFC.

Roman Glasberger

ČSOB, Credit Specialist
Retail/SME, region Prague 2

Member of the Supervisory Board.
In Supervisory Board of ČSOB from 8 June 2000.

Education: University of Economics in Prague. Between years 1994 - 1996 he worked in Živnostenská banka as the Capital Market Analyst and Credit Analyst.

From 1996 in ČSOB as the Credit Officer, Head of the branch. Currently Retail/SME Credit Specialist in the region Prague 2.

Petr Korous

ČSOB,
Director of FM Sales

Member of the Supervisory Board.
In Supervisory Board of ČSOB from 8 June 2000.

Education: University of Economics in Prague. In ČSOB from 1992 as a Dealer Specialist, Dealer Expert, Head of Customer Service Desk.

Currently Director of FM Sales team.

Kanako Sékine

EBRD, Director

Member of the Supervisory Board.
In Supervisory Board of ČSOB from 17 April 2002.

Education: University degree in Social Sciences and M.B.A. First she worked in Smith Barney Bank - corporate banking, later Harris Upham & Co in Tokyo and later in New York. Currently she is the Director of Private Equity in EBRD, London.

Membership in other company bodies: OAO National Registry Company, Emerging Europe Capital Investors, LDC, G 7 Russia Investment Fund.

André Bergen

Member of the Supervisory Board.
In the Supervisory Board of ČSOB from 20 February 2004.

Mr. Bergen graduated as a Master of Economics at the Katholieke Universiteit Leuven in 1974. Since 1977 he has been working in banking area, first in the Kredietbank Brussels, afterwards in the Chemical Bank in the Foreign Exchange Advisory Service Department. From 1982 he worked in the Generale Bank and then in the Fortis Bank in Brussels (during the period 1999 and 2000 as a Member of the Board of Directors).

In the years 2000 - 2003 he had worked as a Vice-President and Chief Financial and Administration Officer in Agfa-Geveart N.V. Since May 2003, Mr. André Bergen has been the President of KBC Bank in Brussels.

Remi Vermeiren

KBC Bank, President

Chairman of the Supervisory Board till 11 April 2003.
In the SB of ČSOB from 10 August 1999.

Education: University degree in economics. He has been working in Kredietbank since 1960 on positions Investment adviser, Manager of Investment Banking, General Manager of Investment Banking, Managing Director of Financial Markets. He was President of Kredietbank. Since the merger of ABB, CERA Bank and Kredietbank in 1998 he was the President of KBC and President of Executive Committee.

Membership in other company bodies: Crédit Commercial de France, San Paolo IMI, VZW Cultureel Fonds KBC Bank, Nicolaas Rockox Foundation, Belgian Bankers Association, VEV, Institut International d"Etudes Bancaires, Euronext, Institute of International Finance.

Mr. Vermeiren resigned from the Membership of the Supervisory Board of ČSOB with effect from 11 April 2003 in the connection with his retirement.

Hermann Agneessens

KBC Bank,
Managing Director

Vice-chairman of the Supervisory Board.
In Supervisory Board of ČSOB from 10 August 1999.

Education: University degree in law. Since 1971 he has been working in Kredietbank as Vice President and General Manager for Financial Operations in North America, General Manager for International Operations. Currently he is Managing Director KBC Bank Member of the Executive Committee.

Membership in other company bodies: K&H Bank, Kredyt bank, Banco Espirito Santo, KBC Singapore Ltd., Fin - Force, Banksys, Bank Card Company, TESAC, IBOS, BEPSYS, VISA Belgium, N.V., VISA Europe, KBC Pinto Cards, KBC Pinto System, Isabel.

From the effect 20 February 2004 he resigned from the Membership of the Supervisory Board of ČSOB.

Willy Duron

KBC Bank,
Managing Director

Member of the Supervisory Board.
In Supervisory Board of ČSOB from 10 August 1999 till 9 October 2003.

Education: University degree in mathematics. From 1970 he had been working in ABB as insurance mathematician, Head of Life Insurance Department, Manager of Life and Supplementary Insurance Department, Member of the Steering Committee of ABB, Member of the Board of Directors ABB and Deputy Director of ABB. Currently he is Managing Director of KBC Bank and Member of the Executive Committee.

Mr. W. Duron resigned from the Membership of the Supervisory Board of ČSOB from the effect 9 October 2003.

ORGANISATION CHART OF ČSOB

as at 31 March 2004

Pavel Kavánek
Chairman of the Bod and Chif Executive Office

Communication and Investor Relations

Internal Audit
- Audit of Financial Markets
- Audit of Risk Management
- Audit of Asset Management
- Audit of Credits
- Audit of Client Realationship and Accound Maintenance
- Audit of Payments
- Audit of Accouting and Reporting
- Audit of Supprting Processes
- Planning, Reporting and Audit Support and Co-ordination
- Audit of IS
- Inspection
- Internal Audit SR

Corporate Office

Risk Managment
- Market Risk Management
- Structural Risk Management
- Operational Risk Management

Compliance
- Speciál Investigations
- Suspicicus Transactions and Financial Ethics

Strategy and Organisation
- Process and Project Co-ordination
- Management Consulting
- Management of Organisation Systems

HRM
- Budgeting and Compensation
- HR Recruitment Appaisal and Career Develop
- HR Administration
- Training and Education

Patrick Daems
BoD Member and Senior Executive Office

Financial Markets
- Foreign Exchange
- Money Market
- Derivatives
- Capital Markets
- FM Sales
- Primary Issues
- Investment Research

ALM
- Concolidated Balance Sheet Management
- FX and Operative Liquidity Management
- Interest Rates Management

Corporate and Institutional Banking
- Corporate and Institutional Banking Segment Management
- Corporate Specialised Finance
- Institutional Clients
- 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 I
- Regional Corporate Branch - Praha II
- Regional Corporate Branch - Praha III
- Regional Corporate Branch - Ústí nad Labem

IS Operation
- IS Support
- Customer Services
- Data Centres
- Administrative Support
- IS Security

IS Development
- Accounts and Payments
- Credits and International Finance
- Financial Markets
- Management Support and Reporting
- Channels
- Competence and Planning
- Architecture and Controlling Processes

Petr Knapp
BoD Member and Senior Executive Officer

Credits and Bad Debts
- Credit Risk Management
- Retail and Standart SME Credit
- Bad Debts
- Credit Administration Unit

Central Services
- Services Development and Integration
- Operation Services for Headquartes
- Regional Services Distribution
- Property Activation and Administration
- Investment
- Security and Safety
- Documentation and Finance Administration

Legal
- European Law and Complex Issues
- Credits and Deposits
- Internat.Banking, Capital Markets and Corp Banking
- Corporate Law

Administration of Ceded Receivables in ČR

Jan Lamser
BoD Member and Senior Executive Officer

Planning and Controlling
- Planning and Controlling
- Cost and Investment Management
- Performance Reporting

Financial Reporting
- Bank Financial Reporting
- Regulatory Reporting
- Consolidated Financial Reporting
- Tax
- Regional Accounting Support
- Accounting Methodology and Systems

MIS
- MIS Reporting
- Special Reporting
- Data Quality
- Central Data Store

Financial and Capital Markets Back Office
- Financial Markets Back Office
- Foreign Capital Markets Back Office
- Czech Capital Markets Back Office
- Mutual Funds Back Office

Financial Market Middle Office
- P/L and Position Reporting
- Process and Systems Management

Payments, Cards and E-banking
- Interbank Payments Services
- Bank Operation and Product Support
- E-banking
- Cards
- Call Centre

Central Procurement and Logistics
- Procurement
- Central Procurement and Logistics Back Office

Philippe Moreels
BoD Member and Senior Executive Officer

Retail/SME Business Development
- Retail/SME Planning and Controlling
- Retail/SME Segments Management
- Bancassurance
- Market Research

Retail/SME Distribution
- Retail/SME Operational Support
- Retail/SME Sales Support
- Retail/SME Sales Matrix
- Retail/SME - region Brno
- Retail/SME - region České Budějovice
- Retail/SME - region Hradec Králové
- Retail/SME - region Ostrava
- Retail/SME - region Plzeň
- Retail/SME - region Praha 1
- Retail/SME - region Praha 2
- Retail/SME - region Ústí nad Labem

Advertising

Postal Savings Bank
- Account Administration and Document Processing
- Active Sales
- Co-cperation with Czech Post
- PSB Network Managment
- PSB Branches

Private Banking
- Distribution and Private Banking Segment Managment
- 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 - Liberec

ČSOB SR

Country Managment SR
- HR SR
- Legal SR
- Marketing SR
- Information Technology SR
- Central Services SR
- ALM SR
- International Finance SR
- Non-documentary Payments SR
- E-banking and Cards SR
- Financial Managment SR
- Credits for Physical Persons SR
- Credit Administration Unit SR

Financial Markets SR
- Trading SR
- FM Sales SR
- Primary Issues and Research SR
- Asset Management SR

Corporate Country Management SR
- Non-banking Financial Institutions SR
- Regional Corporate Branch SR - Bratislava
- Regional Corporate Branch SR - Košice
- Regional Corporate Branch SR - Trenčín

Retail/SME Country Management SR
- Real and SME - region Bratislava
- Real and SME - region Central
- Real and SME - region East
- Real and SME - region West

BOARD OF DIRECTORS´ REPORT

In compliance with its strategy, in 2003 ČSOB continued to **develop services for retail clientele and small and medium-sized enterprises.** Within the framework of the financial group, ČSOB further developed the bancassurance concept and deepened collaboration with the aim to benefit further from synergies. The Bank also strengthened its position in the corporate segment and confirmed its leading role in the area of financial markets. Good **lending growth** in all client segments has been achieved, expecially corporate segment, while maintaing good quality of the loan portfolio with low share of non-performing loans. ČSOB has been successfully **growing assets under its management** - the dynamics of growth achieved in retail mutual funds and deposits was twice as high as the dynamics of the market. The Bank strengthened its competitive position in electronic banking and payment cards as well. At the same time, ČSOB managed to keep its costs under control. The rightsizing project (started in 4th quarter 2002) continued on target for completion at the end of 2004, bringing total reduction of the staff in the Bank headquarters in Prague by 1000 employees. In Slovakia, ČSOB, in line with its goals, continued its business expansion and further expanded its branch network, which led to an increase in the Bank's share of the loan market from 4.2% to 5.7%.

Despite the demanding environment of low interest rates and constraints arising from the unfavourable structure of the Bank's balance sheet, ČSOB succeeded in maintaining its high profitability and, in 2003, it achieved - as in previous years - **very good financial results.**

In June 2003, the **rating agency Fitch increased its long-term rating of ČSOB**, following the increase of the rating of the Czech Republic. Long-term (as well as short-term) ratings of ČSOB from Moody's and Fitch remain at the same level as the rating of the Czech Republic, i.e. the highest possible. Among Central European banks, the long-term rating of ČSOB from agencies Moody's, Fitch and also Standard and Poor's is at the highest level (as at mid-Febraury 2004). In September 2003, **Fitch** also **increased the individual rating** of ČSOB, and the rating agency **Capital Intelligence increased the rating of the financial strength** of ČSOB in January 2004 (this rating does not reflect the support provided by KBC).

The activity of ČSOB was also appreciated by the international professional press, which was reflected in winning the award “The Best Bank in the Czech Republic for the year 2003” announced by the prestigious journal Euromoney.

Business activities

Wider product range for retail clients and small and medium-sized enterprises

Retail segment

The year 2003 was for ČSOB's retail business the time for strengthening its franchise in the area of investment products and penetrating the market in consumer lending. ČSOB stabilized its market share of individuals' banking assets[1)] at the level of 27%, while its share of the loans provided to individuals was steadily growing and reached 17%[2)] at the end of the year 2003.

The Bank achieved substantial performance improvement in the area of **investment products**. Capital Guaranteed Funds (CGFs) contributed with a large share to overall success measured by the number 1 position in net cumulative sales. The Bank's long-term focus on financial advisory sevices with key competence in wealth management was reflected in clients using the "ČSOB Klíčový plán" ("ČSOB Key Plan"). The unique proposition of the "Key Plan" allows to efficiently plan the structure of the -client's assets by various investment instruments provided by the ČSOB Group, based on the identification of the client's needs and goals.

Consumer lending product portfolio was broadened by the ČSOB Credit card launched in May 2003. The volume of consumer loans more than doubled in 2003, the volume of mortgages increased by one third.

ČSOB Internet banking was improved by the implementation of an SMS key that provides a high level of security while maintaining user-friendliness and simplicity. Real-time account and transaction information is provided to clients via an electronic channel through a newly introduced ČSOB Info 24 service (SMS and e-mail messages).

ČSOB was the second bank in the Czech Republic to launch an EMV standard-compliant payment card in June 2003 (VISA Electron chip card). Card penetration is steadily rising due to an increase in the number of users of product packages such as ČSOB Osobní konto Plus and ČSOB Aktivní konto.

In 2003, the implementation of a **new service model for the sub-segment of affluent clients** was completed. The service model is built on personal bankers, who focus on individual care for clients with a higher volume of deposits and turnover on accounts. At the end of 2003, personal bankers served approximately 10% of retail clients and were installed in 70% of branches.

The introduction of the new service model was highly appreciated by clients, which was confirmed by the near maximum acceptance of the services offered to them. The Bank will continue developing the service model with the aim to strengthen client relationships and further increase the quality of financial advisory services.

Postal Savings Bank - brand under which ČSOB offers retail products in Czech Post network

Postal Savings Bank (PSB) continued its dynamic growth, which led to a certain strengthening of its position in the market. PSB's strengths include a precisely defined target group - mass market, a stable product and pricing policy, the large distribution network of PSB products at appr. 3,400 post offices in the Czech Republic (and at its own 8 branches) and an ever-stronger PSB brand.

1) deposit products and investments into open-ended mutual funds

2) incl. mortgage loans provided to individuals by ČMHB, ČSOB´s subsidiary

Business results in 2003:

- The number of accounts increased by 41,000 and exceeded 1 million (Postgiro accounts and Postkonto accounts)
- The number of Postgiro accounts in the Junior segment (clients aged 15-26 years) grew by 100%
- The number of permitted account overdrafts (current account overdrafts) reached almost 170,000, which means a growth of 40%
- Dynamic growth of consumer credits
- The number of cardholders exceeded 1 million

Newly introduced products:

- Client programes to Postgiro account and Postkonto account (Classic, Senior, Junior, Electron, Plus and the like) since January 2003
- Postal Investment Program offering 4 strategies for investment in mutual funds of ČSOB/KBC (at PSB branches, from January 2004 in the Czech Post network)
- Quick “Čtyřlístek” Loan - the evaluation of the client's creditworthiness is carried out through Call Centre (since October 2003)
- Credit card “Kreditka” of Postal Savings Bank (the first credit product not requiring maintenance of a current account; it has been offered at PSB branches since April 2003, from February 2004 in the Czech Post network)
- “Max Mobil” PSB - GSM banking (using SIM cards of T-mobile and Oskar operators; at PSB branches since October 2003)

In 2003, Postal Savings Bank continued its efforts to **improve the quality of** its **customer service.** On the basis of bilateral agreements, the number of countries to which customer payments can be directed within the framework of the Eurogiro service has been extended. Cooperation with ČSOB's subsidiaries has been extended with the aim to increase sales and also to enhance customer comfort in using insurance products and supplementary pension insurance products.

Improvement in the quality of services was accompanied by efforts to **increase efficiency**. The transition to processing documents through new technology continued in 2003 with an expected finalisation date in 2004.

Small and medium-sized enterprises segment

The implementation of a **new service model** was finalized also in the area of services provided to small and medium-sized enterprises. The SME bankers' service was introduced to approximately 20% of SME clients. In general, the SME bankers´service was offered to all SME clients that were meeting specific criteria and in the vast majority of cases the offer was accepted. The development of the new service model, focused mainly on the building-up of long-term relationships with clients, will continue in 2004 with a particular focus on the further specialization of SME bankers in the areas reflecting the needs of clients.

The key focus of the branch network was on **credit products.** Due to the Bank's effort, the overall SME credit portfolio grew by almost 40% while maintaining the quality of assets.

In December 2003, ČSOB received a **loan from the European Investment Bank** (EIB) in the volume of EUR 30m to finance long-term investments of SME projects in the infrastructure, industry and service sectors. For the second time, this long-term financial source from the EIB will bring clients benefits from financial support from the European Commission under the PHARE Programme.

As an evidence of its focus on the SME segment, the Bank introduced the following **products**/services during the year 2003:

- a new package for micro companies reflecting their specific needs - companies and entrepreneurs are provided with all the products they require in one package
- further enhancement of the offer for a specific segment of housing cooperatives
- a new product for the municipal and non-profit organizations segment combining payment instruments and investment products
- creation of FX regional centres to provide flexible support to SME exporters/importers within all regions

Beside these product innovations, ČSOB demonstrated its market leadership by engaging itself in important activities aimed at the enhancement of the SME market. First, together with the Prague Chamber of Commerce and rating company CCB (Czech Credit Bureau), the Bank started a SME rating project. The goal of the project is to support well-rated SME companies with cheaper services and other favourable conditions. After a pilot period, the SME rating project will be opened up to all banks on the market and other financial institutions.

Additionally to this activity, ČSOB initiated talks regarding SME reporting, which should lead to the aggregation of all available data sources and provide proper market statistics to all market entities. In this way, the market will increase transparency in terms of size and risk. SME clients will profit through a better understanding of the market evolution, their market position and lower risk margins.

Branch network for Retail and SME

During 2003, the Bank's branch network serving retail clients and small and medium-sized enterprises was stabilized. The merger process in the branch network was concluded by the last three mergers, while three new branches were opened. At the end of 2003, there were 183 branches (besides branches of Postal Savings Bank) available to clients in the Czech Republic. ČSOB is studying further optimization of its branch network coverage with the aim of opening more branches in 2004 and beyond.

In compliance with its goal to increase the quality of customer service, the Bank further progressed in 2003 in the implementation of a **new operational model** in its branches. An important feature of the new organizational arrangement, i.e. zone-based customer service and high versatility of branch employees, was introduced in all branches, while the physical setup of the branch operational model was introduced in approximately 40% of the Bank's branches at the end of 2003.

Private Banking

Private Banking services, provided by ČSOB since 2002, have been designed for clients with assets of at least CZK 5m. In the year 2003, the number of ČSOB clients in this segment increased considerably, and the volume of assets increased by CZK 9.9bn to CZK 15.8bn by the end of 2003. Therefore ČSOB strengthened its market position significantly. It can be assumed from the results of a survey conducted that, for private banking, **ČSOB** is **the number one bank** in the Czech Republic.

In the product area, the Bank improved and broadened its offer of products on the basis of clients' requirements:

- ČSOB Private Portfolio (discretionary management of a securities portfolio)
- ČSOB Individual Portfolio (investment advisory)

and the Bank also successfully launched a new product:

- ČSOB Private Account, offered since September 2003. This product is a package of bank services “tailor-made” for clients of private banking

The development of the branch network continued during 2003 according to plan. At the beginning of the year, two last branches (Prague II and Liberec) were opened, which were missing from the target of eight branches covering the whole territory of the Czech Republic. Further, a sub-branch was opened in Teplice.

Market leadership of ČSOB in area of guarenteed funds

In 2003, ČSOB motivated clients to transfer their funds from term deposits into products with higher value added - investments on the capital market. This way, it achieved a 37% **increase in** overall **sales of mutual funds** via the Bank's distribution network in the Czech Republic, reaching an amount of CZK 14.7bn. October and November can be regarded especially as a very successful period in 2003, when ČSOB offered its clients the possibility of having made the so-called ČSOB Key Plan. This helps clients to plan their investments and long-term savings. Almost 40,000 clients used this opportunity before the end of February 2004.

In 2003, money market funds and Capital Guaranteed Funds - CGFs (they guarantee a pre-set minimum yield) were the most popular mutual funds. Overall, trough its sales network ČSOB offers more than a hundred mutual funds managed by ČSOB IS (including the former PIAS) and by the parent company, KBC. Just the **interest in guaranteed funds** grew very significantly, and, in 2003, ČSOB created and successfully sold 9 new guaranteed funds. Clients invested amounts totalling more than CZK 2.7bn in these new funds.

At the end of 2003, the **volume of assets managed** in the funds of the ČSOB/KBC group reached CZK 41bn, which is an **increase** of appr. 5% compared to the end of 2002. However, especially the growth in the volume of pro-actively sold retail funds was significantly higher and reached 66%. By contrast, the volume of assets in transformed investment funds further decreased in 2003.

In 2003, the funds of the ČSOB/KBC group received notable appraisals from independent appraisers - for example, mutual fund KBC Renta Czechrenta was awarded 1st prize "Signum Temporis 2002" in the category of collective investment.

The **sale of mutual funds within the sales network of Postal Savings Bank** through the so-called Postal Investment Program was started in January 2004.

Bancassurance

In line with the strategic intent of the KBC Group, ČSOB was further developing its bancassurance concept. The product development is undertaken in close cooperation with ČSOB Pojišťovna and ČSOB Asset Management. The objective of blending insurance and banking products is meeting specific requirements of sales through the branch network (simplicity and standardization).

ČSOB Savings Program - a simplified life insurance with regular premiums - was launched in May 2003 with the aim to offer an attractive yield with flexible insurance cover. A single-premium product was launched in August 2003. Both products have become integral parts of the ČSOB Key plan. The Bank concluded more than 15,000 life insurance contracts in the year 2003 with a total premium written of over CZK 400m. In February 2004, the Bank introduced a new product - ČSOB Maximal Invest, combining life insurance with investment in a guaranteed fund.

Good lending growth and strengthened position in Corporate segment

In the year 2003, the ČSOB Corporate Banking unit continued to focus on mid-cap companies, and the sales network was concentrated mainly on furthering the relationships with its core clients.

High customer loyalty and stable market shares are typical for the Czech market. Despite a competitive environment, placing ever higher pressure on service and pricing, the ČSOB Corporate Banking unit confirmed its **leading position** in the corporate market and was able to further grow its revenues. Both fee income and interest income experienced growth, despite a difficult interest-rate environment.

After launching a new version of its cash management service during 2002, the Bank was highly successful in selling this **advanced product** to its clients, thus further strengthening its position as a local and **international cash management provider.** To further extend its product offer in this area, in 2003 ČSOB decided to participate in the development of an electronic banking internet system to be used throughout the entire KBC Group. This will allow corporate clients to manage all their cash flows through a sophisticated front-end application accessible from anywhere in the world. The launch of this product is planned for 2004. An on-line internet tool facilitating standard trade finance transactions electronically will also be developed.

In 2003 the Corporate Banking unit continued to invest in improving its human capital by starting a skills and knowledge training scheme, involving all front-office personnel. The operational model of the unit was further refined with the main objective to increase the branches' focus on business. The distribution network will be fine-tuned. Two new corporate branches will be established in the Czech Republic in 2004.

In 2004, the ČSOB Corporate Banking unit will tap new markets through increased focus on particular market sub-segments and on product development. In 2003, the Corporate Banking unit joined forces with the International Banking unit, which was mainly focused on trade finance. By bringing both units together under a single management, a more integrated product approach toward clients for this important area of activity will be possible.

Another important component of the merger between Corporate and International Banking is that all activities targeting institutional clients within ČSOB (including state entities) will be housed under one roof. Finally, Corporate Banking decided to raise the profile of its existing specialized lending services, such as syndications and long-term export and project finance; they will be put under common management with acquisition and leveraged financing (financing of purchase of company with high external financial sources ratio).

Growing market share in Slovakia

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

In the segment of both individuals (retail clients) and small and medium-sized enterprises, ČSOB ranks among the five most significant banks in Slovakia. In 2003, ČSOB's market share in the segment of retail clients reached 5% in terms of deposits and 3% in terms of loans.

In 2003, the implementation of a new banking system, Profile, was successfully completed. The **expansion of the branch network** continued; 22 new branches were opened and their total number reached 70. The business expansion brought a 9% increase in the total number of clients.

In the business area, the Bank achieved a significant **growth in mortgage and consumer loans** in Slovakia. The volume of mortgage loans grew in 2003 to SKK 700m. The volume of consumer loans doubled to reach SKK 1.4bn. Almost 80% of newly provided loans are covered through insurance offered since June 2003 in cooperation with insurance company Ergo poisťovňa .

Since November 2003, clients have been offered credit cards. Since June 2003, the Bank has been selling travel insurance in cooperation with Ergo poisťovňa. New packages of retail services and a new way of providing advisory for retail clients, the so-called ČSOB Key Plan, will be introduced in 2004 - similar to that in the Czech Republic.

In the segment of **small and medium-sized enterprises**, the Bank improved its own credit process, which in 2003 led to an **increase in the volume of loans.** In 2004, new packages of services for small and medium-sized enterprises will be launched and a new service model will be implemented.

The sale of mutual funds

Clients increasingly invested into **open-ended mutual funds**. The volume of assets under management tripled to an amount of SKK 2.4bn. Net sales of mutual funds reached SKK 1.7bn in 2003. ČSOB's share in the market of mutual funds is 6%, and the Bank is in 4th place in terms of sales of mutual funds. Regarding foreign mutual funds, the Bank's market share is almost half of the market - 47%. In September 2003, a new type of fund - the so-called guaranteed mutual fund (Fund Partners Equity Plus 1) - was launched. At the end of the year 2003, the amount of assets managed by this fund reached SKK 342m.

Corporate banking in the Slovak Republic

ČSOB has managed to maintain its **prominent position** in the Slovak corporate market despite growing competition. When servicing corporate customers, the Bank has focused on maintaining the quality of services provided to existing clientele and, at the same time, it has concentrated on acquiring new customers entering the market.

The Bank has successfully completed several significant transactions for major Slovak companies. It has taken part in financing the most important infrastructural projects in Slovakia, including financing the construction of Slovak highways and railways. ČSOB has become the main financing bank for many foreign investors entering the Slovak market.

Although the growth of assets was not the principal criterion for the success of the corporate segment in Slovakia, the volume of loans granted to large companies increased, in the year 2003, by 50%, reaching SKK 16bn. SKK 2.1bn of this amount is covered by state guarantees. At the same time, the segment was successful in attracting deposits of corporate clients - the total year-on-year increase represents 8%.

An exceptionally favourable development was noted in the trade finance activities - the traditional domain of ČSOB. In the year 2003, net commission income stemming from trade finance activities reached 40% of the total operating income of the corporate segment. Following positive changes in the Slovak legislation and tax environment, ČSOB was able to extend expertise to its Slovak operations in providing sophisticated products of the **international cash management** and became a key market player in Slovakia. ČSOB offered **non-banking financial institutions** quality and reliable **services** which enabled it to maintain its **leading position** in this segment. The branch for non-banking financial institutions, as the most important commercial provider of trustee services for mutual funds and pension funds, is the most experienced provider of this kind of services. Thanks to its experience and professionalism, ČSOB saw a significant increase in the number of clients. In 2003, the most important clients of the branch for non-banking financial institutions were insurance companies, pension funds, investment companies, mutual funds and stockbrokers.

Market leader position in financial markets operations confirmed

The trend of increasing the share of trading for clients continued in 2003, while the Bank succeeded in replacing income from simple products with income from more sophisticated products.

In 2003, in the area of **forex markets** operations, ČSOB maintained its leading position among domestic banks. The Bank mainly concentrated on the domestic CZK market where it was among the three largest local market-makers. In FX EUR/CZK trading, the Bank again achieved the largest share in the total market turnover. The Bank also maintained its position of a market-maker in the EUR/USD relation. ČSOB also actively traded in the Polish zloty (as the only local market-maker), in the Hungarian forint and in the Slovak crown. ČSOB is the only bank in the Czech Republic to offer futures operations. The traditional trading in banknotes is used by almost all domestic banks as well as by non-banking clients.

In the **money markets**, ČSOB confirmed its traditional leading position in the Czech interbank market in 2003. The Bank continues to be a market-maker in Czech crown deposits and loans, repo deals, Sell/Buy deals as well as in treasury bills. The Bank also maintains its dominant position in the area of Czech crown interest rate derivatives deals, while most activities regard the short end of the yield curve. The Bank increased its market share in the area of foreign-exchange swaps. As for foreign-currency deposits, ČSOB keeps its place in the international market.

In the area of **derivatives & structured products**, ČSOB maintained its role of a dominant, active market-maker in the FX options market among local banks and also its position as a key market-maker in the area of CZK FX options. The Bank succeeded in a quick broadening of its product portfolio primarily for large corporate clients by including new and structured products based on exotic options and thus boosted its competitive strength. In the year 2004, ČSOB wished to further develop new, modified and structured products and focus on derivatives utilised as a hedge against interest rate risk.

In the area of **capital markets** trading, in 2003 the Bank expanded its range of investments and used lower-risk investment instruments. The Bank expanded its portfolio by including foreign-currency denominated securities. In the Czech market, ČSOB became the leading bank in the area of securities lending with heavy usage of hedging instruments (Interest Rate Swaps - IRS, Asset Swaps - ASW), which are today necessary to overcome short-term price fluctuations. In the year 2003, the Bank was very active also in the area of primary issues auctions and became the most significant participant not only in government bond auctions, but also in other issue programmes of large companies.

In the **trading for clients** (FM sales) area, the volume of sales of derivatives and structured products, mainly to corporate clients, increased in 2003. The Bank successfully continued to promote FX options and acquired new counterparties for interest rate hedging. The client trading activity picked up considerably in the second half of 2003 when the Czech crown exchange rate became more volatile and global interest rates started to rise. Within the framework of a project supporting sales of FX products to small and medium-sized enterprises, new points-of-sale in all regions have been established. These points-of-sales started to offer financial market products, especially FX transactions. Their activity is supported by the broad use of the “e-dealer” system that allows simple and automated processing of client foreign-exchange trades originating in the branch network.

In the **primary issues market**, the Bank maintained its position as a leading bank in the domestic market.

In the primary **bond** market, the Bank succeeded in 2003 in:

- establishing a bond programme for ČEZ, a.s. and arranging the first issue under this programme of CZK 3bn
- co-arranging the second tranche of the first issue for Český Telecom, a.s. within the framework of a bond programme together with Česká spořitelna and co-arranging the second issue of CZK 6bn together with Česká spořitelna and HVB Bank Czech Republic
- increasing No. 1 series of bonds of the European Investment Bank issued under its Czech debt bond programme
- arranging three issues of mortgage bonds for mortgage bank Českomoravská hypoteční banka, a.s., of a total amount of CZK 5bn

Regarding **promissory note issues**, notes of corporate issuers worth approximately CZK 9bn were placed in the market.

The Bank's position as a **paying agent:**

- the leading position as an issuing and paying agent of corporate bonds, and as a paying agent of dividends and other amounts, including payment of compensation to victims of Nazism from the Czech-German Fund for the Future
- the leading position in arranging auctions and payment of government bonds; a mandate gained in a public tender to act as an issuing and paying agent of the 40th issue of government bonds

The total amount paid out through the Bank was about CZK 62bn.

ČSOB **investment research** analytical activities continued to cover, in particular, economies and financial markets of the Czech Republic, Slovakia, Poland and Hungary. Traditionally, it was focused on short-term as well as long-term analyses and predictions that are widely distributed, especially through publications updated on a continuous basis.

Operations on financial markets in the Slovak Republic

In 2003, ČSOB maintained its position among active makers of the local FX market. The Bank even substantially strengthened its position in the area of operations on money and capital markets. Measured by its turnover in the inter-bank and money market, ČSOB became the second most active bank in the group of reference banks with a market share of almost 20%. The trading in interest rate derivatives increased significantly.

The trading for clients was one of ČSOB's key activities on financial markets of the Slovak Republic also in 2003. In the area of derivatives operations, the Bank extended its product offer for clients by including new products (barrier options, interest rate options and option structures).

In 2003, ČSOB placed an **issue of mortgage bonds** amounting to SKK 400m on the Slovak market.

Strengthened competitive position in electronic banking and payment cards

In 2003, the Bank continued the dynamic development of its electronic banking services and the number of clients using some of its electronic channels reached over 800,000. Additional products and services were added in individual direct banking channels and, in this area, the Bank fully matched the top-end of the market. **Phone banking, internet banking and PC banking services** have already become a fully standard part of services offered to all of the Bank's customer segments both in the Czech Republic and in the Slovak Republic. A number of clients are using several channels and for this reason ČSOB is offering the so-called multi-channel distribution of its services. In the area of direct banking, ČSOB is **fully competitive** also in terms of quality of its services.

Product development:

- In the 4th quarter of 2003, a pilot operation of a brand-new direct electronic banking channel was started. This channel, called ČSOB BusinessBanking has been designed for entrepreneurs and enterprises and shall replace ČSOB Homebanking 24 in the following years. It is a modern application combining advantages of internet banking with advantages of PC banking.
- In the area of PC banking for enterprises, a switch to a new user-friendly version of the ČSOB Multicash 24 application was carried out. This version will also allow expansion of the offering by including other products and services provided through this distribution channel.
- The offer of products and services provided within the framework of ČSOB Internetbanking 24 was expanded on a continuous basis.
- Besides using digital certificates for the authorisation of active instructions in ČSOB Internetbanking 24, the range of offered authorisation methods was expanded by a one-time authorisation code, so-called SMS key, sent via SMS to the client's mobile phone.
- The scope of ČSOB Mobil 24 services was extended to mobile operator Český Mobil ČR and Orange SR, and the preparation for inclusion of Eurotel, another operator in the Slovak Republic, was started.
- An interesting part of the offer became the ČSOB Info 24 system, automatically sending information about account balances and banking transactions.

Payment cards

In 2003, ČSOB continued the **expansion of its ATM network** - it increased the number of ATMs by 48% in the Czech Republic and by 22% in the Slovak Republic. At the end of 2003, 488 ATMs were already installed and operated both in the Czech Republic and the Slovak Republic.

The **network of POS terminals** at merchants' business places was developed by ČSOB **most dynamically** in 2003. Their number grew by more than 35% to 10,300 at the end of the year. The volume of transactions at these business places grew, year-on-year, by 32%.

In June 2003, ČSOB with KBC's support started issuing VISA Electron chip payment cards with international validity. These chip cards meet international standards and provide clients and merchants with a considerably higher security level.

The Bank made significant investment in enhancing functions of its POS terminal network at merchants' places and thus reached a state when more than 90% of this network is able to accept EMV chip cards of associations MasterCard and VISA. At the same time, the number of business places accepting cards of associations Diners Club and JCB was increased as well.

Thanks to strict security measures, ČSOB succeeded in reducing damage caused by fraud to the Bank related to card transactions, even as the Bank expanded its operations.

Market position:

- ČSOB has become the **largest operator of a network of payment terminals in the Czech Republic**
- ČSOB is the **second largest issuer of payment cards** in the Czech Republic (after Česká Spořitelna). Almost 1.6m cards were issued in the Czech and Slovak Republics, while the number of active cards in the Czech Republic alone is almost 1.5m.
- ČSOB is also the **second largest issuer of EMV-standard chip cards in Central and Eastern Europe** (after Komerční Banka). 160,000 VISA Electron chip cards were issued in both Republics by the end of the year 2003.

In 2004, ČSOB wants to continue to increase the number of ATMs. The Bank prepares a transition of its ATM network to be able to accept international EMV chip payment cards. The Bank also prepares to **transfer** other card products **to EMV international chip standard** during the year both in the Czech Republic and in the Slovak Republic.

Payment services

Payment systems in ČSOB are fully **prepared for the Czech Republic's admission to the EU**. Since 1 July 2003, all clients keeping current accounts with ČSOB have been provided with account numbers in the IBAN (International Bank Account Number) format. ČSOB's share of non-documentary cross-border payments made in the Czech Republic is 24%. All foreign payments made through ČSOB are processed nearly exclusively by the STP method (Straight Through Processing) in the Czech Republic. The implementation of this highly automated method for processing non-documentary payments brought not only higher efficiency and reduction in staff numbers, but, primarily, a higher processing speed and accuracy. In Slovakia, the introduction of the STP system allowed the processing of more than 38% of incoming foreign payments without manual intervention. In accordance with the strategic decision of the Bank, most processing activities were centralized in the year 2003 so as to achieve optimum labour productivity and minimum operational expenses.

ČSOB has maintained its **position as a market leader** in the area of **vostro accounts**. At the end of 2003, the Bank kept about 600 accounts for banking clients mainly from Europe and Northern America. The total annual turnover of bank-to-bank transfers showed a slight decrease compared to previous year; despite this fact, turnover reached CZK 13,400bn, with a daily average of more than CZK 52bn. The share of STP of bank-to-bank transfers is still growing and, at the end of 2003, it reached 56% of the total number of incoming payment orders. Banks were provided with enhanced service, especially in the cut-off time for processing incoming payments orders.

Activities to support business

Marketing activities

ČSOB brand management

In the first quarter of 2003, the methodology of the ČSOB Group graphics style was unified and simplified on the basis of previous experience and new requests. A new Graphics Manual of the Postal Savings Bank was prepared, considering future common usage of both brands (e.g., for ATM branding). In 2003, the insurance company ČSOB Pojišťovna and the pension fund Českomoravský penzijní fond (now ČSOB Penzijní fond Stabilita) joined the ranks of companies using KBC/ČSOB's logo. ČSOB Penzijní fond changed its name and brand to become ČSOB Penzijní fond Progres. In Slovakia, the insurance company Ergo poisťovňa joined the rebranding process and started to use the KBC logo as well. After a one-year transition period, the company will take over the ČSOB Group's identity fully and will be transformed into ČSOB Poisťovňa.

The building of the brand image of ČSOB (and the whole group) and of Postal Savings Bank is wedded with the creation of a positive perception of ČSOB in the public's mind, and the Bank continued this process in 2003. The adjustment of internal bank processes and employees' behavioural patterns continued with the aim to achieve the targeted brand position of ČSOB on the market.

In Slovakia, a campaign ran at the beginning of 2003 with the aim of supporting the perception of ČSOB´s brand and attributes of services provided. Besides that, in the course of 2003, the Bank also advertised on billboards.

Sponsorship activities

Regarding its sponsorship activities, ČSOB has been loyal to well-proven and successful projects over the last several years. In the long term, ČSOB co-operates, for example, with the Goodwill Committee - Olga Havel Foundation and is a partner of the Czech Film and Television Academy on the occasion of awarding Czech Lions for the best film works and performances. In 2003, ČSOB became the general partner of the international film, television and video festival FEBIOFEST and it also supported the EKOFILM project, which is a festival of films on environment protection. ČSOB has also become the main partner of the Světluška project that supports people with serious sight handicaps. Since 1997, Poštovní Spořitelna has been co-operating with the Our Child Foundation with the aim to help children in crisis situations.

Care for human resources

In 2003, ČSOB continued to implement a strategy for managing human resources focused on the strengthening of the quality of human potential as a key source of competitiveness, while great emphasis was laid on the professional growth of employees. The main goal in the **training** area was to make the process of training more efficient and enhance employees' expertise and develop their skills. To fulfil this goal, more than 200 training programmes were used in areas such as qualification preparation of employees and managers, corporate culture, computer literacy and language skills. ČSOB continued its extensive project of training in sales skills of all customer officers. Within the framework of this project, training of more than 2 300 employees from the Retail/SME segment was successfully completed in 2003, and in 2004, the training will continue for employees from the Corporate segment.

Based on KBC's experience, a programme was started for building so-called **competency centres** in the Bank´s important segments. The process of setting the scope of expertise and skills needed for each position of customer officer in the Retail/SME and Corporate Banking segments and the execution of tests of customer officers were followed by intensive work on the building of competency centres as centres creating training programmes, ensuring trainers are available for the programmes, and developing e-learning. This work will also continue in the year 2004.

With the aim to optimally utilise human resources within the Bank and fill vacant positions, managerial positions, in particular, with the Bank's own employees, ČSOB in cooperation with KBC implemented a system of **appraisal and development centres.** Mapping the potential of selected talented employees helps in managing the career development of key employees and also in recruiting new employees. In order to secure the best quality and the most objective selection, the process of selection of external applicants was also made stricter.

A condition for recruiting and keeping quality employees is the provision of **competitive salaries and social benefits.** In 2003, salaries were individually adjusted so as to make salary compensation comparable with compensation provided in other companies on the labour market, and the salaries were directly linked to performance. In the year 2003, the Bank offered its employees two new benefits: a flexible choice from the offer of employee benefits paid from the employee fund and contribution to employees' life insurance.

In 2003, **Postal Savings Bank** paid great attention to **improving staff qualifications**. Besides systematic training of Czech Post staff in the product area, there were also training courses, arranged in cooperation with external firms, focused on improving sales skills. Special training to develop sales and managerial skills was designed for ČSOB staff - postal sales network managers. At the same time, the so-called audit of postal network managers was started with the aim to appraise their potential and direct their further development. Based on these audit results, a plan for the development of managers of the postal sales network shall be prepared in the second quarter of 2004.

Information technology

In the area of IT, in 2003 the Bank focused on further development with the aim to support business and increase the cost efficiency of the Bank's operations. In the middle of 2003, the IT unit was reorganised with the aim to separate operations from change management. At the same time, an architectural department was built up and a more service-oriented delivery organisation was established within the Bank.

Following the consolidation in the area of IT (after the merger with a IPB and the insourcing of a part of PVT - external provider of IT services to IPB), the activities in the year 2003 were mainly focused on starting large projects.

The most important programmes are the following:

- SAP implementation to support the increased focus on cost management
- integration and implementation of Criff - a tool for improving the retail/SME credit process (roll out planned in 2nd half 2004)
- implementation of the Profile system in the Slovak Republic, inclusive of the automated migration of retail and SME clients (finalized by September 2003)
- implementation of an application for fast central processing of payment orders in regional processing centres (resulting in headcount reduction)
- implementation of IBAN account numbers
- further implementation of STP method for processing international payments
- implementation of chip card
- development and implementation of Portfolio Management Tool for serving affluent retail clients

In the year 2003, several other large projects were started that will continue during 2004 (and further on):

- Central Data Store
- new sales support system for retail and SME segments, named S-Cube
- implementation of Murex system for back-office operations in the financial markets (Murex system for front-end and middle-office operations has already been implemented)
- WISE, a corporate e-channel to be used in KBC Group
- Basle II requirements

Internally, a major goal within the IT area, for the year 2004, is further centralisation of servers. Within the financial group, the IT unit will be looking for quick wins to reduce cost, and, in the longer-term, IT support of subsidiaries will be analysed to find synergies.

ČSOB Group

In 2003, within the framework of a financial group, ČSOB focused on further development of cooperation and better use of the synergies. ČSOB confirmed its **leading or strong market position** in main non-banking financial products.

In January 2003, the insurance company ČSOB Pojišťovna merged with IPB Pojišťovna and a new entity in the **insurance market** was created - ČSOB Pojišťovna, a.s., a member of the ČSOB holding. ČSOB Pojišťovna holds 5th place in the Czech market with 8% share in life insurance (and 4% share in non-life insurance) and offers life and non-life insurance for individuals as well as for legal entities. Ergo poisťovňa, a sister company of ČSOB in Slovakia, underwent radical restructuring in the year 2003. Ergo poisťovňa is a universal insurance company as well.

In 2003, the planned consolidation of the ČSOB Group in the area of **customer assets management and collective investment** was successfully completed. With the aim to improve the effectiveness of the services provided, these activities were concentrated in two companies - ČSOB Asset Management, a member of the ČSOB Group (ČSOB AM) and investment company ČSOB Investiční společnost, a member of the ČSOB Group (ČSOB IS). Within the framework of the ČSOB financial group, ČSOB AM is engaged in providing asset management for the entire financial group and its clients. By volume of the assets under management, ČSOB AM is the 2nd largest company in the domestic market with 20% of the market. Within the framework of the integration, the preparation for the merger of the investment company První investiční společnost (PIAS) and ČSOB IS continued in the course of the year 2003. To accomplish the merger, the form of dissolution of the company PIAS was selected with transferring its equity to the main shareholder of ČSOB IS, and 1 July 2003 was set as the decisive day for the equity transfer. By incorporating the company PIAS into ČSOB IS, the activities in the area of mutual funds of the entire ČSOB Group were concentrated (company PIAS ceased to exist on 13 January 2004 without liquidation, while its assets were taken over by ČSOB IS). In July 2003, the planned merger of some funds of ČSOB IS with similarly oriented open-ended mutual funds of the company PIAS and the merger of post-privatisation funds of PIAS was carried out. The result of the fund merger was that, at the end of 2003, ČSOB IS managed one investment fund and three open-ended mutual funds, and PIAS managed one investment fund and six open-ended mutual funds.

ČSOB Group is the only financial services provider in the Czech Republic to offer **supplementary pension insurance**, reflecting customer preferences in various age categories. Customers are offered, within the framework of the ČSOB Group, two pension funds with different investment strategies: ČSOB Penzijní fond Stabilita (formerly Českomoravský penzijní fond) for conservative investors and ČSOB Penzijní fond Progres (formerly ČSOB Penzijní fond) for dynamic investors. At the end of 2003, ČSOB became the 100% owner of the pension fund Penzijní fond Stabilita, which finally resolved the shareholder structure of this fund. ČSOB pension funds hold 6th place in the market with 10% market share.

Mortgage bank Českomoravská hypoteční banka (ČMHB) has taken 2nd place in the **mortgage market** with a 24% share. Taking into account business expansion in the area of mortgages, ČSOB increased capital in ČMHB during 2003. Subsequently, the Bank bought shares from significant shareholders of ČMHB and thus acquired an almost 100% stake in this entity. In 2003, ČMHB provided mortgage loans of CZK 9.2bn, which is a year-on-year increase of 42%.

Building society Českomoravská stavební spořitelna (ČMSS) has taken 1st place in the **construction savings market** with a 35% share in deposits and 40% share in loans. In 2003, ČMSS benefited from the dynamic market growth and concluded a record number of new contracts - almost 930,000, with the total target of appr. CZK 190bn. The customer interest in loan products further continued and ČMSS succeeded in increasing the volume of loans provided by 55%.

In the **leasing market,** ČSOB Leasing holds 1st place with a 14% share (volume of new leasing business). The leasing turnover grew by 4% to almost CZK 15bn, and almost 23,000 new leasing contracts were concluded. Leasing of vehicles for enterprises and individuals and leasing of machinery made the biggest share of the company´s business while instalment business achieved the highest growth.

In Slovakia, the Bank holds a significant position in the area of construction savings - 3rd place with 9% market share in deposits (and 4% share in loans) and in the area of leasing - 2nd place with 15% market share. More than 25,000 new construction savings contracts were concluded. The leasing turnover reached CZK 6.5bn and appr. 9,000 new leasing contracts were concluded.

At the beginning of 2004, the ČSOB Group is offering its clients services in the following areas:

- **Construction savings and mortgages**
  Českomoravská stavební spořitelna
  ČSOB stavebná sporiteľňa
  Českomoravská hypoteční banka
- **Insurance**
  ČSOB Pojišťovna
  Ergo poisťovňa
- **Asset management**
  ČSOB Asset Management
- **Collective investment**
  ČSOB Investiční společnost
- **Pension funds**
  ČSOB Penzijní fond Stabilita
  (formerly Českomoravský penzijní fond)
  ČSOB Penzijní fond Progres
  (formerly ČSOB Penzijní fond)
- **Leasing**
  ČSOB Leasing
  ČSOB Leasing (SR)
- **Factoring**
  O.B. HELLER
  OB Heller Factoring

ČSOB´s financial performance in the year 2003

Despite the rather difficult economic and continued low interest rate business environment in 2003, ČSOB maintained its high profitability. The ČSOB Group achieved very good 2003 financial results showing a net profit of CZK 6.2bn and ROE of 14.3%. Positive financial results have been primarily achieved due to strong fee growth, good growth in lending across all the client segments, significant contribution from ČSOB Group companies, and certain one-off, non-recurring income. The fee income growth was above the market dynamics and the increase of average net interest margin was achieved against market trends and interest rate development. The impact of one-off income has decreased.

All of the financial figures set out below were extracted from ČSOB's 2003 **audited consolidated** financial statements prepared in accordance with **International Financial Reporting Standards (IFRS).**

Consolidated Profit and Loss

2003 Net Profit after tax for the ČSOB Group is CZK 6.2bn, which is 5% below 2002 reported profit of CZK 6.6bn. The main drivers of the decrease were a decrease of 6% in Operating Profit, due to an increase in total operating costs of 4%, and significant decrease in the recovery of bad debts, following exceptional recoveries of bad debts in 2002. These were partially offset by a decrease in the Income Tax Expense. Details behind individual items are explained below.

Net Interest Income increased by CZK 1.0bn (7%) to CZK 14.7bn. A negative impact of the continued low interest rate environment was offset by the Group's fast growth in credit products and by appropriate proprietary treasury investments into higher-yield products.

Average Net Interest Margin for ČSOB Group increased from 2.12% in 2002 to 2.15%. Although 3-month PRIBOR interest rates decreased from 2.54% (end of 2002) to 2.09% (end of 2003), the ČSOB Group increased NIM by improved placing of funds using a growing bond portfolio and improved structure of the Balance Sheet.

Net Fee and Commission Income increased by CZK 0.8bn (14%) to CZK 6.4bn, driven by fast growing income from payment cards, sale of mutual funds and domestic payments in ČSOB Bank and significant fee growth for ČMSS (152%).

Net Trading Income amounting to CZK 1.1bn decreased by CZK 1.5bn (58%) compared to the year 2002. Approximately CZK 900m of the decrease was offset by increased NII resulting from significant proprietary trading in interest-rate arbitraging transactions. The movement also reflected the decrease in income derived from foreign payment operations (CZK 300m).

Operating Expenses increased by CZK 560m (4%) to CZK 15.6bn. The major part of the increase was driven by increases in fixed assets put into use in 2003 (CZK 200m). Excluding the one-off increases, operating costs showed only a small increase, compared to 2002, which was due to cost-reduction initiatives and good cost control across most cost categories.

Cost/Income Ratio (defined as operating cost to operating income) showed an increase from 64.9% (2002 IFRS Profit and loss statement restated for implementation of IAS39 provisioning methodology) to 67.2% due to operating expense increase explained above.

Credit Loss Provisions and Credit Risk Reserves of CZK 27m for 2003 show a significant difference from net releases of provisions and recovery of debt in 2002. significant recoveries of debts in 2002 are viewed as exceptional and not part of normal business activity.

Income Tax Expense decreased by CZK 1.6bn due to the derecognition of deferred tax related to one of ČSOB's subsidiaries - FINOP (CZK 1.1bn) and a decrease in the effective tax rate of the Group driven by the purchase of bonds and securities where lower coupon rates are offset by income being taxed at a lower than standard tax rate.

Consolidated Balance Sheet

At the end of 2003, consolidated **assets** totalled CZK 606.5bn, which represents an increase by CZK 9.5bn compared to the end of 2002.

Cash and Balances with Central Banks of CZK 19.2bn decreased from the end of 2002 due to good cash management and lower minimum reserves.

Amounts Due from Banks decreased by 8% to CZK 131.1bn, due to the transfer of funds to bonds and securities portfolios.

Trading Assets increased by 14.5% to CZK 63.8bn, mainly as a result of increased trading in short-term money-market loans at the end of 2003.

Investment Securities increased by CZK 54.0bn (70%) to CZK 131.2bn due to continued reinvestments of clients' deposits into higher-yield financial instruments with the goal of maximising net interest income in the current low interest rate environment.

Loans and Leases went up to CZK 230.1bn (by 8%). Business lending in ČSOB Bank in core business segments showed a 14% growth.

The movements in "**Rescue acquisition state assistance receivable**" are due to the final transfer of unwanted assets to the Czech Consolidation Agency (ČKA) during 2003.

Goodwill of CZK 3.8bn is mainly related to the acquisition of IPB.

Trading Liabilities increased by CZK 5.7bn (14%) due to increased trading activities via short-term money market deposits and reached CZK 46.5bn.

Amounts Due to Customers of CZK 440.0bn showed an increase of 5% compared to 2002. This development follows the general trend of clients in all client segments seeking alternatives to the standard deposit products given the current low interest rates on deposits. The effect was clearly visible in the fast growth in **Assets under management** (including advisory mandate for management of mutual funds) where the ČSOB Group saw a growth of 4.4% in 2003 from CZK 71.9bn to CZK 75.1bn.

Debt Securities in Issue decreased to CZK 16.7bn (by 41%) following the maturity of CZK 6bn of ex-IPB bond and the transfer of deposit bills of exchange to term deposits.

Return on Average Equity (ROAE) for 2003 was 14.3% (compared to 16.7% in 2002).

Capital Adequacy Ratio of the Bank (as defined by the Czech National Bank regulation No. 2 on capital adequacy dated 3 July 2002) increased from 13.99% as at 31 December 2002 to 15.36% as at 31 December 2003 due to the increase in risk-weighted assets following the business expansion. Capital Adequacy Ratio of the ČSOB Group was at the level of 13.56% as at 31 December 2003, compared to 12.56% as at 31 December 2002.

ČSOB strategy

ČSOB's vision

"Our ambition is to be a united family of bank-insurers built upon a stable and substantial retail franchise, efficiently providing financial services to our customers according to their needs, and delivering a sustainable return to our shareholders by leveraging our current position."

Strategy of the ČSOB Group

ČSOB's clear intention is to further strengthen ČSOB's leading position in the Czech financial market and to significantly improve its position in Slovakia. Therefore, ČSOB has primarily focused on providing bank-insurance services to individuals and small- and medium-sized enterprises in both markets. Simultaneously, ČSOB wants to maintain its current strong position in the segment of corporate customers as well as in the area of financial market services.

To make ČSOB's business intention viable, the Bank is notably strengthening co-operation with its subsidiaries as well as mutual co-operation amongst subsidiaries themselves. For these purposes, ČSOB has just started to implement a **new Group governance and business model** that should create a firm group coherence respecting ČSOB's common core values: professionalism, operational excellence, teamwork, dynamism, ethics and integrity.

ČSOB's objective is to gradually form centres of excellence, either in subsidiaries or in the Bank, that will co-ordinate their business or functional activities group-wide. The current priority is further development of client relationship management, co-ordination of group distribution channels and management of product portfolio coverage.

Medium-term business direction

As stipulated in the vision, ČSOB's core business intention is to provide bank-insurance services to individuals and to serve entrepreneurs, small- and medium-sized enterprises, municipalities, large corporate clients and non-banking financial institutions.

ČSOB will continue to build upon its successful multi-brand approach (ČSOB and Poštovní Spořitelna) and extensively develop its multi-channel way of service in both markets. A medium-term objective is to significantly improve the quality of client relationship management. ČSOB works hard to find an optimal balance to effectively serve both retail customers and small-sized enterprises through its networks of brick & mortar branches, tied agents, and e-banking channels using an appropriate product and pricing policy.

In retail and SME banking, ČSOB will introduce a concept of four customer-need platforms in 2004. This concept will enable it to match the Bank's offering of financial products and advising services better with clients' needs. These platforms are wealth management, payment comfort, financing customers' needs, and services for SME clients.

Specifically, ČSOB Bank (not including Postal Savings Bank) has an ambition to achieve at least 18% market share for all ČSOB retail banking products by 2007 with the exception of consumer lending, where it intends to nearly double its currently low 5% market share. ČSOB's key priority for the following three years will be to provide mortgage loans, while sales in the Bank's branches should reach 18% market share in new mortgages granted in 2007. ČSOB further wants to build upon its successful wealth management, where it currently holds the leading position in the sales of mutual funds in the Czech Republic. In the case of medium-sized enterprises, ČSOB desires to become the main bank for 27% of the SME clients by the end of 2007, up from the current 20%.

In Slovakia, ČSOB is completing its retail branch expansion that should deliver expected business and financial results in 2-3 years. A very ambitious target for the Slovak market is to capture a 10% market share in retail loans and assets under management by 2007, supported by a newly established asset management company and enhanced cooperation with ČSOB's insurance company (Ergo poisťovňa) in Slovakia.

Financial goals

ČSOB's constant focus is better **cost management**. By the end of 2004, ČSOB should complete the rightsizing project that would reduce the staff in the Bank headquarters in Prague by appr. 1,000 employees. ČSOB has further initiated a program to improve its management of operational expenses. It is primarily based on the SAP implementation in 2004 and a new procurement and logistics concept. A new headquarters building, to be opened in late 2006, also plays a very important role in this cost reduction process as it should significantly downsize ČSOB's facility management expenses.

As regards operational income, ČSOB will strengthen its ongoing effort to maintain a balanced relationship between net interest income and fee and commission income. The operating income growth will be primarily driven by enhanced **cross-selling** activities that should be largely supported by ČSOB "Key Plan" campaigns.

IPB acquisition

In 2003, the process of the IPB acquisition was finalised by settling most of the remaining issues between ČSOB, the Czech Consolidation Agency and the Ministry of Finance. To settle all of the residual issues, respective agreements were concluded.

All the remaining assets of the IPB Enterprise, which were to be transferred to the Czech Consolidation Agency according to the concluded agreements, were transferred in the course of the year. This regarded, in particular, non-voting participating shares of off-shore funds and limited liability shares. In connection with the transfer of non-voting participating shares of off-shore funds, the regime of administration and gradual liquidation of these funds was adjusted as well. The funds and other entities of the off-shore structure transferred respective underlying assets directly to the Czech Consolidation Agency.

After carrying out the above-mentioned transfers, an audit of the Net Asset Value Statement was finished in 2003 by the auditor appointed by ČSOB as well as by the auditor appointed by the Ministry of Finance. By issuing auditors' statements, the amount for settlement between ČSOB and the Ministry of Finance was set according to the Agreement and State Guarantee after having considered all transfers of the IPB Enterprise assets from ČSOB to the Czech Consolidation Agency. The amount payable by ČSOB under this arrangement is CZK 3.711bn and it is increased by the respective interest.

In 2004 and in the following years, the co-operation with state institutions regarding the settlement of issues which require long-term solutions will continue.

For detailed information regarding the IPB acquisition please see Note 12 in the notes to the consolidated financial statements according to International Financial Reporting Standards.

Acquiring of treasury shares

As at 1 January 2003, the Bank possessed 110,800 treasury shares with a nominal value of CZK 1,000 / 1 share. This represented 2.17% of share capital. During 2003, the following changes in the number of treasury shares held by ČSOB took place:

Overall, 76,497 shares with a nominal value of CZK 1,000 / 1 share were bought for CZK 510,581,000 of which seven times the shares were bought from minority shareholders on the basis of a resolution of ČSOB´s General Meeting of 13 April 2000 (Article 161a of the Commercial Code), and once the shares were bought within the framework of a compulsory buyout (Article 161b (1b) of the Commercial Code).

88,300 shares with a nominal value of CZK 1,000 / 1 share were sold for total purchase price of CZK 851,077,000.

The lowest purchase price was CZK 1,000 / 1 share and the highest price was CZK 12,000 / 1 share.

As at 31 December 2003, the final number of treasury shares was 98,997 with a nominal value of CZK 1,000 / 1 share, i.e. 1.94% of the Bank´s share capital.

RISK MANAGEMENT

The main risks to which the Bank is exposed are:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Risk management in the Bank is an integrated complex process and complies with the applicable legal and regulatory requirements and follows the standards of the majority owner (KBC). In the course of the risk management process, the Bank traditionally adheres to the principle of a limited risk profile that is based on a sophisticated structure of internal limits for different types of risk and products. The process of risk management is independent from all business activities of the Bank, including assets and liabilities management. The unit which is responsible for the risk management framework is an independent unit (Risk Management) with direct reporting to the Chairman of the Board of Directors. The Board of Directors of the Bank takes overall responsibility for the process of risk management. The Supervisory Board and the Audit Committee are regularly provided with information on the risk incurred.

The process involves specific organizational units of the Bank that are independent of the Bank´s risk-taking business activities as well as the following cross-sectional risk management committees:

- Credit Sanctioning Committee - with powers in the area of credit risk management
- Credit Policy Committee - with powers in the area of credit methodology
- FINTREA Committee - with powers in the area of market risk management of the trading and banking portfolio[*)] and liquidity.

The importance of these committees is illustrated by the fact that two members of the Board of Directors are also members of these committees.

The Bank is intensely preparing for a change in the capital adequacy regulation, according to expected requirements of the Basel Committee on Banking Supervision (the New Basel Capital Accord - NBCA rules). Internal activities undertaken in this area are connected with the participation in a joint project together with the CNB, with the Czech Banking Association, with other banks and with the Czech Chamber of Auditors.

Besides the risks taken by the Bank itself, ČSOB is also monitoring basic risk indicators of its main subsidiaries. In 2004, in this area the Bank will continue to focus on the unification of procedures used for risk measurement and risk management in the financial group so as to make the reporting of risk exposures at the consolidated level more transparent.

Credit risk

The Credit and Bad Debt department's core activity is to manage and monitor counterparty, issuer and country risks.

Organisation

During 2003, the following changes to the current organization were implemented:

- The real estate appraisal unit was integrated into the credit risk back-office
- Processing of bad retail receivables was integrated into the retail credit risk department

The following 5 activities are centralised at B-1 level in 5 different departments:

- Acceptance of credit risks for corporates, large / medium enterprises, banks and countries, sector analysis, process management, policy and portfolio monitoring
- Credit review (ex post monitoring)
- Acceptance of credit risks for individuals, entrepreneurs and small enterprises, process management, processing of bad retail receivables and credit scoring policy and portfolio monitoring
- Processing of bad loans
- Credit risk back-office and loan documentation

*) A criterion for including instruments in the trading or banking portfolio is the purpose of the acquisition of such instruments by the Bank in accordance with the Bank's strategy. The portfolios follow the CNB´s principles.

Programmes and projects

The two most important projects running within the credit risk department are:

- the implementation of a new application processing system for the retail segment, and
- Quantitative Credit Risk Programme

This Programme combines four different projects together, with the main aim to quantify credit risks under a more sophisticated method and, to introduce better benchmarks for measuring the return on a transactional level by taking into account the real creditworthiness of the counterparty and to differentiate the processes more in relation to the risk / quality of the counterparty, as well as to meet the NBCA rules (New Basel Capital Accord) for capital adequacy calculation. Following the policy of the KBC Group, ČSOB aims to implement the "Foundation Internal ratings-based (IRB)" approach as from 2007.

Counterparty risk management

Acceptance process

The acceptance process for corporates and small and medium-sized enterprises is in principle organised as follows:

- The relationship manager of the introducing entity prepares a credit proposal in writing.
- The proposal is screened by an independent advisor *) (reporting to the Credit Risk Management unit).
- A decision is taken at the appropriate decision-taking level (either meeting as a committee or otherwise) at which the "four eyes" principle is respected.

The acceptance process for corporates and small and medium-sized enterprises is supported by a counterparty-rating tool, and for individuals, entrepreneurs and small enterprises by a scoring model, using socio-demographic and behavioural data.

Supervision, monitoring and processing of bad loans process

The Credit Review team carries out supervision with the main focus on high counterparty risks and decisions taken at the lowest decision-making levels.

Risk warning signals, triggering so-called flash reports, have been defined and their use is being followed up.

Substandard loans (internal rating E) are monitored separately and ultimately managed by the Bad debt unit. In some cases the Bad debt unit participates as a consultant. Doubtful loans (F or worse) are directly processed by the Bad debt unit. In resolving problem loans, the Bank applies two basic approaches: continuation of the collaboration with the client (restructuring), where the goal of restructuring is to return the client to standard rating and process or the Bank considers termination of the client relationship, where necessary starting legal actions against defaulters (legal actions, liquidation).

Supervision on a portfolio basis is carried out by means of submission of a quarterly report to the Board of Directors and the Supervisory Board. This report covers the development of the consolidated Group credit exposure over all sub-segments (including the banking book) and provisions.

Other reports (bond portfolio, bank limits, limit-overruns, etc.) are produced on a frequent basis and submitted to the Credit Sanctioning Committee or to the Credit Policy Committee.

Country risk management

ČSOB applies a conservative approach towards country risk management in compliance with the approach of KBC with which it also shares country limits. Country risk is assessed on the basis of internal analyses of the political and economic factors and on the basis of analyses conducted by rating agencies.

*) For SME, he even has a co-decision right in certain instances.

Counterparty and country risk management policies and processes

Policies are segmented (as well as the processes) and approved by the Board of Directors on the recommendation of the Credit Policy Committee.

The Board of Directors has delegated wide responsibility and authority to the Credit Policy Committee of the Group to ensure that all credit risks inherent in existing as well as in new activities or products are properly identified, measured, monitored (including corresponding return), reported and managed.

Development of the overall portfolio

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

	Restated 31. 12. 2002	31. 12. 2003
Historical exposure	**25.7**	**24.1**
Of which: - CI	1.3	-
- MF CR (including SI)	22.0	21.7
- other	2.4	2.4
Write-offs (during the year)	3.7	-
Current exposure	**90.1*)**	**100.7**)**
Write-offs (during the year)	0.3	0.2
Total	**115.8**	**124.8**
Write-offs (during the year)	4.0	0.2

Current exposure:

*) excluding Czech Consolidation Agency (CZK 13.1bn)

**) excluding Czech Consolidation Agency (CZK 12.0bn)

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

Quality of the portfolio

Non-performing loans (NPLs = loans › 90 days overdue) - IFRS unconsolidated, gross amounts (CZKbn)

	Restated 31. 12. 2002*)	31. 12. 2003**)
Total loans	115.8	124.8
of which NPLs	4.3	3.9
Total provisions	6.6	7.3
NPLs to total loans ratio (%)	**3.7**	**3.1**
% coverage of NPLs by provisions	**153.5**	**187.2**

*) excluding Czech Consolidation Agency (CZK 13.1bn)

**) excluding Czech Consolidation Agency (CZK 12.0bn)

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

Loans according to ČSOB's internal classification - IFRS unconsolidated, gross amounts

	Restated - 31. 12. 2002		31. 12. 2003	
	Loans*) CZKbn	% of total loans	Loans**) CZKbn	% of total loans
Standard (A-C)	60.1	51.9	70.1	56.2
Classified	32.4	28.0	33.0	26.4
Watch (D)	20.4	17.6	20.9	16.7
Sub-standard (E)	5.0	4.3	4.9	3.9
Doubtful (F)	2.6	2.3	2.2	1.8
Loss (G)	4.4	3.8	5.0	4.0
MF CR (including SI)	22.0	19.0	21.7	17.4
ČI	1.3	1.1	-	-
Total	**115.8**	**100.0**	**124.8**	**100.0**

*) excluding Czech Consolidation Agency (CZK 13.1bn)

**) excluding Czech Consolidation Agency (CZK 12.0bn)

ČSOB's internal classification is in compliance with the CNB's methodology, however, besides the timely repayment criteria, it also considers both the current situation and estimated prospects of the customer. Compared with the CNB's classification, ČSOB's internal classification and provisioning systems are more conservative.

Country risk

Country exposures by main geographical regions as at 31 December 2003 IFRS unconsolidated, net amounts (CZKm)

		Of which by type of transaction			
Territory	Total risk exposure	Dealing	Commercial transaction	Credits	Bonds
Western Europe	78,154	30,246	406	6,980	40,522
Central and Eastern Europe*)	6,334	220	129	32	5,835
Africa	618	438	179	-	-
Northern America	1,502	69	160	49	1,224
Asia	1,191	373	688	37	-
Australia	2	2	-	-	-
Latin America	23	-	7	15	-

*) the Czech Republic and the Slovak Republic excluded

Notes:

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

Country exposures in emerging market countries[*)] and with higher risk as at 31 December 2003 - IFRS unconsolidated, net amounts (CZKm)

Territory / Country	Total risk exposure	Of which by type of transaction: Commercial transaction	Credits	Export financing	Performance risk	Total provisions
Central & Eastern Europe	**4**	**1**	**-**	**3**	**-**	**-**
Macedonia	1	1	-	-	-	-
Serbia & Montenegro	3	-	-	3	-	-
Asia	**211**	**175**	**36**	**-**	**-**	**102**
Turkey	168	168	-	-	-	60
Iraq	36	-	36	-	-	36
Lebanon	7	7	-	-	-	6
Latin America	**2**	**-**	**-**	**2**	**-**	**-**
Cuba	2	-	-	2	-	-

*) Consists of problem countries specified by the Belgian regulator CBF and other countries with B and lower rating.

Notes:

- The figures represent the residual risk only, that is, without the security of the Export Guarantee and Insurance Company (EGAP).
- Total risk exposure also includes 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

Market risk is the risk of potential financial losses caused by adverse changes in market prices and other market factors (foreign exchange rates, interest rates, share prices, commodity prices, foreign exchange and interest rate volatilities) on financial markets leading to a negative impact on the market value of the Bank's portfolio of assets and liabilities. Market risk management in the Bank is a process comprising the identification, measurement and continuous control of the use of limits, analyses and regular reporting of individual risks to the Bank´s committees and top management with the aim to manage negative financial effects that can arise as a result of these adverse changes in market prices.

Market risk is monitored and managed separately in the banking and trading portfolios. At present, the Bank is exposed mainly to foreign exchange and interest rate risk. The Bank does not actively trade in shares or commodities. Equity positions in the Bank´s portfolio are primarily long-term, strategic investments in subsidiary companies.

The Bank has created a system of limits with which individual risks resulting from open positions are compared. The limits are updated and discussed by the FINTREA Committee and approved by the Bank´s Board of Directors on a quarterly basis. If the limits are exceeded, the open positions are closed or hedged through appropriate hedging instruments to be within the approved limits again. The utilisation of limits is shown on a regular basis in risk reports submitted to the FINTREA Committee, to the Board of Directors, to the Supervisory Board of the Bank and to the Audit Committee.

Trading portfolio

Trading in the Czech and Slovak Republics is supported by a uniform and centrally managed trading system (FEDS) and for this reason the risk management has been centralized. The level of risk positions is measured and controlled within the framework of approved limits both at the local level (ČSOB) as well as at the global level (KBC Group).

The basic method used by the Bank to monitor and measure the interest rate and foreign exchange risks is the statistical Historical Value-at-Risk (H VAR). This method is used to measure the potential loss of the Bank during a 10-day holding period at the 99% one-sided confidence level, while using at least 250-day-long historical series of market data (in accordance with international standards). The correctness of estimated results is verified on a daily basis through back-tests. To complete the system of risk management, the Bank uses additional methods of risk measurement, such as stress tests, GAP analysis, BPV (Basis-Point-Value) analysis, scenario analysis, concentration limits. Market risk of the trading portfolio is evaluated on a daily basis and information on the risk incurred is submitted daily to the Bank's management.

Foreign exchange risk

Open foreign exchange positions are identified through the Bank's information systems. The basic method used to manage foreign exchange risk of the Bank is the Historical Value-at-Risk method. For the foreign exchange risk of the Bank, limits have further been established for open FX positions and the system of limits has also been supplemented with concentration limits.

FX options risk is monitored by using a method of scenario analysis, which evaluates a broad range of FX rates and volatilities changes, where utilisation of the limit depends on the most negative result of the given scenario. The system of limits has been supplemented with sensitivity indicators of the option portfolio - gamma, theta and vega.

The Bank's limits for foreign exchange risk from financial markets trading operations (in EUR 000)

	Bank's limit	31. 12. 2002	31. 12. 2003
FX options - Analysis of scenarios	500	130	218
H VAR - Foreign exchange risk	1,000	226	269

Regulatory limits are set for absolute value of net foreign exchange position in each currency (foreign or CZK) and must not exceed 15% of the Bank's capital. Besides that, the overall foreign exchange position must not exceed 20% of the Bank's capital. The regulatory limits on the Bank's FX position are calculated on a daily basis.

The Bank's open foreign exchange position (% of regulatory capital)

	CNB's limit	31. 12. 2002	31. 12. 2003
Bank's overall FX position	20	0.67	1.36
Net FX position, in CZK	15	0.53	0.62

Interest rate risk

The Bank is exposed to interest rate risk due to fluctuations in market interest rates. Value-at-Risk is the basic method for measuring interest rate risk. The system of risk measurement has been supplemented with:

- Interest Rate Mismatch (GAP analysis), limits in individual currencies
- Basis-Point-Value (a method for measuring sensitivity), limits in individual currencies
- concentration limits, based on currency liquidity

The Bank's H VAR limit for interest rate risk from financial markets trading operations (in EUR 000)

	Bank's limit	31. 12. 2002	31. 12. 2003
Interest rate risk	4,000	1,606	2,006

Since September 2003, the limit has been set at EUR 4m.

Banking Portfolio

The banking portfolio mainly includes customer services deals including the hedging deals to hedge this portfolio against market risks.

Foreign exchange risk

The Bank minimizes the foreign exchange risk incurred in the banking portfolio, open positions are transferred to the trading portfolio on a daily basis. In the banking portfolio, only those remaining positions are maintained open that cannot be effectively closed for technical reasons. For managing risks of the banking portfolio, limits for open currency positions are used. Adherence to the limits is checked on a daily basis.

Interest rate risk

The Bank actively manages interest rate risk in the four major currencies that comprise the balance sheet (CZK, SKK, EUR and USD). The risk is evaluated on a weekly basis. In 2003, the Bank extended and refined the interest rate risk monitoring. In the banking portfolio, limits have been introduced (NII, BPV, duration, cumulative interest rate GAP) for each of the sub-portfolios. The interest rate position in the banking portfolio has been divided into the following sub-portfolios/positions: (i) benchmark free capital position, (ii) benchmark core current account position, (iii) benchmark core notice deposits position, (iv) hedging position, (v) ALM credit risk position, (vi) strategic (treasury) position. The benchmark free capital position comprises ČSOB´s free capital and its respective reinvestments. The benchmark core current accounts and notice deposits positions consist of the core position of standard customer current accounts and notice deposits balance and their reinvestments in long-term, fixed rate instruments. The hedging position comprises balance sheet items created within individual business segments of the Bank, external operations executed by the ALM unit and internal operations between the banking portfolio (ALM) and dealing room to cover risk of the banking portfolio. ALM credit risk position consists of purchased securities acquired by the ALM unit. The treasury (strategic) position is governed by rules adopted in October 2003 and the position is being created on a continuous basis. The reason is to take long-term strategic IR positions based on forecasted interest rate movements. For the types of liabilities without definite maturity (current accounts, notice deposits, free capital), a benchmarking methodology is used for measurement and management of interest rate risk, which means that the volume of these liabilities has been distributed by time intervals according to pre-set rules based on historical evolution and statistical analysis. These products are incorporated in the interest rate risk model in the form of a benchmark with a set maturity so that they better reflect the real risk situation and allow for efficient measurement and management of interest rate risk.

In 2003, the Bank significantly optimized the structure of the banking portfolio from the interest rate risk point of view. This optimization was based on pre-set benchmarking principles. At the same time, the methodology for monitoring and evaluating market risks at ČSOB´s subsidiaries was modified and further deepened. The monitoring and evaluation of interest rate risk and parameters of liquidity of the balance-sheet structure of the main subsidiaries is carried out on a monthly basis.

BPV and duration limits for interest rate risk in banking portfolio for CZK sub-portfolios
(BPV in CZK 000, duration - average in years)

	Bank´s limit	31. 12. 2003
BPV - hedging position	+/- 40,000	(10,092)
BPV - free capital position	+/- 9,000	(6,648)
BPV - current account position	+/- 36,000	321
BPV - notice account position*)	+/- 20,000	33,268
Duration - free capital position	4 - 10	6.19
Duration - current account position	2 - 4	3.28
Duration - notice account position	2 - 4	2.59

*) new position, the limit overrun is approved for the first two years period of building up the position (up to 31 December 2004)

Notes:

- BPV and duration limits were not established in 2002.

Liquidity risk

The liquidity risk is monitored in ČSOB from two time perspectives:

- short-term (operational) liquidity
- medium and long-term (structural) liquidity

Besides that, liquidity in the Slovak Republic is monitored according to specific requirements of the National Bank of Slovakia.

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

The risk is monitored using the Stock Liquidity Ratio (SLR - marketable assets/expected outflow of funds within 7 days based on a methodology of the British regulator, the FSA) and liquid assets ratio (liquid assets/total assets).

Medium and long-term liquidity is managed on a monthly basis by currencies in which the Bank holds a significant position (CZK, SKK, EUR, USD). It is evaluated by the annual plan of the balance sheet time structure and by the liquidity index (the index describes the liquidity situation of the balance sheet; it is calculated as a ratio of liquidity-weighted assets and liabilities). In 2003, a new methodology was prepared, including alternative scenarios of development of the Bank´s individual assets and liabilities. The medium- and long-term liquidity will be evaluated and managed according to this methodology commencing 1 January 2004.

If there are liquidity problems, the Bank has created specific contingency plans for the purposes of liquidity management in emergency situations.

Internal limits for liquidity ratios were fulfilled during the whole year 2003. The Bank's liquidity was sufficient.

SLR (Stock Liquidity Ratio) - marketable assets / expected outflow of funds within 7 calendar days (in %)

	Internal limit	**31. 12. 2002**	**31. 12. 2003**
CZK	min. 110.00	186.05	(1,259.60)
Total	min. 110.00	170.15	(1,028.10)

The increase of SLR in 2003 was mainly caused by a change in methodology of the SLR calculation (marketable assets were decreased in the same way as expected outflow). The negative figure of the SLR ratio was caused by the structure of SLR (positive marketable assets / negative expected outflow) and it represents an even better liquidity position in this case.

LAR (Liquid Assets Ratio) - liquid assets / total assets (in %)

	Internal limit	**31. 12. 2002**	**31. 12. 2003**
CZK	min. 15.00	31.87	55.84
EUR + USD	min. 12.00	35.30	54.18
SKK	min. 15.00	56.48	58.45

Operational risk

In 2003, operational risk management at ČSOB was focused on the implementation of standards for monitoring of this risk and on the technical preparation of data collection. A uniform methodology used at KBC Group (classification of events, categories of monitoring) and the following method for record-keeping and accounting for operational risk-related events were implemented. A uniform database for keeping records of these events was prepared. Data collection in line with new capital adequacy requirements according to the Basel Committee on Banking Supervision rules (the New Basel Capital Accord - NBCA rules) will start in the year 2004.

In 2003, the process of implementation of control standards continued in compliance with best international practice. Comparison of these standards with internal bank norms was finished and the identified gaps were partially eliminated on the basis of prepared action plans. This process will also continue in 2004.

Within the ČSOB Group, the situation regarding operational risk in individual subsidiaries was mapped. A basic concept for monitoring operational risk-related events was established with regard to specific activities of these subsidiaries. Operational risk of the ČSOB Group is monitored and managed according to KBC methodology and the Basel Committee on Banking Supervision rules.

In 2004, uniform operational risk management will be supported by establishing a ČSOB Operational Risk Committee which will coordinate operational risk management in the whole ČSOB Group.

Compliance risk

The Compliance unit, reporting directly to the CEO, constitutes part of the Bank's internal control system. It consists of the Special Investigations unit, which is involved in the investigation of external and internal frauds, in co-operation with the responsible bodies for penal proceedings and in fraud prevention, and the Suspicious Transactions and Financial Ethics unit is involved in areas such as money laundering, insider trading, banking secrecy and personal data protection, financial ethics and also legal support to the Compliance unit.

The compliance function, including respective reporting activity, has also been implemented in subsidiaries belonging to the ČSOB Group. The scope of the compliance function of subsidiaries reflects specific conditions in each of them. In 2003, the Compliance Committee of the ČSOB Group was established and regular activity of this Committee was commenced.

Since the second half of 2003 the scope of the Compliance unit's activities has been enlarged as required by the Czech Securities Commission's decree No. 466/2002 Coll. to include activities of the Bank as a securities dealer.

The main goal in the compliance area for the year 2004 is, in particular, the strengthening of the prevention function and increasing the proactive role of the Compliance unit.

CHIEF ECONOMIST'S REPORT

The Czech Economy in 2003

When we evaluate developments from a short-term point of view, the year 2003 was, for the most part, positive for the Czech economy. Economic growth accelerated despite the delayed advance of the world's economic recovery, and inflation reached record low levels without threats of starting harmful deflation. The Czech crown continued its advantageous, slight weakening against the euro and strengthened substantially against the dollar. Real wages grew at an unprecedented pace. The cabinet and legislators started work on fiscal reform within their programme boundaries and the persuasive result of the referendum opened the last door for the Czech Republic to join the EU.

So much for the apparent successes. However, a detailed analysis of the Czech economy also reveals a number of less favourable phenomena, the disregarding of which would surely have deplorable consequences for the economy in the longer term.

Gross domestic product indeed grew in the Czech Republic, but there may be objections both to the achieved rate of growth and to the structure of aggregate demand. The acceleration of real wages was accompanied by an accelerated rate of unemployment. Not all branches, where real wages increased, showed a corresponding increase in labour productivity. The two main indicators of macroeconomic (im)balance further worsened: the current account and fiscal deficits both widened in relation to GDP. It is praiseworthy that after many years of silence the government at last prepared, and the Parliament approved afterwards, the first stage of fiscal reform. However, unless in the foreseeable future the first stage is followed by a second, substantially more ambitious stage, the chances of long-term successful fiscal consolidation will rapidly diminish again. Nor should the scars inflicted on the Czech dream of a peaceful bloom in the heart of a unified Europe be ignored: the failure of the Stability and Growth Pact in the autumn together with the failed negotiations about the adoption of the European Constitution sent a warning signal that cannot be misunderstood. If we add to the above-mentioned negative factors the chronically dissatisfactory situation in the area of enforceability of law, the frequently inefficient state bureaucracy and the ever-persistent environment of corruption, it is obvious that lots of problems in the Czech economy still remain to be solved.

To support the above-mentioned, it is useful to recall some figures. In 2003, the gross domestic product of the Czech Republic grew by 2.9% in real terms. It is true that, in the year before, the growth rate was only 2.0% and the growth in the eurozone reached only as little as 0.4% in 2003. But Hungary, Poland and Slovakia increased their GDP by 3.6% on average in 2003, and the economy of the United States expanded by 3.1%. The engine of Czech growth in 2003 was not investment (+3.7%) or net exports (the deficit of which increased by 15.1%), but household consumption (+5.5%) the acceleration of which was also boosted, along with the quick growth of real wages (+6.7%), by the rapidly growing volume of consumer loans and leasing.

The rate of registered unemployment increased between December 2002 and December 2003 from 9.8% to 10.3%. While it is true that the new average level is not dramatically high (for example, in the neighbouring countries of Poland and Slovakia, the rate of unemployment remains at considerably higher levels), there are districts (especially Most and Karviná with jobless rates persistently fixed at more than 20 percent) where unemployment is surely a serious social and economic problem.

The deficit of the current account of the Czech balance of payments increased from 6% of GDP in 2002 to 6.5% of GDP in 2003. The main blame for the yawning deficit is not borne by the trade balance, which ended at nearly the same level as the year before (CZK (69.4)bn vs. CZK (71.3)bn in 2002) also due to the weakening of the crown against the euro, but by the balance of services (a year-on-year slump of CZK 8.6bn).

The public finance deficit grew from 3.9% in 2002 to 4.5% in 2003 (being the deficit adjusted by income from privatisation and by contributions provided to transformation institutions). Public debt also grew concurrently with the public finance deficit and climbed to 23% of GDP at the end of 2003. At present, the high public finance deficit together with the unfavourable trend of rapidly growing public debt represent the main obstacle to the quick entry of the Czech Republic into the European Monetary Union. However, irrespective of the intention of adopting the euro, high budget deficits are also harmful to the Czech economy for a number of other reasons: they make the financing of the public debt more expensive, they narrow the room for the government to place funds in necessary areas and increase the volume of the reallocation of funds in the economy - this all at a time when the economy is growing at a distinct pace.

A favourable development of inflation enabled the central bank, three times in 2003, to lower its two-week repo rate down to the level of 2%. Low interest rates boosted the increasing credit trend even more. The tendency of high growth of loans for housing purposes continued also in 2003. In that year, the volume of provided mortgage loans increased by almost 48%, loans provided within the framework of the construction savings plan grew by more than 37%. Also consumer loans experienced a rapid growth, they grew by about 18%. The high rates of growth of loans are affected, in particular, by a low starting base of loans provided in the retail segment in previous years. Despite these high growth rates in lending, the retail market of loans, in particular, remains unsaturated;

therefore, there is still room for a continued credit expansion. The quality of the banks' credit portfolios further improved - during the year, the share of bad debts in all loans fell from 8.13% to 4.85%. Low interest rates also influenced the development of the deposit market, characterised by a lower growth of citizens' deposits and, by contrast, by a higher growth rate of company deposits. Low interest rates on deposits stimulated interest in alternative financial investments. First of all, there was a noticeable interest in both domestic and foreign mutual funds, in pension funds and in life insurance.

The year 2004, especially the second half, will show us the solutions of two riddles that are essential for the development of the Czech economy in the years to come. The first riddle concerns the issue of how competitive Czech firms will be in the conditions of a single European market. The second riddle relates to the issue of how much the governing coalition will be able to react to the increasing fiscal tensions and enforce deep systemic changes in the existing pension, health and social security systems.

Macroeconomic indicators of the Czech Republic 1999-2003

Indicator	Measurement Unit	1999	2000	2001	2002	2003
GDP	%, y/y	0.5	3.3	3.1	2.0	2.9
Industrial output	%, y/y	(3.1)	5.4	6.5	4.8	5.8
Construction output	%, y/y	(6.5)	5.3	9.6	2.5	8.9
Inflation rate (CPI)	average,%	2.1	3.9	4.7	1.8	0.1
Unemployment rate	at year-end,%	9.4	8.8	8.9	9.8	10.3
Current account	% of GDP	(2.7)	(5.3)	(5.7)	(6.0)	(6.5)
Foreign direct investment	% of GDP	11.3	9.6	9.6	11.9	2.8
Official FX reserves	months of imports	5	4	4	6	5
Gross foreign indebtedness	% of GDP	43.2	41.2	37.3	35.7	37.1
Public budgets balance	% of GDP	(3.7)	(4.5)	(6.4)	(6.4)	(12.9)
Money supply (M2)	at year-end,%, y/y	7.7	5.6	13.0	3.2	7.0
Interest rates on credits	average,%	8.7	7.2	7.0	6.2	5.3
Interest rates on deposits	average,%	4.5	3.4	3.0	2.2	1.4
CZK/EUR	average	36.88	35.61	34.08	30.81	31.84
CZK/USD	average	34.60	38.59	38.04	32.74	28.23

Source: *Czech National Bank (CNB), Czech Statistical Office, Ministry of Finance of the Czech Republic, Eurostat*

Slovak Republic

In 2003, the Slovak economy registered a number of rewarding achievements. The preparation of the country for EU accession, approved by most voters in a referendum, progressed significantly. The preparation of government economic reforms also intensified with a focus on achieving long-term prosperity for Slovakia.

Economic growth reached 4.2% in 2003 and continued to be the highest growth rate among Central European candidate countries. GDP growth was primarily based on a significant increase in exports (+22.6%) mainly connected with the development of production of motor vehicles in Slovakia. The growth rate of imports (+13.8%) lagged significantly behind the rate of exports due to a restrictive economic policy resulting in a decline in domestic demand. Household consumption felt this slowdown due to a fall in real wages. Also investment (gross fixed capital formation) reflected this negative development. The current account deficit, moving beyond the 8% GDP limit during the previous two years, narrowed to the level of -0.9% of GDP due to the improvement of the trade balance. The current account deficit was financed by the inflow of foreign direct investment.

In 2003, the government continued fundamental economic reforms which showed themselves, among other things, in the higher average rate of inflation that reached 8.5% (while it was 3.3% in 2002). A sharp increase in consumer prices was mainly caused by changes in the value-added tax, by an increase in excise taxes within the framework of preparations for the EU entry and by adjustments of regulated prices. Core inflation, adjusted for tax and administrative changes, reached only 3 per cent at the end of the year and moved within the target interval set by the National Bank of Slovakia (NBS).

Radical reforms, focused also on the prevention of the abuse of the social welfare system, brought the first positive results in the labour market. While in previous years Slovakia belonged among the countries with the highest rates of unemployment, the situation started to change in 2003 and, at the end of the year, the unemployment rate fell year-on-year by almost two percentage points to 15.6%.

The economic reforms, contributing to a favourable outlook for the country, led to an increased interest in the Slovak crown. For two years in a row, the Slovak currency strengthened against the euro, and year 2003 alone, it added almost 3 percent against the common European currency. In May, the NBS reacted to the rapid appreciation of the currency through foreign-exchange interventions.

Slovakia has come to the fore of foreign investors' interest, although the year 2003's result of foreign direct investment (1.8% of GDP) does not show much evidence of it. However, this development will change very soon, mainly due to the construction of another foreign car plant in the country. The improving reputation of Slovakia, together with relatively high interest rates, has created an attractive environment for foreign portfolio investors.

The decline in domestic demand was one of the reasons for lowering the 2-week repo rate of the NBS in two steps in the second half of the year, overall by half of a percentage point to 6%. This measure also led to a slight decrease in customer rates. Retail credit expansion continued despite the relatively high interest rates. Mortgage loans in particular experienced rapid growth. Contrary to this trend, the creation of deposits slowed down significantly, which was one of the effects of an increased interest in alternative forms of funds appreciation.

The year 2003 was a year of preparation of a fundamental tax reform based on the implementation of a single tax rate in the amount of 19% (flat for corporate income tax, private individuals and for value-added tax) in effect since January 2004. This reform, along with the prepared change in the pension system and reductions in government spending, should lead to lowering the public finances deficit to a level as low as (3%) of GDP by 2006. The government's and central bank's strategy is the early meeting of the Maastricht criteria for Slovakia to be able to adopt the euro in the years 2008-9.

Macroeconomic indicators of the Slovak Republic 1999-2003

Indicator	Measurement Unit	1999	2000	2001	2002	2003
GDP	%, y/y	1.5	2.0	3.8	4.4	4.2
Industrial output	%, y/y	(2.0)	8.7	7.4	6.8	5.7
Construction output	%, y/y	(25.8)	(0.4)	0.8	4.1	6.0
Inflation rate	average,%	10.6	12.0	7.1	3.3	8.5
Unemployment rate	at year-end,%	19.2	17.9	18.6	17.5	15.6
Current account	% of GDP	(4.8)	(3.5)	(8.4)	(8.0)	(0.9)
Foreign direct investment	% of GDP	3.8	9.4	7.4	16.6	1.8
Official FX reserves	months of imports	3	3	3	5	5
Gross foreign indebtedness	% of GDP	52.7	54.8	53.0	48.2	50.4
Public budgets balance	% of GDP	(6.4)	(12.3)	(6.0)	(5.7)	(3.6)
Money supply (M2)	at year-end,%, y/y	11.4	15.4	11.8	3.4	5.6
Interest rates on credits	average,%	15.6	11.7	10.2	9.4	8.1
Interest rates on deposits	average,%	10.5	7.2	5.2	4.6	3.3
SKK/EUR	average	44.12	42.59	43.31	42.70	41.49
SKK/USD	average	41.42	46.20	48.35	45.34	36.77

Source: *National Bank of Slovakia (NBS), Statistical Office of the Slovak Republic, Ministry of Finance of the Slovak Republic, Eurostat*

Českomoravská hypoteční banka, a.s. (ČMHB)

Date of establishment 10 January 1991
Business activities

Providing mortgage loans and subsequent loans including other banking activities and services necessary for making mortgage transactions in accordance with the Banking Act. Issuance of mortgage bonds pursuant to a specific law.

Share capital (CZK 000) 1,319,216,500
Shareholders as of 31 December 2003

99.20% Československá obchodní banka, a. s.
0.80% other shareholders

	2003	2002	2001
Volume of mortgage loans (state of balance in CZKm)	24,724	18,127	13,988
Number of newly approved mortgage loans	8,678	6,184	3,180
Volume of newly approved mortgage loans (in CZKm)	9,231	6,493	3,279
Market Share in the Czech Republic (%) (volume of newly approved mortgage loans for citizens)	23	23	26

ČMHB is the first specialized mortgage bank in the Czech Republic. The bank focuses on financing real estate through mortgage loans and providing comprehensive services in that area. The strategic subjects are private individuals, municipalities and housing cooperatives.

By the end of the year 2003 ten banking institutions possessed licences for the issue of mortgage debenture bonds, with eBanka newly acquiring the licence in 2003. In spite of the robust competitive environment ČMHB maintains the greatest market share in the area of mortgage loans for citizens in terms of the amount of the total loans provided (31%).

One of ČMHB's marked strengths is its wide range of products which enables it to offer solutions to the various needs of clients relating to real estate financing. In addition to the standard mortgage loan, ČMHB offers a combined product with capital life insurance or a construction loan, a mortgage provided up to 100% of the value of the real estate and progressive mortgage payment. The great amount of interest in these “non-standard” products can be seen by their results - last year they made up 43% of all of the approved mortgage loans for citizens.

The distribution network covers the whole of the Czech Republic. It consists of 13 branches with mortgage offices, a wide network of external dealers and the ČSOB branch network. Increased emphasis has been put on developing the external distribution network thanks to which the number of external dealers increased to more than 60% last year alone. In addition to that, cooperation with the ČSOB Group has continued to expand towards the intensification of the use of their distribution networks.

August 2003 saw an increase in the bank's share capital registered in the commercial register. As of 31 December 2003, the amount of the bank's authorized capital reached CZK 1,319m. 2003 was a very positive year for ČMHB both from the business and financial points of view. ČMHB is a successful, profitable and stable bank which is calling the tune in mortgage banking.

The year 2004 will be of great import in terms of the further expansion of the portfolio of products, both as far as the anticipated amendment to the Act on Bonds and new sales directions are concerned. The foundation has been set for ČMHB, in cooperation with ČSOB, to continue to strengthen the position of the ČSOB Group on the mortgage market.

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Českomoravská stavební spořitelna, a.s. (ČMSS)

Date of establishment 26 June 1993
Business activities

Construction savings in accordance with Law No. 96/1993 of the Collection, on construction savings and state support for construction savings as subsequently amended.

Share capital (CZK 000) 1,500,000
Shareholders as of 31 December 2003

55% Československá obchodní banka, a. s.
45% Bausparkasse Schwäbisch Hall A/G

	2003	2002	2001
Loans and bridging loans (CZKm)	25,058	16,314	13,425
Volume of client deposits (CZKm)	82,956	64,008	48,716
Number of valid contracts	2,475,790	1,890,555	1,652,561
Volume of target amounts of newly concluded contracts (CZKm)	191,749	84,806	82,120
Market share (%) (target amounts volume of newly concluded contracts)	40.6	37.5	40.5
Market share (%) (number of newly concluded contracts)	37.2	34.4	36.7
Market share (%) (volume of newly provided credit)	53.8	39.8	36.0

ČMSS is the largest construction savings bank in the Czech market from several perspectives. The company can boast of having the largest number of concluded construction savings contracts, the greatest volume of client deposits and the greatest volume of loans provided. ČMSS has maintained all of these titles without secession since its inception. For that reason it stably occupies the largest share of the construction savings market in the Czech Republic.

ČMSS helps its clients to implement their residential needs. The guarantee of this is a collective of highly trained financial advisors and the financial force of what is in terms of production the second largest European construction savings bank. In its conditions ČMSS consistently applies a principle of persistent customer care, with individual financial advisors caring for clients from the moment they conclude a construction savings contract through the consecutive processing of the credit contract to the conclusion of a new construction savings contract. Consultancy service is always oriented towards clients' individual needs, which is the basis of the commercial success of ČMSS.

In light of the decline in market interest rates on the financial markets, 2003 saw ČMSS adapting its offer of tariffs to compete sufficiently with other financial institutions providing loans for residential needs. The INVEST tariff currently being offered is advantageous for clients from the point of view of the low interest rate on construction loans (4.8% p.a.) and the minimum required advance payment of 40% of the target amount. Aside from that, ČMSS proceeded to make the conditions in the area of required guarantees for construction and bridging loans more advantageous this year.

The great amount of interest among clients in the TOPKREDIT bridging loan continued into 2003. TOPKREDIT meets the needs of clients who want to finance larger volumes, who are sufficiently solvent and who can guarantee the provided loan with real estate. TOPKREDIT offers use of a bridging loan without the necessity of saving a certain minimal amount prior to its being provided (advance payment = 0% of target amount) and a very advantageous interest rate of 5.7% p.a., which will not change throughout the entire duration of the credit relationship with the client.

A testament to the constant interest among clients in the ČMSS product offer is the development of commercial activities in 2003. In addition to a record number of new contracts having been concluded, 925,267 with a total target amount of CZK 191,749m, this year also saw growth of CZK 18,948m in client deposits. Clients' strong level of interest in ČMSS credit products continued in 2003. The result of this has been inter-annual growth by 100%. ČMSS has become the largest provider of credit for residential needs in the Czech Republic. The quality of the construction society's offer was also appraised by the professional public, and for the second time ČMSS received the prestigious “Construction Savings Bank of the Year, 2003” award. The year 2004 will also be a focus point for the business policy of ČMSS in the area of providing construction loans and bridging loans and in maintaining the market share in the area of new sales. Further growth is expected in the volume of loans provided.

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ČSOB Asset Management, a.s., member of the ČSOB Group

Date of establishment 31 December 1995
Business activities

Výkon činností obchodníka s cennými papíry
v rozsahu povolení uděleného podle zvláštního zákona.

Share capital (CZK 000) 34,000
Shareholders as of 31 December 2003

79.41% Patria Finance, a.s.
20.59% Československá obchodní banka, a. s.

	2003	2002	2001
Assets under management (CZKbn)	34.1	32.8	20.1

The company was established in 1995 as a member of the Patria Finance Group. Since the very beginning it was among the leading asset managers in the Czech Republic. In 2000, similarly as ČSOB in 1999, it became a member of the KBC Group. In 2002, ČSOB became a 20% shareholder of the company after is has increased share capital by the contribution in the form of OB Invest, investiční společnost, a.s. shares. As a result, ČSOB acquired the majority of voting rights in Patria Finance while the name of the company was changed.

ČSOB Asset Management provides its clients with investment services in the field of securities. The total amount of assets under management as of 31 December 2002 was nearly CZK 34bn as of 31 December 2003. According to available information that figure represents roughly a 25 percent share in the Czech market. The company's clients presently include insurance companies, pension funds, cities and municipalities, commercial, manufacturing and energy companies, trade unions, foundations and other non-profit organizations, as well as. In both acquiring and servicing its clients, ČSOB Asset Management works in cooperation with the branches and client divisions of ČSOB. In this context, the cooperation with the ČSOB private banking segment in serving select private individuals deserves mention, as the volume of the property of these clients grew by 47% during the course of 2003. ČSOB Asset Management's institutional clients also include some of the subjects from the ČSOB Group, such as ČSOB Pojišťovna, ČSOB Penzijní Fond Stabilita, and ČSOB Penzijní Fond Progres. A significant field of activities of ČSOB Asset Management is covered by investment advisory services intended for selected Czech crown denominated funds of the KBC Group.

In 2004, ČSOB Asset Management plans to continue in the improvement of the effectiveness of procedures related to the asset management within the ČSOB or KBC Group as the case may be both in the Czech and Slovak Republics, namely by taking advantage of synergetic effects between the activities of individual portfolio management and funds management.

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ČSOB Investiční společnost, a.s., člen skupiny ČSOB (dále jen "ČSOB IS")

Date of establishment 3 July 1998
(transformed from O.B. INVEST, Investiční Společnost, spol. s r.o.)

Share capital (CZK 000) 216,000

Business activities

Collective investing.

Shareholders as of 31 December 2003

73.15% Československá obchodní banka, a. s.
15.28% Auxilium, a.s.
11.57% ČSOBAsset Management,a.s., member of ČSOB group

	2003	2002	2001
Assets under management (CZKbn)	3.9	8.8	3.9

Beyond the standard activity of the company, in 2003 emphasis was placed on completing integration into the ČSOB Asset Management group. On 21 July 2003, the general meeting of ČSOB IS decided on increasing the company's share capital by subscribing to new shares from CZK 25m by CZK 191m to the amount of CZK 216m. The new shares were subscribed to with nonmonetary contributions - shares in the company První Investiční Společnost, a.s., with its registered offices in Perlová 371/5, 110 00 Prague 1, IČ: 00255149 corresponding to 98.4% of the authorized capital of První investiční společnosti, a.s. (hereinafter "PIAS"). The 191 new shares of ČSOB IS were subscribed by Československá obchodní banka, a. s. (158 shares) and Auxilium, a.s. (33 shares) as the pre-determined interested parties.

Within the scope of redesigning July saw the implementation of the planned merger of five open-ended funds of the company ČSOB IS with the PIAS funds. This was the crowning point of the 1st stage of integration at the funds level. At the company level the preparation of documentation continued for the integration of the company with PIAS. It was decided that integration would be implemented by dissolving PIAS and transferring its assets to the main shareholder (hereinafter the "transfer of assets"). Upon acceptance of the shares of PIAS (98.4%) amid the increase in the authorized capital by money-free deposits - PIAS shares - the company became the main shareholder.

The record date for the transfer of assets was set for 1 July 2003. The general meetings of both companies, which discussed and approved the prepared transfer of assets took place on 8 December 2003. A proposal for the registration of the transfer of assets in the commercial register was submitted on 18 December 2003. The record of the transfer of assets is expected to be made in the commercial register at the beginning of January 2004.

By the end of 2003, ČSOB IS had managed 3 open-ended funds and one investment fund, altogether representing assets in amount of CZK 3.9bn. In terms of the sales of open-end shares ČSOB IS cooperates with the branch network and client divisions of ČSOB.

Funds managed by ČSOB Investiční společnost, a.s., member of ČSOB group, as of 31 December 2003:

Investment funds:
KVANTO, investiční privatizační fond a.s.

Open-ended funds:
ČSOB výnosový, ČSOB Investiční společnost, a.s., member of ČSOB group, open shares fund
ČSOB nadační, ČSOB Investiční společnost, a.s., member of ČSOB group, open shares fund
ČSOB KVANTO Kombinovaný, ČSOB Investiční společnost, a.s., member of ČSOB group, open shares fund

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ČSOB Leasing, a.s.

Date of establishment 31 October 1995
Business activities

Financial services (financial and operative leasing, hire-purchase)

Share capital (CZK 000) 600,000
Shareholders as of 31 December 2003

100% Československá obchodní banka, a. s.

	2003	2002	2001
Volume of new leasing transactions in the Czech Republic (CZKbn)	14.8	14.3	15.3
Number of contracts in the Czech Republic	22,462	22,338	23,412
Market share in the Czech Republic (%) (volume of transactions)	12.72	12.23	14.6

ČSOB Leasing, a.s., is a universal leasing company with a nationwide range of activity and which possesses a network of 15 branches. The company provides financial services for private individuals, small traders, entrepreneurial subjects, corporate and state non-profit organizations. The commodity offer focuses primarily on the area of financing transportation vehicles, machinery, equipment, technology, capital equipment and computer technology. It offers its clients a comprehensive range of leasing products, including financing in EUR and USD, hire-purchase and rental - operative leasing, including the most comprehensive form thereof: full service leasing. ČSOB Leasing, a.s. also provides related services such as special rates on insurance, economic and tax consultancy, etc. In its own Used Car Dealership in Prague - Čakovice, the company offers controlled personal and utility vehicles for leasing and sale.

In the evaluation of the 100 most notable companies in the Czech Republic announced by the CZECH TOP 100 association, ČSOB Leasing took first place in 2003 in the category of other finance companies.

In 2004 the centre of attention at ČSOB Leasing, a.s. will be primarily the overall development of the offer of products and commodities, the increased use of cross selling within the ČSOB Group, and also emphasis on the acquisition and servicing of end customers and contractors. ČSOB Leasing, a.s. will be reacting ahead of the accession of the Czech Republic into the EU to the new law requirements and, of course, to requirements its customers.

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ČSOB Leasing, a. s. (SR)

Date of establishment 10 December 1996

Business activities

Financial services (financial and operative leasing, hire-purchase)

Share capital (SKK 000) 1,500,000

Shareholders as of 31 December 2003

90%	Československá obchodní banka, a. s.
10%	ČSOB Leasing, a.s.

	2003	2002	2001
Volume of new leasing transactions in the Czech Republic (CZKbn)	6.5	6.4	5.7
Number of contracts in the Czech Republic	9,171	10,653	9,198
Market share in the Czech Republic (%) (volume of transactions)	15.2	16.1	16.3

ČSOB Leasing, a.s. has been operating on the Slovak market since 1996 as a universal leasing company offering a comprehensive range of financial products on the market from financial leasing in SKK or EUR, through operative leasing, including full-service, to hire-purchase. The commodity structure offers a wide range from transportation vehicles to machinery and equipment. 8 branches are open in the Slovak Republic.

In 2003 the company achieved turnover of SKK 6.6bn and concluded 9,171 new leasing contracts. According to the information of the Association of Leasing Companies, at the end of 2003 ČSOB Leasing, a.s. took the second position on the Slovak leasing market (15.2% share)

In accordance with the company's strategy for the year 2003, the greatest growth in business was recorded in commodities or lorries (interannual growth of 49.7%) and machinery and equipment (interannual growth of 30.5%). Along with an orientation towards business customers, the development of new products was also adapted in 2003 - interesting constructions of financial leasing were introduce onto the market: “Final Increased Instalment” and “Seasonal Instalments”.

For 2004 the company is planning to continue in the trend of its orientation towards business customers and commodities of lorries, machinery and equipment, and an increased share in trade in the used transportation vehicles segment is also planned. The launch of full operation of the full service operative leasing product is also planned. The company also plans to concentrate on the portfolios of existing clientele.

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ČSOB Penzijní Fond Progres, a. s., member of the ČSOB Group

Date of establishment 14 February 1995

Business activities

Pension insurance with a state contribution.

Share capital (CZK 000) 50,000

Shareholders as of 31 December 2003

100% Československá obchodní banka, a. s.

	2003	2002	2001
Number of contracts	4,828	3,827	2,336
Funds credited of participants (CZKm)	330.8	206.2	125.6
of which contributions of participants (CZKm)	279.1	195.0	116.5
Market value of investment portfolio (CZKm)	383.2	238.4	159.2
Enhancement of participants' funds (%)	4.3	4.26	3.7
Market share in the Czech Republic (%) (number of participants)	0.6	0.5	0.4

The ČSOB Pension Fund Progres (formerly the ČSOB Pension Fund, hereinafter also "ČSOB PFP") has been operating on the market of pension insurance since 1994 under the name "Penzijní Fond Spokojenosti". In May of 2000 ČSOB took over 100% of the ownership interest. ČSOB PFP operates pension insurance with a state contribution pursuant to act no. 42/1994 Coll., regarding pension insurance with a state contribution, i.e. it collects monetary funds from subscribers to pension insurance and contributions from the state provided to the credit of the subscribers, manages the funds and pays pension insurance according to the pension plan in question. ČSOB PFP negotiates and pays all of the types of pensions and other benefits that a pension fund can provide.

The change of name was a significant milestone in the history of the pension fund. The objective of the majority shareholder - Československá ochodní banka, a. s. - was to give a better perception of the pension fund's investment strategy. In July of 2003 the bank thus proceeded to change the name of ČSOB Penzijní Fond, a.s. to ČSOB Penzijní fond Progres, a.s., member of the ČSOB Group.

ČSOB PFP is advantageous for clients interested in longer term savings who are willing to accept a certain degree of risk to that end. The dynamic investment strategy of the ČSOB PFP, based on a higher share of stocks and foreign bonds, enables a relatively higher annual yield for long term savings than the majority of pension funds in the Czech Republic offer. Thanks to the 26% growth in contracts concluded, the number of clients in ČSOB PFP exceeded 15,000 in 2003. An important indicator that confirms that ČSOB's strategy in pension insurance is the correct one, is the decrease in the average age of new subscribers to 40.4. The average amount of the monthly contribution negotiated for new clients has reached CZK 651.

Beyond the scope of the services generally provided - conclusion of contracts for pension insurance - ČSOB PFP offers its clients above-standard services. These involve for example the Komfort program, which allows its clients to obtain the maximum tax concessions and state contributions without needless administration. Because the fund belongs to the ČSOB Group, clients can also take advantage of other benefits provided by the bank's subsidiaries.

Particularly interesting benefits are:

- 10% discount on insurance for households, family houses and recreational buildings with ČSOB Pojišťovna;
- a six-month "payment holiday" when opening a Postal Giro or Postal Account with Poštovní Spořitelna,
- 25% discount on entry fees when negotiating ČSOB consumer credit.

In 2003 business cooperation with the company's mother bank ČSOB was substantially expanded. ČSOB PFP increased its sales through the ČSOB business network by 50% as opposed to 2002. Cooperation with the bank, and especially with other subsidiaries of the ČSOB Group, is planned to continue to expand in 2004.

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ČSOB Penzijní fond Stabilita, a. s., member of the ČSOB Group

Date of establishment 26 October 1994

Business activities

Pension insurance with a state contribution

Share capital (CZK 000) 97,167

Shareholders as of 31 December 2003

100% Československá obchodní banka, a. s.

	2003	2002	2001
Number of contracts	50,526	42,529	32,648
Funds credited of participants (CZKm)	7,507	6,609	5,645.5
of which contributions of participants (CZKm)	5,784	5,058	4,295.7
Market value of investment portfolio (CZKm)	7,671	6,798	5,730.6
Enhancement of participants' funds (%)	2.3	3.0	3.2
Market share in the Czech Republic (%) (by number of participants)	11.0	11.6	12.2

The ČSOB Pension Fund Stabilita a.s., member of the ČSOB Group (formerly the Českomoravský penzijní fond, a.s., hereinafter also (“ČSOB PFS”)) has been operating on the pension insurance market since 1994. It is the legal successor to Občanský penzijní fond, a.s., and Český penzijní fond Zdraví, a.s. with whom it merged in 1999 and 2000.

ČSOB PFS provides pension insurance with a state contribution in accordance with Law No. 42/1994 of the Collection on Additional Pension Insurance with a state contribution. The principle is to collect contributions from participants to the pension insurance scheme and those from the state granted in favour of participants. The Fund manages these assets and disburses amounts in accordance with the pension scheme. ČSOB PFS negotiates and distributes all kinds of pensions and other benefits which a pension fund may provide.

The change of name was a significant milestone in the history of the pension fund. The objective of the majority shareholder - ČSOB - was to give a better perception of the pension fund's investment strategy. In July of 2003 the bank thus proceeded to change the name of Českomoravský Penzijní Fond to ČSOB Penzijní Fond Stabilita, a.s., member of the ČSOB Group.

ČSOB PFS maintains a conservative investment strategy based primarily on investments in securities with fixed returns. Along with a strong background in being the sixth strongest pension fund in the Czech Republic the company can also guarantee its clients stable monthly yields.

In 2003 the number of contracts newly concluded between clients and ČSOB PFS significantly increased, thus exceeding 50,000 contracts. The average age of new clients of pension insurance reached 51.5 years of age and the average amount of their agreed monthly contribution amounted to CZK 507.

ČSOB PFS primary objective for 2004 will be to maintain its current position on the market. Another aim is to work in cooperation with ČSOB to expand the offer of benefits for ČSOB PFS clients within the scope of the ČSOB Group.

Beyond the scope of the services generally provided - conclusion of contracts for supplementary pension insurance - ČSOB PFS offers its clients above-standard services. These involve for example the Optimum Efekt program, which allows its clients to obtain the maximum tax concessions and state contributions without needless administration. Because the fund belongs to the ČSOB group, clients can also take advantage of other benefits provided by the bank's subsidiaries.

Particularly interesting benefits are:

- 10% discount on insurance for households, family houses and recreational buildings with ČSOB Pojišťovna;
- a six-month “payment holiday” when opening a Postal Giro or Postal Account with Poštovní Spořitelna,
- 25% discount on entry fees when negotiating ČSOB consumer credit.

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ČSOB Pojišťovna, a. s., member of the ČSOB holding (ČSOB Pojišťovna)

Established 17 April 1992

Business activities

Insurance of citizens and entrepreneurs in the area of life and non-life insurance

Share capital (CZK 000) 920,000

Shareholders as of 31 December 2003

75% KBC Insurance N.V.

25% Československá obchodní banka, a. s.

	2003	2002	2001
Number of insurance contracts	328,218	285,862	278,310
Volume of written premium (CZKm)	6,027,381	6,171,948	5,962,000
Number of claims settled	144,703	150,512	149,676
Market share in the non-life insurance market (%)	4.4	5.0	5.5
Market share in the life insurance market (%)	7.8	10.0	11.2

ČSOB Pojišťovna is an important universal insurance company offering a range of products in the area of life and non-life insurance for private individuals and legal entities alike. The wide range of ČSOB Pojišťovna's insurance products and the possibility of combining them with additional financial services offered by the ČSOB Group allows clients to tend to their financial needs comprehensively and under advantageous conditions. On the Czech insurance market ČSOB Pojišťovna holds 5th place as regards total premium written by law, 5th place in life insurance and 6th place in non-life insurance.

Since 6 January 2003, ČSOB Pojišťovna has been operating on the market as a new entity created through the merger of Pojišťovna and ČSOB Pojišťovna with the new name of ČSOB Pojišťovna, a.s., member of the ČSOB holding. The aim was to unite two well-established insurance companies under a single common roof and thus create a strong insurance entity within the ČSOB financial group with the multinational background of the Belgian shareholder KBC Bank & Insurance.

In the business area, commercial divisions and procedures underwent an overall restructuralisation with emphasis on strengthening internal distribution routes. The sale of insurance policies was begun through exclusive insurance agents (PAE). At present roughly 470 agents are operating within the company, and according to company strategy their number should double in the future. The strategic objective is to direct the internal distribution network towards comprehensive financial consultancy.

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ČSOB Stavebná Sporiteľňa, a.s. (ČSOB SP)

Date of establishment 8 November 2000

Business activities

Construction savings in accordance with Law No. 310/1992 of the Collection, on construction savings as subsequently amended.

Share capital (SKK 000) 720,000

Shareholders as of 31 December 2003

100% Československá obchodní banka, a. s.

	2003	2002	2001
Loans and bridging loans (SKKm)	1,772	979	247
Volume of client deposits (SKKm)	3,733	2,866	1,280
Number of valid contracts	123,561	118,277	83,883
Volume of target amounts of newly concluded contracts (SKKm)	3,242	8,751	12,146
Market share in the Slovak Republic (%) (number of newly concluded contracts)	11.2	12.6	15.1

ČSOB SP began its operations on the Slovak construction savings market in December of 2000. In spite of the overall slump in construction loans in Slovakia in 2003 and the decline in the overall number of newly concluded contracts, ČSOB SP boosted its market share of 10.5% in terms of total concluded contracts as of the end of 2003. In 2003 the building society paid out more than SKK 1bn for residential purposes. Along with other members of the ČSOB group in the Slovak Republic (specifically ČSOB and Ergo Insurance Company) the company has offered clients interested in residence an advantageous opportunity to combine insurance and credit products in the BÝVANIE campaign.

In September of 2003, ČSOB SP introduced an extraordinary bridging loan with a zero deposit onto the market - the so-called SUPERÚVER - which scored considerable success on the construction loans market thanks to its parameters. SUPERÚVER was provided with an attractive interest rate of 6.7% p.a. for the bridging loan phase, and 4.75% p.a. for the construction loan phase. In the last months of 2003 the “NOVÁ ZMLUVA ZADARMO”, or “new contract free” event gave clients the opportunity to conclude a new building savings contract for special conditions for themselves and their children. The marketing-sales event was complemented by a consumer lottery for clients of the MILIÓNOVÁ HRA with attractive material prizes and a main monetary prize of SKK 1m and also a competition for a distribution network.

In 2003, ČSOB SP restructured its distribution network. This restructuring provided costs savings and a transfer of finances to the commercial representative area. All of the aforementioned changes to the product sector and distribution network manifested positively in the market share, with the company recording a 17.9% share in the new business market for the periods of November and December.

In 2004 ČSOB SP plans to conclude 30,000 building savings contracts with a target amount volume of SKK 4.95bn. The distribution network will be stabilized through new opportunities for cross selling within the ČSOB group. Marketing-advertising campaigns and events will focus on supporting sales for the distribution network with the objective of acquiring new clients. A joint campaign within the ČSOB financial group will be launched with the aim of reinforcing the position of the ČSOB financial group in the area of residential financing and personal finance appraisal. The provision of services and furnishing of client servicing will be optimised and made more effective by introducing a service-consultation centre. The quality of consultation and service will be supported by a system of permanent education and certification of the distribution network.

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Ergo poisťovňa, a.s., member of the ČSOB Group (Ergo)

Date of establishment 9 June 1992

Business activities

Insurance in the field of life and non-life insurance

Share capital (SKK 000) 350,000

Shareholders as of 31 December 2003[*)]

40% ČSOB Pojišťovna, a.s, member of ČSOB Group
35.14% KBC Insurance N.V.
24.86% Prvá slovenská investičná skupina, a.s.

[*)] In February 2004 the following change occurred in the shareholder structure of Ergo poisťovňa, a.s.:

75.14% KBC Insurance N.V.
24.86% Prvá slovenská investičná skupina, a.s.

	2003	2002	2001
Number of insurance contracts	173,544	167,583	155,064
Volume of written premium (SKKm)	1,078,781	996,297	840,744
Number of claims settled	13,029	12,395	11,622
Market share in the non-life insurance market (%)	1.54	1.69	1.50
Market share in the life insurance market (%)	4.01	4.28	4.11

Ergo is a universal medium-sized composite insurance company that provides all major retail insurance lines including classic life, single premium savings life insurance, critical illness insurance, travel insurance, Casco insurance, MTPL, insurance of houses and households.

At the end of 2003, Ergo was the 6th largest market player in the Slovak life insurance market (market share 4.1%) and the 8th largest player in the non-life market (market share 1.5%), predominantly focused on the retail market and countryside, with app. 170,000 retail policies. Ergo also serves 250 international and Slovak corporate customers and more than 2,000 Slovak SMEs.

During 2003, Ergo radically re-aligned its operations to KBC standards:

- Ergo radically restructured its operations with the aim to reach sustainable profitability
- adopted the new customer approach based on the segmentation of retail-SME-corporate clients
- optimized the headcount by 23%
- launched a massive product innovation program. (a total of 8 new products both in life and non-life)
- in co-operation with CSOB bank Ergo started to offer bancassurance products
- restructured its distribution network. Today, more than 200 own exclusive agents-financial advisors are the backbone of the mobile sales force of the CSOB Group in Slovakia
- shifted the company culture to professional Western corporate culture
- but not at least: the claim ratio of Ergo was excellent 56%.

Ergo´s main objectives for 2004 are as follows:

- move into the black by the half year 2004 and close 2004 with sustainable profit
- restructure own distribution network, with main focus on the own tied agents. Increase the number of higher level agents by 100% up to 200
- achieve 4% of total sales via ČSOB
- restructure the product range to long term profitability and low risk for the future and maintain excellent claim ratio
- launch new single paid investment product in life area (for distribution in ČSOB), stand-alone accident products and new product for SME customers
- rebrand the name of the company to CSOB Poisťovňa, a.s. in summer 2004.

Registered office:	Drieňová 7, 820 09 Bratislava, Slovak Republic
Contact:	Telephone: +421 2 482 482 00
	E-mail: ergolinka@ergo.sk
	Internet: www.ergo.sk

O.B. HELLER a.s.

Date of establishment 16 July 1992

Business activities

Factoring.

Share capital (CZK 000) 35,400

Shareholders as of 31 December 2003

50% Československá obchodní banka, a. s.

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

		2003	2002	2001
Debt turnover (CZKbn)	total	15.2	14.5	16.8
	factoring	14.8	13.3	11.7
Market share in the Czech Republic (%) (factoring turnover)		24.2	26.8	29.3

From the very beginning it has specialised in providing operational capital in the form of funding the customers via the assignment of receivables. In comparison to the previous year the factoring turnover grew by more than 11%. The factoring turnover for the year 2003 implies a market share of 24.2%. In comparison with the year 2002 the market share decreased by 2.6%. Nonetheless, 2003 was a very successful year commercially, contracts were concluded with 53 new commercial partners, who chose O.B. HELLER mainly thanks to their comprehensive services and flexible non-bureaucratic approach.

The basis of cooperation with the client is debt financing, for which the company continuously offers solutions for financing supplies, orders, letters of credit, purchases of fixed assets and last but not least also for financing acquisitions and MBO.

Towards the end of 2003 a new information system, Factor-Link, was successfully implemented, and this has substantially increased the quality of client servicing. The beginning of 2004 will see the commencement of planned active access for business partners to their accounts via internet interface.

In 2004 the company's plan anticipates an increase of turnover of CZK 16.5bn. This year should see a considerable strengthening of sales through the ČSOB branch network.

As of 31 December 2003, the subsidiary OB HELLER Factoring a.s., with its registered offices in Bratislava, achieved a turnover of SKK 5.2bn.

Address:	Benešovská 40, 101 00 Prague 10 - Vinohrady
Contact:	Telephone: 267 184 811 (exchange)
	Fax: 267 184 822
	E-mail: obheller@obheller.cz
	Internet: www.obheller.cz

OB HELLER Factoring a.s.

Date of establishment 24 February 1997
Business activities

Factoring.

Share capital (SKK 000) 30,000
Shareholders as of 31 December 2003

100% O.B.HELLER a.s., Czech Republic

	2003	2002	2001
Debt turnover (SKKm)	5.18	5.44	4.24
Market share in the Slovak Republic according to factoring turnover (%)	32.7	41.4	39

OB HELLER Factoring a.s. is a factoring company founded in 1997. The basic service provided is domestic factoring with recourse. Among the standard services provided however are also export factoring, as well as services in the area of taking risk arising from financial insolvency or customer unwillingness.

There has been a slight fall in turnover as compared to the previous year, this being principally the result of strong competition on the relevant market.

In spite of this OB HELLER Factoring a.s. has maintained a leading position on the Slovak factoring market with a more than 32% share.

In 2004, OB HELLER Factoring a.s. expects turnover in the amount of SKK 6.45bn.

Address:	Gagarinova 7/b, Bratislava 821 03
Contact:	Telephone: + 421 2 48 20 80 01 (operator)
	Fax: + 421 2 43 41 55 90
	E-mail: factoring@obheller.sk
	Internet: www.obheller.sk

Patria Finance, a. s.

Date of establishment	23 May 1994	**Share capital (CZK 000)**	100,000
Business activities		**Shareholders as of 31 December 2003**	

Securities trading and consultancy services in the field of corporate finance.

75%	KBC Bank N.V., Belgium
25%	KBC Securities N.V., Belgium

Patria Finance was one of the first financial institutions based in Prague which focused on investment banking services including securities trades on its own and clients' behalf, financial asset administration, consultancy in the field of management and financing of companies and financial research. The company is a member of the Prague Stock Exchange.

In October 2000, Patria Finance became a member of the KBC Banking and Insurance Group which is among the largest and strongest financial groups in Europe. Patria Finance, a.s. is a majority holder of the following companies:

- Patria Online, a.s., which is a platform for providing information in the field of financial and capital markets via internet portal at the address www.patria.cz. Results of own financial research are also available at this address.
- Patria Direct, a.s., which provides for trades on the Prague Stock Exchange and nineteen foreign stock exchanges
- Patria Finance CF, a.s., which provides consultancy services in the field of corporate finance.
- ČSOB Asset Management, a.s., which administers client financial assets exceeding CZK 33bn. This company is controlled by Patria Finance, a.s. (20%) and Československá obchodní banka, a. s. (80%).

Following the period of restructuralisation of the business activities in 2002 and in relation to the other activities of the KBC group in the Czech Republic, the year 2003 brought a stronger position for Patria Finance, a.s. in the area of securities trading and consultancy services in the field of corporate finance.

Securities transactions were made exclusively on stock markets, while bond transactions were made only for internal needs of the Treasury Department. Patria Finance, a.s. finished in the second place in volume of shares trading carried out in 2003 on the Prague Stock Exchange and the volume of trading in foreign securities increased significantly from 2002. In 2003 revenues from client trading commissions more than doubled for clients through the Internet. The overall gross revenue of the Shares Trading Department and interest revenues achieved some CZK 110m, thus exceeding the set plans and amounting to 10% more than in 2002.

2003 was another successful year for the Corporate Finance Department, with the team of business consultancy specialists working on more than twenty transactions amid mergers, acquisitions and sales of companies, namely in the fields of information technology, telecommunications, construction, and engineering as well as in the service sector. A very significant element during the course of the year was the strengthening of cooperation with the ČSOB Corporate Clients Department, both in the Czech Republic and in Slovakia, where Patria further reinforced its position by successfully implementing considerable transactions in the textile industry.

In 2003, Patria Finance, a.s. consolidated a position on the market for the long-term as a stable financial position and created positive conditions for the further development and improvement of the services offered. In 2004, the company plans to shift the majority of its activities in corporate finance to its specialised, 100% owned subsidiary Patria Finance CF, a.s. Furthermore, Patria Finance, a.s. will proceed with further integration within the ČSOB Group in 2004.

Address:	Škrétova 12, 120 00 Prague 2
Conact:	Telephone: 221 424 111
	Fax: 221 424 222
	E-mail: info@patria.cz
	Internet: www.patria.cz

První investiční společnost, a.s. (PIAS)

Date of establishment 5 December 1990

Business activities

Collective investment.

Share capital (CZK 000) 60,000

Shareholders as of 31 December 2003

98.43% ČSOB Investiční Společnost, a.s., member of the ČSOB Group

1.57% Other shareholders

	2003	2002	2001
Assets under management (CZKbn)	16.8	18.5	17.0

The main objective of the company for the year 2003 was to complete its integration into the Asset Management Group. One of the significant steps in this direction was the change of PIAS's localization into the vicinity of ČSOB Asset Management at the address Perlová 371/5, Prague 1. To this end it was decided that the company's building in Bělehradská Street would be sold. The sales process was completed at the beginning of 2004. Within the scope of integration the preparation of the documentation for the merger of PIAS and ČSOB Investiční společnost, a.s., member of the ČSOB Group (hereinafter "ČSOB IS") continued. It was decided that integration would be implemented by dissolving PIAS and transferring its assets to the main shareholder (hereinafter the "transfer of assets") ČSOB IS. The record date for the transfer of assets was set for 1 July 2003. The general meetings of both companies, which discussed and approved the prepared transfer of assets took place on 8 December 2003. A proposal for the registration of the transfer of assets in the commercial register was submitted on 18 December 2003. Upon implementation of the merger record, which is anticipated at the beginning of January 2004, pursuant to the law, ČSOB IS will ensure the payment of settlement to minority shareholders of the dissolved PIAS, the assets of which ČSOB IS will have taken over.

At the fund level, the 1st phase of fund redesigning has been carried out - the planned merger of certain ČSOB IS funds with similarly oriented open-ended funds of PIAS and the merger of PIAS post-privatisation funds. The reason for the merger was primarily the reduction of the costs for administration, the increase in competitive ability and the possibility of greater diversification of the portfolio and decrease of investment risk.

Over the course of 2003 the company also succeeded in completing the transformation of investment funds into open-end funds. The investment fund Investiční fond bohatství, a.s. was transformed into a fund called "1.IN - Fond bohatství, otevřený podílový fond První investiční společnosti, a.s." on 10 April 2003, "Křišťálový investiční fond, a.s." was transformed into "1.IN - Křišťálový fond, otevřený podílový fond První investiční společnosti, a.s." on 31 October 2003 a "Investiční fond obchodu, cestovního ruchu a služeb, a.s." was transformed into "1.IN - Fond obchodu, otevřený podílový fond První investiční společnosti, a.s." on 31 December 2003.

As of 31 December 2003, PIAS managed assets in the total amount of CZK 16.8bn.

Funds managed by První investiční společnost, a.s., as of 31 December 2003

Investment funds

- IF obchodu, cestovního ruchu a služeb, a.s.

Open-ended funds

- ČSOB bond mix, an open shares fund of První Investiční Společnosti, a.s.
- ČSOB akciový mix, an open shares fund of První Investiční Společnosti, a.s.
- ČSOB středoevropský, an open shares fund of První Investiční Společnosti, a.s.
- ČSOB fond stability, an open shares fund of První Investiční Společnosti, a.s.
- 1.IN - Fond bohatství, an open shares fund of První Investiční Společnosti, a.s.
- 1.IN - Křišťálový fond, an open shares fund of První Investiční Společnosti, a.s.

Registered offices:	Perlová 371/5, 115 20 Prague 1
Contact:	Telephone: 222 045 445
	Fax: 222 045 665
	E-mail: investice@csob.cz
	Internet: www.csobinvest.cz

FINANCIAL PART

AUDITOR´S OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

PRICEWATERHOUSECOOPERS

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 2003 and the related consolidated statements of income, changes in equity and cash flow for the year then ended (“the consolidated financial statements”). These consolidated financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the 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 2003, the results of its operations, its changes in shareholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

5 March 2004

PricewaterhouseCoopers

PricewaterhouseCoopers Audit, s.r.o.
represented by:

Paul Cunningham
Partner

Petr Kříž
Auditor, Licence No. 1140

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Consolidated statement of income for the year ended 31 December 2003

(according to International financial reporting standards)

(CZKm)	Notes	2003	Restated 2002
Interest income		25,149	30,073
Interest expense		(10,419)	(16,352)
Net interest income	3	**14,730**	**13,721**
Net fee and commission income	4	6,367	5,591
Net trading income	10	1,103	2,647
Other income	5	1,023	1,231
Non-interest income		**8,493**	**9,469**
Operating income		**23,223**	**23,190**
General administrative expenses	6	(14,239)	(13,327)
Other expenses	7	(1,378)	(1,727)
Operating expenses		**(15,617)**	**(15,054)**
Operating profit before provisions		**7,606**	**8,136**
Provisions for credit losses	14	27	1,413
Other provisions	23	(380)	(263)
Operating profit		**7,253**	**9,286**
Income tax expense	22	(946)	(2,580)
Net profit before minority interests		**6,307**	**6,706**
Minority interests		(67)	(115)
Net profit		**6,240**	**6,591**

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

Consolidated balance sheet as at 31 December 2003

(according to International financial reporting standards)

(CZKm)	Notes	31. 12. 2003	31. 12. 2002
ASSETS			
Cash and balances with central banks	8	19,238	21,194
Due from banks	9	131,059	142,355
Trading assets	10	63,771	55,680
Investment securities	11	131,183	77,224
Rescue acquisition state assistance receivable	12	-	57,088
Loans and leases	13	230,100	213,682
Property and equipment	15	12,434	12,746
Goodwill	16	3,798	2,266
Other assets, including tax assets	17	8,403	8,839
Prepayments and accrued income		6,494	5,970
Total assets		**606,480**	**597,044**
LIABILITIES			
Due to banks	18	20,254	26,472
Trading liabilities	10	46,458	40,756
Due to customers	19	439,999	418,143
Rescue acquisition state assistance payable	12	4,737	4,731
Debt securities in issue	20	16,731	28,169
Other liabilities, including tax liabilities	21	28,726	28,672
Accruals and deferred income		1,734	2,095
Other provisions	23	1,383	5,757
Total liabilities		**560,022**	**554,795**
Minority interests		**457**	**974**
SHAREHOLDERS' EQUITY			
Share capital	24	5,105	5,105
Share premium account		1,439	1,006
Statutory reserve		19,250	19,223
Cumulative gains/(losses) not recognised in the income statement		(180)	94
Treasury shares		(368)	(576)
Retained earnings		20,755	16,423
Total shareholders' equity		**46,001**	**41,275**
Total liabilities, minority interests and shareholders' equity		**606,480**	**597,044**

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

The financial statements were approved for issue by the Board of Directors on 5 March 2004 and signed on its behalf by:

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

Mgr. 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 2003

(according to International financial reporting 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 2002	5,105	1,006	19,224	(102)	(536)	13,156	37,853
Net after-tax unrealised gains on available-for-sale securities	-	-	-	123	-	-	123
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	379	-	-	379
Foreign currency translation	-	-	-	(15)	-	-	(15)
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(43)	-	-	(43)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(248)	-	-	(248)
Net after-tax gains not recognised in the income statement	-	-	-	196	-	-	196
Net profit	-	-	-	-	-	6,591	6,591
Transfer from statutory reserve	-	-	(1)	-	-	1	-
Purchase of treasury shares	-	-	-	-	(40)	-	(40)
Dividends paid	-	-	-	-	-	(3,325)	(3,325)
At 31 December 2002	**5,105**	**1,006**	**19,223**	**94**	**(576)**	**16,423**	**41,275**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	(138)	-	-	(138)
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	(297	-	-	(297)
Foreign currency translation	-	-	-	254	-	-	254
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(101)	-	-	(101)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	8	-	-	8
Net after-tax gains not recognised in the income statement	-	-	-	(274)	-	-	(274)
Net profit	-	-	-	-	-	6,240	6,240
Transfer to statutory reserve	-	-	27	-	-	(27)	-
Sale of treasury shares	-	433	-	-	228	-	661
Purchase of treasury shares	-	-	-	-	(20)	-	(20)
Dividends paid	-	-	-	-	-	(1,881)	(1,881)
At 31 December 2003	**5,105**	**1,439**	**19,250**	**(180)**	**(368)**	**20,755**	**46,001**

1) Accumulated gains/(losses) not recognised in the income statement consists of the after-tax valuation allowance for foreign currency translation adjustments of CZK (352)m, CZK (367)m and CZK (113)m as at 1 January 2002, 31 December 2002 and 31 December 2003, respectively; net gains on available-for-sale securities of CZK 212m, CZK 292m and CZK 53m as at 1 January 2002, 31 December 2002 and 31 December 2003, respectively; net gains/(losses) on derivatives used as cash flow hedges of CZK 38m, CZK 169m and CZK (120)m as at 1 January 2002, 31 December 2002 and 31 December 2003, respectively.

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

Consolidated statement of cash flows for the year ended 31 December 2003

(according to International financial reporting standards)

(CZKm)	Note	2003	Restated 2002
Cash flow from / (used in) operating activities			
Operating profit		7,253	9,286
Adjustments for			
Allowances and provisions for credit losses		(27)	(1,413)
Other provisions		380	431
Depreciation of property and equipment		1,920	1,645
Property impairment charge		-	640
Amortisation of discounts and premiums		112	516
Amortisation of goodwill		205	175
Net gain on disposal of financial investments		(159)	(62)
Net gain on disposal of property and equipment		(16)	(38)
Own bonds adjustment		(100)	(222)
Change in cumulative (losses) / gains not recognized in the income statement		(298)	161
Other		(275)	(140)
(Increase) / decrease in operating assets:			
Due from banks, non-demand		9,885	(22,884)
Trading assets		(6,888)	(5,745)
Loans and leases		(16,920)	(14,843)
Other assets		(920)	(3,598)
Prepayments and accrued income		(379)	(1,411)
Increase / (decrease) in operating liabilities:			
Due to banks, term		(109)	(1,145)
Trading liabilities		5,702	14,300
Due to customers		15,107	400
Promissory notes and certificates of deposit		(7,489)	(1,303)
Other liabilities		(1,704)	2,884
Accruals and deferred income		(366)	(535)
Net cash flow from / (used in) operating activities before income tax		4,914	(22,901)
Net income tax paid		(2,430)	(2,549)
Net cash flow from / (used in) operating activities		2,484	(25,450)
Cash flow from / (used in) investing activities			
Acquisition of IPB, net of cash paid		56,655	71,245
Change in consolidation scope		(239)	(140)
Purchase of securities		(128,890)	(51,906)
Maturity/disposal of securities		81,975	23,196
Purchase of property and equipment		(1,928)	(1,927)
Disposal of property and equipment		427	534
Net cash flow from investing activities		8,000	41,002
Cash flow from / (used in) financing activities			
Issue of bonds		2,901	779
Repayment of bonds		(6,750)	(6,000)
Sale / (purchase) of treasury shares		641	(40)
(Decrease) / increase in minority interests		(517)	227
(Decrease) in borrowings		(3,309)	(1,314)
Dividends paid		(1,881)	(3,325)
Net cash flow (used in) financing activities		(8,915)	(9,673)
Effect of exchange rate changes on cash and cash equivalents		138	17
Net increase in cash and cash equivalents	**28**	**1,707**	**5,896**

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

Notes to the consolidated financial statements for the year ended 31 December 2003

(according to International financial reporting 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, Slovak 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, joint-venture and associated companies (together the Group) which have been prepared in accordance with and comply 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 Balance Sheet.

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

b) Consolidation

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, income and expenses in the joint venture to be combined with those of the venturer on a line-by-line basis.

c) 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.

d) 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 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.

e) 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.

f) 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, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability. It is the Group's policy to take possession of securities purchased under reverse repo transactions.

g) 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.

h) 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 using the effective yield method. 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 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 (except for originated by the enterprise - presented as Due from banks and Loans and leases) 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.

i) Loans and leases

Loans are carried at amortised cost adjusted for unamortised deferred origination fees less allowance for credit losses (Note 2j)). Interest income accrues on the unpaid principal balance. Loan origination fees are deferred and recognised as adjustments to interest income over the lives of the related loans.

Finance leases are carried at the aggregate level of lease payments receivable plus the 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.

An impaired loan is classified as non-performing when contractual payments of principal and/or interest are in arrears for 90 days or more.

The Group's current systems are not configured to accrue interest on an impaired loan's recoverable value at the original effective interest rate automatically. To obtain such information the Group would be required to suffer unreasonable expense, manual effort and operational risk. Accordingly, interest income on a loan continues to accrue based on the unpaid principal balance at the current contractual rate of interest.

Change in accounting policy

The Group changed its loan interest recognition policy on 1 January 2003. Previously, the Group's policy was to stop interest accrual on a loan when it became 90 days overdue as to principal and/or interest and reverse all of the unpaid interest. The reversal of unpaid interest in a current period derecognised interest income that was previously recognised.

The new loan interest income recognition policy requires a loan to accrue interest based on the unpaid principal balance at its current contractual rate until it is fully paid or written off. Group management believe this policy provides financial statement users with a more appropriate presentation by avoiding the income volatility arising from interest reversals.

This new income recognition policy has been applied with retrospective effect, as if the policy had always been in use.

The following are the financial reporting impacts from the change:

- Unpaid, or accrued interest, in Loans and leases and the Allowance for credit losses increased to CZK 1,165m and CZK 1,283m as at 31 December 2002 and 31 December 2003, respectively.
- Interest income and Provisions for credit losses increased by CZK 540m and CZK 118m for the years ended 2002 and 2003, respectively, resulting in no change in net profit for those years.
- Non-accrual loan balances are no longer presented. Instead, information on non-performing loans is provided representing the higher-risk loan exposures of the Group.

j) Allowance for credit losses

The Allowance for credit losses is management's estimate of probable losses in the credit portfolios. It reduces the recorded amounts of the credit portfolios to their recoverable values. Additions to the allowance are charged to Provisions for credit losses. An individual credit exposure is charged, or written off, directly to the allowance when management deems it to be uncollectible. Recoveries of previously written-off amounts are credited to the allowance.

On a regular basis management assesses the level of estimated 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 a borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This assessment is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The regular credit loss assessment process initially identifies individual or groups of credit exposures that may be impaired and then measures their estimated recoverable values (ie, the present value of their expected future cash flows discounted at their original effective, or contractual, interest rates). The difference between the carrying values of the individual or groups of credit exposures and their estimated recoverable values is the allowance for credit losses.

A credit exposure 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 credit agreement. Factors considered by management to identify impairment include payment status and the probability of collecting scheduled payments when due.

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

Change in accounting estimate

On 1 January 2003, management revised its methodology to estimate credit losses contained in the Group's credit portfolios. Previously, Group credit losses were estimated, largely, on an individual credit exposure basis. Under the revised estimation methodology the Group's credit exposures are separated into individual credit exposures specifically identified as impaired and groups of homogenous credit exposures. Losses of individual credit exposures specifically identified as impaired are determined case-by-case; for groups of homogenous credit exposures, incurred but not yet recognised losses are determined collectively using credit loss estimation models.

Group management believe the revised methodology improves the Group's credit loss estimate by segmenting the portfolio into homogeneous groups of credit exposures and taking advantage of the larger base of available loss experience using statistical tools.

The financial statement impact of revising the credit loss estimate methodology including change in accounting policy (Note 2i) resulted in a decrease of CZK 444m during 2003 in the Provisions for credit losses and the Allowance for credit losses.

k) Property and equipment

Property and equipment includes Group occupied 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	4-30 years

l) 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 business or subsidiary company at the date of acquisition. Goodwill is deferred and amortised on a straight-line basis to Other expenses. Based on the analysis of the useful life, the amortisation period has been changed from 10 years used in 2002 to 20 years starting 2003. The balances of 2002 were not restated. The total impact of this change on 2003 profit is approximately CZK 215m.

Required additional acquisition compensation payments and related costs that become probable and reliably estimable increase goodwill with future amortisation adjusted accordingly. In 2003 the goodwill was also increased due to correction of acquired net assets.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired business or 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.

m) 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.

Deferred tax related to fair value movements of cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

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.

The Group recognised the future tax effects on changes in the carrying amount of its subsidiary companies and joint ventures. For some of those changes, Bank management does not foresee the reversal of the respective deferred tax effects in the future. Accordingly, in 2003 the respective cumulative prior-year tax effects of CZK 1,117m have been reversed in the current year's income (2002: CZK 390m). Had this continued, an additional deferred tax charge of CZK 32m would have been recognised in 2003 (2002: CZK 226m).

During 2003 changes in the Income tax law were approved. The applicable tax rates for future periods will be 28% for 2004, 26% for 2005 and 24% for 2006.

n) 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.

o) 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.

p) 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 and Slovak 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.

q) 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.

r) 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.

s) 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, due from banks (demand) and due to banks (demand).

t) Recently issued accounting pronouncements

In December 2003 the IASB published improved versions of several existing International Accounting Standards (IAS), including standards for financial instruments (IAS 32 and 39). In February 2004 the new IFRS 2 was published. Due to the proximity of the date of publication to the reporting date an analysis of the potential effect on the Group's future financial position and results is still ongoing. These revised standards must be implemented by the Group by 1 January 2005.

3. Net interest income

(CZKm)	2003	Restated 2002
Interest income		
Mandatory minimum reserves with central banks	178	276
Due from banks	3,013	4,714
Trading assets	3,649	2,861
Investment securities	4,019	2,877
Loans and leases	13,796	15,585
Rescue acquisition state assistance receivable (Note 12)	494	3,760
	25,149	**30,073**
Interest expense		
Due to banks	859	1,408
Trading liabilities	861	1,023
Due to customers	7,274	11,800
Debt securities in issue	1,058	1,720
Rescue acquisition NAV compensation payable (Note 12)	110	75
Borrowing cost amortisation on other provisions (Note 23)	257	326
	10,419	**16,352**
Net interest income	**14,730**	**13,721**

4. Net fee and commission income

(CZKm)	2003	Restated 2002
Commission income	7,998	6,521
Commission expense	(1,650)	(1,226)
State financial assistance for managing the unwanted IPB assets (Note 12)	19	296
	6,367	**5,591**

Certain types of commission income and expense were off set in 2003. 2002 balances were restated accordingly.

5. Other income

(CZKm)	2003	2002
Operational leasing and rental income	220	208
Receivables transferred	168	226
Net gain from derecognition of available-for-sale financial assets	159	62
Income from insurance claims	20	258
Net gain on disposal of property and equipment	16	38
Negative goodwill amortisation (Note 16)	6	52
Other	434	387
	1,023	**1,231**

6. General administrative expenses

(CZKm)	2003	2002
Personnel expenses	5,605	5,344
Depreciation of property and equipment (Note 15)	1,920	1,645
Other general administrative expenses	6,714	6,338
	14,239	**13,327**

Personnel expenses

(CZKm)	2003	2002
Salaries and bonuses	4,080	3,900
Social security costs	1,365	1,316
Other pension costs, including retirement benefits	160	128
	5,605	**5,344**

The time-weighted average number (in full-time equivalents) of Group personnel and Executive Board members during 2003 was 10,511 (2002: 10,373).

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 the ČSOB Penzijní fond Stabilita, a.s. a company controlled by ČSOB, or the ČSOB Penzijní fond Progres, a.s. a wholly-owned subsidiary of ČSOB, with a contribution of the Bank of 2% or 3% of their salaries, respectively.

Other general administrative expenses

(CZKm)	2003	Restated 2002
Rent and maintenance	1,122	950
Telecommunications and postage	895	813
Marketing and public relations	840	836
Retail service fees	821	732
Information technology	801	836
Professional fees	588	841
Administration	469	491
Travel and transportation	131	117
Training	123	109
Insurance	74	42
Other	850	571
	6,714	**6,338**

7. Other expenses

(CZKm)	2003	2002
Deposit insurance	479	456
Transfer to pension insurance funds	230	-
Amortisation of goodwill (Note 16)	211	227
Property impairment charge	-	640
Other	458	404
	1,378	**1,727**

8. Cash and balances with central banks

(CZKm)	31. 12. 2003	31. 12. 2002
Cash on hand	9,295	9,349
Balances with central banks	8,826	11,178
Other cash values	1,117	667
	19,238	**21,194**

Mandatory minimum reserves are not available for use in the Group's day to day operations.

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 paid interest on mandatory minimum reserve balances at 1.5%.

9. Due from banks

(CZKm)	31. 12. 2003	31. 12. 2002
Analysed by product and bank domicile:		
Current accounts		
domestic	190	120
foreign	1,289	1,493
Term placements		
domestic	4,490	11,318
foreign	18,115	40,965
Loans		
domestic	86,314	65,731
foreign	20,801	22,922
	131,199	142,549
Allowance for credit losses (Note 14)	(140)	(194)
Net due from banks	**131,059**	**142,355**

Financial assets were accepted as collateral from a related party as at 31 December 2003 and 2002 (Note 36).

Gross non-performing due from banks amounted to CZK 759m at 31 December 2003 (31 December 2002: CZK 101m) (Note 26).

The fair value of financial assets accepted as collateral in connection with reverse repo transactions (within Loans domestic) as at 31 December 2003 was CZK 79,517m, of which CZK 1,363m has been sold or repledged (31 December 2002: CZK 63,495m and CZK 1,568m 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.

10. 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 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)	2003	2002
Net trading income - as reported	1,103	2,647
Net interest income (Note 3)	2,788	1,838
Total trading-related net income	**3,891**	**4,485**
Foreign exchange	1,070	2,664
Fixed-income securities and money market	2,722	2,268
Interest rate contracts	(111)	(440)
Equity shares	210	(7)
Total trading-related net income	**3,891**	**4,485**

Trading Assets and Liabilities

The fair value of the components of the Group's trading assets and liabilities as at 31 December 2003 and 2002 were:

	Fair value	
(CZKm)	31. 12. 2003	31. 12. 2002
Trading assets		
Treasury bills	15,277	11,435
Reverse repo transactions	14,678	5,578
Debt securities	10,203	5,234
Equity shares	954	1,153
Derivative contracts (Note 27)	3,686	1,948
Term deposits placed with Banks	18,973	30,332
	63,771	**55,680**
Trading liabilities		
Securities sold, not yet purchased	1,659	863
Promissory notes	5,297	-
Repo transactions	2,187	5,383
Derivative contracts (Note 27)	4,730	2,292
Term deposits taken from Banks	32,585	32,218
	46,458	**40,756**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2003 was CZK 14,670m, of which CZK Nil has been either sold or repledged (31 December 2002: CZK 6,794m 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 2003 was CZK 1,161m (31 December 2002: CZK 7,745m).

See Note 27 for additional information on trading derivative contracts, including credit risk.

11. Investment securities

(CZKm)	31. 12. 2003	31. 12. 2002
Securities available-for-sale - at fair value		
Treasury bills	17,250	499
Debt securities	18,823	10,112
Equity securities	4,039	4,780
Total available-for-sale portfolio	40,112	15,391
Securities held-to-maturity - at amortised cost		
Treasury bills	24,339	18,473
Debt securities	66,732	43,360
Total held-to-maturity portfolio	91,071	61,833
Total securities	**131,183**	**77,224**

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 2003 was CZK 317m (31 December 2002: CZK 1,780m).

Schedule of Activity in Investment Securities

	2003			2002
(CZKm)	Available-for-sale	Held-to-maturity	Total	Total
At 1 January	15,391	61,833	77,224	43,574
Exchange adjustments	112	(303)	(191)	(4)
Purchases	50,529	80,581	131,110	57,062
Movements in IPB securities retained	-	-	-	200
Disposals (sales or redemption)	(30,313)	(51,503)	(81,816)	(23,134)
Change in consolidation scope	4,695	465	5,160	(66)
Amortisation of discounts and premiums	(225)	(2)	(227)	(612)
Gains from changes in fair value	(192)	-	(192)	108
Other	115	-	115	97
Provision for impairment losses	-	-	-	(1)
At 31 December	40,112	91,071	131,183	77,224

12. Rescue acquisition of investiční a poštovní banka, a.s. (IPB)

Introduction

ČSOB purchased the net assets of IPB in a state-assisted bank rescue acquisition at 7am on 19 June 2000. Simultaneously, the Ministry of Finance of the Czech Republic (CMoF) and the Czech National Bank (CNB) granted ČSOB necessary guarantees in connection with the rescue acquisition.

In 2003, the process of the IPB acquisition was finalised by settling most of the remaining issues between ČSOB, the Czech Consolidation Agency (CKA) and the CMoF. At 31 December 2003, all remaining assets of the IPB Enterprise, which had to be transferred to the CKA (being the body chosen by the CMoF to complete certain aspects of the transaction on its behalf) according to the concluded agreements, have been transferred in the course of the year. An audit of the Net Asset Value Statement was finished and the amount for settlement between ČSOB and the CMoF was set.

A number of uncertainties existed as at the date of acquisition of the IPB Enterprise, as a result of the complex nature of the agreements made and the circumstances of the transaction being a rescue by ČSOB of IPB from forced administration. These included:

- Purchase consideration, which depended, inter alia, on independent valuation and independent audit of the net assets of IPB. An agreement executed between the CMoF and ČSOB (CMoF Agreement) guaranteed that ČSOB would be compensated for any shortfall in IPB's net assets through various mechanisms and conversely should the net assets of IPB at 19 June 2000 be positive, ČSOB would be obliged to pay compensation to the Czech Republic for the amount of the net asset surplus.
- Assets to be kept by ČSOB and those to be transferred to the CKA, as it was agreed in Restructuring Plan. Pursuant to the CMoF agreement, ČSOB was granted an option to put any IPB asset to CKA by 18 June 2002 (specific asset put swaption). Conversely, pursuant to the Restructuring Plan, ČSOB granted CKA the option to call from ČSOB defined assets under the same terms and conditions as ČSOB's specific asset put swaption (specific asset call swaption).

- Potential liabilities to be covered by the CNB. An agreement executed between the CNB and ČSOB (CNB Agreement) set 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. On 5 November 2002, ČSOB unilaterally represented to the CNB to cap the indemnity at CZK 160bn and establish an expiry date of 31 December 2016.

The outcome of the transaction from these agreements may be summarised as follows:

Purchase consideration capitalised	CZK 5,731m
Goodwill arising on the acquisition	CZK 3,430m

On 12 December 2003 the Czech Antitrust Office issued an exception from the ban on state support relating to payments obtained by ČSOB from CKA and CMoF under the CMoF Agreement and Restructuring Plan.

At the balance sheet dates 31 December 2003 and 2002, ČSOB reflected the current status of determination of these agreements in its financial statements. As these uncertainties were clarified and agreement was reached on individual items, adjustment was made accordingly. Changes to the Specific Asset Swaption Receivable and the NAV compensation are summarised below:

(CZKm)	Specific asset swaption receivable	NAV compensation receivable/(payable)
At 1 January 2002	146,822	(6,804)
Assets transferred to ČKA	(84,582)	-
Change in principal from net cash flow receipts on unwanted items	(803)	-
Interest income accrued and recognised	3,760	-
Interest expense accrued and recognised	-	(75)
Commission accrued and recognised	296	-
Net effect of change in unwanted/retained assets	(7,105)	-
Other movements	(1,300)	2,148
At 31 December 2002	**57,088**	**(4,731)**
of which:		
Principal	50,051	(4,135)
Accrued interest receivable/(payable)	6,779	(596)
Accrued commission receivable	258	-
At 1 January 2003	57,088	(4,731)
Assets transferred to ČKA	(57,574)	-
Interest income accrued and recognised	494	-
Interest expense accrued and recognised	-	(110)
Commission accrued and recognised	19	-
Net effect of change in unwanted/retained assets	(27)	-
Other movements	-	104
At 31 December 2003	**-**	**(4,737)**
of which:		
Principal - NAV statement liability	-	(3,711)
Principal - Other	-	(320)
Accrued interest receivable/(payable)	-	(706)

The NAV statement liability was settled in January 2004 including relating accrued interest. “Other” relates to ČSOB's current estimate of the potential impact of the completion of a final audit of the value of one remaining bad loan portfolio being the only asset for which agreement has not yet been reached.

Goodwill

IPB goodwill movements from rescue acquisition activity in 2003 and 2002 are summarised as follows:

(CZKm)	2003	2002
At 1 January	2,128	1,782
Purchase consideration adjustments	(2)	235
Additional costs directly attributable to the acquisition	504	-
Add: Change in acquired IPB net assets - at fair value	305	329
Net changes in IPB goodwill - gross (Note 16)	**807**	**564**
Amortisation	(148)	(218)
31 December	**2,787**	**2,128**

During 2003, the additional costs directly attributable to the acquisition increased by CZK 504m. These costs were anticipated already in the prior year, however, the amount of these costs could not be estimated. The Bank does not expect to change the value of goodwill further, other than for the possible impact on purchase consideration of the final valuation of the remaining bad debt portfolio.

13. Loans and leases

(CZKm)	31. 12. 2003	Restated 31. 12. 2002
Analysed by category of borrower:		
Czech Ministry of Finance (including Slovenská inkasná - see Slovenská inkasná note below)	21,729	21,993
Česká inkasní	-	1,339
Government bodies	55,112	61,740
Industrial companies	34,710	41,387
Retail customers	42,942	27,383
Other service companies	29,084	20,086
Trade companies	21,569	21,477
Finance lease customers	23,878	19,214
Other	10,549	7,440
Gross loans and leases	239,573	222,059
Allowance for credit losses (Note 14)	(9,473)	(8,377)
Net loans and leases	**230,100**	**213,682**

Finance lease receivables may be analysed as follows:

(CZKm)	31. 12. 2003	Restated 31. 12. 2002
Not later than 1 year	13,555	10,543
Later than 1 year and not later than 5 years	12,981	11,517
Later than 5 years	33	34
Gross investment in finance leases	26,569	22,094
Unearned future finance income on finance leases	(2,691)	(2,880)
Net investment in finance leases	**23,878**	**19,214**
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	11,869	8,758
Later than 1 year and not later than 5 years	11,981	10,426
Later than 5 years	28	30
Net investment in finance leases	**23,878**	**19,214**

The allowance for uncollectible finance lease receivables included in the provision for credit losses amounted to CZK 1,333m at 31 December 2003 (31 December 2002: CZK 805m).

Gross non-performing loans and leases amounted to CZK 6,728m at 31 December 2003 (31 December 2002: CZK 6,675m).

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 was 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, as described below.

Slovenská inkasná

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. (SI), 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. Two phases of the oral hearing convened in November 2002 and April 2003. A final award on the merits is expected during the first half of 2004. 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 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, a second Stabilisation 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 Stabilisation 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.

Accounting treatment

Due to the clarification provided by the Amendment 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 translated to CZK, the Bank recognizes its receivable from the CMoF with interest accruing from that date (in accordance with the terms of the Stabilisation Agreement as amended). As of 31 December 2003 and 2002 the total receivable amounted to CZK 21,332m. 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. Should the Bank receive any proceedings from the dispute or loan repayment, it is required to off-set it against the receivable from CMoF.

14. Credit losses

The table below summarises the changes in the Allowance for credit losses and the Provisions for guarantees and undrawn credit lines for 2003 and 2002:

(CZKm)	2003	Restated 2002
At 1 January	10,177	15,248
Movements in IPB credit provisions retained	-	(88)
Exchange adjustments	2	(131)
Net charge/(release) of provisions	565	(4,852)
At 31 December	**10,744**	**10,177**

The table below summarises net provision credit (charge) against profit:

(CZKm)	2003	Restated 2002
Net release/(charge) of provisions	(565)	4,852
Writte offs	(405)	(4,029)
Recoveries of amounts written off	997	590
Net credit against profit	**27**	**1,413**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2003 and 2002 are distributed as follows:

(CZKm)	31. 12. 2003	Restated 31. 12. 2002
Allowance for credit losses		
Loans and leases (Note 13)	9,473	8,377
Due from banks (Note 9)	140	194
Provisions for guarantees and undrawn credit lines (Note 25)	1,131	1,606
	10,744	**10,177**

15. Property and equipment

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost				
At 1 January 2003	11,226	9,524	897	21,647
Exchange adjustments	73	42	-	115
Change in consolidation scope	1	38	-	39
Transfers	484	1,264	(1,748)	-
Additions	8	202	1,718	1,928
Disposals	(287)	(1,044)	(98)	(1,429)
At 31 December 2003	11,505	10,026	769	22,300
Accumulated depreciation and impairment				
At 1 January 2003	2,643	6,258	-	8,901
Exchange adjustments	9	30	-	39
Change in consolidation scope	-	24	-	24
Disposals	(36)	(974)	-	(1,010)
Impairment utilization	(8)	-	-	(8)
Charge for the year	309	1,611	-	1,920
At 31 December 2003	2,917	6,949	-	9,866
Net book value				
At 1 January 2003	**8,583**	**3,266**	**897**	**12,746**
At 31 December 2003	**8,588**	**3,077**	**769**	**12,434**

16. Goodwill

(CZKm)	Positive	Negative	Net
Net book value			
At 1 January 2003	2,266	-	2,266
Other acquisitions	936	(6)	930
Net changes in IPB goodwill (Note 12)	807	-	807
Amortisation (Notes 5 and 7)	(211)	6	(205)
31 December 2003	**3,798**	**-**	**3,798**
Gross amount acquired	4,513	-	4,513
Accumulated amortisation	(715)	-	(715)
31 December 2003	**3,798**	**-**	**3,798**

17. Other assets, including tax assets

(CZKm)	31. 12. 2003	31. 12. 2002
Other debtors, net of provisions	3,989	3,418
Current income tax receivable	861	78
VAT and other tax receivables	792	700
Hedging derivative contracts (Note 27)	761	742
Other clearing accounts	715	1,864
Other receivables from clients	498	250
Estimated receivables	277	208
Net deferred tax asset (Note 22)	262	381
Items in the course of collection	217	249
Receivables from securities clearing entities	31	434
Residual value in Prager Handelsbank in liquidation	-	515
	8,403	**8,839**

18. Due to banks

(CZKm)	31. 12. 2003	31. 12. 2002
Analysed by product and bank domicile:		
Current accounts		
domestic	221	257
foreign	1,611	4,375
Term deposits		
domestic	104	211
Borrowings		
domestic	4,641	8,257
foreign	13,677	13,372
Total due to banks	**20,254**	**26,472**

19. Due to customers

(CZKm)	31. 12. 2003	31. 12. 2002
Analysed by product:		
Current accounts	195,027	158,348
Term deposits	244,972	259,795
Total due to customers	**439,999**	**418,143**
Analysed by customer type:		
Individuals and households	261,519	247,844
Private companies and entrepreneurs	105,500	93,332
Government bodies	21,111	16,491
Foreign	13,449	40,712
Other financial institutions	12,337	14,145
Non profit institutions	10,889	631
Liability to pension fund policy holders	7,641	-
Insurance companies	7,011	4,104
Other	542	884
Total due to customers	**439,999**	**418,143**

20. Debt securities in issue

				(CZKm)	
Issue date	**Currency**	**Maturity date**	**Effective interest rate**	**31. 12. 2003**	**31. 12. 2002**
Bonds issued:					
March 2000	SKK	March 2003	14.00%	-	75
April 1998	CZK	April 2003	6.54%	-	6,040
June 1998	CZK	June 2003	12.00%	-	675
February 1999	CZK	February 2004	8.90%	2,497	2,610
February 1999	CZK	February 2004	6.76%	3,005	3,065
June 1999	CZK	June 2004	8.20%	595	632
May 2000	CZK	May 2005	6.40%	1,365	1,432
December 2000	CZK	December 2005	6.85%	1,228	1,179
May 2002	CZK	May 2007	4.60%	1,067	1,006
December 2002	CZK	December 2007	PRIBOR-0.31%	590	517
February 2003	CZK	February 2008	3.14%	694	-
June 2003	CZK	June 2008	2.71%	450	-
September 2003	SKK	September 2008	4.94%	196	-
September 2003	CZK	September 2008	3.36%	1,211	-
November 2003	CZK	November 2010	3.85%	384	-
				13,282	**17,231**
Promissory notes				3,415	10,406
Certificates of deposit				34	532
Total debt securities in issue				**16,731**	**28,169**

The bonds issued in April 1998 at 6.54% and February 1999 at 6.76% were acquired as a part of the IPB transaction and thus the effective interest rate was determined at the date of acquisition, while for other bonds the effective interest rate is determined at the date of issue.

21. Other liabilities, including tax liabilities

(CZKm)	31. 12. 2003	Restated 31. 12. 2002
Items in the course of transmission	8,411	12,180
Liability to Česká finanční, s.r.o. (Note 23)	5,377	-
Other creditors	5,010	5,122
Other clearing accounts	2,910	3,180
Estimated payables	2,003	2,006
Hedging derivative contracts (Note 27)	1,410	192
Payables to securities clearing entities	1,238	614
Provisions for guarantees and undrawn credit lines (Note 25)	1,131	1,606
Current accounts from which value was collected	249	260
VAT and other tax payables	165	257
Net deferred tax liability (Note 22)	151	1,003
Current income tax payable	94	1,621
Other	577	631
	28,726	**28,672**

The increase in other creditors represents a liability with Česká finanční, s.r.o. (Note 23).

22. Income taxes

(CZKm)	2003	2002
Current tax expense	1,668	2,765
Previous year (over)/under accrual	(13)	55
Deferred tax income relating to the origination and reversal of temporary differences	(709)	(240)
	946	**2,580**

(CZKm)	2003	2002
Profit before taxation	7,398	9,286
Applicable tax rates	31%	31%
Taxation at applicable tax rates	2,293	2,879
Previous year (over)/under accrual	(13)	55
Tax effect of non-taxable income	(2,031)	(1,438)
Tax effect of non-deductible expenses	1,858	1,502
Prior year's deferred tax that will not reverse (Note 2m)	(1,117)	(390)
Effect of foreign taxes	(22)	(6)
Effect on opening deferred taxes due to reduction in tax rate	60	-
Other	(82)	(22)
	946	**2,580**

Deferred income taxes are calculated on all temporary differences under the liability method using the 28% income tax rate enacted for 2004 as management expects the majority to reverse in 2004.

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

(CZKm)	2003	2002
At 1 January	(623)	(897)
Income statement credit	709	240
Available-for-sale securities		
Fair value remeasurement	(121)	63
Transfer to net profit	58	(4)
Cash-flow hedges		
Fair value remeasurement	128	(170)
Transfer to net profit	(4)	111
Foreign currency translation	(35)	35
Exchange differences	(1)	(1)
At 31 December	**111**	**(623)**

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

(CZKm)	31. 12. 2003	31. 12. 2002
Deferred income tax assets		
Impairment of occupied properties	318	112
Other provisions	176	-
Interest rate bonus	118	120
Allowances for credit losses	75	109
Tax loss carryforward	74	148
Cash flow hedges	48	-
Available-for-sale securities	28	-
Other assets	27	-
Accelerated tax depreciation	4	-
Unrealised foreign exchange results	-	14
	868	**503**
Deferred income tax liabilities		
Credit provisions	243	-
Share in Group company	148	-
Available-for-sale securities	88	16
Trading assets & liabilities valuation	72	54
Accelerated tax depreciation	55	52
	606	**122**
Net deferred income tax asset (Note 17)	**262**	**381**
Deferred income tax assets		
Allowances for credit losses	137	201
Other provisions	38	373
Trading assets & liabilities valuation	4	23
Impairment of occupied properties	-	250
Other assets	-	36
Foreign currency translation	-	35
	179	**918**
Deferred income tax liabilities		
Shares in Group companies	-	1,228
Finance lease valuation	279	53
Unrealised foreign exchange gains/losses	17	-
Accelerated tax depreciation	14	28
Available-for-sale securities	8	18
Credit provisions	6	518
Securities valuation	5	-
Cash flow hedges	1	76
	330	**1,921**
Net deferred income tax liability (Note 21)	**151**	**1,003**

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

(CZKm)	31. 12. 2003	31. 12. 2002
Other provisions	(123)	320
Allowances for credit losses	(65)	(414)
Tax loss carryforward	(60)	(131)
Shares in Group companies	(48)	(218)
Trading assets valuation	(37)	(13)
Unrealised foreign exchange results	(27)	(4)
Finance lease valuation	(21)	45
Other assets	(6)	36
Securities valuation	(5)	(44)
Impairment of occupied properties	(4)	184
Accelerated tax depreciation	2	60
Interest rate bonus	18	29
Available-for-sale securities	28	-
Prior year's deferred tax that will not reverse (Note 2m)	1,117	390
Deferred tax expense resulting from reduction in tax rate	(60)	-
	709	**240**

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.

23. Other provisions

(CZKm)	Litigation and other losses	Loan repurchase losses	Combination restructuring charges	Staff reduction charges	Onerous rent contract losses	Total
At 1 January 2003	264	4,831	131	247	284	5,757
Movements in IPB loss provisions retained	323	47	-	-	-	370
Net provision charge (release)	380	-	-	-	-	380
Borrowing cost amortisation (Note 3)	-	245	-	-	12	257
Utilised during year	(15)	(5,123)	(100)	(92)	(51)	(5,381)
At 31 December 2003	**952**	**-**	**31**	**155**	**245**	**1,383**

Loan repurchase losses

ČSOB assumed from IPB obligations to repurchase former Banka Haná bad loans from Česká Finanční, s.r.o. (ČF) 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. ČSOB created a provision representing the present value of the future loan repurchase losses that were expected. On 13 August 2003 the Bank and ČF signed the Settlement Agreement which clarified all rights and liabilities of both counter parties. A liability of the Bank has arisen in the total nominal amount of CZK 5,548m, which is payable in three instalments: CZK 1,974m by 31 March 2004, CZK 989m by 31 July 2004 and CZK 2,585m by 31 July 2005. Based on this fact the Bank utilised a provision for commitments with ČF and accounted for a liability with ČF discounted by actual market interest rates (Note 21).

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.

Staff reduction charges

In 2002 ČSOB announced the program to reduce total number of personnel by approximately 1,000. A charge of CZK 247m was recorded at 2002 year-end to cover related costs. By the end of 2003 approximately 50% of the total planned reduction was achieved.

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.

24. Share capital and treasury shares

The total authorised share capital as at 31 December 2003 and 2002 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 2003 was 98,997 (31 December 2002: 154,200).

The purchase cost of treasury shares pledged to secure a related party borrowing transaction amounted to CZK Nil as at 31 December 2003 (31 December 2002: CZK 208m).

25. Contingent asset, liabilities and commitments

(CZKm)	31. 12. 2003 Contract amount	31. 12. 2003 Risk weighted amount	31. 12. 2002 Contract amount	31. 12. 2002 Risk weighted amount
Contingent asset				
Slovenská inkasná loan	28,653	-	25,204	-
Contingent liabilities				
Czech Ministry of Finance	28,653	-	25,204	-
Acceptances and endorsements	41	41	2,023	1,028
Guarantees issued	13,381	5,340	13,182	5,163
	42,075	**5,381**	**40,409**	**6,191**
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	130,057	20,370	124,593	17,975
Documentary credits	1,312	566	992	85
Forward forward deposits placed	-	-	918	184
	131,369	**20,936**	**126,503**	**18,244**
Provisions for guarantees and undrawn credit lines (Notes 14 and 21)	1,131		1,606	

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 13 for further explanation). This obligation is represented above by the Czech Ministry of Finance contingent liability.

26. Other contingent liabilities

a) Litigation

Other than the litigation for which provisions have already been raised in Note 23, 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.

Additionally, there is a number of various claims brought by Nomura, their affiliates and other parties in the context of the IPB Acquisition amounting to tens of billions of Czech Crowns, but Management is not able to reliably estimate the total effective claim, since the claims are not mutually exclusive. Management believe that such claims are unfounded and potential losses arising from such claims are covered by respective guarantee agreements (Note 12) and thus they represent no risk of material impact on the financial position of the Group.

Further, the Group has initiated a number of legal actions to protect its assets, including a receivable of CZK 682m (Note 9). Based on the opinion of legal experts, the Bank believes that its position in this case is very strong.

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 54,773m as at 31 December 2003 (31 December 2002: CZK 60,100m). Assets held by the Group under custody arrangements amounted to CZK 130,189m as at 31 December 2003 (31 December 2002: CZK 90,739m).

d) Operating lease commitments

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

(CZKm)	31. 12. 2003	31. 12. 2002
Not later than 1 year	415	517
Later than 1 year and not later than 5 years	1,428	1,885
Later than 5 years	1,700	2,523
	3,543	**4,925**

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.

27. Derivatives

Derivative instruments are utilised by the Group for trading and asset and liability management (ALM) purposes. 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.

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 2003 and 2002 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.

	31 December 2003			31 December 2002		
	Contract/	Fair value		Contract/	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Interest rate related contracts						
Swaps	93,526	1,053	1,584	70,279	1,522	1,792
Forwards	84,540	17	21	126,740	104	251
Written options	239	-	-	-	-	-
Purchased options	239	-	-	-	-	-
	178,544	**1,070**	**1,605**	**197,019**	**1,626**	**2,043**
Foreign exchange contracts						
Swaps	74,549	2,377	2,686	56,998	190	117
Forwards	16,341	126	184	12,494	110	94
Written options	16,738	-	235	6,465	13	11
Purchased options	14,665	113	-	6,139	9	7
	122,293	**2,616**	**3,105**	**82,096**	**322**	**229**
Equity contracts						
Forwards	106	-	20	320	-	20
Total derivatives held for trading	**300,943**	**3,686**	**4,730**	**279,435**	**1,948**	**2,292**

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 2003 and 2002.

The contract or notional amounts and positive and negative fair values of the Group's outstanding hedging derivatives as at 31 December 2003 and 2002 are set out as follows:

	31 December 2003			31 December 2002		
	Contract/	Fair value		Contract/	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Single currency interest rate swaps	20,847	479	144	9,736	601	98
Cross currency interest rate swaps	18,893	282	1,266	9,029	141	94
Total hedging derivatives	**39,740**	**761**	**1,410**	**18,765**	**742**	**192**

28. Consolidated statements of cash flow

Analysis of changes in cash and cash equivalents during the year

(CZKm)	2003	2002
At 1 January	27,764	21,868
Net (decrease)/increase in cash and cash equivalents	1,707	5,896
At 31 December	**29,471**	**27,764**

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

(CZKm)	31. 12. 2003	31. 12. 2002
Cash and balances with central banks	19,238	21,194
Trading portfolio assets	1,134	318
Investment securities	9,451	7,614
Due from banks, demand	1,480	3,270
Due to banks, demand	(1,832)	(4,632)
Cash and cash equivalents	**29,471**	**27,764**

29. Segment reporting

The Group's primary segment reporting is by customer segment. Geographical segment information is not presented for 2003 and 2002 as the Group's Czech Republic results are not materially different from Group in aggregate.

Segment reporting information by customer segments for 2003

(CZKm)	Retail/SME	Corporate	Historic	State assisted balances	Other	Group Total
Net interest income	8,472	2,413	(99)	(88)	4,032	14,730
Non-interest income	5,924	1,753	92	196	528	8,493
Segment expenses	(7,092)	(962)	(490)	(429)	(6,644)	(15,617)
Segment result	7,304	3,204	(497)	(321)	(2,084)	7,606
Provisions	(816)	(263)	305	92	329	(353)
Operating profit before taxation	6,488	2,941	(192)	(229)	(1,755)	7,253
Income tax (expense)/benefit	(1,881)	(1,042)	60	71	1,846	(946)
Segment profit	4,607	1,899	(132)	(158)	91	6,307
Minority interests	-	-	-	-	(67)	(67)
Net profit	**4,607**	**1,899**	**(132)**	**(158)**	**24**	**6,240**
Assets	**389,801**	**95,472**	**29,319**	**-**	**91,888**	**606,480**

Segment reporting information by customer segments for 2002 (Restated)

(CZKm)	Retail/SME	Corporate	Historic	State assisted balances	Other	Group Total
Net interest income	7,629	2,321	236	(156)	3,691	13,721
Non-interest income	5,366	1,344	196	390	2,222	9,518
Segment expenses	(6,543)	(1,006)	(377)	(707)	(6,470)	(15,103)
Segment result	6,452	2,659	55	(473)	(557)	8,136
Provisions	(141)	(185)	1,570	-	(94)	1,150
Operating profit before taxation	6,311	2,474	1,625	(473)	(651)	9,286
Income tax (expense)/benefit	(1,956)	(766)	(504)	147	499	(2,580)
Segment profit	4,355	1,708	1,121	(326)	(152)	6,706
Minority interests	-	-	-	-	(115)	(115)
Net profit	**4,355**	**1,708**	**1,121**	**(326)**	**(267)**	**6,591**
Assets	**383,733**	**116,308**	**27,704**	**57,088**	**12,211**	**597,044**

The Group systems are not set up to allocate liabilities to segments, therefore these are not presented.

Definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover less than CZK 300m.
Corporate: Companies with a turnover greater than CZK 300m and non-banking institutions in the financial sector.
Historic: Exceptional loans with Czech state coverage (see Note 13) 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 12).
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 2.2m customer accounts with deposits amounting to approximately CZK 88bn 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 / SME customer segment.

30. Currency risk

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

(CZKm)	31. 12. 2003	31. 12. 2002
USD	(559)	30
SKK	335	1,118
EUR	(72)	(583)
JPY	36	2

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.

31. 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 2003.

(CZKm)	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 12 months
CZK	(10,104)	3,084	21,505	(4,285)	(4,272)
EUR	(4,788)	950	3,333	(163)	716
USD	(2,766)	2,729	432	(295)	(93)
SKK	(7,490)	4,318	(707)	492	2,835

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 2002.

(CZKm)	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 12 months
CZK	(30,048)	60,494	26,529	7,659	(56,548)
EUR	(7,670)	4,302	1,815	353	177
USD	(3,933)	3,948	1,957	(779)	(1,187)
SKK	(2,466)	3,358	(237)	(97)	1,496

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.

The above tables were extracted from the management information systems of the Bank and other Group companies.

32. Liquidity risk

The following table sets out the financial assets and liabilities of the Group by remaining maturity as at 31 December 2003:

(CZKm)	Demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Unspe-cified	Total
Assets							
Cash and balances with central banks	13,568	-	-	-	-	5,670	19,238
Due from banks	1,480	99,666	2,533	17,672	9,100	608	131,059
Trading assets	-	40,216	8,770	4,928	4,960	4,897	63,771
Investment securities	-	25,210	30,313	37,918	33,701	4,041	131,183
Loans and leases	5,702	27,239	46,734	88,658	35,945	25,822	230,100
Other financial assets	96	1,022	252	2	-	4,783	6,155
Total assets	20,846	193,353	88,602	149,178	83,706	45 821	581,506
Liabilities							
Due to banks	1,832	2,324	5,155	8,097	2,843	3	20,254
Trading liabilities	-	38,085	2,008	1,142	515	4,708	46,458
Due to customers	195,148	161,650	34,417	42,134	6,397	253	439,999
Debt securities in issue	853	7,932	699	6,841	384	22	16,731
Other financial liabilities	80	2,461	3,245	2,461	-	16,508	24,755
Total liabilities	197,913	212,452	45,524	60,675	10,139	21,494	548,197
Net liquidity gap	**(177,067)**	**(19,099)**	**43,078**	**88,503**	**73,567**	**24,327**	**33,309**

The following table sets out the financial assets and liabilities of the Group by remaining maturity as at 31 December 2002 (Restated):

(CZKm)	Demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Unspe-cified	Total
Assets							
Cash and balances with central banks	21,125	10	-	-	-	59	21,194
Due from banks	3,270	95,528	15,606	15,861	11,400	690	142,355
Trading assets	-	21,429	25,595	3,422	2,113	3,121	55,680
Investment securities	-	12,828	14,828	29,040	15,748	4,780	77,224
Loans and leases	4,443	32,484	31,766	88,243	30,564	26,182	213,682
Other financial assets	344	112	-	-	-	6,019	6,475
Total assets	29,182	162,391	87,795	136,566	59,825	40,851	516,610
Liabilities							
Due to banks	4,632	6,727	5,097	8,724	1,292	-	26,472
Trading liabilities	-	35,711	2,754	-	-	2,291	40,756
Due to customers	158,286	189,528	30,783	36,136	2,566	844	418,143
Debt securities in issue	1,556	8,888	6,927	10,798	-	-	28,169
Other financial liabilities	997	846	46	20	-	18,377	20,286
Total liabilities	165,471	241,700	45,607	55,678	3,858	21,512	533,826
Net liquidity gap	**(136,289)**	**(79,309)**	**42,188**	**80,888**	**55,967**	**19,339**	**(17,216)**

A positive liquidity gap means expected cash receipts could 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) could 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.

33. 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. 2003		31. 12. 2002	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Due from banks	131,059	131,133	142,355	142,447
Investment securities	91,071	91,015	61,833	62,195
Loans and leases	230,100	231,985	213,682	216,224
Specific asset swaption receivable	-	-	57,088	57,088
Financial liabilities				
Due to banks	20,254	20,257	26,472	26,269
Due to customers	439,999	440,049	418,143	418,202
Debt securities in issue	16,731	17,174	28,169	29,190
Rescue acquisition NAV compensation payable	4,737	4,737	4,731	4,731

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

Securities include only interest-bearing securities held to maturity, as securities available-for-sale are 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 compensation payable

PThe Specific asset swaption receivable and Rescue acquisition NAV compensation 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.

34. Condensed financial information of the bank

(According to principles of recognition and measurement of International Financial Reporting Standards)

Condensed statement of income

(CZKm)	2003	Restated 2002
Net interest income	11,274	10,806
Net commission income	5,186	4,781
Net trading income	958	3,073
Other income	2,424	2,821
Operating income	**19,842**	**21,481**
Operating expenses	(13,046)	(13,137)
Operating profit before provisions	**6,796**	**8,344**
Provisions	296	775
Operating profit	**7,092**	**9,119**
Income tax expense	(890)	(2,533)
Net profit	**6,202**	**6,586**

Condensed balance sheet

(CZKm)	31. 12. 2003	31. 12. 2002
ASSETS		
Cash and balances with central banks	19,127	21,069
Due from banks	125,943	131,909
Trading assets	62,517	54,570
Investment securities	107,036	63,689
Loans and leases	168,114	167,007
Consolidated subsidiary companies - at equity	14,468	11,335
Rescue acquisition state assistance receivable	-	57,088
Other assets	26,280	25,611
Total assets	**523,485**	**532,278**
LIABILITIES		
Due to banks	8,048	13,919
Trading liabilities	45,218	40,965
Due to customers	383,882	380,279
Debt securities in issue	7,517	18,183
Other liabilities	32,806	37,627
Shareholders´ equity	46,014	41,305
Total liabilities and shareholders' equity	**523,485**	**532,278**

Included in shareholders' equity are non-distributable statutory reserves of CZK 19,250m and CZK 19,223m as at 31 December 2003 and 2002, respectively.

Condensed cash flow statement

(CZKm)	2003	Restated 2002
Net cash flow from operating activities before income tax	5,280	(21,958)
Net income tax paid	(1,975)	(2,274)
Net cash flow from / (used in) operating activities	3,305	(24,232)
Net cash flow from investing activities	9,754	39,422
Net cash flow (used in) financing activities	(9,902)	(11,734)
Effect of exchange rate changes on cash and cash equivalents	138	17
Net increase in cash and cash equivalents	**3,295**	**3,473**

35. Significant subsidiary and joint venture companies

The following are the significant subsidiaries and joint ventures of ČSOB (all of which were consolidated):

Name	Country of incorporation	Direkt ownership 31. 12. 2003	Direkt ownership 31. 12. 2002
Subsidiaries			
ČSOB Leasing, a.s.	Czech Republic	100%	100%
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100%	100%
Business Center, s.r.o.	Slovak Republic	100%	100%
Finop Holding a.s.	Czech Republic	-	95%
ČSOB Investment Banking Services, a.s.	Czech Republic	100%	-
ČSOB Leasing, a.s.	Slovak Republic	90%	90%
První investiční, a.s.	Czech Republic	-	81%
Českomoravská hypoteční banka, a.s.	Czech Republic	99%	59%
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100%	41%
ČSOB Investiční společnost, a.s.	Czech Republic	73%	-
ČSOB Asset Management, a.s.	Czech Republic	21%	21%
Joint ventures			
Českomoravská stavební spořitelna, a.s.	Czech Republic	55%	55%
O. B. Heller a.s.	Czech Republic	50%	50%

The residual 10% share in ČSOB Leasing, a.s. Slovak Republic is held by ČSOB Leasing, a.s. Czech Republic.

ČSOB Investiční společnost, a.s., which was a part of ČSOB Asset Management group in 2002 became a direct shareholding of ČSOB during 2003. The shares previously held by ČSOB in První investiční, a.s. were contributed to ČSOB Investiční společnost, a.s. as part of this group reorganisation.

Based on the Agreement on the exercise of voting rights the Group is entitled to 79% of voting rights in the ČSOB Asset Management, a.s.

During 2003 ČSOB established a new subsidiary ČSOB Investment Banking Services, a.s. and ČSOB's share of 95% held in Finop Holding a.s. has been contributed to ČSOB Investment Banking Services, a.s.

In 2003 ČSOB included ČSOB Penzijní fond Stabilita, a.s. (formerly Českomoravský penzijní fond, a.s.) in the consolidation scope for the first time. The impact can be summarised as follows (CZKm):

Net assets acquired	145
Purchase consideration paid	1,007
Goodwill	862

In 2003 ČSOB increased its share in Českomoravská hypoteční banka, a.s. Following are the details of the transaction (CZKm):

Net assets acquired	575
Purchase consideration paid	637
Goodwill	62

Additionally in November 2003 ČSOB contributed CZK 981,487m to the share capital and share premium of Českomoravská hypoteční banka, a.s.

36. 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 N.V. controls directly 85.03% of ČSOB voting shares. Almanij N.V. has control of KBC Bank N.V. through its 66.73% voting power in KBC Bank and Insurance Holding Company N.V.

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:

	Due from banks and Loans and leases		Due to banks and customers	
(CZKm)	**31. 12. 2003**	**31. 12. 2002**	**31. 12. 2003**	**31. 12. 2002**
Directors and employees	598	321	1,972	3,122
KBC Bank N.V.	5,122	14,805	1,855	5,053
Unconsolidated subsidiaries and associated companies	277	220	1,970	1,841

Interest income recognised on the KBC Bank N.V. loans in 2003 amounted to CZK 483m (2002: CZK 607m). Interest expense incurred on the KBC Bank N.V. loans in 2003 amounted to CZK 51m (2002: CZK 138m).

The loans to KBC Bank N.V., as at 31 December 2003, were collateralised by Belgian-state obligations of market value of CZK 991m (31 December 2001: CZK 3,943m), held directly in the name of ČSOB and can, therefore, be readily sold but only in case of default.

In 2003 ČSOB offered part of the treasury shares to its shareholders, of which KBC Bank N.V. purchased 45,900 shares (Note 38).

37. Dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 10 April 2003, a dividend in respect of 2002 amounting to a total of CZK 1,881m (CZK 380 per share) was approved. The dividend in respect of 2003 will be ratified at the Annual General Meeting, which is expected to be held in May 2004.

38. ČSOB's shareholders

The shareholder structure of ČSOB as at 31 December was as follows:

	2003	**2002**
KBC Bank N.V.	85.03%	84.05%
European Bank for Reconstruction and Development	7.62%	7.70%
International Finance Corporation	4.47%	4.53%
Others	2.88%	3.72%
Total	**100.00%**	**100.00%**

Changes in the shareholders' structure between 2002 and 2003 were caused mainly by purchase of a part of treasury shares by KBC Bank N.V. (Notes 24 and 36).

On 1 March 2004 International Finance Corporation sold its share to KBC Bank N.V.

STATEMENT ON THE DEGREE OF ACCORDANCE WITH THE STANDARDS FOR THE PROPER ADMINISTRATION AND MANAGEMENT OF THE BANK

As the conditions for doing business in the Czech Republic are gradually being brought closer to the rules applied in the European Union, the internationally recognised principles of administration and management, complying not only with statutory requirements but also with other recommendations applied in the OECD and EU countries, are also gradually being introduced in the area of the proper administration of the company. Their reflection in the Czech business environment is the Code of Corporate Governance and Administration prepared by the Securities Commission. Československá obchodní banka, a.s, as a company with a significant foreign participating interest, acknowledges these principles and it is gradually implementing them in its operations. Rich international experience of the most significant shareholders is playing a non-negligible role in this process.

The Board of Directors of the company has a fully executive structure complying with the requirements of the Banking Act. In connection with the aim to decrease the number of the members of the Board of Directors, Mr. C. Rossey and Mr. V. Staňura resigned, so the Board currently consists of five members. The lowering of the number of Board members from seven to five will be reflected in the company's Statutes, the new text of which will be approved by the General Meeting. All of the Board members have undergone a review by the Czech National Bank as required by law, which verified their specialised qualifications, their prerequisites for undertaking skilled operations in bank management, and especially their sufficient experience in the area of management, internal managing and control systems and compliance, which includes their ability to apply them in practice. The unification of the positions of chairman of the Board of Directors and chief executive officer corresponds with requirements of the Banking Act regarding the executive Board of Directors.

The Bank's Board of Directors fulfils its tasks within the framework of the operations of the statutory body reserved for it by the Statutes and applicable basic governing documents of the company. The Board of Directors, which is selected by the General Meeting, fulfils its tasks with due professional care and bears full responsibility for them as required by the Commercial Code. The Board of Directors meets regularly, once a week, and follows a firmly fixed agenda, arranged on the basis of a strategic calendar of main topics and other documents having a more operational character submitted by individual members of the Board of Directors for discussion. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. The director of the Bank's office is present at the sessions of this top body and fulfils the role of its secretary and is responsible for the preparation of the sessions and the taking of minutes.

The Supervisory Board of Československá obchodní banka a.s., is comprised, as required by the company Statutes, of nine members, of which six members are selected by the General Meeting and three members are selected by the company employees. Mr. R. Vermeiren, its previous chairman, and Mr. W. Duron, resigned from their office last year. In this respect, there was success in starting the process of strengthening the independence of the Supervisory Board, because Mr. Jan Švejnar, was co-opted by the Supervisory Board to one of the vacant posts. So, the company will have an opportunity to use his broad knowledge of macroeconomic and microeconomic issues and his independence. Mr. Jan Švejnar was selected new chairman of the Supervisory Board. The Supervisory Board co-opted Mr. Dirk Mampaey to the second vacant post. Mr. Dirk Mampaey works at KBC in the Head Office unit for Central Europe.

Pursuing its work agenda, the Supervisory Board held five sessions in 2003, where it discussed topics pertaining to it. A flexible approach was taken to the issues requiring discussion by the Supervisory Board in short term (proposals for transfers of shares). The basic materials for discussions by the Supervisory Board were prepared and sent out ahead of time so that the members of the Supervisory Board had enough time to study them. The members of the Board of Directors also take part in the sessions of the Supervisory Board sessions on a regular basis to present the discussed basic materials in person. Both working bodies of the Supervisory Board - the Committee for Auditing and the Committee for Remuneration held regular meetings and informed the Supervisory Board of their activities. The Supervisory Board approved the recommendations of both Committees regarding some discussed issues. The company office provides administrative and organisational support for the Supervisory Board based on the procedural rules of the company office, and the director of the office is responsible for taking minutes of the sessions.

The company's relations with shareholders. Československá obchodní banka a.s., has permanently endeavoured to maintain openness of information and transparency and it meets all of the requirements of the Banking Act and the Securities Act as well as requirements of the Office for Personal Data Protection and the Financial Ombudsman's office. Shareholders, investors, the general public as well as regulatory supervision bodies receive updated reports on the economic activity of the company, and information on all major changes is available to them.

Company shareholders may then ask their questions in accordance with valid procedural rules during the course of the company-'s General Meeting At this meeting both members of the Board of Directors and the Supervisory Board are present and prepared to answer shareholders' questions.

Company shareholders may then ask for explanations of matters related to the company, respectively to the persons controlled by the company, during the course of the company's General Meeting, if such explanation is necessary for assessment of the subject of the General Meeting. At this meeting both members of the Board of Directors and the Supervisory Board are present and prepared to give respective explanation to the shareholders.

SUPERVISORY BOARD´S REPORT

Statement by the Supervisory Boards of ČSOB

- The Supervisory Board has performed its tasks in compliance with Articles 197 - 201 of the Commercial Code as amended, ČSOB's Articles of Association and the 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 financial statements of the Bank have been prepared in accordance with International Financial Reporting 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 Group as at 31 December 2003, the results of its operations, its changes in shareholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards. The auditors have also opined that the financial statements present fairly, in all material respects, the assets, liabilities and equity of ČSOB as at 31 December 2003, the results of its operations and changes in its equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

- The Supervisory Board has reviewed the 2003 annual financial statements and the proposal for distribution of profit and has accepted the results of the audit of the 2003 annual financial statements and has recommended to the General Meeting to approve them. The Supervisory Board has also checked the Board of Director's Report on Relations between Related Parties.

Chairman of the Supervisory Board

CONCLUSIONS OF THE ORDINARY GENERAL MEETING

The General Meeting of Československá obchodní banka, a. s., held **on 19th May 2004**, approved the ordinary financial statements of the company for the year 2003 prepared according to Czech Accounting Standards (CAS) and the consolidated financial statements for the year 2003 prepared according to International Financial Reporting Standards (IFRS). It thus confirmed that, in 2003, the bank and its subsidiary companies operated at a profit of CZK 6.240 bn according to IFRS and the amount of total assets reached, in the given period, an amount of CZK 606.5 bn according to IFRS.

The financial statements were examined by the Supervisory Board of the company. The auditor's report by PricewaterhouseCoopers Audit, s.r.o. regarding the financial statements is without reservations.

The General Meeting further approved:

1. distribution of profit
2. conditions for paying out dividend
3. bonuses to members of the Board of Directors and of the Supervisory Board
4. change in ČSOB's Statutes
5. recall and election of members of the Board of Directors (Pavel Kavánek, Petr Knapp, Jan Lamser)
6. election of members of the Supervisory Board (Jan Švejnar, Dirk Mampaey, André Bergen, Marko Voljč)
7. contracts on the performance of the function concluded between ČSOB and members of the Board of Directors of ČSOB (Pavel Kavánek, Petr Knapp, Jan Lamser) and a contract on the performance of the function concluded between ČSOB and Jan Švejnar, a member of the Supervisory Board of ČSOB.

According to the decision of the General Meeting, the profit of ČSOB stated in the ordinary financial statements for 2003 in the line profit for the current accounting period will be distributed as follows:

a) social fund	CZK 67,000,000.00
b) dividends	CZK 3,510,000,000.00
c) account of retained earnings	CZK 18,000,000.00

Part of retained earnings from previous years in the amount of CZK 6,189,500,000.00 is allocated to dividends.

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