Československá obchodní banka, a. s.

Annual Report 2002

Abbreviated version – full version available in Czech language on www.csob.cz.

ČSOB

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Letter of the Chairman and CEO

Ladies and gentlemen, dear shareholders,

A year ago in this same place I spoke of the need to concentrate on substantially increasing the quality of services and initiating a trend of maintainable output growth in the "integrated" bank. It is my pleasure that this year I am able to announce that we have achieved good results through this course.

As of today, we serve a third of the population of the Czech Republic in the area of financial services. We offer balanced and diverse portfolio products better than any other financial institution in the country. Client satisfaction is the norm for all that we do in ČSOB, and to that end, a portion of the company bonus has been connected to results measured by client satisfaction since 2002. We have taken measures that have led to definite, verifiable savings, and we have been continuously improving procedures so as to achieve even greater savings on costs.
In spite of the considerable investments we made last year – and I will come to our expansion in the Slovak Republic further on – we have kept costs under control. This area shall remain one of our main priorities, and we have therefore also decided to lower the number of employees at the bank's head office by 1,000 by the year 2004. By taking this step we will achieve additional savings and at the same time increase the pressure on the effort to eliminate ineffective bureaucracy.

In the small and medium sized business and retail segments we are distinguished considerably from our competition by offering truly quality services, a spectrum of products (for example in the offer of shares fund in particular) that has no comparable competitor on the market, and the new layout of our offices and the organization of work at the branches has enabled us to be highly effective in serving our clients. Thus, on the whole, we offer true added value for our retail customers. The reflection of these efforts has been the growth of the funds consigned to various products, including shares funds, throughout the course of the entire year. The demand for credit products has similarly increased. In the context of the growth of the Czech real estate market we have broadly found and satisfied demand. The higher penetration of products by existing clients has been a successful trend that we will continue to develop.

We have achieved 50% penetration and a 20% share of the market in the corporate clients segment. The quality of the credit portfolios of corporate clients is consistently of an extremely high level. Likewise, we have succeeded in making the credit process more flexible. This, along with the completion of a strong, productive and extremely competitive team, has led to the growth of our involvement to a volume of 23.2 billion CZK.The success of the products and their distribution in the Czech Republic serves as a good basis for us to reach our higher share on the market of banking services in the Slovak Republic. The growth of the number of clients by 30% has confirmed the potential of the Slovak market, which we are developing through considerable investments into the expansion of the branch network. I regard the 20% credit expansion as being just as important. In retail in Slovakia we have doubled the volume of consumer credits and have grown faster then the local credit market.

The shape of the ČSOB group was "completed" with the establishment of ČSOB Asset Management, the share acquired in the Slovak Poistovna ERGO and with the formation of the newly integrated ČSOB Pojišťovna. Our capability of offering integrated and effective financial products was also multiplied thanks to the product strength of the subsidiaries in our branch network.

- The increase in closed contracts for supplementary pension insurance rose to 25%, as opposed to 10% in previous years.
- The sale of shares funds rose by 7.3 billion CZK, the market share of ČSOB rose from 20% in 2001 to 23% last year. The managed assets of individual investors rose by 96% to 3.3 billion CZK. The total volume of mortgage loans including the contribution of the bank's branch network rose by 27% to 19.6 billion CZK.
- Likewise, the volume of leasing rose by 12% to 21.8 billion CZK.
- The volume of credit from building savings rose by 22% to 10.4 billion CZK.

Our mission on the market however is not dictated merely by the growth of product sales. We have established complete satisfaction of our clients' financial needs as being our promise to them. To that end we dedicate a great deal of energy and resources to the further education, training and motivation of our client workers so as to be able to offer the correct product in every situation in the corresponding section of the relevant cliental subsection. The positive acceptance of this trend is attested to by the sale of new product packages to 50 thousand of our clients within three months of their introduction.

I must also highlight the role of the managers and employees of the ČSOB Group, who, after the successful completion of the integration with IPB and ČSOB, did not slacken their engagement and are working for the introduction of new products and service models. It is with thanks to them that we are achieving success even amid stringent competition.

Ladies and gentlemen, our efforts have manifested themselves positively in the growth of the value which has been created for you, the shareholders. While the trend of interest rates has reached a historic low, and has remained below the levels of the Eurozone, the bank has maintained a level of return on capital above 16%. Capital has risen from 37.8 billion to 41.2 billion CZK. ČSOB remains the most powerful financial institution in the Czech Republic, a fact which entitles our clients to feel safe with the finances they have consigned to our bank. Our strategy is clear, the prospects for further growth are stable and our employees are highly motivated and worthy of confidence.

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)

	2002	2001	2000	1999	1998
Results for the year (CZKm)					
Operating profit	9,286	8,913	6,465	4,566	4,935
Income tax expense	2,580	2,878	1,696	1,683	1,726
Net profit	6,591	5,952	4,691	2,823	3,159
At year-end (CZKm)					
Shareholders' equity	41,275	37,853	34,336	31,478	27,501
Due to customers	418,143	417,743	348,820	126,498	113,328
Due to banks	26,472	27,814	22,891	45,363	67,255
Debt securities in issue	28,169	34,917	66,195	38,750	22,329
Loans and leases	213,682	181,476	164,501	97,046	116,505
Due from banks	142,355	117,194	71,142	115,257	83,883
Total assets	597,044	586,426	535,544	257,698	251,166
Ratios (%)					
Return on average shareholders' equity (ROAE)	16.65	16.49	14.26	9.57	12.11
Return on average assets (ROAA)	1.11	1.05	1.18	1.11	1.29
Bank capital adequacy ratio - CNB regulations[1)2)]	13.99[3)]	15.04	13.70	20.24	18.16
Total shareholders' equity to total assets[1)]	6.91	6.45	6.41	12.22	10.95
Exchange rate CZK / USD[1)]	30.14	36.26	37.81	35.98	29.86
Average exchange rate CZK / USD	32.74	38.04	38.59	34.60	32.27
Exchange rate CZK / EUR[1)]	31.60	31.98	35.09	36.13	
Average exchange rate CZK / EUR	30.81	34.08	35.61	36.88	

[1)] as at 31 December
[2)] as reported
[3)] Group capital adequacy ratio was 12.56%

The Group has adopted IAS 39 prospectively as at 1.1.2001. Comparable data have not been restated, however certain figures of the year 2000 have been reclassified.

Ratings (as at 31 March 2003)

	Long-term:	Short-term:
Moody's	A1	Prime-1
Standard & Poor's	BBB	A-2
Fitch	BBB+	F2
Capital Intelligence	BBB	A3

Profile of the Company

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

ČSOB History

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

ČSOB Privatization

After successful privatization, ČSOB has been operating since June 1999 in coordination with its majority holder – KBC Bank, Belgium. KBC Bank N.V. is a member of the financial group KBC Bank and Insurance Group, which is operating through its branches and daughter companies on the European market as well on the Asian and the American market. Other important shareholders in ČSOB include the European Bank for Reconstruction and Development (EBRD) and International Financial Corporation (IFC) of the World Bank Group.

Merger of ČSOB and IPB

On June 19, 2000, upon the Business Sale Contract, ČSOB acquired the assets and liabilities of IPB. This strategic merger gave rise to the largest bank in the Czech Republic, whose diversified business activities are focused on the following segments: Retail/SME, Corporate Clients, Private Banking, Financial Markets and Transactions with Financial Institutions. In retail banking ČSOB operates under two brands: ČSOB's and the Postal Savings Bank's. The Postal Savings Bank is intended for retail clients who are served in the network of unequalled size of Česká pošta's outlets. ČSOB's priority is still the absolute security for clients, which is guaranteed by the bank tradition, corporate culture and transparent ownership relations.

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 corporate 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

Country	Company	Interest percentage (direct and indirect)
Czech Republic	ČSOB	84%
	ČSOB Pojisťovna	84%
	Patria Finance	100%
Hungary	K&H Bank (bank)	59%
	K&H Life (insurance company)	80%
	Argosz (insurance company)	99%
Poland	Kredyt Bank (bank)	76%
	Warta (insurance company)	40%
Slovakia	ČSOB (bank)	see Czech Republic
	Ergo Poisťovna (insurance company)	69%
Slovenia	NLB (bank)	34%
	NLB Vita (insurance company)	67%

Some key figures for the KBC Bank and Insurance Group as at 31 December 2002 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)	221,731
Market capitalization (EURm)	9,185
Net profit (EURm)	1,034
Capital Adequacy ratio KBC Bank	13.7%
Solvency ratio KBC Insurance	320%
Number of staff (FTEs)	43,000

Long-term ratings (as at 28 February 2003)	Fitch	Moody's	S&P's
KBC Bank	AA-	Aa3	A+
KBC Insurance	AA	-	A+

Members of the Board of Directors

Pavel Kavánek (born on December 8, 1948) – Chairman of the Board of Directors and CEO

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

Patrick Daems (born on April 21, 1948) – Member of the Board of Directors 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.

Petr Knapp (born on May 7, 1956) – Member of the Board of Directors and Senior Executive Officer

Education: Prague School of Economics. He came to ČSOB in 1979. Since 1984, he worked in Teplotechna Praha, first as Deputy Director and later as Director of Foreign Operations. In November 1991 he came back to ČSOB. 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 a.s.

Carl Rossey (born on May 16, 1961) – Member of the Board of Directors and Senior Executive Officer

Education: Graduated from the University of Ghent, has a Masters Degree from Industrial Management and also an MBA. He has been working for KBC since June 1995 and was in charge of many major restructuring initiatives of the bank. He was seconded from KBC to ČSOB in July 1999 at the time of the privatization and was mainly in charge of restructuring activities, and managed the operational merger with the IPB group. His areas of responsibility have included Strategy and Organization, IT, e-banking (2000) and Financial Markets (2001). Since March 2002 he is responsible for the areas of Retail and SME banking, the Post Bank, Private Banking, Marketing and supervises the insurance activities of the CSOB group.

Membership in other company bodies – member of the supervisory board of Ergo Poisťovňa, a.s.

Vladimír Staňura (born on March 18, 1955) – Member of the Board of Directors and Senior Executive Officer

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

Jan Lamser (born December 8, 1966) – Member of the Board of Directors and Senior Executive Officer

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

Membership in other company bodies – vice-chairman of the Board of Directors of FINOP HOLDING a.s.

Philippe Moreels (born on February 25, 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.

Membership in other company bodies – chairman of the supervisory board of ČSOB Stavebná sporiteľňa, a.s.

Members of the Supervisory Board

Remi Vermeiren, KBC Bank, President – chairman of the Supervisory Board ("SB"). In SB of ČSOB from 10.8.1999.

Education: University degree in economics. He has been working in Kredietbank since 1960 on positions investment adviser, Manager of Investement Banking, General Manager of Investment Banking, Managing Director of Financial Markets. He is President of Kredietbank, KBC Bank (since merger of ABB, CERA Bank and Kredietbank in 1998) 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.

Herman Agneessens, KBC Bank, Managing Director – vice-chairman of the SB. In SB of ČSOB from 10.8.1999.

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 of 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 (chairman), Banksys, Bank Card Company, TASEC, IBOS, BEPSYS, VISA Belgium N.V. (chairman),VISA Europe, KBC Pinto Cards, KBC Pinto Systems (chairman), Isabel (chairman).

Willy Duron, KBC Bank, Managing Director – member of the SB. In SB of ČSOB from 10.8.1999.

Education: University degree in mathemathics. From 1970 he had been working in ABB as insurance mathematician, Head of life insurance department, Manager of life and suplementary insurance department, member of the Steering Committee of ABB, member of the Board of Directors ABB and Deputy director ABB. Currently he is Managing Director KBC Bank, member of the Executive Committee ABB.

Membership in other company bodies: F.B.D., SECURA (chairman), WARTA, KBC Asset Management, VEV, Professional Union of Insurance Offices.

Francois Florquin, KBC Bank, Managing Director – member of the SB. In SB of ČSOB from 10.8.1999.

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 Executive Committee. Currently he is Managing Director KBC Bank, member of the Executive Committee.

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

Farida Khambata, IFC, Director – member of the SB. In SB of ČSOB from 13.4.2000.

Education: Economics and Business Management in Cambridge and London Business School, certificated financial analyst, Warton School – program „Executive Development". First worked in World Bank, from 1986 in IFC, as the Director of Capital Markets Central Europe, currently Treasurer – Investment Program and Assets Liquidity Management in IFC.

Roman Glasberger, ČSOB, Deputy Director of the SME unit, region Prague 2 – member of the SB. In SB of ČSOB from 8.6.2000.

Education: University of Economics in Prague. Between 1994 – 1996 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 Deputy Director of the SME unit in region Prague 2.

Petr Korous, ČSOB, Director of FM Sales – member of the supervisory board. In supervisory board of ČSOB from 8.6.2000.

Education: University of Economics in Prague. From 1992 in ČSOB as Dealer Specialist, Dealer Expert, Head of Customer Service Desk. Now Director of FM Sales team.

Kanako Sékine, EBRD, Director – member of the SB. In SB of ČSOB from 17.4.2002.

Education: University degree in social sciences and M.B.A. First worked in Smith Barney bank – corporate banking, later Harris Upham&Co in Tokio, 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 (chairman).

Board of Directors' Report

After the completion of the merger with the former IPB, ČSOB focused, in the year 2002, on the fulfilment of its strategic goals in the area of business development, especially in the area of services provided to retail clientele and small and medium-sized enterprises. The integration of ČSOB's and ex-IPB's subsidiaries in the area of asset management and insurance, along with the deepening of the co-operation within the ČSOB Group, has created prerequisites for maximising benefits from synergies and for the development of bancassurance.

ČSOB succeeded in defending its strong position in the Czech market and strengthened its leading market position in the areas where it was traditionally strong. The Bank focused on improving customer service and on increasing cross-selling of products offered by ČSOB Group to clients. In Slovakia, ČSOB continued its business expansion and strengthened its position by expanding its branch network.

Despite the slowdown in economic growth and further decrease in interest rates, the Bank succeeded in maintaining its high profitability and in 2002 it again achieved **very good financial results**.

During 2002 the rating agencies **Moody's, Standard and Poor's and Capital Intelligence increased their rating** of ČSOB (Moody's increased the Bank's rating along with the increase of its rating of the Czech Republic). The higher rating awarded by Moody's is based on the Bank's strong domestic franchise and also on the support provided (should the need arise) by KBC Bank. The Standard and Poor's rating reflects the support of KBC Bank, state guarantees granted in connection with the aquisition of IPB, strong market position (and also improving economic and operating environment in the Czech Republic). Rating agencies Moody's, Fitch as well as Capital Intelligence confirmed their highest possible rating of ČSOB (at the level of the Czech Republic) and the rating of Standard and Poor's is still higher than that of the other banks in the Czech Republic.

The activity of ČSOB was also appreciated by the international professional press, which was reflected in winning the award *The Bank of the Year 2002 for the Czech Republic* announced by the prestigious journal The Banker, the award *The Best Bank in the Czech Republic for the year 2002* of the journal Euromoney as well as the award *The Best Bank in the Czech Republic for the Year 2002* and also *2003* of the journal Global Finance. ČSOB was chosen by the public *The Most Trusted Bank of the Year 2002* in the framework of the competition for The Bank of the Year 2002.

An important event of the year 2002 was the flood in August 2002 which hit a large part of the territory of the Czech Republic. The negative **impact of the flood** on the Bank was **relatively small**. Overall direct damage to the property and electronic equipment and loss due to the interruption of operations was CZK 160 million, however, after taking into account insurance coverage, the net amount of damage is estimated to be as low as CZK 20 million.

IPB Acquisition

Under the framework of the IPB acquisition-related contractual agreements, ČSOB and Česká konsolidační agentura (ČKA), the Czech Republic's asset work-out agency, made significant progress towards closing the IPB acquisition. All remaining issues should be finalised in 2003 (unless it is stated otherwise in the agreements).

At the end of the 1st quarter of 2003, all ex-IPB assets determined as eligible for transfer have been transferred to ČKA, except for the non-voting interests in the off-shore funds. At this time, ČSOB and the Czech state were seeking the optimal regime under which the off-shore fund interests can be transferred.

The joint-audit of IPB's Net Asset Value Statement was at its final stage at this time. Valuation on the IPB net assets has been agreed by the auditors except for approximately 1% of the items, which should be agreed shortly.

On 31 May 2002, J.P. Morgan issued its final valuation of the IPB Enterprise, in connection with the IPB purchase agreement between ČSOB and IP Banka, a.s. Accordingly, ČSOB paid IP Banka, a.s. an additional purchase amount of CZK 1.

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

Business Activities

ČSOB is focusing its business activities on five basic customer segments to which it provides services corresponding to their needs. These segments include: retail clients, private banking clients, small and medium-sized enterprises (SME), corporate clients and non-banking financial institutions. In all customer segments, the Bank in 2002 concentrated on improving the quality of service.

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

Retail segment

In line with its strategy, the Bank focused its activities in 2002 primarily on small and medium-sized enterprises and retail clients. This is evidenced by a number of its initiatives including an **offer** of easy-to-use **new product packages** which have been prepared after a thorough analysis for individual groups of retail customers according to their needs. The aim of the new packages is to make the product offer easy-to-use, to adapt it to specific needs of individual subsegments, to increase cross-selling of products and to motivate clients to use direct distribution channels (electronic banking). From November 2002, the basic component of the package offer is a product package for mass clients and packages for high net-worth or more demanding clients. The packages include all necessary products and services needed by clients (account, payment transactions, permitted account overdraft, payment card, selected e-banking services, and the like) which are provided under advantageous price conditions.

From September 2002, a significant element of the product portfolio is the ČSOB Mortgage account, which combines advantages of mortgage with maintaining a current account and using advantageous insurance products. At the end of 2002, ČSOB also started to offer to its clients the prestigious Diners' Club card as a supplement to its offer of payment cards.

In reaction to the disastrous consequences of the floods, ČSOB prepared a special offer of Flood loans for persons hit by floods at a significantly advantageous interest rate, including the possibility to postpone repayments. Advantageous loans will also be offered to these clients during the 1st half of 2003.

In order to increase cross-selling of products within the whole ČSOB financial group, the subsidiaries' products became an integral part of the Bank's product offer in 2002 as well. Despite the saturation of the market, the Bank's branches concluded more than 21 thousand building savings contracts of Českomoravská stavební spořitelna (a buildings savings bank) and, further, almost 6 thousand additional pension insurance contracts of Českomoravský penzijní fond and ČSOB Penzijní fond (pension funds) during the year 2002.

One of the most important changes in the service to retail clients segment in 2002 was the **implementation of a new service model** for the sub-segment of high net-worth clients. All clients will have access to advisory zones at the branches and high net-worth clients will be served by personal bankers on an individual basis.
The implementation of a new operating model, the aim of which is to improve service quality and a pro-active approach, will be finished in the 2nd half of 2003.

A necessary prerequisite for the successful development of the Bank's business activities in both retail clients and small and medium-sized enterprises segments was **training of customer officers** within the framework of a new training programme focused on increasing knowledge of products and developing sales skills (see Prerequisites for the development of business and increased efficiency of the Bank).

In 2003, ČSOB will focus on increasing sales of loans to private individuals, both of consumer loans and of mortgages. At the same time, it will endeavour to improve the quality of its product offering and achieve a higher number of products used by individual clients (i.e., to increase client penetration).

Small and medium-sized enterprises segment

In order to strengthen its position in the small- and medium-sized enterprises client segment, the Bank carried out significant changes in its product offering.

In October 2002, ČSOB launched a new product – permitted current account overdraft. The setting of the permitted overdraft limit is derived from the turnover on the client's accounts with the aim to strengthen the relationship between the Bank and the client.

In order to simplify the offer of the Bank's products and to make it easy-to-use and to better conform to the clients' needs, **new product packages** for small businessmen, entrepreneurs and small and medium-sized enterprises have been introduced onto the market since November 2002. The product packages differ according to the firm's turnover and the way of doing business.
The comprehensive offering of products, advantageous in terms of price and including subsidiaries' products (leasing and factoring), takes into account the need of firms to execute transactions as well as the need for operating financing. The utilisation of product packages is connected with additional advantages, such as the possibility to obtain a payment card with insurance.

The Bank reacted to the flood events by the provision of advantageous loans to small and medium-sized enterprises hit by the floods, namely loans for inventories and small repairs.

In 2002, a **new service model was implemented** also in the area of services provided to the small and medium-sized enterprises segment for enterprises with higher turnover and volume of deposits. The main attribute of the new service model is the creation of the position of SME bankers focused on individual care for selected small and medium-sized enterprises. SME bankers will be concentrated at so-called hubs, where they will serve their clients from so-called satellite branches. The aim of this initiative is to build up long-term relationship with clients and a pro-active sales approach. A significant tool for managing the customer portfolio is a separate information system which allows monitoring of the number of products being used by individual clients, revenues generated by products, etc. The implementation of the new operating model will be finished in the 2nd half of 2003.

Services to selected groups of clients:

- On the basis of an analysis of the market and of clients' needs, procedures for financing municipalities, associations of municipalities and regional authorities have been revised with the aim to achieve fully competitive conditions for all products and services for municipalities and non-profit organisations. The ČSOB Municipality Programme has also been revised together with the development of products.
- Within the subsegment of housing co-operatives, ČSOB reacted to the increasing demand for long-term credit sources determined for renovation and modernisation of pre-fabricated houses. The Bank adopted a specific credit policy corresponding to the needs of these entities. Besides that, housing co-operatives were addressed through ČSOB's Programme for Housing Co-operatives, which is a comprehensive offering of products and services provided by the Bank and selected companies of the ČSOB Group. The objective of the Programme is the consistent offering of products of the whole ČSOB Group via cross-selling.
- In 2002, the Bank developed an individual approach to specific customer groups (pharmacists, notaries), including services of customer advisors. The Bank offered special product programmes to these customer groups.

While taking advantage of EU pre-accession programmes, the Bank continued the financing of energy-saving projects by way of administering funds entrusted by the PHARE Energy Savings Fund. Further, it became involved in financing subsidised loans within the framework of the EU programme SAPARD for agrarian and rural development and in ČMZRB (Czech-Moravian Guarantee and Development Bank) programmes.

ČSOB is fully aware of the increasing demand of small and medium-sized enterprises for credit products. Therefore, in 2003, the Bank will direct its activities towards simplifying and speeding up the credit process so as to be able to react more flexibly to clients' needs in this segment. In satisfying clients' financial needs, the Bank will use the potential of the whole ČSOB Group to a greater extent.

Poštovní spořitelna (Postal Savings Bank)

In 2002, Poštovní spořitelna strengthened its important position in serving mass-market clients.
The competitiveness of Poštovní spořitelna was based on **the most extensive sales network in the Czech Republic** and simple products were offered to clients at 3,400 points-of-sale of Česká pošta (Czech Post) and at 7 own branches. In 2002, Poštovní spořitelna achieved **very good business results**. At the end of 2002, it administered 920 thousand Postgiro accounts and 46 thousand Postkonto accounts and about 1.2 million clients held its savings books. The number of clients using payment cards (mostly hybrid cards) reached 949 thousand. In the course of the year 2002, the sale of consumer loans, offered since the year 2001, developed successfully - the number of loans provided increased by 63% to 11 thousand. The sales of overdraft credits increased at an even higher speed - the number of loans provided grew by 146% to 120 thousand.

Together with efforts to increase the quality of service, Poštovní spořitelna also focused on **increasing the efficiency of the process of document processing** through automation. In 2002 it finished the 1st stage of automation – the so-called mini image-processing and the next stage of increasing the efficiency of a larger range of document-processing aimed at achieving cost savings will be implemented in 2003.

New innovations in the product offering:

- Since March 2002, a new product, Eurogiro, has been offered; making both cash and non-cash payments at counters of Česká pošta to selected European countries possible;
- The development of programmes relating to Postgiro and Postkonto accounts was completed and their sale started in January 2003;
- The sale of travel insurance for holders of Postgiro accounts within the whole network of Česká pošta since March 2002;
- The development of a product called Postal Insurance Certificate was completed and was launched within the whole network of Česká pošta in February 2003 (see Development of bancassurance).

Activities in Slovakia

During 2002, ČSOB succeeded in strengthening its position in the retail and in the small and medium-sized enterprises segments in the Slovak market. Within the framework of the continuing **business and branch expansion**, the **number of clients** from the retail and small and medium-sized enterprises segments **increased by 30%**.

Offer of product packages was very positively accepted by the public – for example, the number of ČSOB Konto Kompakt package accounts increased by 70% in 2002, the number of ČSOB Junior Konto package accounts increased by almost 90%, and the number of ČSOB Student Konto packages doubled. The volume of consumer loans provided in 2002 grew by more than two-fold. In April 2002, the provision of mortgage loans was started and, in terms of the volume of mortgage loans granted in 2002, ČSOB placed 6th in the Slovak banking market. In 2003, the Bank plans to start the provision of mortgage loans to legal entities. From November 2002, entrepreneurs and small and medium-sized enterprises can use a new product – permitted current account overdraft.

At the end of 2002, the Bank, in co-operation with EXIMBANKA SR, started to provide operating export financing to clients from the segment of small and medium-sized enterprises. This co-operation enables ČSOB to provide clients with loans at an advantageous interest rate. The Bank is also preparing co-operation with the National Agency for Small and Medium-Sized Enterprises and participation in EU support programmes (SAPARD).

The development of the branch network

During 2002, the Bank's network serving retail clients and small and medium-sized enterprises was optimised. At the end of 2002, there were 183 branches (aside from branches of Poštovní spořitelna) available to clients in the Czech Republic. In Slovakia, the sales network was enlarged, within the framework of the continuing expansion, by 9 branches to 48 branches overall. The dynamic expansion of the branch network is to continue also in 2003.

In compliance with its goal to increase the quality of customer service, the Bank progressed in 2002 in implementing a new operational model at its branches. An important feature of the new organisation of sales is **zone-based customer service** and high versatility of branch employees, which makes it possible to provide so-called one-stop customer service. The results of a customer satisfaction survey, conducted at branches in the 4th quarter of 2002, show that the implementation of the operating model contributed to an overall increase in the quality of customer service.

Private Banking

In 2002, ČSOB created a new customer segment – Private Banking, which includes individuals with a value of financial assets exceeding CZK 5 million. Private Banking started its activities in April 2002. The clients of Private Banking are given above-standard treatment through personal bankers. Besides commercial banking products, private banking clients are mainly offered investment banking products:

- ČSOB Private portfolio – discretionary management of a securities portfolio;
- Advisory services relating to investment in securities;
- ČSOB Shares Online – on-line electronic investment in shares.

In the course of the first nine months of its operations, ČSOB Private Banking succeeded in achieving significant success. At the end of 2002, ČSOB Private Banking managed more than CZK 5 billion for more than 700 clients. ČSOB has become one of the most important providers of private banking services in the Czech market. During the same period, the Bank successfully launched operations of six of the target eight regional branches for this customer segment (Praha I, Brno, Ostrava, Hradec Králové, České Budějovice, Plzeň). The two remaining regional branches (Praha II, Liberec) were opened at the beginning of 2003.

The sale of mutual funds

In the area of selling mutual funds, ČSOB made use of the trend caused by very low interest rates of shifting money from bank deposits to more profitable and relatively safe instruments of the capital market. In 2002, the Bank **succeeded in increasing** overall **sales of mutual funds** in ČSOB's distribution network in the Czech Republic by 250% compared to 2001, while the volume reached CZK 10.3 billion. At the end of 2002, the **volume of assets managed** in the funds of the ČSOB/KBC group reached CZK 39.7 billion, which is an **increase** of 56% compared to the end of 2001. The volume of financial means in the funds of the ČSOB/KBC group designed for institutional investors increased significantly, from CZK 1.2 billion to CZK 6.2 billion.

Money market funds and bond funds were among the most favoured mutual funds. Overall, in its sales network ČSOB offers more than 90 mutual funds managed by companies OB Invest, PIAS and by the parent company, KBC. In 2002, the offer of funds was extended by including new guaranteed funds and funds for institutional investors, while this trend will also continue in 2003.

Measured by their performance, mutual funds of the ČSOB/KBC group took, in 2002, leading places among the funds in the Czech Republic. The funds KBC Multi Cash ČSOB CZK (a money-market fund) and KBC Renta Czechrenta (a Czech crown-denominated bond fund) even achieved the best results in the market among funds of the same category.

The sale of mutual funds in Slovakia

After obligatory re-licensing of ČSOB in the Slovak Republic for the activity of a securities trader, the Bank was the first to obtain a licence in Slovakia to sell certain foreign securities (issued by the company KBC Equity Fund). The Bank succeeded in exploiting increased interest of individual and institutional investors in mutual funds and the volume of sales of KBC funds in Slovakia doubled in 2002. ČSOB thus took 4th place among mutual funds in 2002 belonging to banking groups. At the end of the year 2002, the branch accounted for an 11% share in the market of open-ended mutual funds in the Slovak Republic. In the area of institutional asset management, the branch achieved a tenfold growth in the volume of managed assets.

Development of bancassurance

The basic strategic goal of the ČSOB Group, complying with KBC Group's strategy, is the development of bancassurance – the provision of insurance services through the Bank's distribution network, while closely linking traditional insurance products to the Bank's products. In doing so, ČSOB uses the know-how of the KBC Group and the expertise and also experience of KBC Insurance.

In 2002, the ČSOB Group started to offer its first bancassurance products. Since April 2002, ČSOB **Life insurance** has been available to retail customers at all ČSOB branches in the Czech Republic. This first pure bancassurance product constitutes an extension of the offer of sophisticated financial services and enables clients to save advantageously, including protection against risk. ČSOB Life insurance is sold in several versions, allowing clients to use tax advantages and various investment strategies.

Insurance products linked to payment cards and consumer loans as well as a simple travel insurance product were also offered to clients at Bank branches in 2002. The sale of these products developed quickly, especially regarding life insurance linked to consumer loans (on offer since May 2002), where a very high share of cross-selling has been achieved - approximately 90%!

Since February 2003, selling of the product called Postal Insurance Certificate has started at all distribution points of Poštovní spořitelna in co-operation with ČSOB Pojišťovna. This is a simple, long-term savings product based on life insurance combined with accident insurance.

A significant step towards developing bancassurance was the **merger of ČSOB Pojišťovna with IPB Pojišťovna.** The process of merging the two insurance companies was started after the final settlement of the ownership of IPB Pojišťovna by ČSOB's acquiring a 100% share in IPB Pojišťovna in February 2002. This process was completed by the sale of the enterprise of ČSOB Pojišťovna to the company IPB Pojišťovna in December 2002.

Since the beginning of the year 2003, the new ČSOB Pojišťovna (under its changed name) has been providing life insurance as well as non-life insurance and is focused on retail clients and small and medium-sized enterprises. This insurance company provides services to 850 thousand clients and with its almost 1.2 million concluded insurance contracts it has taken 5th place in the Czech insurance market. ČSOB Pojišťovna has its own distribution network with 150 business places with more than 500 advisors.

In 2003, the selling of insurance products will be prepared also in the branch network of ČSOB **in Slovakia**. With the aim to develop the concept of bancassurance also in this market, the KBC Group acquired a majority stake in the Slovak insurance company **ERGO** in December 2002, which has become a **member of the ČSOB Group**. The insurer ERGO Pojišťovna offers both life as well as non-life insurance and, on the Slovak insurance market, it has taken 8th place.

Corporate banking

The strategy to focus on mid-caps – without neglecting top corporates – brought good results in the Czech Republic in 2002. ČSOB further strengthened its position as one of the leading commercial banks in the corporate market, which was evidenced by a significant growth in assets and other financial services across a wide spectrum of corporate clients. ČSOB remains one of the major players in the corporate market with 50% penetration and 25% market share.

After fully implementing the specialized corporate branch network in 2001, the operational sales activities have reached full speed in 2002. This was facilitated by the fact that the last of the remnants of the IPB transaction were removed from the sales network and that all clients were centralised on a single IT-platform. Also, the International Cash Management project, started in 2001, was completed in 2002, and the products linked to this project were launched in the autumn of 2002, accompanied by a marketing campaign.

The year 2002 will be remembered for the floods and the invitation of the Czech Republic to join the European Union. These events were reflected in the Bank's corporate business as well.

- In September 2002, ČSOB granted a CZK 750 million term loan to finance recovery of the infrastructure after the floods which hit the country in August 2002.
- In December 2002, ČSOB won a tender issued by Svaz VKMO, s.r.o. for becoming the financial partner in the "Dyje River Basin Protection Project". This project, approved within the framework of the EU programme ISPA, will receive the highest subsidy (over CZK 1 billion) granted to any project in the Czech Republic in the field of environmental improvements until now and will serve the reconstruction of the canalisation and water treatment plants in the South Moravian and Vysočina regions.

The Bank's activities in the area of **project finance** were further focused on commercial real estate projects. Despite the fact that very few **syndicated loan** opportunities originated in the local market, ČSOB remained a major player by arranging jointly with Česká spořitelna the financing of new metro trains for the Public Transportation Company of the City of Prague. This transaction, worth a total of CZK 4.2 billion, turned out to be the most important transaction of the year 2002.

The efforts to enhance services provided to corporate customers and to focus on sales will be strengthened further in 2003. Initiatives will focus on three main targets: the strengthening of the human capital and the functioning of the sales network, the improvement of the internal sales tools (including the implementation of a new Customer Relationship Management system) and the development of new products and markets. These continued efforts are underpinned by the ambition to become the reference bank in the Czech Republic for Corporate Banking services.

Services for non-banking financial institutions

In 2002, the Bank further intensified its co-operation with the majority of major financial institutions in the market in order to cover all their financial needs. This fact was mainly reflected in an increase in the volume of deposits of these institutions with ČSOB. The volume of deposits including current accounts increased significantly to CZK 24.7 billion in December 2002 (average volume of deposits), which represents 155 % increase of original planned amount CZK 15.8 billion.

ČSOB succeeded in maintaining its leading market position in taking care of the assets of these institutions due to the fact that it holds accounts for more than three-quarters of the market of health insurance companies, half of the market of pension funds and around one-third of the market of investment companies and mutual funds.

ČSOB also holds a dominant position in depository trustee services for investment companies and pension funds, custody services and financial market products with these clients.

Corporate Banking in the Slovak Republic

The Corporate Banking network in the Slovak Republic follows the same strategy in terms of clients as in the Czech Republic to a large extent. Despite the more difficult banking environment in the Slovak Republic, ČSOB has made significant progress in implementing this strategy, which is evidenced by a diversified increase in assets which was experienced towards the end of 2002 and by growth in the number of clients served in this segment. The International Cash Management system was implemented in Slovakia as well, though slightly adjusted to the local legal and fiscal circumstances. ČSOB has thus assured a good basis for further enhancement of its leading position within this segment.

In 2002, several transactions were completed that are of crucial importance to further growth in this segment. ČSOB has issued bank guarantees in relation to the construction of the 5th Bratislava bridge over the Danube, carried out by the consortium led by Doprastav a.s., Bratislava. The Bank has also provided a SKK 2.1 billion loan to Železnice Slovenskej Republiky (Slovak Railways) under a state guarantee for the modernization of crucial tracks of the railway system, marking an important step for ČSOB in financing state-related projects.

ČSOB's strengths in the Slovak Republic remain its strong foreign owner - KBC, a long tradition in foreign payments, convenient connections with the Czech market and the product offer of ČSOB Group. In 2003, ČSOB plans to intensify acquisition and sales activities in the segment through an even more focused client approach, especially in credit products. Its main goal is to achieve a higher position among banks with a medium-sized loan portfolio.

Services for non-banking financial institutions in the Slovak Republic

Due to long-term balanced service quality and reliability provided to non-banking financial institutions (NBFI) in the Slovak Republic, the Bank maintained its leading position with these clients. ČSOB is selected by NBFI in the Slovak Republic especially due to its experience and capabilities in providing custodian services and also due to its professional attitude to meeting service requirements. In the year 2002, securities firms, financial companies managing industrial firms and insurance companies were among the Bank's clients.

International Finance

In International Banking, the Bank succeeded in maintaining its strong position on the increasingly competitive Czech and Slovak markets. The planned overall profitability was achieved with better than expected results in commission income. A certain decline in documentary business has been replaced by increased bank guarantee business, the lower volumes in forfaiting correspond to the Bank's current focus on primary markets. Medium- and long-term export finance also developed successfully, although, mainly due to the absence of big deals on the market and the strong Czech crown, the export credits portfolio remained behind expectations despite a higher number of new, smaller transactions. In the year 2003, an increase is again expected to result from re-activating the Bank's export finance business in Slovakia. ČSOB continues to be the **prime provider of CZK and SKK clearing services for foreign banks** and it has also been able to further strengthen its position as **local leader in providing custody services for both domestic and foreign portfolio investors**.

Financial markets operations

In 2002, in compliance with its intentions, the Bank succeeded, in all product areas, to increase the share of trading for clients, in making gains due to its correct forecast of a downward trend of interest rates and, in addition, in strengthening its leading market position in the area of financial market operations.

ČSOB's position in the domestic market in 2002:

- In the **forex markets,** ČSOB had the largest share in the total market turnover of spot EUR/CZK trades and maintained its position as a market-maker in the main world relation EUR/USD and its position as the only local market-maker in Polish zloty; the Bank continues to hold its unique position in trading in banknotes;
- In the **money markets**, ČSOB confirmed its traditional leading position in the interbank market and continues to be a market-maker in the area of Czech crown deposits and loans, repo deals, Sell/Buy deals as well as in the area of treasury bills; the Bank maintains a key position in the area of Czech-crown interest rate derivatives and it has strengthened its market share in the area of foreign-exchange (FX) swaps;
- In the area of **derivative operations**, ČSOB maintained its leading position in the FX options market, where it plays a role of an active market-maker;
- In the **capital markets**, ČSOB has strengthened its market position and has taken a leading position in the Czech bond market in terms of the volume of trades on the Prague Stock Exchange;
- In the area of **primary issues**, ČSOB has a leading position in the administration of both government and corporate bonds.

Credit risk management of dealing transactions was significantly enhanced in August 2002 through the successful implementation of an automated control system within the framework of the front-end dealing system MUREX, which makes it possible to control all counterparty risks in real time.

The **trading for clients** was divided, as in the previous year, by customer segments into trading for corporate clients and for non-banking financial institutions and trading for medium-sized and small enterprises and retail customers. Corporate clients (especially exporters) used FX options as the most appropriate instrument to hedge against the strengthening of the Czech crown, which meant a deviation from using forward operations in the previous year. Medium-sized and small enterprises showed greatest interest in FX forward operations.

Within the framework of the implementation of a new operating model at branches, sales skills of employees of the distribution network have been strengthened. As a result, an active business relationship has been established with several dozens of new clients from medium-sized and small enterprises. In August 2002, testing of a new “e-dealer” system was started. The system will facilitate and automate the processing of operations at branches. Since December 2002, the system has been fully operational.

In the area of **derivative operations**, in 2002 the Bank widened its product portfolio, mainly targeting large corporate clients, by including barrier options and other kinds of second generation options. One of the key tasks for 2003 is the expansion of the existing product offer with new structured products including exotic options and swaptions.

In the area of **trading on the capital markets**, the Bank was more active in lending securities (repo operations). The Bank also operated more actively in the Eurobond market and, in addition, launched several interesting issues on this market.

In the **primary** bond **market**, the Bank, together with Česká spořitelna, has launched a bond programme for Český Telecom and co-arranged a successful bond issue in the volume of CZK 3 billion. In connection with launching a bond programme of Českomoravská hypoteční banka (ČMHB), ČSOB organised two issues of mortgage bonds in the overall volume of CZK 3 billion. Further, the Bank provides for payment of compensation to victims of Nazism from the Czech-German Fund of the Future. In the first quarter of 2003, an increase in the first series of bonds of the European Investment Bank issued within the framework of its Czech bond programme and another issue of ČMHB mortgage bonds was executed.

In the first half of 2002, **analytical activities** were made more efficient by their integration into one department covering economies and financial markets of the entire Central Europe and more specifically, of the Czech Republic, Slovakia, Poland and Hungary within the framework of the KBC Group.

Activities in Slovakia

Throughout 2002 ČSOB belonged to the main market makers in the foreign-exchange, money and capital markets in Slovakia. In the area of operations in the money market, the Bank holds a significant position in the group of reference banks. It also has a significant share in the foreign-exchange market and in trades on the Bratislava Stock Exchange. In close co-operation with ČSOB Head Office and KBC, the Slovak branch has extended its standard product offering by including some derivatives.

Electronic Banking

The integration of electronic banking systems was completed in 2002 and the Bank’s **offering** in this area is already **comprehensive**. The Bank offers its clients services both through phone banking and Internet- and PC-banking. ČSOB’s offering in the area of direct banking is fully competitive and the quality of services is comparable with that of its competitors. In 2002, especially the range of products and services, which can be provided to clients through direct distribution channels, was gradually enlarged. At present, already more than 500 thousand clients of the Bank use some of the electronic channels, which represents an increase of more than 70% during the year 2002.

The development of products:

- Both in the Czech Republic and the Slovak Republic, the ČSOB Internetbanking 24 service has already become a standard part of the offering of direct banking, in particular, for the segments of retail and small- and medium-sized enterprises. At the end of 2002, the offering of products and services provided through ČSOB Internetbanking 24 was extended and other services are being prepared to be included in the offering in the 2nd quarter of 2003.
- Within the framework of the ČSOB Mobil 24 service, the offering has been extended to include the mobile operator Eurotel ČR and preparation has been started to include the operator Český Mobil in the Czech Republic and Orange and Eurotel in the Slovak Republic.
- The development of a completely new direct distribution channel for enterprises called ČSOB Businessb@nking 24 has been started and its pilot operation will start in the 3rd quarter of 2003.
- The development of an information channel under the working name of E-messages has been started, which will make it possible to send messages regarding banking operations automatically through e-mail, SMS messages, etc. Its operation will start at the beginning of the 2nd half of 2003.

Payment services

In the area of **non-documentary foreign payments,** in 2002 ČSOB maintained its **first place** among banks and its share reached 25% of all foreign payments of the Czech Republic. In the course of 2002, the Bank implemented the STP (Straight-Through Processing) system, which allows it to achieve a **high level of automated processing of clean payments**. On the basis of this modern technology, ČSOB achieved a high level in terms of speed and quality of services in this area. More than 25% of all incoming foreign payments are processed without manual intervention and, on average, 50% are processed half-automatically. By this level of automatic processing, ČSOB has taken first place among Czech banks.

ČSOB maintains its **leading position in the market in the area of vostro accounts.** At the end of 2002, ČSOB kept more than 500 accounts for banking clients, especially from Europe and North America. Overall annual turnover of inter-bank transfers made through these accounts was CZK 14,426 billion with an average daily turnover of more than CZK 57 billion. The STP indicator for inter-bank transfers reached 54% for all incoming orders, while additional measures to advance automated processing have been prepared for implementation in the course of the year 2003.

The **introduction of the euro** was managed **without problems.** Since the beginning of 2002, the satisfaction of all clients' requirements for supply of cash notes and coins in this currency has been secured, and the Bank still allows the purchase of EU-states' original national currencies.

The Bank has started work on the introduction of domestic priority customer payments in CZK, which will shorten the time necessary for transferring funds between ČSOB clients and other banks in the Czech Republic to the order of hours. This product will be available in the 2nd quarter of 2003.

Payment cards

ČSOB was the first bank in the Czech Republic to offer clients, insurance against loss or theft of payment cards during 2002. The insurance covers losses incurred up to 24 hours before the announcement of the loss or theft of the card.

The year 2002 also meant the unification of card systems in the Czech Republic and the unification of conditions for the issuance of payment cards. All payment cards are issued with international validity.

At the end of 2002, the first terminal for acceptance of international chip payment cards, EMV standard, of the company Visa was installed, and the first successful transaction was made.

ČSOB's position in the market:

- In the Czech Republic and the Slovak Republic, at the end of 2002, 331 ATMs were installed and operated, which means a year-on-year increase in the number of ATMs by 32% in the Czech Republic and by 23% in the Slovak Republic;
- In the Czech Republic, ČSOB is the **second largest issuer of payment cards** after Česká spořitelna; more than 1.4 million cards were issued in the Czech Republic and the Slovak Republic; in the Slovak Republic, in 2002, the number of cards increased by more than 52%;
- ČSOB is in **second place by the number of contracts concluded on the acceptance of payment cards** after Komerční banka; the number of installed POS terminals increased in 2002 to 7.5 thousand, i.e., by more than 15%.

In 2003, ČSOB will continue to increase the number of ATMs. The Bank prepares the launch of new products – credit card and EMV international chip card (in the course of the 1st half of 2003 in the Slovak Republic and in the Czech Republic). The goal is to become the largest issuer of EMV chip cards in the Czech Republic and one of the largest issuers of EMV cards in Central Europe by the end of 2003.

Prerequisites for the Development of Business and Increased Efficiency of the Bank

Marketing Activities

Support for ČSOB brand

In the course of 2002, the rebranding of ČSOB branches was finished both in the Czech Republic and in Slovakia. According to a uniform graphic style, the rebranding of existing and new ATMs has also been started.

In the first quarter of 2003, the graphic style was modified on the basis of previous experience and new requirements. The aim of the changes is to unify and simplify the methodology for the graphic style of the whole ČSOB Group. The Graphic Manual was also completed by adding new applications, such as the designation of ČSOB Private Banking.

Building the ČSOB brand is fully linked with **developing a positive perception of ČSOB** in the eyes of the general public. For this reason, in 2002 a new long-term strategy and the target position of ČSOB in the financial services market were defined and approved by the Bank's management. Basic elements of the strategy are the so-called "brand promise" and the target characteristics of the Bank expressing the positive perception of ČSOB by clients and by the broad general public. Fulfilling the new strategy will be the primary, long-term task of all employees. Therefore, in 2003 emphasis will be laid on the modification of processes taking place within the Bank and on the standards of conduct of employees with the aim to fulfil all target attributes of the brand and to achieve the target position of ČSOB's brand in the market. A similar strategy was also developed in the first quarter of 2003 for the brand of Poštovní spořitelna, which will continue to be presented on a separate basis in the future.

Product promotion

Advertising and promotional campaigns, taking place in the Czech Republic in 2002, increasingly reflected the orientation of the Bank towards more sophisticated products within the framework of new offering to clients (especially packages for retail and SME clients, bancassurance).

In the case of target customer groups of retail and small and medium-sized enterprises (SME) segments, advertising primarily supported consumer loans, payment card insurance, student and mortgage accounts and product packages designed for these customer segments.
In the Slovak Republic, the advertising campaigns were mainly focused on deposit products and on consumer and mortgage loans.

Care for human resources

Having in mind the importance of the care for human capital, ČSOB prepared and started the implementation of **a new strategy for managing human resources** during the year 2002, focused on creating a strong team of competent and loyal employees. The Bank introduced a system of efficient performance management with the aim to achieve better competitive strength in the ever more demanding market. Customer satisfaction has become a new integral part of the system of performance indicators designed for paying bonuses to all employees. In 2003, a new pay system will be implemented, securing the Bank's position in the labour market.

Primary attention is being paid to all employees' identification with the Bank's goals. A new employee magazine has been prepared, regular visits of Board members to branches, so-called "walk-and-talks", are organised, and, at the end of 2002, all employees were invited to social get-togethers.

ČSOB makes use of KBC's strengths and every year sends selected employees to KBC to three-month study stays at the so-called Central European Academy or to short-term courses.

In 2002, ČSOB started a **new training programme** for customer officers aimed at improving the quality of customer service provided to clients from retail and SME segments. The initial phase of the training was focused on establishing clients' needs and professional behavioural patterns, the second phase of the training was oriented towards selling new product packages. The training programme will continue in 2003.

In 2003, the Bank will lay great emphasis on the professional growth of employees. In important business areas, so-called competency centres will be built, the task of which will be to care for permanent enhancement of employees' expertise and development of their skills. The Bank will also continue to develop the system of electronic teaching.

Cost management

At the end of 2002, the Bank approved a two-year **programme aimed at increasing** its **efficiency**, the goal of which is, primarily, to improve internal allocation of income and costs towards the Bank's business units and, at the same time, to make the allocation of capital more efficient not only inside the Bank itself, but also across the ČSOB Group. The efficiency-increasing programme will thus necessarily lead to the creation of a much more transparent picture of the functioning and performance of individual units of the Bank and, in such a way, to setting up a more just system for appraising the Bank's own employees.

In this connection, the Bank will continue to carefully monitor labour productivity also in the future. This relates also to the recent decision of the Board of Directors to reduce staff numbers by more than a thousand people by the end of the year 2004, especially at ČSOB's Prague Head Office. The programme of staff reduction has also been approved by the trade union with which so-called Programme of Concord has been concluded, the aim of which is to mitigate the social impact on employees. The Bank offers the redundant employees help in asserting themselves in the labour market.

Part of the approved programme is also the improvement of the whole planning process and, at the same time, the creation of a new internal reporting system, which in the years to come will allow management of the Bank and its financial group more purposefully within the context of its long-term strategy.

Development in the area of IT

In the area of IT, in 2002 the Bank focused on the stabilisation of individual systems and on the preparation of further development with the aim to support product sales and to increase the efficiency of the Bank's operations.

The most important activities in the area of IT include:

- Completion of the unification of transaction systems (in connection with the merger with IPB) for all customer segments in the Czech Republic and for the corporate clients in the Slovak Republic, commencement of this process in remaining segments in the Slovak Republic;
- Commencement of the preparation of a new sales support system for retail and SME segments;
- Implementation of International Cash Management products (to efficiently manage financial flows between individual accounts within the KBC Group);
- Implementation of system for Internet banking in the Slovak Republic;
- Implementation of a new technological platform for processing retail and SME transactions in the Czech Republic (a new configuration of the Profile system);
- Completion of the implementation of a new office support system within the whole ČSOB (including the branch in the Slovak Republic);
- Linkage of systems of selected subsidiary companies to ČSOB's internal system (e.g., the implementation of the office support system and some applications in ČSOB Asset Management);
- Continuing implementation of Murex system for front-end and middle-office operations in the financial markets;
- Implementation of Murex Limit Controller system for the control of credit risk operations in the financial markets in real time.

ČSOB's Financial Performance in the Year 2002

Despite the rather difficult economic and business environment in 2002, ČSOB maintained its high profitability. The ČSOB Group achieved very good 2002 financial results showing a net profit of CZK 6.6 billion and ROE of almost 16%. Positive financial results have been primarily due to a good growth in lending across all the client segments, significant contribution from ČSOB Group companies, successful cost cutting activities and significant recoveries and restructuring of non-performing loans which has led to significant releases of credit loss provisions.

All of the financial figures set out below were extracted from ČSOB's 2002 **audited consolidated** financial statements prepared in accordance with **International Financial Reporting Standards (IFRS).**

Profit and Loss

Net Profit of CZK 6.6 billion represents an 11% increase from the previous year. The main drivers contributing to 2002 results were the control of operating costs (3% lower than 2001) offsetting the decrease in operating income (3%) and the impact of the net release of provisions as a result of successful recoveries of debts.

Net Interest Income increased by CZK 0.1 billion (1%) to CZK 13.2 billion, notwithstanding the sharp decreasing interest rates environment during the entire 2002 year. This low interest rate environment was offset by the Group's fast growth in credit products and by appropriate treasury investments into higher yield products.

The development of **Average Net Interest Margin** for ČSOB Bank was more-or-less stable (2.24% in 2001 compared to 2.12% in 2002) relative to the magnitude of the downward movement of market interest rates.

Net Fee and Commission Income decreased by CZK 0.4 billion (6%) to CZK 5.6 billion, due to the decrease in the State financial assistance fees following the transfer of non-white assets to the state. This has been partially offset by good growth in business fees (see note No. 12 in the Notes to the consolidated financial statements for the year 2002 according to IFRS).

Net Trading Income amounting to CZK 2.6 billion decreased by CZK 0.1 billion (4%) compared to the year 2001, mainly due to continuing slight decrease in foreign exchange income being partially offset by good proprietary trading performance of ČSOB Bank.

Operating Expenses decreased by CZK 0.5 billion (3%) to CZK 15.1 billion due to the launch of cost reduction initiatives and good cost control in all cost categories. The Bank launched several initiatives, the most significant being the reduction of its headcount by more than 1,000 employees by the end of 2004. The cost decrease was further enhanced by the deposit insurance premium contribution decrease.

Group **Cost/Income Ratio** shows a small decrease from 66.6% to 66.5% due the decrease in operating income being offset by a similar decrease in operating expenses. **Cost income ratio net of extraordinary** income and expense **items** (e.g. restructuring cost and one-off charges) for the Bank was only 59.5% in 2002.

Credit Loss Provisions release for 2002 of CZK 1.7 billion contributed positively to the overall result due to the release of provisions after successful recovery and restructuring of historic bad debts (51% increase from 2001).

Balance Sheet

At the end of 2002, consolidated **assets** totalled CZK 597.0 billion, which represents an increase by CZK 10.6 billion compared to the end of 2001.

Cash and Balances with Central Banks of CZK 21.2 billion showed no material change during the year.

Amounts due from Banks increased by 21%, to CZK 142.4 billion, due to the partial re-investment of the amounts received from ČKA following the transfer of non-white assets in short term money-market instruments.

Trading Assets increased by 12%, to CZK 55.7 billion, mainly as a result of increased trading into short term money-market loans at the end of 2002.

Investment Securities increased by CZK 33.7 billion (77%) to CZK 77.2 billion due to the treasury reinvestments of clients' deposits into higher yield financial instruments with the goal of maximising net interest income in the current interest rate environment.

Loans and Leases went up to CZK 213.7 billion (18%). Business lending in ČSOB Bank in core business segments showed 10% growth with good lending growth also being reported for ČMHB (30%), ČMSS (22%) and ČSOB Leasing (12%).

The movements in **"Rescue acquisition state assistance receivable"** are due to the continued transfer of non-white assets to the Czech consolidation agency (ČKA). The remaining items of securities will be transferred to ČKA during 2003.

Goodwill of CZK 2.3 billion is mainly related to the acquisition of IPB.

Trading Liabilities increased by CZK 14.3 billion (54%) due to increased trading activities via short-term money market deposits and reached CZK 40.8 billion.

Amounts Due to Customers in the volume of CZK 418.1 billion have shown a slight increase compared to the end of 2001. This development follows the general trend of clients in all client segments seeking alternatives to the standard deposits products given the current low interest rates on deposits. The effect has been clearly visible in the fast growth in **Assets under management** where ČSOB Group (all asset management units including the pension funds) has seen a fast growth from CZK 61 billion to CZK 71 billion between 2001 and 2002.

Debt Securities in Issue decreased to CZK 28.2 billion (19%) following the repayment of CZK 6 billion of ČSOB floating rate note issue.

Return on Average Equity (ROAE) remained at competitive 16.7% (compared to the prior year of 16.5%).

Capital Adequacy Ratio of the Bank (as defined by the Czech National Bank regulation No. 3 on capital adequacy dated 28 June 1999) decreased from 15% as at 31 December 2001 to 14% as at 31 December 2002 due to the increase in risk weighted assets following the business expansion, Capital Adequacy Ratio of the ČSOB Group was at the level of 12.56% as at 31 December 2002.

The ČSOB Group

In 2002, ČSOB progressed in fulfilling its goal to satisfy all customer financial needs within the framework of the ČSOB Group and develop cross-selling. In a number of areas of activity, companies of ČSOB and of the former IPB, offering duplicate services, were restructured and merged with the aim to take advantage of synergies within the ČSOB/KBC financial group. The restructuring primarily involves the area of management of customer assets, collective investment, additional pension insurance and insurance.

In the area of management of customer assets, in mid-2002 **activities** of the company Patria Asset Management and the ČSOB unit engaged in management of customer assets **were concentrated in the company ČSOB Asset Management** (ČSOB AM). ČSOB AM provides both institutional clients and private clients with investment services of securities management. By its volume of managed assets, ČSOB AM is among the largest companies of this kind not only in the Czech Republic, but also in Central Europe. In 2002, besides integration of business activities and business development, ČSOB AM's activities were focused on increasing the efficiency of its operations, including staff reduction.

Within the framework of the integration of ČSOB Group's activities in the area of collective investment, OB Invest became a subsidiary of ČSOB Asset Management in 2002. The shareholder structure was also significantly changed in První investiční společnost (investment company - PIAS), where ČSOB Group increased its shareholding in the course of 2002. ČSOB's goal for 2003 is to execute a merger of funds and a merger of investment companies.

A significant event in the area of insurance was the **merger of ČSOB Pojišťovna** (insurance company) **with IPB Pojišťovna** and the establishment of a new ČSOB Pojišťovna. By its number of clients and amount of contracts closed, this new insurance company is among the major companies of this kind in the Czech market (see Development of bancassurance).

In January 2003, ČSOB **increased** its **ownership interest in Českomoravský penzijní fond** (pension fund - ČMPF) substantially and, along with ČSOB Pojišťovna, exercises full control of it.

At the beginning of 2003, the ČSOB Group is providing its clients with services in the following areas:

- Construction savings and mortgages
  - Českomoravská stavební spořitelna (building savings),
  - ČSOB stavebná sporitelna (building savings in Slovak Republic (SR)),
  - Českomoravská hypoteční banka (mortgage bank);
- Insurance – ČSOB Pojišťovna;
- Asset management– ČSOB Asset Management;
- Collective investment
  - PIAS (První investiční společnost),
  - OB Invest (in March 2003 the name was changed to ČSOB Investiční společnost);
- Pension funds
  - Českomoravský penzijní fond,
  - ČSOB Penzijní fond;
- Leasing
  - ČSOB Leasing,
  - ČSOB Leasing (SR);
- Factoring – OB Heller.

Strategic Objectives

ČSOB will fulfil its **vision**, declared already in 2002, to be the prime financial services provider in the Czech and Slovak Republics.

The year 2002 was peculiar to ČSOB in that it was a start of fulfilling **medium- and long-term strategic objectives** of the Bank, as follows:

- Implementing a radical change in the system of servicing retail customers and small- and medium-sized enterprises in the Czech Republic and Slovakia;
- Expanding the branch network in the Slovak Republic with the aim to significantly strengthen the Bank's position in this market;
- Maintaining and strengthening its position in financial services markets traditional for ČSOB;
- Increasing productivity and efficiency of the Bank's internal processes with the aim to secure control over development of costs;
- Making the processes applied within the ČSOB Group more efficient with the aim to enhance the level of customer service and improve the availability of bancassurance and other subsidiaries' products from one point of service;
- Building a strong internal culture of ČSOB employees;

From the point of view of the whole ČSOB banking group, the Bank's objective is to create a uniform group that will be able to meet all financial needs of its clients.

Medium-term financial targets for the ČSOB financial group are based on the above-mentioned strategic objectives. From the point of view of profitability, the target is to achieve return on equity exceeding 22% and, at the same time, from the point of view of efficiency, to maintain the cost-to-income ratio below the level of 55%.

The **business goals** of ČSOB **for the year 2003** are the following:

- growth of customer loans by 10%;
- growth of mortgage loans by 28%;
- growth of customer deposits by 6%;
- growth of loans from building savings by 23%;
- growth of leasing volume by 7%.

Acquiring of Treasury Shares

As at 1 January 2002, the Bank possessed 114,825 treasury shares with a nominal value of CZK 1,000.- / share. This represented 2.25% of share capital. During 2002, the following changes in the number of treasury shares held by ČSOB took place:

Overall, 58,575 shares with a nominal value of CZK 1,000.- / share were bought for CZK 297,739,743.- of which 58,375 shares were bought from minority shareholders on the basis of a resolution of ČSOB's General Meeting of 13 April 2000, and 200 shares were bought within the framework of a compulsory buyout (paragraph XI. of the Articles of Association). The lowest purchase price was CZK 1,000.- / share and the highest price was CZK 7,069.70 / share.

62,600 shares with a nominal value of CZK 1,000.- / share were sold for CZK 433,827,600.-. As at 31 December 2002, the final number of treasury shares was 110,800 with a nominal value of CZK 1,000.- / share, i.e. 2.17% of the Bank's share capital.

(Note: see Consolidated statement of changes in shareholders' equity in the consolidated financial statements according to IFRS.)

Risk Management

Traditionally, the Bank wants to adhere to 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 complies with the requirements of regulatory bodies and with the standards of the majority owner (KBC) which manages the risks on a consolidated level.

The risk management process is monitored by the Risk Management unit that is independent from all business activities of the Bank, including assets and liabilities management. The Risk Management unit is directly responsible to the CEO of the Bank. The Board of Directors of the Bank takes overall responsibility for the process of risk management. The Supervisory Board is regularly provided with information on risk incurred.

The process involves specific organisational units of the Bank that are independent of the Bank's risk-taking business lines as well as 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 risk methodology;
- Treasury Committee – with powers in the area of management of market risk of the banking book and liquidity;
- Financial Markets Committee – with powers in the area of management of market risk of the trading book.

The importance of these committees is evidenced by the fact that two members of the Board of Directors attend these committees.

The Bank is intensely preparing for a change in the regulation of capital adequacy 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 the other banks and with the Czech Chamber of Auditors.

Besides the risks taken by the Bank itself, ČSOB also continues to monitor basic risk indicators of its main subsidiary companies. In 2003, in this area the Bank will 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 and country risks.

Organisation

During 2002, changes were implemented at the department level aiming at integration, higher focus on process management and creation of more independence from the business segments.

At the Board – 1 level, a clustering of activities took place.

The following activities are currently centralised in the department:

- Acceptance of credit risks for corporates, large / medium enterprises, banks and countries, sector analysis, process management, policy and portfolio monitoring;
- Real estate appraisal and credit review (ex post monitoring);
- Acceptance of credit risks for physical persons, entrepreneurs and small enterprises, process management, credit scoring policy and portfolio monitoring;
- Work – out of bad loans;
- Credit risk back-office and loan documentation (since the beginning of 2003).

Programmes and projects

A wide range of different projects is running within the department, of which the most important are:

- The Credit re-engineering programme

  This Programme combines different projects with the main aim to simplify the processes without losing the credit risk control, to increase orientation on clients and to initiate measurement of the efficiency and effectiveness of the processes.

  The programme is finalised for corporates and is still in process for small and medium-sized enterprises and retail, while significant progress has already been made.

- The QCR (Quantitative Credit Risk) Programme

  Discussions held at the Board level with the Czech regulator and with KBC during the 2nd half of 2002 led to the official start of the Programme at the beginning of 2003.

  The main aims of this programme are:

a) to quantify credit risks in a more sophisticated way and, as a consequence thereof, to introduce better benchmarks for measuring the return on 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;

b) to meet the New Basel Capital Accord (NBCA) rules. Following the policy of the KBC Group, a more sophisticated "IRB approach" will be implemented (valuation on basis of internal rating).

Counterparty risk management

Acceptance process

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

- A relationship manager of the introducing entity makes a credit proposal in writing;

- The proposal is screened by an independent risk manager reporting to the Credit Risk Management unit (for small and medium-sized enterprises, he even has a co-decision right in certain instances);
- A decision is taken at the appropriate decision-taking level (either meeting as a committee or otherwise) during which the “four eyes” principle is respected.

The acceptance process for physical persons and entrepreneurs is organised on the basis of a scoring model which is used as a decision tool.

For small enterprises, the Bank is going to implement a similar scoring model and a retail-type process.

Bad Debts supervision, monitoring and work-out process

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

Each loan is subsequently subject to a periodic review (in full or at least the covenants set in the loan documentation) the periodicity of which differs according to the risk rating. Risk warning signals, triggering so-called flash reports, are defined and their use is being followed up.

Substandard loans (internal rating E) are monitored separately, while for doubtful loans (F or worse) the loan management is transferred to the Bad Debts unit or work-out department. In working out problem loans, the Bank applies two basic approaches: continuation of the collaboration with the client (restructuring) or termination of the client relationship (liquidation).

Supervision on a portfolio basis is carried out by means of, inter alia, a quarterly report being submitted to the Board of Directors and the Supervisory Board. This report covers the development of the credit exposure over all sub-segments (including the banking book) and the 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 prudent approach towards country risk management in compliance with the approach of KBC with which it also shares country limits. An individual country’s risk is first assessed on the basis of an internal analysis of the political and economic factors. As a supplementary source of information, assessment by rating agencies is used. Having performed the overall assessment, the Bank then follows its own procedures in the management of individual foreign assets.

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.

In principle, the Credit Policy Committee takes decisions (i) on modifications or the launch of products or services involving credit risk, and (ii) on policies and processes relating to credit risk management.

Development of the overall portfolio

Loans to non-banking customers – IFRS unconsolidated, gross amounts (CZK billion)

	31 December 2000	31 December 2001	31 December 2002
Historical exposure	**39.6**	**32.9**	**25.1**
of which: - CI	8.2	4.7	1.3
- MF CR (SI)	20.5	20.2	22.0
- other	10.9	8.0	1.8
Write-offs (during the year)	2.0	2.7	3.7
Current exposure	**66.9**	**83.5**	**89.6**
Write-offs (during the year)	0.1	0.2	0.3
Total	**106.5**	**116.4**	**114.7**
Write-offs (during the year)	2.1	2.9	4.0

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

Quality of the portfolio

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

	31 December 2001		31 December 2002	
	Current business	Historical cases	Current business*)	Historical cases
Total loans	83.5	32.9	89.6	25.1
of which NPLs	1.2	6.0	1.9	1.2
Total provisions	4.0	6.4	3.7	1.8
NPLs to total loans ratio (%)	**1.4**	**18.1**	**2.1**	**4.8**
% coverage of NPLs by provisions	**343.9**	**107.4**	**194.7**	**150.0**

*) excluding ČKA (Czech Consolidation Agency) loans of CZK 13.1 billion

Non-performing loans (NPLs): 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 (CZK million)

	31 December 2001				31 December 2002			
	Loans	% of total loans	Collateral	Provisions	Loans	% of total loans	Collateral	Provisions
Standard (A-C)	57,865	49.7	22,257	-	60,121	52.4	21,590	-
Classified	33,624	28.9	12,683	9,836	31,246	27.2	15,477	5,065
Watch (D)	14,064	12.1	8,808	460	20,394	17.8	11,419	594
Sub-standard (E)	7,698	6.6	2,225	608	4,940	4.3	3,219	314
Doubtful (F)	7,905	6.8	724	6,147	2,639	2.3	490	1,563
Loss (G)	3,957	3.4	926	2,621	3,273	2.8	349	2,594
MF CR (SI)	20,223	17.4	-	-	21,993	19.2	-	-
CI	4,695	4.0	4,695	-	1,339	1.2	1,339	-
General provision x)	-	-	-	567	-	-	-	445
Total	**116,407**	**100.0**	**39,635**	**10,403**	**114,699**	**100.0**	**38,406**	**5,510**

ČSOB's internal classification is in compliance with the CNB's methodology, however, besides the timely repayment criterion, 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.

x) credit loss provisions for losses contained in the loan portfolio that have not yet been individually identified but are expected based upon historical experience and the judgement of Bank management

Country risk

Country exposures by main geographical regions as at 31 December 2002 – IFRS unconsolidated, net amounts (CZK million)

Territory	Total risk exposure	Of which, by type of transaction			
		Dealing	Short-term	Credits	Bonds
Western Europe	76,753	47,746	910	4,607	23,489
Central and Eastern Europe *)	3,147	135	174	15	2,615
Africa	2,333	2,133	199	-	-
Northern America	1,954	1,000	260	-	694
Asia	678	281	248	44	-
Australia	157	157	-	-	-
Latin America	138	-	123	15	-

*) the Czech Republic and the Slovak Republic are 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.
- Short-term commercial – confirmed documentary letters of credit, forfaited trade-related paper with bank risk and trade-related bank guarantees

Country exposures in emerging market countries*) with higher risk as at 31 December 2002 – IFRS unconsolidated, net amounts (CZK million)

Territory Country	Total risk exposure	Of which, by type of transaction				
		Short-term commercial	Credits	Export financing	Performance risk	Total provisions
Central & Eastern Europe	**211**	**-**	**-**	**2**	**184**	**25**
Russia	210	-	-	1	184	25
Romania	1	-	-	1	-	-
Asia	**231**	**184**	**43**	**4**	**-**	**126**
Turkey	184	180	-	4	-	80
Iraq	43	-	43	-	-	43
Lebanon	4	4	-	-	-	3
Latin America	**31**	**31**	**-**	**-**	**-**	**10**
Brazil	31	31	-	-	-	10

*) 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 the potential financial loss from a change in the value of positions held by the Bank, caused by adverse changes in the level of market prices (foreign exchange rates, interest rates, share and commodity prices) on financial markets. Market risk management in the Bank is a process comprising the monitoring and measurement of individual risks with the aim to manage negative financial effects that can arise as a result of changes in market prices.

Risk is monitored consistently with global KBC Group risk methodology. ČSOB methodology complements the KBC Group approach and fully meets the requirements of local regulatory bodies.

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

	ČNB limit	31 December 2002	31December 2001
Total open position	20	0.67	4.33
CZK open position	15	0.53	3.51

Market risk is monitored and managed separately on the banking and trading books. At present, the Bank is exposed, in particular, 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, on a quarterly basis, by the Financial Markets Committee or by the Treasury Committee, and approved by the Bank's Board of Directors. 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 Treasury and Financial Markets Committees, to the Board of Directors and to the Supervisory Board of the Bank.

Trading Book

Dealing teams of ČSOB in the Czech Republic and in the Slovak Republic work actively together within the KBC Group and are active, in particular, in the area of trading in a wide range of currencies. Trading in the Czech and Slovak Republics is supported by a uniform and centrally managed trading system (FEDS) and for this reason risk management has been centralized.

The basic method used by the Bank to monitor and measure the interest-rate and foreign exchange risks is Historical Value-at-Risk (VAR). This method is used to measure 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, which is in accordance with international standards. To complete the system of risk management, the Bank also uses additional methods of risk measurement (GAP analysis, sensitivity analysis – Basis Point Value, concentration limits, stop-loss limits). Market risk of the trading book 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 currency positions are identified through the Bank's information system. The basic method used to manage the risk of the trading book is Value-at-Risk. A limit has further been established for the open currency position for the risk of the trading book. In addition, the system of limits has been completed with concentration limits.

Risk of currency options is monitored by using a method of scenario analysis, which evaluates a broad range of changes in prices and volatilities, where utilisation of the limit depends on the most negative result of the given scenario. Additional limits, such as greeks, complement the framework.

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

	Bank's limit	31 December 2002	31 December 2001
Currency options - Analysis of scenarios	500	130	361
VAR - Foreign exchange risk	1,000	226	633

Note: Until April 2002, the limit for currency options was 750,000 EUR.

Interest rate risk

The Bank is exposed to this risk due to fluctuations in market interest rates. Under the influence of such changes, interest rate margin can increase, or decrease. Losses can also be incurred if unforeseen changes take place. 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 limit for interest rate risk from financial markets trading operations (in EUR'000)

	Bank's limit	31 December 2002	31 December 2001
Interest rate risk	3,000	1,606	1,661

The calculation of Historical Value-at-Risk (VAR) exposure is based on the following parameters: holding period: 10 days; probability: 99%, one-sided; historical period: (last) 250 business days

Banking Book

The banking book mainly includes deals relating to the provision of customer services including hedging this portfolio against market risks.

Foreign exchange risk

The Bank minimises the foreign exchange risk incurred on the banking book and open positions are closed on a daily basis. On the banking book, only those remaining positions are maintained open that cannot be effectively closed for technical reasons. Positions are identified through the Bank's information system. For managing risks of the banking book, limits for open currency positions are used. Adherence to the limits is checked on a daily basis.

Interest rate risk

The larger part of ČSOB's segment commercial activities captured in the banking book are naturally associated with 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. Risk is evaluated on a monthly basis. The Bank has set a cumulative interest rate GAP limit for each of the main currencies (maximum acceptable open interest rate position is set as a percentage of total assets in a specific currency). For products without definite maturity (current accounts, capital, reserves), benchmarking methodology was completely implemented in 2002, which defines the distribution of these products 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 and a stable volume so that they better reflect the real risk situation and allow for efficient measurement of interest rate risk.

In 2002, the Bank significantly optimised the structure of the banking book, mainly through investments in bonds corresponding with respective positions in individual currencies.

Besides evaluating ČSOB's risk, the Bank also measures, on a monthly basis, interest rate risk of its main subsidiary companies.

In 2003, the Bank will focus both on further optimisation of the structure of the banking book with respect to interest rate risk and its more detailed monitoring and on interest rate risk management within the whole financial group.

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 - quickly liquid assets/expected outflow of funds within 7 days, a measure inspired by the FSA from UK), liquid assets ratio (liquid assets/total assets) and liquidity ratio (customer loans/customer deposits).

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 balance sheet, it is calculated as a ratio of liquidity weighted assets and liabilities). In the case that there could be liquidity problems, the Bank has created specific contingency plans for the purposes of liquidity management in emergency situations.

The balance sheet time structure plan indicates the maximum time mismatch and is valid for a given calendar year. A substantial proportion of deposits repayable on demand (current accounts, savings books) is statistically evaluated and makes up a stable deposit base in the balance sheet time structure plan.

Internal limits for liquidity ratios were fulfilled for the whole year 2002. The Bank's liquidity was sufficient.

SLR – quickly liquid assets / expected outflow of funds within 7 days (in%)

	Internal limit	31 December 2002	31 December 2001
CZK	min. 110.00	186.05	211.01
Total	min. 110.00	170.15	195.10

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

	Internal limit	31 December 2002	31 December 2001
CZK	min. 20.00	31.87	26.42
EUR and USD combined	min. 20.00	35.30	20.27
SKK	min. 20.00	56.48	53.33

Operational Risk

In 2002, the operational risk management in ČSOB continued with the implementation of the minimum standards of control policies complying with international best practice, and with the commencement of work on the establishment of a uniform system for keeping records of operational risk-related events within the framework of the KBC Group.

Due to changed competencies, within the Bank the role of the standards' implementation coordinator has passed from the Internal Audit department to the Risk Management department. The implementation process has started in four pilot units in 2002. This process comprises self-assessment, development of action plans for removing identified deficiencies and their implementation in evaluated units.

Within the framework of the ČSOB Group, subsidiaries of the Bank have been familiarised with the content, substance and goals of these standards and with the prepared implementation in individual subsidiaries. In each subsidiary company, contact persons have been appointed for the area of operational risk and for the implementation of the standards which will take place after they are implemented within the Bank.

The first step to be taken in the area of operational risk management according to new requirements for capital adequacy following the rules of the Basel Committee on Banking Supervision (the New Basel Capital Accord – NBCA rules) is the establishment of a uniform system for keeping records of operational risk-related events. These records are the back test of the reliability of the operational risk mitigation structure.

Within the framework of the KBC Group, a survey has been conducted, mapping the state of management of operational risk in individual Central European subsidiaries. To manage operational risk, a standardised approach has been selected. Basic principles of keeping records of operational risk-related losses have been stipulated and will be further developed in 2003.

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 section, which is an expert unit established for investigation of external and internal frauds, for co-operation with bodies responsible for penal proceedings and for fraud prevention, and of the Suspicious Transactions and Financial Ethics section 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.

During the year 2002, the compliance function, including respective reporting activity, was also implemented in subsidiaries belonging to the ČSOB Group.

Main goals of the compliance area for the year 2003 are, in particular:

- enlargement of the scope of the Compliance unit's activities as required by the Czech Securities Commission's decree No. 466/2002 Coll. to include activities of the bank as a securities dealer;
- establishment of the Compliance Committee within the ČSOB Group and of the Anti-Money Laundering Committee.

Chief Economist's Report

The Czech Economy in 2002

The Czech economy performed quite well during 2002. In spite of the adverse influence of the external environment, to which small and open economies are very sensitive, GDP growth remained at the 2% level, which is not a bad result. In December 2002, the Czech Republic received an invitation to join the European Union (EU) in May 2004.

When referring to adverse external factors, the negative impact of the global economic malaise that hit the Czech economy via its manifold and intensive relationships with the EU should be mentioned first. Decelerating growth, along with implied weakened confidence in the future prosperity inevitably dampened demand of major trading partners for Czech exports and reduced investors' appetite to place foreign direct investment in the Czech Republic. Under such circumstances, a considerable narrowing of the trade deficit compared to 2001, sustained inflow of FDIs and average annual industrial growth as high as +4.8% represent respectable achievements.

Against 2001, though, Czech GDP growth slowed. Fortunately, despite the deceleration, the cabinet did not embark upon a populist policy of irresponsible pre-election spending that would have boosted aggregate demand in the short run at the cost of deeper macroeconomic disequilibria. Even without a pre-election easing of fiscal discipline, the development of public budgets constitutes the most serious problem facing Czech economic policy-makers in the medium and long terms. The current system of non-discretionary budget expenditures (namely the pension component) is setting the stage for a rapid rise of public indebtedness in the future and budget deficits incompatible with EU membership.

In a situation when Czech exporters had to cope with weakened foreign demand as well as a strong local currency and when investment activity in the country was burdened by an unclear perspective regarding economic recovery, household demand assumed the role of the growth engine of the economy. Fast growing real wages, easier access to consumer loans and a still relatively low unemployment rate (about half of that reported in Poland or Slovakia) spurred buying activities. Rapidly falling deposit interest rates provided yet another reason for switching from saving to spending.

Declining inflation opened the door for interest rates cuts in the Czech economy. Annual CPI inflation slid in the course of the year 2002 down to the November record of a mere +0.5%. At the end of 2002, inflation was substantially below the lower limit of the Czech National Bank's (CNB) target interval. Among the reasons for the surprisingly fast drop in inflation, the strong crown played a prominent role. Owing to the firm currency, import prices fell 8% year-on-year on average in 2002, which meant that the Czech Republic de facto imported deflation. In addition, producer prices in agriculture shrank by 7% on average compared to their level a year before and for most of 2002, the economy benefited from lower oil and natural gas prices. Finally, yet importantly, price deregulation or tax changes did not push inflation up significantly in 2002.

Falling inflation and the lack of identifiable inflationary pressures in the near future were prominent arguments for the CNB to cut its key 2-week repo rate four times during 2002, from 4.75% to 2.75% in December. However, there were also other reasons for the sharp reduction in Czech interest rates, which hovered even below the corresponding rates in the eurozone for several months. Exporters, who had been loudly voicing their discontent with the rapidly strengthening crown in the first half of 2002, welcomed softening of monetary conditions. In addition, falling interest rates automatically acted against the strong local currency, because investments into crown-denominated bonds and bills lost a great deal of attractiveness after their yields had dropped below those of euro-denominated counterparts. Finally, decreasing interest rates also had a positive impact on the costs related to monetary sterilization, holding of official FX reserves and the public debt service.

Macroeconomic indicators of the Czech Republic 1998-2002

Indicator	Measurement Unit	1998	1999	2000	2001	2002
GDP	%, y/y	-1.0	0.5	3.3	3.1	2.0
Industrial output	%, y/y	1.9	-3.1	5.4	6.5	4.8
Construction output	%, y/y	-7.0	-6.5	5.3	9.6	2.5
Inflation rate (CPI)	average, %	10.7	2.1	3.9	4.7	1.8
Unemployment rate	at year-end, %	7.5	9.4	8.8	8.9	9.8
Current account	% of GDP	-2.2	-2.7	-5.3	-5.7	-5.3
Foreign direct investment	% of GDP	6.3	11.3	9.6	9.6	11.8
Official FX reserves	months of imports	4	5	4	4	6
Gross foreign indebtedness	% of GDP	39.5	43.2	41.2	37.3	34.8
Public budgets balance	% of GDP	-2.9	-3.4	-4.6	-5.3	-7.3
Money supply (M2)	at year-end, %, y/y	5.4	7.7	5.6	13.0	3.2
Interest rates on credits	average, %	12.9	8.7	7.2	7.0	6.2
Interest rates on deposits	average, %	8.1	4.5	3.4	3.0	2.2
CZK/EUR	average	-	36.88	35.61	34.08	30.81
CZK/USD	average	32.27	34.60	38.59	38.04	32.74

Source: CNB, CSU, MF CR, International Institute of Finance

While falling inflation created room for interest rate cuts by the CNB, the unsustainably fast crown strengthening in the first half of 2002 compellingly called for them. The excessive speed of CZK appreciation (the crown gained more than 12% year-on-year against the euro in July 2002) exposed Czech economy to the threat of a rapidly widening current account deficit with the attendant exchange rate turbulence. In the second half of 2002, the struggle of the CNB against the strengthening currency was successful, also because the central bank found influential allies in its effort: the growing foreign worries concerning the health of Czech public finances, the demonstrated fragility of the new governing coalition, the temporary uncertainty brought about by extensive flood damage, but also attractive competing investment opportunities in Poland, Slovakia and Hungary.

The Slovak Economy in 2002

The Slovak economy developed successfully in 2002. The annual GDP growth rate was close to 4% in all four quarters and showed a slightly accelerating trend in the course of the year. Household demand played the role of the main growth engine, followed by government demand and net exports.

The September parliamentary elections ranked among the top political and economic events of the last year in Slovakia. After the elections, a majority right wing coalition government was formed that prepared an ambitious and comprehensive reform program for the Slovak economy and soon obtained a good international reputation. An invitation of the country to join NATO, a rapid strengthening of local currency, an interest rate cut by the National Bank of Slovakia (NBS) and a rating upgrade from speculative to investment grade, were among the first fruits of the promising resolution of the election puzzle. The positive political development spurred the so-far feeble interest of foreign direct investors in Slovakia and that interest is expected to rise further after the country received an invitation to join the EU in the first wave of enlargement.

The combination of a credible government program focused on reaching macroeconomic equilibrium with relatively high nominal interest rates led to a rapid currency appreciation in late 2002. The NBS opposed this development vigorously. Verbal and real FX interventions coupled with a surprising one-off cut in the bank’s key rate by 150 basis points to 6.50% were successful and helped to stop the excessive strengthening of the Slovak crown. The potential negative impact of a significant interest rate cut under pronounced external (but also internal) disequilibria has been dampened by an extensive hike of administratively regulated prices, which are an integral part of the Slovak government program and which help to drain excess liquidity from the private sector.

The successful braking of currency appreciation was rather important for Slovakia due to the deep external imbalance in its economy. The current account deficit surpassed 9% of GDP in the second quarter of 2002 but the gap was well above the safe 5% limit also for the full-year of 2002.

Similarly to the Czech Republic, Slovakia did not experience strong inflationary pressures in 2002. The combination of strong local currencies with the underutilization of production capacities as well as low food and energy prices pushed annual consumer price growth down dramatically. We can predict that due mainly to administrative price movements in 2003, the annual inflation rate in Slovakia will more than double compared to the previous year. However, the one-off character of the price acceleration should be a sufficient reason for the central bank not to respond with monetary policy tightening.

Besides the current account and public finance deficits, unemployment has remained a sensitive political and economic issue in Slovakia. The average Slovak unemployment rate is almost twice as high as that measured in the Czech Republic or in the EU and the burden can be only partly lightened by pointing to large regional differences or the presence of a “gray” economy.

Macroeconomic indicators of the Slovak Republic 1998-2002

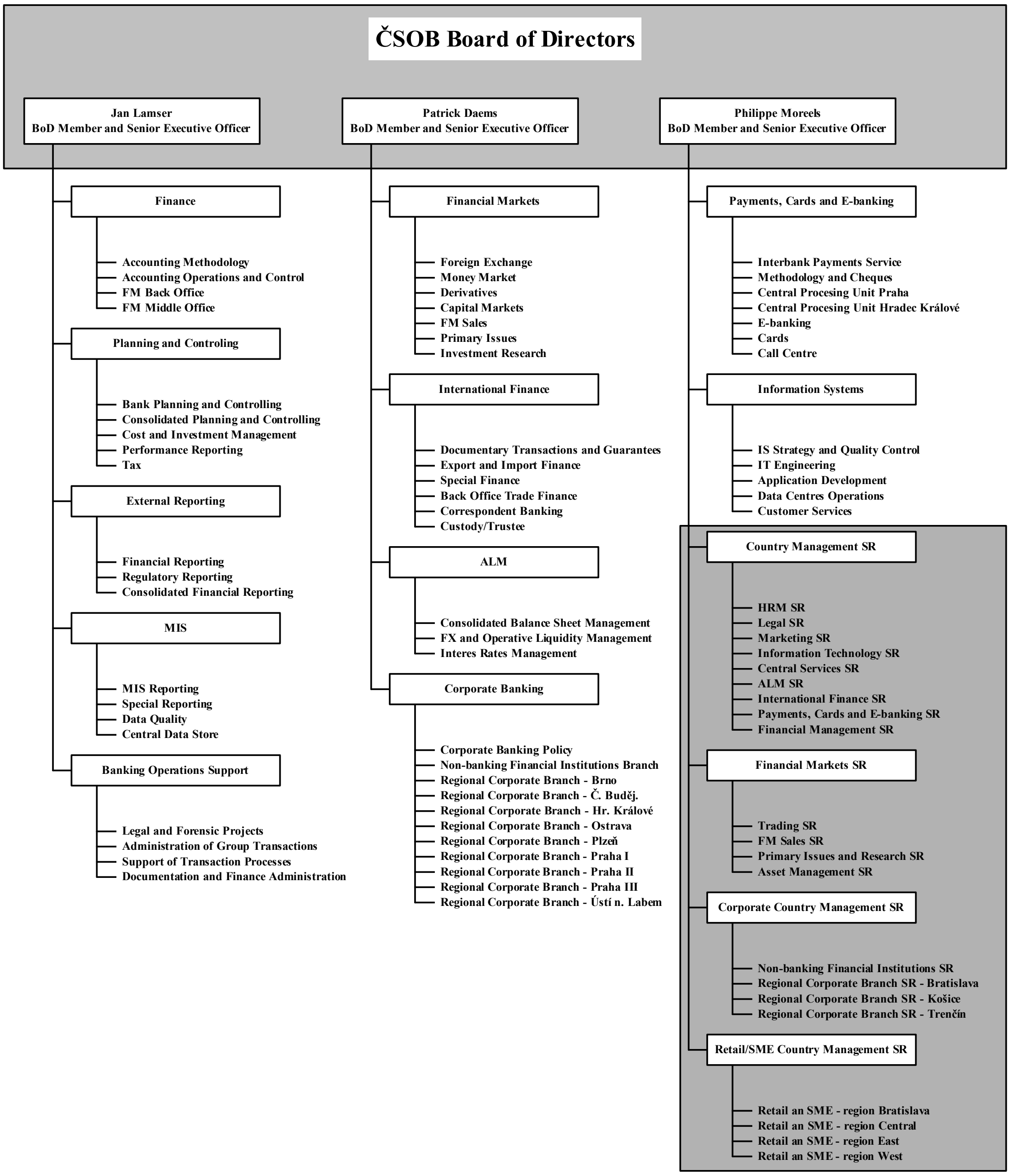
Indicator	Measurement Unit	1998	1999	2000	2001	2002
GDP	%, y/y	4.0	1.3	2.2	3.3	4.4
Industrial output	%, y/y	5.0	-2.6	8.6	6.8	6.6
Construction output	%, y/y	-3.5	-25.8	-0.4	0.8	4.1
Inflation rate	average, %	6.7	10.6	12.0	7.1	3.3
Unemployment rate	at year-end, %	15.6	19.2	17.9	18.6	17.5
Current account	% of GDP	-9.0	-4.9	-3.6	-8.6	-8.2
Foreign direct investment	% of GDP	2.4	3.8	9.7	7.1	16.9
Official FX reserves	months of imports	2	3	3	3	5
Gross foreign indebtedness	% of GDP	56.7	53.2	56.3	54.1	48.7
Public budgets balance	% of GDP	-5.1	-3.5	-12.5	-5.4	-7.0
Money supply (M2)	at year-end, %, y/y	4.2	11.4	15.4	11.8	3.5
Interest rates on credits	average, %	16.7	15.6	11.7	10.2	9.4
Interest rates on deposits	average, %	10.2	10.5	7.2	5.2	4.6
SKK/EUR	average	-	44.12	42.59	43.31	42.70
SKK/USD	average	35.24	41.42	46.20	48.35	45.36

Source: NBS, SUSR, MF SR, International Institute of Finance

Organisation Chart of ČSOB

ČSOB Board of Directors

- **Pavel Kavánek**, Chairman ot the BoD and Chief Executive Officer
  - Communication and Investor Relations
  - Internal Audit
    - Audit of Financial Markets
    - Audit of Risk Management
    - Audit of Asset Management
    - Audit of Credits
    - Audit of Client Relationship and Account Maintenance
    - Audit of Payments
    - Audit of Accounting and Reporting
    - Audit of Supporting Processes
    - Planning, Reporting and Audit Support and Co-ordination
    - Audit of IS
    - Inspecion
    - Internal Audit SR
  - Corporate Office
  - Risk Management
    - Market Risk Management
    - Structural Risk Management
  - Compliance
    - Special Investigations
    - Suspicious Transactions and Financial Ethics
  - Strategy and Organisation
    - Process and Project Co-ordinaction
    - Management Consulting
    - Management of Organisation Systems
  - HRM
    - Budgeting and Compensation
    - HR Recruitment, Appraisal and Career Develop.
    - HR Administration
    - Training and Education
- **Carl Rossey**, BoD Member and Senior Executive Officer
  - Business Development
    - Retail/SME Planning and Controlling
    - Market Research
  - Retail/SME Segments Management and Marketing Support
    - Physical Persons Segment Management
    - SME Segment Management
    - Marketing and Communication Services
    - Bancassurance
  - Retail/SME Distribution
    - Retail/SME Sales Support
    - Retail/SME Operational Support
    - Retail and SME - region Brno
    - Retail and SME - region České Buděj.
    - Retail and SME - region Hradec Králové
    - Retail and SME - region Ostrava
    - Retail and SME - region Plzeň
    - Retail and SME - region Praha I
    - Retail and SME - region Praha II
    - Retail and SME - region Ústí nad Labem
  - Postal Savings Bank
    - Account Administration and Document Processing
    - Active Sales
    - Co-operation with Czech Post
    - PSB Network Management
    - PSB Branches
  - Private Banking
    - Distribution and Private Banking Segment Management
    - Regional Private Banking Branch - Brno
    - Regional Private Banking Branch - Č. Buděj.
    - Regional Private Banking Branch - Hr. 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
- **Petr Knapp**, BoD Member and Senior Executive Officer
  - Credits and Bad Debts
    - Credit Risk Management
    - Retail and Standard SME Credits
    - Bad Debts
    - Credit Administration Unit
  - Central Services
    - Services Development and Integration
    - Operation Services for Headquaters
    - Regional Services Distribution
    - Services Economics
    - Investment
    - Security and Safety
  - Central Procurement and Sales
  - Legal
    - Central Services and Legal Compliance
    - Credits and Deposits
    - Internat. Banking, Capital Markets and Corp. Banking
    - Corporate Law
  - Administration of Ceded Receivables in CR


ČSOB Board of Directors
Jan Lamser
BoD Member and Senior Executive Officer
Patrick Daems
BoD Member and Senior Executive Officer
Philippe Moreels
BoD Member and Senior Executive Officer
Finance
Accounting Methodology
Accounting Operations and Control
FM Back Office
FM Middle Office
Planning and Controling
Bank Planning and Controlling
Consolidated Planning and Controlling
Cost and Investment Management
Performance Reporting
Tax
External Reporting
Financial Reporting
Regulatory Reporting
Consolidated Financial Reporting
MIS
MIS Reporting
Special Reporting
Data Quality
Central Data Store
Banking Operations Support
Legal and Forensic Projects
Administration of Group Transactions
Support of Transaction Processes
Documentation and Finance Administration
Financial Markets
Foreign Exchange
Money Market
Derivatives
Capital Markets
FM Sales
Primary Issues
Investment Research
International Finance
Documentary Transactions and Guarantees
Export and Import Finance
Special Finance
Back Office Trade Finance
Correspondent Banking
Custody/Trustee
ALM
Consolidated Balance Sheet Management
FX and Operative Liquidity Management
Interes Rates Management
Corporate Banking
Corporate Banking Policy
Non-banking Financial Institutions Branch
Regional Corporate Branch - Brno
Regional Corporate Branch - Č. Buděj.
Regional Corporate Branch - Hr. 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 n. Labem
Payments, Cards and E-banking
Interbank Payments Service
Methodology and Cheques
Central Procesing Unit Praha
Central Procesing Unit Hradec Králové
E-banking
Cards
Call Centre
Information Systems
IS Strategy and Quality Control
IT Engineering
Application Development
Data Centres Operations
Customer Services
Country Management SR
HRM SR
Legal SR
Marketing SR
Information Technology SR
Central Services SR
ALM SR
International Finance SR
Payments, Cards and E-banking SR
Financial Management 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
Retail an SME - region Bratislava
Retail an SME - region Central
Retail an SME - region East
Retail an SME - region West

Českomoravská hypoteční banka, a.s. (ČMHB)

Date of establishment January 10, 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) 664,187

Shareholders as of December 31, 2002

62.70%	Československá obchodní banka, a. s.
9.43%	Coutts Bank, AG
8.49%	Finismur, B.V.
8.49%	Maitland Holdings, B.V.
8.46%	C.D.E. Investments, B.V.
2.43%	Other shareholders

	2002	**2001**	**2000**
Number of newly concluded contracts	6,184	3,180	3,257
Mortgage loans newly approved (CZK million)	6,493	3,279	3,581
Mortgage loans newly drawn down (CZK million)	4,076	1,882	2,825
Mortgage bonds issued (CZK million)	3,000	2,500	3,500
Market share in the CR (%) (in terms of transactions)	22	23	26

ČMHB is the first specialised mortgage bank in the Czech Republic. It focuses on providing financial resources for real estate via mortgage loans and comprehensive services in this field. Strategic segments are private individuals, municipalities and housing co-operatives.

There are nine licensed mortgage banks operating in the Czech mortgage market. Contrary to dramatically growing competition ČMHB continues to rank first in terms of mortgage loans to private individuals. In addition to standard mortgage loans, combined products, particularly those with capital life assurance, where the principal is repaid by income from insurance either gradually or at once, are becoming very popular.

In 2002, ČMHB launched the PROGRES Mortgage Loan and Mortgage Loan 100, which is the bank's reaction to client needs with respect to the adjustment of terms and conditions for providing loans. This product significantly broadened the bank´s portfolio.

In 2003, ČMHB intends to simplify procedures, make use of alternative distribution channels and provide for the better availability of ČMHB mortgage products, in particular by direct sales of mortgages in the ČSOB sales network.

Registered office: Budějovická 409/1, 140 00 Prague 4, Czech Republic
Contact: Telephone: +420 261 122 646
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E-mail: info@cmhb.cz
Internet: www.cmhb.cz

Českomoravská stavební spořitelna, a.s. (ČMSS)

Date of establishment August 27, 1993

Share capital (CZK 000) 1,500,000

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.

Shareholders as of December 31, 2002

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

	2002	**2001**	**2000**
Number of valid contracts	1,890,555	1,652,561	1,328,011
Number of new contracts	560,490	557,588	437,851
Number of loans and bridging loans provided	53,363	41,898	44,311
Number of valid loans and bridging loans provided	256,679	217,232	185,550
Market share in the CR (in%) (by new contracted amount)	34.4	36.7	35.7

ČMSS is the largest construction savings bank in the Czech market and during 3 years the second largest construction savings bank in Europe. Construction savings product is the most frequently used instrument to finance the housing needs of Czech citizens. The ČMSS's strategic goal is to provide the clients with accessible and highly professional consultant services and free access to its offering and general information in the field of construction savings and housing.

In 2002, ČMSS introduced a new INVEST rate which first of all is characterised by lower required saved amounts (40% of the target amount to be deposited) and a lower interest rate on construction loans (4.8% p.a.). Another development is the TOPKREDIT bridging loan charged by 5.7% interest rate p.a., which became number one of the product portfolio.

The significant growth both in the number and amount of loans and bridging loans provided in 2002 confirms that ČMSS gained clients' confidence thanks to its offerings, client approach and professional consultant services. This was probably the reason for which ČMSS was the winner of the first year of the prestigious bank competition "Construction Savings Bank of 2002".

In 2003, ČMSS will continue to focus its business policy on loans and bridging loans. We expect a significant growth both in loans provided after the construction savings cycle and bridging loans, which will provide for an increase in financial amounts invested in housing in this manner.

Registered office: Vinohradská 169/3218, 100 17 Prague 10, Czech Republic
Contact: Telephone: +420 225 221 111
Fax: +420 225 225 999
E-mail: info@cmss.cz
Internet: www.cmss.cz

ČSOB stavebná sporiteľňa, a.s.

Date of establishment November 11, 2000

Share capital (SKK 000) 720,000

Business activities

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

Shareholders as of December 31, 2002

100% Československá obchodní banka, a. s.

	2002	**2001**	**2000**
Number of valid contracts	118,277	83,883	25,729
Number of new contracts	48,493	61,988	25,729
Number of loans and bridging loans provided (cumulative as of December 31)	2,961	824	0
Number of loans and bridging loans provided (in the year given)	2,137	824	0
Market share in the SR (in %) (by contracted amount)	12.6	15.1	7.5

ČSOB Stavebná sporiteľňa entered the Slovak construction savings market in December 2000. It was successful on the market facing the competition of two rival construction savings banks as the next year it acquired a 15% market share in terms of the number of contracts.

In 2002, ČSOB Stavebná sporiteľňa's number of clients exceeded 100,000 which was the result of a 41% year-on-year growth. The long-term business strategy is the focus on the acquisition of new clients and efforts to keep them satisfied. This is achieved thanks to the ever improving quality of consultants and the certification system which provides for the improvement of their qualifications.

In 2002, ČSOB Stavebná sporiteľňa launched two products: *Profit Kľúčik* intended for children and *Benefit* with an interest rate of 2.9% p.a. which is the lowest interest on loans in the market. At the same time it is the sole construction savings bank to provide electronic banking services. As for internet communication, it continues to hold the leading position in the construction savings market.

In 2003, ČSOB Stavebná sporiteľňa plans to make 50,000 contracts of SKK 9 billion and provide loans of SKK 400 million and bridging loans of SKK 800 million. It will also complete the sales network. With regard to the fact that the Slovak market will have to overcome the reduced state contribution which decreased to 20% (max. SKK 3,000) and the expected stronger competition of mortgage banks and construction savings banks, 2003 will be for ČSOB Stavebná sporiteľňa a demanding year both in terms of business and financial matters.

Registered office: Radlinského 10, 813 23 Bratislava, Slovak Republic

Contact: Telephone: +421 2 5988 7111
Fax: +421 2 5988 7210
E-mail: csobsp@csobsp.sk
Internet: www.csobsp.sk

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

Date of establishment December 31, 1995

Share capital (CZK 000) 34 000

Business activities

Services of stock broker within the authorization pursuant to the specific law.

Shareholders as of December 31, 2002

79.42% Patria Finance, a.s.

20.58% Československá obchodní banka, a.s.

	2002	2001	2000
Assets under management (CZK bn)	32.8	20.1	17.9

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 December 31, 2002 was nearly CZK 33 billion which makes up about a 25% share in the Czech market. The clients are insurance companies, pension funds, state funds, municipalities, commercial, manufacturing and energy companies, trade union organisations, foundations and other non-profit organisations as well as private individuals. As for the acquisition of, and services to clients, ČSOB Asset Management co-operates with ČSOB branches and front-office workers' departments. The same applies to the newly established segment of private banking intended for selected private individuals (VIP clients). Also some members of the ČSOB Group are the clients of ČSOB Asset Management, for example ČSOB Pojišťovna, Českomoravský penzijní fond and ČSOB Penzijní fond. 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 2002, ČSOB Asset Management made a net profit of CZK 22 million while total revenues amounted to CZK 99.6 million.

In 2003, 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 via consolidation of the asset management of pension funds, technical reserves and potentially other activities of the Group(s). In the plan for 2003, the company expects to increase the amount of assets under management to CZK 35 billion.

Registered office: Perlová 371/5, 110 00 Prague 1, Czech Republic

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Fax: +420 222 045 665

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Internet: www.csob.cz//csobam

ČSOB Investiční společnost, a.s., member of the ČSOB Group (ČSOB IS)

(In the first quarter of 2003 the name of the business company was changed from OB Invest, investiční společnost, a.s.)

Date of establishment	July 3, 1998 (by transformation from O.B.INVEST, investiční společnost, spol. s r.o.)	***Share capital (CZK 000)***	25,000

Business activities

Collective investment.

Shareholders as of December 31, 2002

100% ČSOB Asset Management, a.s., member of the ČSOB Group

	2002	2001	2000
Assets under management (CZK bn)	8.8	3.9	2.6

The main event for ČSOB IS in 2002 was the integration of the ČSOB activities in the field of asset management, which provided for ČSOB IS becoming a 100% subsidiary of ČSOB Asset Management, a.s., member of the ČSOB Group. This event resulted in a number of changes in the company focused on further improvement of its products, open-ended mutual funds. In 2002, two new mutual funds were established: ČSOB institucionální Euro peněžní and ČSOB nadační. The first one is intended for investments in EUR, the second reacts to specific needs of the foundation sector. Another important event was the transformation of investment privatisation fund Zlatý investiční fond Kvanto a.s. to mutual fund OB KVANTO Kombinovaný.

At the end of 2002, ČSOB IS managed 9 open-ended mutual funds and one investment fund of the total value exceeding CZK 8.8 billion, which is double the amount in 2001. As for the sales of participation shares, ČSOB IS co-operates with the ČSOB branch network and front-office departments.

In 2002, the company made a profit of CZK 12.9 million.

In 2003, ČSOB IS assumes the transfer of the remaining investment fund KVANTO, investiční privatizační fond a.s. At the same time, the process of integration of investment companies of the parent bank to one investment company within ČSOB Asset Management shall be completed.

Funds managed by ČSOB Investiční společnost , a.s., member of the ČSOB Group as of December 31,2002:

Investment funds:

- KVANTO, investiční privatizační fond a.s.

Open ended funds:

- ČSOB světový akciový, OB Invest, investiční společnost, a.s., otevřený podílový fond
- ČSOB český dluhopisový, OB Invest, investiční společnost, a.s., otevřený podílový fond
- ČSOB český peněžní trh, OB Invest, investiční společnost, a.s., otevřený podílový fond
- ČSOB evropský akciový, OB Invest, investiční společnost, a.s., otevřený podílový fond
- ČSOB smíšený, OB Invest, investiční společnost, a.s., otevřený podílový fond
- ČSOB výnosový, OB Invest, investiční společnost, a.s., otevřený podílový fond
- ČSOB nadační, OB Invest, investiční společnost, a.s., otevřený podílový fond
- ČSOB institucionální Euro peněžní, OB Invest, investiční společnost, a.s., otevřený podílový fond
- OB KVANTO Kombinovaný, OB Invest, investiční společnost, a.s., otevřený podílový fond

Registered office:	Perlová 371/5, 110 00 Prague 1, Czech Republic
Contact:	Telephone: +420 222 045 445
	Fax: +420 222 045 665
	E-mail: investice@csob.cz
	Internet: www.csob.cz//csobis

První investiční společnost, a.s. (PIAS)

Date of establishment	December 5, 1990	***Share capital (CZK 000)***	60,000
Business activities		***Shareholders as of December 31, 2002***	
Collective investment.		81.30%	Československá obchodní banka, a.s.
		17.07%	Auxilium, a.s.
		1.63%	Other

	2002	2001	2000
Assets under management (CZK bn)	18.5	17.0	23.8

In 2002, a significant event was the increase in ČSOB Group's shareholder's interest in PIAS to 98.37% (of which ČSOB 81.3%, Auxilium 17.07%). As of December 31, 2002 PIAS managed assets in the total value of CZK 18.5 billion (of which CZK 14.75 billion in open-ended mutual funds and CZK 3.75 in investment funds). In terms of assets under the management the company held a 17% share in the Czech market.

In 2002, Rentiérský investiční fond 1.IN, a.s. was converted to an open-ended mutual fund. In December 2002, the Czech Securities Commission postponed the deadline for transformation of the remaining investment funds by December 31, 2003. The transformation will be completed in 2003 after they have been deleted from the Commercial Registry. In 2002, PIAS increased the number of its funds from the beginning of the year (January 1, 2002) after it had taken over the formerly self-managed fund P.I.F, a.s. - 1. Privatizační investiční fond, which was transformed to 1.IN - PIF, otevřený podílový fond.

Open-ended mutual funds of different investment orientation are sold at ČSOB branches under the common brand 1.IN Families of Funds (Rodiny fondů 1.IN).

In 2002, the best results were those of 1.IN - Dluhopisový fond which disclosed both the largest enhancement of participants' assets and the highest increase in investments in the fund.

The company's financial situation has been stable for a long time. In 2002, the company made profit of CZK 210 million. The management permanently makes efforts to enhance the financial resources effectively and minimize costs.

In 2003, PIAS expects to complete the transformation of all the remaining investment funds. PIAS activities will be gradually integrated in ČSOB Asset Management in order to terminate the steps leading to unified management of the Group activities in the field of client asset management.

Funds managed by PIAS as of December 31, 2002:

Investment funds:

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

Open ended funds:

- 1.IN - Restituční fond
- 1.IN - Výnosový fond
- 1.IN - Dluhopisový fond
- 1.IN - Akciový fond
- 1.IN - Středoevropský fond
- 1.IN - Fond peněžního trhu
- 1.IN - Fond fondů
- 1.IN - Rentiérský fond
- 1.IN - PIF

Registered office:	Bělehradská 478/110, 120 00 Prague 2, Czech Republic
Contact:	Telephone: +420 222 073 111 Fax: +420 222 523 121 E-mail: info@pias.cz Internet: www.pias.cz

Patria Finance, a.s.

Date of establishment May 23, 1994

Business activities

Securities trading.

Share capital (CZK 000) 100,000

Shareholders as of December 31, 2002

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 in Europe, America, Asia and Australia.
- **Patria Finance CF, a.s.**, which provides consultancy services in the field of company finance.
- **ČSOB Asset Management, a.s**., which administers client financial assets exceeding CZK 33 billion. This company is controlled by Patria Finance, a.s. (20%) and Československá obchodní banka, a. s. (80%).

In 2002, Patria Finance terminated a period of significant restructuring whose main objective was to optimise the product portfolio in linkage to other activities of the KBC Group in the Czech Republic and reduction in costs. It applied in particular to the management of financial assets, trading in bonds and management consultancy services (sale of Patria Management a.s.).

Securities transactions were made exclusively on stock markets, while bond transactions were made only for internal needs of the Treasury Department. In terms of trading in shares on the PSE in 2002, Patria Finance, a.s. ranked second as the trades in foreign securities did not achieve the amounts of 2001 due to lower client activities. In 2002, we saw a continued upward trend in the field of client commissions. Total results of the Securities Trading Department were mostly affected by high volatility caused by own account trades. However, income of the Shares Trading Department and the Treasury Department achieved some CZK 100 million, thus exceeding the plan.

The Company Finance Department disclosed one of best results in its history. The Patria team was involved in some thirty transactions, particularly in the field of engineering and paper industries as well as telecommunications and construction. A significant factor was the strengthening of co-operation with the ČSOB Corporate Clients Department, both in the Czech and Slovak Republics.

In 2002, Patria Finance, a.s. strengthened its market position and long-term stable financial position thus making advantageous terms and conditions for further development of its services.

In 2003, the company plans no significant changes in business activities. It will proceed with further integration within the ČSOB Group.

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Contract: Telephone: +420 221 424 111
Fax: +420 221 424 222
E-mail: info@patria.cz
Internet: www.patria.cz

Českomoravský penzijní fond, a.s. (ČMPF)

Date of establishment	October 26, 1994	***Share capital (CZK 000)***	97,167
Business activities		***Shareholders as of December 31, 2002***	
Additional pension insurance with a state contribution.		83.5%	Československá obchodní banka, a.s.
		16.5%	IPB Pojišťovna, a.s.

	2002	2001	2000
Number of contracts	42,529	32,648	79,306
Funds credited on participants' accounts (CZK m)	6,609	5,645.5	4,567.6
of which contributions of participants (CZK m)	5,058	4,295.7	3,446.2
Market value of the investment portfolio (CZK m)	6,798	5,730.6	4,632.6
Enhancement of participants' funds (%)	3.0	3.2	4.2
Market share in the Czech Republic (%) (by number of participants)	11.6	12.2	13.1

ČMPF has been operating on the additional 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.

ČMPF provides additional 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 additional 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. ČMPF makes agreements for, and distributes all kinds of pensions and other benefits which a pension fund may provide.

Participants to the additional pension insurance scheme are invited to use specific programmes. The Optimum Effect Programme enables them to enjoy maximum tax relief and state contributions without having to do any unwelcome paper work. The First Company Additional Pension Insurance Plus (5P) is intended for the employers providing for free industrial accidental insurance of employees. ČMPF provides its participants with above-standard advantages, for example insurance policies for households, family houses and recreational buildings at discounted premiums with ČSOB Pojišťovna, establishment of Post Giro Accounts at the Postal Savings Bank and ČSOB consumer loans under advantageous terms and conditions and EURO cards free of charge to young people below 26 ("EURO<26").

In 2002, ČMPF continued to develop co-operation with traditional business partners. The number of new contracts rose in comparison to 2001 by more than 28% to some 42,000. The largest growth was seen in the ČSOB sales network ČSOB (187%), PVT (105%) and Česká pošta (50%). The average age of new participants to the additional pension insurance scheme was 51 years while the average monthly contribution is CZK 494. During 2002, ČMPF started to co-operate with other employers thus the number of employers making contributions to the additional pension insurance exceeded 1,800. There are 22% of participants who are "supported" by their employers. In 2002, ČSOB Asset Management, a.s. became the sole external administrator of the ČMPF portfolio.

In 2003, ČMPF plans to acquire at least 50,000 new participants, maintain the 4th position on the market in terms both of the number of participants and the amount of deposited amounts and enlarge the list of benefits for clients, in particular in co-operation with ČSOB.

Registered office: Vinohradská 167/3217, 100 00 Prague 10, Czech Republic

Contact: Telephone: +420 283 080 111
Fax: +420 283 080 333
E-mail: cmpf@cmpf.cz
Internet: www.cmpf.cz

ČSOB Penzijní fond, a.s. (ČSOB PF)

Date of establishment February 14, 1995

Business activities

Additional pension insurance with a state contribution.

Share capital (CZK 000) 50,000

Shareholders as of December 31, 2002

100% Československá obchodní banka, a. s.

	2002	2001	2000
Number of contracts	3,827	2,336	2,047
Funds credited on participants' accounts (CZK m)	206.2	125.6	87.5
of which contributions of participants (CZK m)	195.0	116.5	80.4
Market value of the investment portfolio (CZK m)	238.4	159.2	134.0
Enhancement of participants' funds (%)	4.26	3.7	5.6
Market share in the Czech Republic (%) (by number of participants)	0.54	0.4	0.4

ČSOB Penzijní fond (hereinafter referred to as ČSOB PF) is a dynamic company established in 1994 under the name of Penzijní fond spokojenosti. On May 19, 2000, Československá obchodní banka, a. s. acquired 100% ownership interest and the product was launched in the networks of ČSOB and ČSOB Pojišťovna. Thus the number of commercial outlets increased and the availability of the product improved. Today, the product is sold at ČSOB branches and in the network of external agents. The ČSOB PF Pension Plan includes any kinds of benefits stipulated in the Additional Pension Insurance Law including retirement pension if agreed upon.

2002 was the most successful year in the existence of ČSOB PF: 3,827 new contracts were concluded of which 2,277 via ČSOB branches and the number of participants rose by 29.1%. This confirms that the public has confidence in this pension fund. We saw a high dynamic growth in both in assets and funds credited on participants' accounts.

The competitiveness of the product is supported by a large programme of above-standard benefits for the participants, which includes free accident insurance in case of permanent disability or death due to accident, premium reduced by 10% in return for "RODINA" insurance policy concluded at ČSOB Pojišťovna, 6 months fee holiday for those who pay contributions via a PSB post giro account and a reduced fee for the establishment of a ČSOB consumer loan. The participants are invited to use the "KOMFORT" programme providing for optimisation of the state contribution and tax advantages.

According to the Business and Financial Plan for 2003, ČSOB Penzijní fond will experience further growth. Our objective is to increase both the number of participants and the amount of administered assets and thus the market share, and concurrently extend distribution channels.

Registered office:	Na Příkopě 14, 100 00 Prague 1, Czech Republic
Contact address and administration:	Brigádnická 124, 538 43 Třemošnice, Czech Republic
Contact:	Telephone: +420 469 661 432
	Fax: +420 469 661 919
	Internet: www.csobpf.cz

IPB Pojišťovna, a.s. (since January 6, 2003 ČSOB Pojišťovna, a.s., member of the ČSOB holding)

Date of establishment April 17, 1992

Share capital (CZK 000) 920,000

Business activities

Insurance of private individuals and business entities in the field of life and non-life insurance.

Shareholders as of December 31, 2002ˣ)

100% Československá obchodní banka, a. s.

ˣ) In April 2003 the following change occurred in the shareholder structure of the new ČSOB Pojišťovna, a.s., member of the ČSOB holding:

75% KBC Insurance N.V.

25% Československá obchodní banka, a. s.

	2002	2001	2000
Number of closed contracts	244,344	241,069	304,961
Volume of prescribed premiums (CZK m)	5,525	5,507	6,153
Volume of benefits paid out (CZK m)	3,578	3,318	3,206
Number of insurance events settled	142,302	145,425	121,080
*Share of the insurance market (in %) *)*	6.17	7.00	9.00

*) Preliminary results in terms of volume of prescribed premiums

IPB Pojišťovna is a renowned full-service insurance company providing private individuals and legal entities with a wide range of products both in the field of life and non-life insurance. As of December 31, 2002, it ranked fifth in terms of volume of prescribed premiums and fourth in life-insurance according to preliminary results on insurance market.

2002 was characterised by intensive preparation for the merger of IPB Pojišťovna and ČSOB Pojišťovna. Supported by foreign know-how of the ČSOB shareholder, long-term projects to stabilise business activities of both insurance companies were implemented.

Business services started to be transformed and personnel audit was executed in order to terminate contractual relationships with non-effective sales people and develop the external exclusive network. The basic project “PAE” (insurance agent exclusive) for the new ČSOB Pojišťovna was prepared and operation was started on October 1, 2002.

As of January 1, 2003 distribution networks merged and insurance classes were transferred from ČSOB Pojišťovna to IPB Pojišťovna. Since January 6, 2003 a new company has been operating in the insurance market, ČSOB Pojišťovna, a.s., member of the ČSOB holding, which was established from the merger of IPB Pojišťovna and ČSOB Pojišťovna.

By merger of the above-mentioned insurance companies the following objectives will be achieved:

- Maintenance of the existing level of business of both insurance companies and the existing client portfolio;
- Establishment of an insurance company with a strong position in the market and a good perspective of further growth;
- Providing for the basis for the growth in profit and effectiveness;
- Discovery of new market opportunities;
- Use of the Belgian shareholder’s know-how and resources of both companies as much as possible.

On June 30, 2003 the category of sales-employees will be cancelled while the sales will be made exclusively by “external exclusive agents”.

Registered office: Zelené předměstí, Masarykovo nám. 1458, 532 18 Pardubice, Czech Republic

Contact: Telephone: +420 466 022 111

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Internet: www.csobpoj.cz

ČSOB Pojišťovna, a.s. (since January 1, 2003 Pardubická Pojišťovna, a.s.)

Date of establishment March 13, 1995

Business activities

Insurance in the field of life and non-life insurance

Share capital (CZK 000) 400,004

Shareholders as of December 31, 2002

100% KBC Insurance N.V.

	2002	**2001**	**2000**
Number of newly closed contracts	41,518	37,241	36,418
Volume of prescribed premium (CZK m)	647	455	290
Volume of benefits paid out (CZK m)	581	224	144
Share of the insurance market (%)	0.72	0.57	0.42

In 2002, ČSOB Pojišťovna continued to be among significant full-service insurance companies in the Czech insurance market. It provided its clients with the following basic products:

- Life and accident insurance;
- Property and liability insurance (private individuals);
- Property and liability insurance (entrepreneurs and organisations);
- Motor vehicle accident insurance;
- Third party motor vehicle insurance;
- Agricultural risk insurance.

2002 was a historical milestone in ČSOB Pojišťovna insurance activities on insurance market. The plan of the KBC Group to unify two insurance companies existing in the ČSOB Group started to be executed. In the second half of 2002 we saw intensive preparation for merger of ČSOB Pojišťovna and IPB Pojišťovna in order to establish one strong insurance company as a member of the ČSOB Group and the KBC Group as well by January 1, 2003 at the latest. The new entity started to operate on the insurance market under the name of ČSOB Pojišťovna, a.s., member of the ČSOB holding.

By merger of ČSOB Pojišťovna and IPB Pojišťovna the following objectives will be achieved:

- Maintenance of the existing level of business of both insurance companies and the existing client portfolio;
- Establishment of an insurance company with a strong position in the market and good perspective of further growth;
- Providing for the basis for the growth in profit and effectiveness;
- Discovery of new market opportunities;
- Use of the Belgian shareholder’s know-how and resources of both companies as much as possible.

After the sale of the business on January 1, 2003 ČSOB Pojišťovna, a. s. changed its name to Pardubická Pojišťovna, a. s. and the MF ČR withdrew its licence for insurance activities. The company will change its business activities and continue to operate within the ČSOB Financial Group.

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O.B. HELLER a.s.

Date of establishment July 16, 1992

Business activities

Factoring.

Share capital (CZK 000) 35,400

Shareholders as of December 31, 2002

50% Československá obchodní banka, a. s.

50% NMB-Heller Holding NV, Netherland

		2002	2001	2000
Debt turnover (in CZK bn)	***total***	14.5	16.7	12.6
	factoring	13.35	11.68	10.3

O.B. HELLER is a factoring company, which was established in 1992. From the very beginning it has specialised in providing operating capital in the form of funding the customers via the assignment of receivables. In comparison to the preceeding year, the turnover rose by more than 14%.

The principle of co-operation with clients is to finance receivables which is gradually extended by financing of inventory, orders, letter of credits, acquisition of fixed assets and last but not least also financing of acquisitions and MBO.

In 2002, the company moved to a new administrative building whose premises provide for more comfort of employees and reasonable background for negotiations with clients. In terms of total turnover the company achieved a 28% market share, so that it ranks second. In terms of domestic factoring the market share was 30%, which gives for the leading position to the company.

The subsidiary OB HELLER Factoring a.s. with its registered office in Bratislava disclosed a turnover of SKK 5.4 billion as of December 31, 2002, thus holding an estimated 40% market share.

In 2003, O.B.Heller plans to make a turnover from factoring of CZK 15 billion.

Registered office: Benešovská 40, 101 00 Prague 10 – Vinohrady, Czech Republic

Contact: Telephone: +420 267 184 811

Fax: +420 267 184 822

E-mail: obheller@obheller.cz

Internet: www.obheller.cz

ČSOB Leasing, a.s.

Date of establishment October 31, 1995

Share capital (CZK 000) 600,000

Business activities

Financial services (financial and operational leasing, hire-purchase).

Shareholders as of December 31, 2002

100% Československá obchodní banka, a. s.

	2002	2001	2000
Volume of new leasing transactions in the Czech Republic (CZK bn)	14.3	15.3	12.1
Number of contracts in the Czech Republic	22,338	23,412	20,868
Market share in the Czech Republic (%) (by volume of transactions)	12.23	14.6	13.5

ČSOB Leasing, a.s., is a universal leasing company. It ranks first in the Czech leasing market in terms of the volume of new transactions (in leasing and hire-purchase).

ČSOB Leasing provides financial leasing in CZK, EUR and USD, operational leasing, including full-service and hire-purchase. The customers are private individuals, small entrepreneurs, business entities and both corporate and state and non-profit organisations. ČSOB Leasing, a.s., also provides subsequent services, for example insurance, financial and tax consultancy services under advantageous terms and conditions etc. ČSOB Leasing, a.s. is able to arrange for the clients specific premiums after the contractual relationships have been terminated. Among new products there are purchase of receivables and the so-called "cash back" which will enable the clients to sell the car after the lease contract has been properly terminated and subsequently establish a new lease contract for the same car thus providing for "free resources".

As one of the biggest targets for the year 2003, the company plans to maintain its market position in financing of cars and develop closer business relations with producers and sellers of cars.

The company will also focus on financing of machines and equipment and improvement of the quality of services. The highest attention will be paid in ČSOB Leasing, a.s. to the preparation of the application of legal and tax terms and conditions which shall have to be in force after the Czech Republic has become an EU member.

Registered office: Roháčova 1148/63, 130 00 Prague 3, Czech Republic
Contact: Telephone: +420 222 012 111
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Internet: www.csobleasing.cz

ČSOB Leasing, a.s.

Date of establishment December 10, 1996

Business activities

Financial services (financial and operational leasing, hire-purchase).

Share capital (SKK 000) 1 500 000

Shareholders as of December 31, 2002

90% Československá obchodní banka, a. s.

10% ČSOB Leasing, a.s.

	2002	**2001**	**2000**
Volume of leasing transactions in the Slovak Republic (SKK bn)	6.4	5.7	3.5
Number of contracts in the Slovak Republic	10,653	9,198	6,723
Market share in the Slovak Republic (%) (by volume of transactions)	16.1	16.3	15.0

ČSOB Leasing, a.s. is among the significant leasing companies on the Slovak market. The clients in Slovak Republic are served at 8 branches, which provide a number of leasing products from financial leasing in SKK or EUR to operational leasing, including full-service and hire purchase.

As for the business structure, the largest share is car leasing. With regard to the growth in the IT and office equipment markets, the share in machines and appliances grew as well.

In the first half of 2002, share capital of the company was increased to SKK 1.5 billion. The parent company of ČSOB Leasing, a.s. in Slovakia is Československá obchodní banka, a.s.

Business parameters of the plan for 2003 have been set up in accordance with the analysis of the market development, showing gradual reduction in margins. The price policy for 2003 will have to be adjusted according to this trend to ensure that the market share can be increased or at least maintained. In 2003, the company will focus in particular on machines, equipment, and lorries. The target group for 2003 should be business clients. Turnover in 2003 will also be influenced by starting co-operation with PSA. The common project should provide for a significant increase in turnover from leasing of Peugeot and Citroën cars.

Registered office: Panónska cesta 11, 852 01 Bratislava 5, Slovak Republic

Contact: Telephone: +421 2 6820 2011

Fax: +421 2 6381 5248

E-mail: info@csobleasing.sk

Internet: www.csobleasing.sk

Statement on the Degree of Accordance with the Standards for the Proper Administration and Management of the Bank

The organization of the Bank's administration in accordance with the internationally recognized principles of administration and management ("best practice") is foremost among the interests of the shareholders of Československá obchodní banka, a.s. The Bank meets the demands put on it by binding legal regulations and moreover complies with some of the recommendations based on the principles used in the OECD countries.

Board of Directors

In accordance with the Bank Act, no. 21/1992 Coll., the board of directors has a fully executive structure and all of its members have undergone a review by the Czech National Bank, which verified their specialized qualifications, their prerequisites for undertaking skilled operations in bank management, and especially their sufficient experience in the area of banking risks and internal managing and control systems, which includes their ability to use such systems in practice. The Czech National Bank likewise verified the credibility of all members of the board of directors. The Bank Act's requirement that the Bank should have an executive board of directors results in the unification of the positions of chairman of the board and chief executive officer.

The Bank's board of directors is selected by the general meeting, and fulfils its tasks within the operations of the statutory body reserved for it by the statutes and applicable basic governing documents of the Bank. The board of directors carries out these 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 furthermore in accordance with the documents submitted by the 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 procedural code of the board of directors. The director of the bank office is present at the board sessions and fills the role of secretary and is responsible for the preparation of the session and the taking of minutes.

Supervisory Board

The supervisory board of Československá obchodní banka, a. s. is comprised in part of six members selected by the general meeting and a further three members selected by the employees (with one place vacant until the next election – the last two attempts at an election failed to meet the requirements of the Commercial Code for the minimal participation of employees). Mr. Remi Vermeiren, Mr. Herman Agneessens, Mr. Willy Duron and Mr. Frans Florquin were voted into the supervisory board at the proposal of the KBC Bank NV shareholders, Ms. Farida Khambata at the proposal of the International Financial Corporation (a section of the World Bank). In 2002 one change was made in the composition of the supervisory board when Mr. Kevin Anderson was replaced by Ms. Kanako Sékine on the supervisory board at the proposal of the European Bank for Reconstruction and Development (EBRD). These individuals have for the most part a rich experience in the field of banking and international finance.

The Bank's supervisory board held sessions five times last year. The basis for their discussions is sent out ahead of time and at the supervisory board sessions themselves the members of the board of directors are present – the executive management, so orally present the basis for discussion.

Auditing and Remuneration Committees

For the proper undertaking of its duties, the supervisory board established a committee for auditing and a committee for remuneration as its working bodies. Both committees regularly inform the supervisory board of their activities, and the latter in turn approves their main recommendations.

The Bank office provides administrative and organizational support for the supervisory board based on the procedural rules of the latter, and its director is responsible for taking minutes from the sessions.

Bank's Relations with the Shareholders

ČSOB has long endeavoured to maintain openness of information and it meets all of the demands of the Bank Act and the Securities Act. Shareholders and bodies of regulatory supervision receive reports on the economic activity of the Bank, and information on all major changes is available to them. Both clients and the public at large are regularly informed of the basic economic indicators and entrepreneurial deliberations in the form of requisite bank supervision and other market regulators. Information is available at branches and on the Bank Internet. Bank shareholders can thus raise their questions in accordance with the valid procedural rules during the course of the Bank's general meeting, at which both members of the board of directors and the supervisory board are present and prepared to answer shareholders' questions.

Supervisory Board's Report

Statement by the Supervisory Board of ČSOB

The Supervisory Board of ČSOB performed its tasks in the year 2002 in compliance with Articles of the Commercial Code, the Bank's Articles of Association and the Supervisory Board's Rules of Conduct. The Board of Directors has submitted to the Supervisory Board regular reports on the activities and financial situation of ČSOB.

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

The financial statements were audited by PricewaterhouseCoopers Audit, s.r.o., Praha. The auditors have opined that the consolidated financial statements present fairly, in all material respects, the financial position of the consolidated group as at 31 December 2002, and of the consolidated group results of operations and cash flows for the year ended 31 December 2002 in accordance with International Financial Reporting Standards. The auditors have also opined that the unconsolidated financial statements present fairly, in all material respects, the assets, liabilities and equity of ČSOB as at 31 December 2002 and the results of its operations for the year ended 31 December 2002 in accordance with the Act on Accounting and relevant legislation of the Czech Republic.

The Supervisory Board reviewed the 2002 annual financial statements and the proposal for distribution of profit and has accepted the results of the audit of the 2002 annual financial statements and has recommended to the General Meeting to approve them. The Supervisory Board also checked and approved the Report on relations between the controlling person and the controlled person and on relations between the latter and other person controlled by the same controlling person (related persons).

Remi Vermeiren

Chairman of the Supervisory Board

KBC Bank, President

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 2002 and the related consolidated profit and loss, statement of changes in equity and cash flow statements for the year then ended. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2002, 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.

7 March 2003

PricewaterhouseCoopers

PricewaterhouseCoopers Audit, s.r.o.

Consolidated Financial Statements (IFRS)

Consolidated Statement of Income for the Year Ended 31 December 2002

(According to International Financial Reporting Standards)

(CZKm)	Notes	2002	2001
Interest income		29,533	33,134
Interest expense		(16,352)	(20,050)
Net interest income	3	**13,181**	**13,084**
Net fee and commission income	4	5,591	5,976
Net trading income	10	2,647	2,767
Other income	5	1,231	1,512
Non-interest income		**9,469**	**10,255**
Operating income		**22,650**	**23,339**
General administrative expenses	6	(13,327)	(13,247)
Other expenses	7	(1,727)	(2,302)
Operating expenses		**(15,054)**	**(15,549)**
Operating profit before provisions		**7,596**	**7,790**
Provisions for credit losses	14	1,953	1,367
Other provisions	23	(263)	(244)
Operating profit		**9,286**	**8,913**
Income tax expense	22	(2,580)	(2,878)
Net profit before minority interests		**6,706**	**6,035**
Minority interests		(115)	(83)
Net profit		**6,591**	**5,952**

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

Consolidated Balance Sheet as at 31 December 2002

(According to International Financial Reporting Standards)

(CZKm)	Notes	31.12.2002	31.12.2001
ASSETS			
Cash and balances with central banks	8	21,194	21,700
Due from banks	9	142,355	117,194
Trading assets	10	55,680	49,928
Investment securities	11	77,224	43,574
Rescue acquisition state assistance receivable	12	57,088	146,822
Loans and leases	13	213,682	181,476
Property and equipment	15	12,746	13,501
Goodwill	16	2,266	1,831
Other assets, including tax assets	17	8,839	5,840
Prepayments and accrued income		5,970	4,560
Total assets		**597,044**	**586,426**
LIABILITIES			
Due to banks	18	26,472	27,814
Trading liabilities	10	40,756	26,456
Due to customers	19	418,143	417,743
Rescue acquisition state assistance payable	12	4,731	6,804
Debt securities in issue	20	28,169	34,917
Other liabilities, including tax liabilities	21	28,672	26,213
Accruals and deferred income		2,095	2,633
Other provisions	23	5,757	5,246
Total liabilities		**554,795**	**547,826**
Minority interests		**974**	**747**
SHAREHOLDERS' EQUITY			
Share capital	24	5,105	5,105
Share premium account		1,006	1,006
Statutory reserve		19,223	19,224
Cumulative gains/(losses) not recognised in the income statement		94	(102)
Treasury shares		(576)	(536)
Retained earnings		16,423	13,156
Total shareholders' equity		**41,275**	**37,853**
Total liabilities, minority interests and shareholders' equity		**597,044**	**586,426**

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 7 March 2003 and signed on its behalf by:

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

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

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2002

(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 2001	5,105	1,006	18,686	(269)	(338)	10,039	34,229
Net after-tax unrealised gains on available-for-sale securities	-	-	-	211	-	-	211
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	37	-	-	37
Foreign currency translation	-	-	-	(224)	-	-	(224)
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(1)	-	-	(1)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	144	-	-	144
Net after-tax gains not recognised in the income statement	-	-	-	167	-	-	167
Net profit	-	-	-	-	-	5,952	5,952
Transfer to statutory reserve	-	-	538	-	-	(538)	-
Purchase of treasury shares	-	-	-	-	(198)	-	(198)
Dividends paid	-	-	-	-	-	(2,297)	(2,297)
At 31 December 2001	**5,105**	**1,006**	**19,224**	**(102)**	**(536)**	**13,156**	**37,853**
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**

[1] Accumulated gains/(losses) not recognised in the income statement consists of the after-tax valuation allowance for foreign currency translation adjustments of CZK (128)m, CZK (352)m and CZK (367)m as at 1 January 2001, 31 December 2001 and 31 December 2002, respectively; net gains on available-for-sale securities of CZK 2m, CZK 212m and CZK 292m as at 1 January 2001, 31 December 2001 and 31 December 2002, respectively; net gains on derivatives used as cash flow hedges of CZK (143)m, CZK 38m and CZK 169m as at 1 January 2001, 31 December 2001 and 31 December 2002, respectively.

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

Consolidated Statement of Cash Flows for the Year Ended 31 December 2002

(According to International Financial Reporting Standards)

(CZKm)	Note	2002	2001
Cash flow from / (used in) operating activities			
Operating profit		9,286	8,913
Adjustments for:			
Allowances and provisions for credit losses		(1,953)	(1,367)
Other provisions		431	419
Depreciation of property and equipment		1,645	1,406
Property impairment charge		640	232
Amortisation of discounts and premiums		612	-
Amortisation of goodwill		175	(96)
Net (gain) / loss on disposal of financial investments		62	(2)
Net (gain) / loss on disposal of property and equipment		(68)	10
Own bonds adjustment		(222)	(69)
Other		(92)	884
(Increase) / decrease in operating assets:			
Due from banks, non-demand		(22,884)	(47,185)
Trading assets		(5,745)	1,870
Loans and leases		(14,303)	(10,692)
Rescue acquisition state assistance receivable		-	909
Other assets		(3,598)	2,220
Prepayments and accrued income		(1,411)	(823)
Increase / (decrease) in operating liabilities:			
Due to banks, term		(1,145)	559
Trading liabilities		14,300	9,050
Due to customers		400	68,823
Promissory notes and certificates of deposit		(1,303)	(25,262)
Other liabilities		2,884	729
Accruals and deferred income		(535)	(1,042)
Net cash flow from / (used in) operating activities before income tax		(22,824)	9,486
Net income tax paid		(2,549)	(872)
Net cash flow from / (used in) operating activities		(25,373)	8,614
Cash flow from / (used in) investing activities			
Acquisition of IPB, net of cash paid		71,245	12,046
Change in consolidation scope		(140)	138
Purchase of securities		(51,906)	(39,529)
Maturity/disposal of securities		23,072	23,834
Purchase of property and equipment		(1,927)	(2,115)
Disposal of property and equipment		581	69
Net cash flow from / (used in) investing activities		40,925	(5,557)
Cash flow from / (used in) financing activities			
Issue of bonds		779	1,123
Repayment of bonds		(6,000)	(7,067)
(Purchase) of treasury shares		(40)	(198)
Increase / (decrease) in minority interests		227	(14)
Increase / (decrease) in borrowings		(1,314)	2,464
Dividends paid		(3,325)	(2,297)
Net cash flow from / (used in) financing activities		(9,673)	(5,989)
Effect of exchange rate changes on cash and cash equivalents		17	(243)
Net increase / (decrease) in cash and cash equivalents	28	**5,896**	**(3,175)**

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2002

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

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 statement of income 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 statement of income 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 statement of income 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. Interest income accrues on the unpaid principal balance. Loan origination fees are deferred and recognised as adjustments to income over the lives of the related loans.

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

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

j) Allowance for credit losses

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

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

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

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

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

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

k) Property and equipment

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

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

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

Buildings	30 years
Furniture	6 years
Equipment	4-12 years

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 over 10 years to Other expense.

Required additional costs directly attributable to the acquisition that become probable and reliably estimable are charged to goodwill with future amortisation charged prospectively on a straight-line basis over the remaining goodwill amorisation period.

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

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

State assistance was issued by the Czech state in the form of embedded derivative financial instruments in connection with the IPB acquisition. These derivatives generally provided two types of financial assistance on unwanted IPB assets: 1) fair value assistance on the date of acquisition and 2) revenue assistance after the date of acquisition.

For the unwanted assets on which ČSOB intended to exercise its derivative rights, derivative revaluation gains, providing fair value assistance, were recognised in the carrying values of those assets (hedged) at the date of acquisition and were recorded in Rescue acquisition state assistance receivable. Upon derivative exercise, the revalued assets value crystallised. The Rescue acquisition state assistance receivable is realised when the unwanted IPB assets are physically transferred to the Czech state or its designated entity.

Revenue assistance on the unwanted IPB assets is recognised in income as Interest income and Commission income, for managing the IPB assets on behalf of the Czech state whilst in the possession of ČSOB.

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

Losses resulting from acquisition-related contingencies covered by indemnification provisions of a state assistance agreement are recognised net of the receivable under that agreement. In the previous years, such losses and the respective receivable were presented gross. Bank management has decided that the net presentation gives a more appropriate view. The prior year balances have been reclassified to retain comparability.

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

n) 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.

Previously, 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, the respective cumulative prior-year tax effects of CZK 390m have been reversed in the current year's income. Had this continued, an additional deferred tax charge of CZK 226m would have been recognised in 2002.

o) 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.

p) 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.

q) Employee retirement benefits

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

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

r) 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.

s) 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.

t) 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).

u) Recently issued accounting pronouncements

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

3. NET INTEREST INCOME

(CZKm)	2002	2001
Interest income		
Mandatory minimum reserves with central banks	276	186
Due from banks	4,714	5,391
Trading assets	2,861	2,851
Investment securities	2,877	2,240
Loans and leases	15,045	14,229
Rescue acquisition state assistance receivable (Note 12)	3,760	8,237
	29,533	**33,134**

(CZKm)	2002	2001
Interest expense		
Due to banks	1,408	1,640
Trading liabilities	1,023	1,293
Due to customers	11,800	13,961
Debt securities in issue	1,720	2,298
Rescue acquisition NAV surplus payable (Note 12)	75	522
Borrowing cost amortisation on other provisions (Note 23)	326	336
	16,352	**20,050**
Net interest income	**13,181**	**13,084**

4. NET FEE AND COMMISSION INCOME

(CZKm)	2002	2001
Commission income	6,903	7,116
Commission expense	(1,608)	(2,240)
State financial assistance for managing the unwanted IPB assets (Note 12)	296	1,100
	5,591	**5,976**

5. OTHER INCOME

(CZKm)	2002	2001
Income from insurance claims	258	111
Receivables tranferred	226	123
Operational leasing and rental income	208	197
Net gain on disposal of other financial investments	71	128
Net gain from derecognition of available-for-sale financial assets	62	2
Negative goodwill amortisation (Note 16)	52	304
Net gain on disposal of property and equipment	38	49
Other	316	598
	1,231	**1,512**

6. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2002	2001
Personnel expenses	(5,344)	(5,402)
Depreciation of property and equipment (Note 15)	(1,645)	(1,406)
Other general administrative expenses	(6,338)	(6,439)
	(13,327)	**(13,247)**

Personnel expenses

(CZKm)	2002	2001
Salaries and bonuses	3,900	3,963
Social security costs	1,316	1,329
Other pension costs, including retirement benefits	128	110
	5,344	**5,402**

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

The time-weighted average number (in full-time equivalents) of Group personnel and Executive Board members during 2002 was 10,373 (2001: 9,748).

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 Českomoravský penzijní fond, a.s. (ČMPF) a company controlled by ČSOB, or the ČSOB pension fund, a wholly-owned subsidiary of ČSOB, with a contribution of the Bank of 2% or 3% of their salaries, respectively. An alternative defined contribution scheme on behalf of the Bank's employees was ceased as of 31 December 2002.

Other general administrative expenses

(CZKm)	2002	2001
Rent and maintenance	948	1,038
Professional fees	859	574
Information technology	836	858
Marketing and public relations	836	850
Telecommunications and postage	813	965
Retail service fees	732	714
Administration	491	539
Travel and transportation	117	138
Other	706	763
	6,338	**6,439**

7. OTHER EXPENSES

(CZKm)	2002	2001
Property impairment charge (Note 15)	640	232
Deposit insurance	456	1,055
Amortisation of goodwill (Note 16)	227	208
Other	404	807
	1,727	**2,302**

8. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	31.12.2002	31.12.2001
Cash on hand	9,349	9,708
Balances with central banks	11,178	10,440
Other cash values	667	1,552
	21,194	**21,700**

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

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

9. DUE FROM BANKS

(CZKm)	31.12.2002	31.12.2001
Analysed by product and bank domicile:		
Current accounts		
domestic	120	94
foreign	1,493	862
Term placements		
domestic	11,318	8,106
foreign	40,965	54,888
Loans		
domestic	65,731	36,876
foreign	22,922	16,497
	142,549	117,323
Allowance for credit losses (Note 14)	(194)	(129)
Net due from banks	**142,355**	**117,194**
Analysed by internal classification:		
Standard	141,666	116,228
Watch	801	908
Sub-standard	-	-
Doubtful	6	101
Loss	76	86
	142,549	**117,323**

Financial assets were accepted as collateral from a related party as at 31 December 2002 and 2001 (Note 36).

The fair value of financial assets accepted as collateral in connection with reverse repo transactions (within Loans domestic) as at 31 December 2002 was CZK 63,495m, of which CZK 1,568m has been sold or repledged (31 December 2000: CZK 30,601m 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.

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)	2002	2001
Net trading income - as reported	2,647	2,767
Net interest income (Note 3)	1,838	1,558
Total trading-related net income	**4,485**	**4,325**
Foreign exchange	2,664	2,666
Fixed-income securities and money market	2,268	1,526
Interest rate contracts	(440)	(3)
Equity shares	(7)	136
Total trading-related net income	**4,485**	**4,325**

Trading Assets and Liabilities

The fair value of the components of the Group's trading assets and liabilities as at 31 December 2002 and 2001 were:

	Fair value	
(CZKm)	31.12.2002	31.12.2001
Trading assets		
Treasury bills	11,435	-
Reverse repo transactions	5,578	8,017
Debt securities	5,234	4,221
Equity shares	1,153	1,589
Derivative contracts (Note 27)	1,948	2,169
Term deposits placed with Banks	30,332	33,932
	55,680	**49,928**
Trading liabilities		
Securities sold, not yet purchased	863	241
Repo transactions	5,383	1,861
Derivative contracts (Note 27)	2,292	2,871
Term deposits taken from Banks	32,218	21,483
	40,756	**26,456**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2002 was CZK 6,794m, of which CZK Nil has been either sold or repledged (31 December 2001: CZK 3,538m and CZK 3,438m 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 2002 was CZK 7,745m (31 December 2001: CZK 3,235m).

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

11. INVESTMENT SECURITIES

(CZKm)	31.12.2002	31.12.2001
Securities available-for-sale - at fair value		
Treasury bills	499	-
Debt securities	10,112	13,300
Equity securities	4,780	1,839
Total available-for-sale portfolio	15,391	15,139
Securities held-to-maturity - at amortised cost		
Treasury bills	18,473	3,139
Debt securities	43,360	25,296
Total held-to-maturity portfolio	61,833	28,435
Total investment securities	**77,224**	**43,574**

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 2002 was CZK 1,780m (31 December 2001: CZK 4,521m).

Schedule of activity in investment securities

(CZKm)	2002 Available-for-sale	2002 Held-to-maturity	2002 Total	2001 Total
At 1 January	15,139	28,435	43,574	26,799
Exchange adjustments	(5)	1	(4)	(121)
Purchases	7,314	49,748	57,062	41,883
Movements in IPB securities retained (Note 12)	200	-	200	123
Disposals (sales or redemption)	(6,910)	(16,224)	(23,134)	(24,819)
Change in consolidation scope	(66)	-	(66)	(414)
Amortisation of discounts and premiums	(183)	(429)	(612)	(193)
Gains from changes in fair value	108	-	108	313
Transfer	(302)	302	-	-
Other	97	-	97	3
Provision for impairment losses	(1)	-	(1)	-
At 31 December	**15,391**	**61,833**	**77,224**	**43,574**

12. RESCUE ACQUISITION OF IPB

Introduction

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

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

- *Purchase Agreement*. Executed between IPB's forced administrator and ČSOB, this agreement transferred IPB's assets and liabilities (IPB enterprise) to ČSOB. The final level of purchase consideration is dependent upon the results of a special-purpose valuation of the IPB enterprise.
- *Agreement and State Guarantee*. Executed between the CMoF and ČSOB, this agreement (CMoF Agreement) guaranteed that ČSOB would be compensated for any shortfall in IPB's net assets through various mechanisms. One of the mechanisms was a specific asset swaption, discussed further below. Another was a guarantee to fund any IPB net assets shortfall (as defined in the CMoF Agreement) after considering the valuation effect of the specific asset swaptions.
- *Agreement and Indemnity*. Executed between the CNB and ČSOB, this agreement (CNB Agreement) 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.
- *Compensation for State Guarantee*. Executed between the CMoF and ČSOB, this agreement set out a level of net compensation ČSOB would pay for the state guarantee issued through the CMoF Agreement. The net compensation would be based upon the risk-weighting of IPB's assets ČSOB would intend to retain in its portfolio.

Restructuring Plan, CMoF Agreement Amendment and Financing Framework Agreement

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

- *Agreement on Restructuring Plan*. Executed between ČSOB and KoB, this agreement (Restructuring Plan) segregated the assets and liabilities of IPB (collectively "items") into the following three categories as at 31 August 2001:
  - White: items ČSOB intended to retain with all the related risks and returns. This category also includes assets that were already transferred to KoB, by 31 August 2001, and compensation received.
  - Black: unwanted assets and contingent liabilities (ie, potential future assets arising from the satisfaction of credit obligations) ČSOB intended to transfer to KoB. The Restructuring Plan set out a framework for the transfer of such assets and future assets by type.
  - Other: assets and contingent liabilities on which it had not yet been decided whether they should be retained by ČSOB or transferred to KoB. ČSOB had until 18 June 2002 to determine whether the assets and contingent liabilities were unwanted, and then to exercise put options on them, or whether they should be retained. Conversely, KoB was allowed to, until 18 June 2002, exercise its call option on most of the Other assets and contingent liabilities.

- *Amendment to the Agreement and State Guarantee.* Executed between the CMoF and ČSOB, this amendment (CMoF Agreement Amendment) contained changes to align the CMoF Agreement with the Restructuring Plan and updated the process and deadlines for auditing IPB's net asset shortfall or surplus.
- *Financing Framework Agreement*. Executed between ČSOB and KoB, this agreement established a CZK 100bn committed credit line to KoB for financing IPB asset transfers to KoB.

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

Special purpose valuation of the IPB enterprise

The amount of purchase consideration for the IPB enterprise is based upon the value of the IPB enterprise as at 18 June 2000, the day before ČSOB purchased IPB and before any state financial assistance was granted to ČSOB in connection with the purchase. The investment banks hired by ČSOB and IP Banka (successor of IPB), respectively, could not agree on a value, which triggered the appointment of a third valuer to arbitrate. On 31 May 2002, the third valuation was finalised valuing the IPB enterprise between negative CZK 70,200m and negative CZK 65,400m. The effect of this value, according to the Purchase Agreement, was to add CZK 1 to the final purchase price.

State assistance - specific asset swaption

Pursuant to the CMoF Agreement, as amended, and the Restructuring Plan, ČSOB was granted an option to put any IPB asset to ČKA by 18 June 2002. On put option exercise, ČKA became obliged to receive from ČSOB the IPB asset in exchange for cash or a security in an amount comprising the originally-recorded 19 June 2000 net book value of the IPB asset and interest accrued thereon at the three-month interbank offer rate plus a margin (90 basis points from 19 June 2000 to 15 June 2002, 27 basis points from 16 June 2002 to 17 June 2002 and 25 basis points from 18 June 2002) up until the date of physical asset transfer. Further, net cash flows received/paid by ČSOB on the IPB asset from 19 June 2000 to physical asset transfer date would be paid to/received from ČKA including accrued interest. The realisation of the exercised option occurs on the date the IPB asset is physically transferred to ČKA. For assets arising from the settlement of IPB contingent credit-based obligations, the net book value of the settlement paid by ČSOB comprises the notional value.

This embedded derivative was an option to swap an identified IPB asset for cash or a financial asset from ČKA (specific asset put swaption) which was, in substance, a state financial assistance mechanism granted to ČSOB in connection with its purchase of IPB's net assets. A similar regime existed for future assets arising from the settlement of contingent credit-based obligations.

Conversely, pursuant to the Restructuring Plan, ČSOB granted ČKA the option to call from ČSOB the majority of the Other assets under the same terms and conditions as ČSOB's specific asset put swaption (specific asset call swaption).

Specific asset swaption receivable

By 18 June 2002, ČSOB and ČKA finalised the exercise of their respective specific asset swaptions with each other. Accordingly, at 31 December 2002 the Rescue acquisition state assistance receivable amounted to: 1) the originally-recorded 19 June 2000 net book value of the IPB assets not yet physically transferred, 2) subsequent net cash flows on those assets and 3) accrued interest.

IPB assets and liabilities which ČSOB has retained

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

State assistance - CNB Indemnity

On 5 November 2002, ČSOB unilaterally represented to the ČNB to cap the indemnity at CZK 160bn and establish an expiry date of 31 December 2016.

State assistance - compensation for IPB net assets shortfall/surplus

Pursuant to the CMoF Amendment, as amended, should the net assets of IPB at 19 June 2000 be negative (after considering the valuation effects on the unwanted IPB assets from specific asset put swaption valuation) ČSOB is entitled to receive compensation from the Czech Republic for the amount of the net assets shortfall. Conversely, pursuant to the CMoF Agreement, as amended, should the net assets of IPB at 19 June 2000 be positive, however, ČSOB is obliged to pay compensation to the Czech Republic for the amount of the net asset surplus. Interest accrues on either the receivable or payable balance at the three-month interbank offer rate plus a margin (90 basis points from 19 June 2000 to 15 June 2002, 27 basis points from 16 June 2002 to 17 June 2002 and 25 basis points from 18 June 2002).

The amount of IPB's net assets should be set out, according to the CMoF Agreement, as amended, in the IPB Net Asset Value Statement as at 19 June 2000 (NAV Statement). This NAV Statement was prepared by ČSOB by 19 August 2002 based on the valuation principles contained in the CMoF Agreement, as amended. The NAV Statement was presented to two independent audit companies (one appointed by ČSOB and the other by CMoF) to carry out the audits of IPB’s net assets as at 19 June 2000. As at the date of approval of these financial statements the audits have not been finalised.

The IPB net assets, as estimated by ČSOB management, pursuant to the CMoF Agreement amounted to a positive CZK 4,135m as at 19 June 2000. Accordingly, ČSOB has recognized a payable to the CMoF in the amount of CZK 4,731m (including accrued interest of CZK 596m) (see table below).

The movements in the state-assistance rescue acquisition balances during 2001 and 2002 are set out as follows:

(CZKm)	Specific asset swaption receivable	NAV shortfall/ (surplus) receivable/ (payable)
At 1 January 2001	168,942	3,982
Assets transferred to KoB/ČKA	(26,032)	-
Change in principal from net cash flow receipts on unwanted items	(9,252)	-
Transfer litigation and other loss coverage from NAV shortfall to CNB indemnity	-	(8,165)
Interest income accrued and recognised	8,369	(132)
Interest expense accrued and recognised	-	(522)
Commission accrued and recognised	1,100	-
Other movements	3,695	(1,967)
At 31 December 2001	**146,822**	**(6,804)**
of which:		
Principal	133,880	(6,282)
Accrued interest receivable/(payable)	11,326	(522)
Accrued commission receivable	1,616	-
At 1 January 2002	**146,822**	**(6,804)**
Assets transferred to KoB/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	-

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

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

(CZKm)	2002	2001
Cash and balances with central banks	-	(12)
Due from banks	-	(429)
Trading assets	-	118
Investment securities (Note 11)	200	123
Loans and leases	16,137	8,679
Property and equipment (Note 15)	86	(1,251)
Other assets	(346)	283
Due to banks	-	14
Due to customers	-	(100)
Other liabilities	-	897
Credit provisions (Note 14)	88	812
Other provisions (Note 23)	(78)	(2,984)
Other	-	54
Movements in the IPB net assets retained by ČSOB	**16,087**	**6,204**
Movements in State assistance balances	**(16,416)**	**(7,114)**
Change in acquired IPB net assets - at fair value	**(329)**	**(910)**

Goodwill

IPB goodwill movements from rescue acquisition activity in 2002 and 2001 are summarised as follows:

(CZKm)	2002	2001
At 1 January	1,782	1,000
Purchase consideration adjustments	235	(199)
Additional costs directly attributable to the acquisition	-	279
Add: Change in acquired IPB net assets - at fair value	329	910
Net changes in IPB goodwill (gross) (Note 16)	**564**	**990**
Amortisation	(218)	(208)
31 December	**2,128**	**1,782**

13. LOANS AND LEASES

(CZKm)	31.12.2002	31.12.2001
Analysed by category of borrower:		
Czech Ministry of Finance (see Slovenská inkasná note below)	21,993	20,223
Česká inkasní	1,339	4,695
Government bodies	61,740	41,932
Industrial companies	41,387	35,951
Retail customers	26,933	21,707
Other service companies	19,958	28,012
Trade companies	21,101	18,665
Finance lease customers	19,214	14,670
Other	7,229	8,169
Gross loans and leases	220,894	194,024
Allowance for credit losses (Note 14)	(7,212)	(12,548)
Net loans and leases	**213,682**	**181,476**

Finance lease receivables may be analysed as follows:

(CZKm)	31.12.2002	31.12.2001
Not later than 1 year	10,543	8,039
Later than 1 year and not later than 5 years	11,551	9,370
Gross investment in finance leases	22,094	17,409
Unearned future finance income on finance leases	(2,880)	(2,739)
Net investment in finance leases	**19,214**	**14,670**
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	8,758	6,410
Later than 1 year and not later than 5 years	10,456	8,260
Net investment in finance leases	**19,214**	**14,670**

The allowance for uncollectable finance lease receivables included in the provision for credit losses amounted to CZK 805m at 31 December 2002 (31 December 2001: CZK 507m).

The recorded (gross) investment in impaired loans and leases was CZK 34,113m at 31 December 2002 (31 December 2001: CZK 36,572m). The Group's current management reporting systems do not yet enable the extraction of interest recognised on impaired loans and leases without suffering undue expense and effort; accordingly, this information has not been disclosed for 2002 and 2001.

Gross non-accrual loans and leases amounted to CZK 9,380m at 31 December 2002 (31 December 2001: CZK 7,368m).

Analysed by internal classification:

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

	31.12.2002			31.12.2001		
(CZKm)	Gross loan exposure	Collateral value	Net loan exposure	Gross loan exposure	Collateral value	Net loan exposure
Standard	186,781	67,315	119,466	157,451	60,738	96,713
Watch	21,072	13,100	7,972	14,693	9,238	5,455
Sub-standard	5,270	3,762	1,508	8,060	2,506	5,554
Doubtful	2,794	606	2,188	8,013	805	7,208
Loss	4,977	526	4,451	5,807	1,244	4,563
	220,894	**85,309**	**135,585**	**194,024**	**74,531**	**119,493**

1993 restructuring

In 1993, the Bank's assets and capital were restructured by the governments of the Czech Republic and the Slovak Republic. As part of this restructuring, the Ministries of Finance of the Czech Republic and the Slovak Republic created separate collection companies (Česká inkasní and Slovenská inkasná, respectively) which assumed certain loans and off-balance sheet obligations of identified non-performing customers. Repayment of collection company loans is scheduled through to the year 2003. The Ministries of Finance agreed to fully support their respective collection companies; however, the Slovak Ministry of Finance has not provided financial support to Slovenská inkasná, 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. An oral hearing was scheduled into two phases, the first phase convened in November 2002 and the second phase is planned for April 2003. A final award on the merits is not expected before the end of 2003. Based on the opinion of legal experts, the Bank believes that its position in the arbitration is very strong and that recovery on the obligation as well as the damage claims is likely.

State coverage

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

In view of the legal considerations arising from the SI bankruptcy, 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 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 2002 and 2001:

(CZKm)	2002	2001
At 1 January	14,623	18,809
Movements in IPB credit provisions retained (Note 12)	(88)	(812)
Change in consolidation scope	-	(5)
Exchange adjustments	(131)	(457)
Net (credit) charge against profits	(1,953)	(1,367)
Amounts written off	(4,029)	(1,908)
Recoveries of loans previously written off	590	363
At 31 December	**9,012**	**14,623**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2002 and 2001 are distributed as follows:

(CZKm)	31.12.2002	31.12.2001
Allowance for credit losses		
Loans and leases (Note 13)	7,212	12,548
Due from banks (Note 9)	194	129
Provisions for guarantees and undrawn credit lines (Note 25)	1,606	1,946
	9,012	**14,623**

15. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost				
At 1 January 2002	11,168	7,817	1,653	20,638
Exchange adjustments	7	4	-	11
Change in consolidation scope	1	16	-	17
Movements in IPB assets retained (Note 12)	86	-	-	86
Transfers	372	2,193	(2,565)	-
Additions	43	65	1,819	1,927
Disposals	(451)	(571)	(10)	(1,032)
At 31 December 2002	11,226	9,524	897	21,647
Accumulated depreciation and impairment				
At 1 January 2002	1,749	5,388	-	7,137
Exchange adjustments	1	4	-	5
Change in consolidation scope	-	10	-	10
Disposals	(70)	(449)	-	(519)
Property impairment charge (Note 7)	640	-	-	640
Impairment utilization	(17)	-	-	(17)
Charge for the year	340	1,305	-	1,645
At 31 December 2002	2,643	6,258	-	8,901
Net book value				
At 1 January 2002	**9,419**	**2,429**	**1,653**	**13,501**
At 31 December 2002	**8,583**	**3,266**	**897**	**12,746**

The impairment charge in 2002 relates to the headquarter buildings, which are intended to be sold, with regard to the planned construction of a new building. The recoverable amount of the impaired buildings represents the net selling price, determined by reference to the market price of similar assets.

16. GOODWILL

(CZKm)	Positive	Negative	Net
Net book value			
At 1 January 2002	1,875	(44)	1,831
Other acquisitions	54	(8)	46
Net changes in IPB goodwill (Note 12)	564	-	564
Amortisation (Notes 5 and 7)	(227)	52	(175)
31 December 2002	**2,266**	**-**	**2,266**
Gross amount acquired	2,770	(1,490)	1,280
Accumulated amortisation	(504)	1,490	986
31 December 2002	**2,266**	**-**	**2,266**

17. OTHER ASSETS, INCLUDING TAX ASSETS

(CZKm)	31.12.2002	31.12.2001
Other debtors, net of provisions	3,418	1,147
Other clearing accounts	1,864	1,109
Hedging derivative contracts (Note 27)	742	541
VAT and other tax receivables	700	1,075
Residual value in Prager Handelsbank in liquidation	515	522
Receivables from securities clearing entities	434	14
Net deferred tax asset (Note 22)	381	729
Other receivables from clients	250	198
Items in the course of collection	249	283
Estimated receivables	208	107
Current income tax receivable	78	115
	8,839	**5,840**

18. DUE TO BANKS

(CZKm)	31.12.2002	31.12.2001
Analysed by product and bank domicile:		
Current accounts		
domestic	257	477
foreign	4,375	2,890
Term deposits		
domestic	211	1,504
foreign	-	-
Borrowings		
domestic	8,257	16,328
foreign	13,372	6,615
Total due to banks	**26,472**	**27,814**

19. DUE TO CUSTOMERS

(CZKm)	31.12.2002	31.12.2001
Analysed by product:		
Current accounts	158,348	140,534
Term deposits	259,795	277,209
Total due to customers	**418,143**	**417,743**
Analysed by category of customer		
Individuals and households	247,844	244,585
Private companies and entrepreneurs	93,332	88,521
Foreign	40,712	46,354
Government bodies	16,491	22,516
Other financial institutions	14,145	10,242
Insurance companies	4,104	4,415
Other	1,515	1,110
Total due to customers	**418,143**	**417,743**

20. DEBT SECURITIES IN ISSUE

Issue date	Currency	Maturity date	Effective interest rate	31.12.2002 (CZKm)	31.12.2001
Bonds issued:					
July 1997	CZK	July 2002	PRIBOR+0.1%	-	6,000
March 2000	SKK	March 2003	14.00%	75	77
April 1998	CZK	April 2003	6.54%	6,040	6,206
June 1998	CZK	June 2003	12.00%	675	675
February 1999	CZK	February 2004	8.90%	2,610	2,785
February 1999	CZK	February 2004	6.76%	3,065	3,121
June 1999	CZK	June 2004	8.20%	632	756
May 2000	CZK	May 2005	6.40%	1,432	1,738
December 2000	CZK	December 2005	6.85%	1,179	1,318
May 2002	CZK	May 2007	4.60%	1,006	-
December 2002	CZK	December 2007	PRIBOR-0.31%	517	-
				17,231	**22,676**
Promissory notes				10,406	10,633
Certificates of deposit				532	1,608
Total debt securities in issue				**28,169**	**34,917**

21. OTHER LIABILITIES, INCLUDING TAX LIABILITIES

(CZKm)	31.12.2002	31.12.2001
Items in the course of transmission	13,026	11,149
Other creditors	5,122	2,869
Other clearing accounts	2,340	2,378
Estimated payables	2,006	2,711
Current income tax payable	1,621	2,347
Provisions for guarantees and undrawn credit lines (Note 25)	1,606	1,946
Net deferred tax liability (Note 22)	1,003	1,626
Payables to securities clearing entities	614	204
Current accounts from which value was collected	260	183
VAT and other tax payables	257	409
Hedging derivative contracts (Note 27)	192	5
Other	625	386
	28,672	**26,213**

22. INCOME TAXES

(CZKm)	2002	2001
Current tax expense	2,765	2,594
Previous year under/(over) accrual	55	(498)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(240)	782
	2,580	**2,878**

(CZKm)	2002	2001
Profit before taxation	9,286	8,913
Applicable tax rates	31%	31%
Taxation at applicable tax rates	2,879	2,763
Previous year under/(over) accrual	55	(498)
Tax effect of non-taxable income	(1,438)	(1,515)
Tax effect of non-deductible expenses	1,502	2,122
Prior years' deferred tax that will not reverse (Note 2n)	(390)	-
Effect of foreign taxes	(6)	4
Other	(22)	2
	2,580	**2,878**

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

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

(CZKm)	2002	2001
At 1 January	(897)	150
Change in consolidation scope	-	(87)
Income statement (charge)/credit	240	(782)
Available-for-sale securities		
Fair value remeasurement	63	(99)
Transfer to net profit	(4)	1
Cash-flow hedges		
Fair value remeasurement	(170)	(17)
Transfer to net profit	111	(64)
Foreign currency translation	35	-
Exchange differences	(1)	1
At 31 December	**(623)**	**(897)**

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

(CZKm)	31.12.2002	31.12.2001
Deferred income tax assets		
Tax loss carryforward	148	280
Interest rate bonus	120	91
Impairment of occupied properties	112	73
Allowances for credit losses	109	311
Unrealised foreign exchange results	14	20
Trading assets valuation	-	9
	503	**784**
Deferred income tax liabilities		
Accelerated tax depreciation	52	6
Available-for-sale securities	16	3
Trading assets valuation	54	46
	122	**55**
Net deferred income tax asset (Note 17)	**381**	**729**
Deferred income tax assets		
Other provisions	373	53
Impairment of occupied properties	250	57
Allowances for credit losses	201	117
Other assets	36	-
Foreign currency translation	35	-
Trading assets valuation	23	50
Securities valuation	-	50
	918	**327**
Deferred income tax liabilities		
Shares in Group companies	1,228	1,400
Credit provisions	518	43
Cash flow hedges	76	17
Finance lease valuation	53	308
Accelerated tax depreciation	28	80
Available-for-sale securities	18	90
Securities valuation	-	15
	1,921	**1,953**
Net deferred income tax liability (Note 21)	**1,003**	**1,626**

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

(CZKm)	31.12.2002	31.12.2001
Allowances for credit losses	(414)	(301)
Shares in Group companies	(218)	(215)
Tax loss carryforward	(131)	(6)
Securities valuation	(44)	(20)
Trading assets valuation	(13)	(267)
Unrealised foreign exchange results	(4)	(13)
Interest rate bonus	29	33
Other assets	36	-
Finance lease valuation	45	(70)
Accelerated tax depreciation	60	(27)
Impairment of occupied properties	184	51
Other provisions	320	53
Prior years' deferred tax that will not reverse (Note 2n)	390	-
	240	**(782)**

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 2002	61	4,550	312	-	323	5,246
Movements in IPB loss provisions retained (Note 12)	78	-	-	-	-	78
Net provision charge (release)	102	-	(86)	247	-	263
Borrowing cost amortisation (Note 3)	-	314	-	-	12	326
Utilised during year	-	(10)	(95)	-	(51)	(156)
At 31 December 2002	**241**	**4,854**	**131**	**247**	**284**	**5,757**

Loan repurchase losses

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

Combination restructuring charges

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

Staff reduction charges

In 2002 ČSOB announced a 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.

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 2002 and 2001 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 2002 was 154,200 (31 December 2001: 141,325).

The purchase cost of treasury shares pledged to secure a related party borrowing transaction amounted to CZK 208m as at 31 December 2002 (31 December 2001: CZK 125m).

25. CONTINGENT ASSET, LIABILITIES AND COMMITMENTS

	31.12.2002		31.12.2001	
(CZKm)	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
Contingent asset				
Slovenská inkasná loan	25,204	-	22,676	-
Contingent liabilities				
Czech Ministry of Finance	25,204	-	22,676	-
Acceptances and endorsements	2,023	1,028	423	242
Guarantees issued	13,182	5,163	10,911	4,177
	40,409	**6,191**	**34,010**	**4,419**
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	124,593	17,975	138,542	14,345
Documentary credits	992	85	980	389
Forward deposits placed	918	184	3,247	649
	126,503	**18,244**	**142,769**	**15,383**
Provisions for guarantees and undrawn credit lines (Notes 14 and 21)	1,606		1,946	

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.

Undrawn credit lines as at 31 December 2002 contain a CZK 83bn (31 December 2001: CZK 100bn) credit commitment granted to ČKA to finance the transfer of unwanted IPB assets to ČKA (Note 12).

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. Further, the Group has initiated a number of legal actions to protect its assets, including a receivable of CZK 735m. 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 60,100m as at 31 December 2002 (31 December 2001: CZK 26,692m). Assets held by the Group under custody arrangements amounted to CZK 134,803m as at 31 December 2002 (31 December 2001: CZK 117,958m).

d) Operating lease commitments

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

(CZKm)	31.12.2002	31.12.2001
Not later than 1 year	517	581
Later than 1 year and not later than 5 years	1,885	2,201
Later than 5 years	2,523	1,968
	4,925	**4,750**

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. Certain derivatives have been issued by the Czech government to ČSOB as state assistance in connection with its acquisition of IPB. However, those derivatives are embedded in the unwanted IPB assets and, thus, are not separated and accounted for as derivatives in the financial statements (Note 12).

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 2002 and 2001 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 2002			31 December 2001		
	Contract/	Fair value		Contract/	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Interest rate related contracts						
Swaps	70,279	1,522	1,792	33,178	883	1,116
Forwards	126,740	104	251	82,581	196	200
	197,019	**1,626**	**2,043**	**115,759**	**1,079**	**1,316**
Foreign exchange contracts						
Swaps	56,998	190	117	74,845	219	465
Forwards	12,494	110	94	15,720	482	432
Written options	6,465	13	11	39,594	-	619
Purchased options	6,139	9	7	18,039	389	-
	82,096	**322**	**229**	**148,198**	**1,090**	**1,516**
Equity contracts						
Forwards	320	-	20	1,433	-	20
Written options	-	-	-	1,659	-	19
	320	**-**	**20**	**3,092**	**-**	**39**
Total derivatives held for trading	**279,435**	**1,948**	**2,292**	**267,049**	**2,169**	**2,871**

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 2002 and 2001.

The contract or notional amounts and positive and negative fair values of the Group's outstanding hedging derivatives as at 31 December 2002 and 2001 are set out as follows:

	31 December 2002			31 December 2001		
	Contract/	Fair value		Contract/	Fair value	
(CZKm)	Notional	Positive	Negative	Notional	Positive	Negative
Single currency interest rate swaps	9,736	601	98	10,220	405	1
Cross currency interest rate swaps	9,029	141	94	9,970	136	4
Total hedging derivatives	**18,765**	**742**	**192**	**20,190**	**541**	**5**

28. CONSOLIDATED STATEMENTS OF CASH FLOW

Analysis of changes in cash and cash equivalents during the year

(CZKm)	2002	2001
At 1 January	21,868	25,043
Net increase / (decrease) in cash and cash equivalents	5,896	(3,175)
At 31 December	**27,764**	**21,868**

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

(CZKm)	31.12.2002	31.12.2001
Cash and balances with central banks	21,194	21,700
Trading portfolio assets	318	368
Securities held to maturity	7,614	2,354
Due from banks, demand	3,270	961
Due to banks, demand	(4,632)	(3,515)
Cash and cash equivalents	**27,764**	**21,868**

29. SEGMENT REPORTING

The Group's primary segment reporting is by customer segment. Geographical segment information is not presented for 2002 and 2001 as the Group's Czech Republic results are not materially different from Group in aggregate.

Segment reporting information by customer segments for 2002

(CZKm)	Retail / SME	Corporate	Historic	State assisted balances	Other	Group Total
Net interest income	7,629	2,321	236	(156)	3,151	13,181
Non-interest income	5,317	1,344	196	390	2,222	9,469
Segment expenses	(6,494)	(1,006)	(377)	(707)	(6,470)	(15,054)
Segment result	6,452	2,659	55	(473)	(1,097)	7,596
Provisions	(141)	(185)	1,570	-	446	1,690
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	(89)	-	-	-	(26)	(115)
Net profit	**4,266**	**1,708**	**1,121**	**(326)**	**(178)**	**6,591**
Assets	**383,733**	**116,308**	**27,704**	**57,088**	**12,211**	**597,044**

Segment reporting information by customer segments for 2001

(CZKm)	Retail / SME	Corporate	Historic	State assisted balances	Other	Group Total
Net interest income	7,819	2,394	79	(182)	2,974	13,084
Non-interest income	5,438	1,483	208	1,100	2,026	10,255
Segment expenses	(7,726)	(1,066)	(154)	(766)	(5,837)	(15,549)
Segment result	5,531	2,811	133	152	(837)	7,790
Provisions	(393)	(101)	1,816	-	(199)	1,123
Operating profit before taxation	5,138	2,710	1,949	152	(1,036)	8,913
Income tax (expense)/benefit	(1,593)	(840)	(604)	(47)	206	(2,878)
Segment profit	3,545	1,870	1,345	105	(830)	6,035
Minority interests	(64)	-	-	-	(19)	(83)
Net profit	**3,481**	**1,870**	**1,345**	**105**	**(849)**	**5,952**
Assets	**366,292**	**119,491**	**32,105**	**142,191**	**(73,653)**	**586,426**

Definitions of customer segments:

Retail / SME: private individuals, 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 (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 2.6m customer accounts with deposits amounting to approximately CZK 78bn and a network that spans across approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

30. CURRENCY RISK

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

(CZKm)	31.12.2002	31.12.2001
SKK	1,118	209
EUR	(583)	(1,332)
USD	30	112
JPY	2	(83)

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 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

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

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

The above 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.

Risk-free interest yield curves that were used by the Group in the process of estimating the fair value of financial instruments not traded, with sufficient liquidity, on a recognised market as at 31 December 2002 and 2001 are set out below:

	31 December 2002				31 December 2001			
(%)	CZK	EUR	USD	SKK	CZK	EUR	USD	SKK
1 week	2.715	2.860	1.300	6.100	4.740	3.365	1.878	7.750
1 month	2.705	2.835	1.320	6.140	4.710	3.347	1.874	7.750
3 months	2.540	2.805	1.320	5.790	4.570	3.297	1.881	7.750
6 months	2.500	2.740	1.320	5.505	4.430	3.283	1.981	7.730
9 months	2.500	2.705	1.330	5.390	4.425	3.324	2.181	7.730
1 year	2.500	2.685	1.385	5.250	4.477	3.388	2.503	7.730
5 years	3.590	3.695	3.160	4.780	5.093	4.661	5.211	7.722
10 years	4.390	4.400	4.230	5.300	5.583	5.229	5.919	

32. LIQUIDITY RISK

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

(CZKm)	Demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	21,125	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	45,904	33,635	92,361	32,435	4,904	213,682
Other financial assets	344	112	-	-	-	6,019	6,475
Total assets	29,182	175,811	89,664	140,684	61,696	19,573	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)**	**(65,889)**	**44,057**	**85,006**	**57,838**	**(1,939)**	**(17,216)**

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

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

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

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

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

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

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:

	31.12.2002		31.12.2001	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Due from banks	142,355	142,447	117,194	117,288
Investment securities	61,833	62,195	28,435	28,464
Loans and leases	213,682	216,224	181,476	182,816
Rescue acquisition state assistance receivable	57,088	57,088	146,822	146,822
FINANCIAL LIABILITIES				
Due to banks	26,472	26,269	27,814	28,002
Due to customers	418,143	418,202	417,743	417,792
Debt securities in issue	28,169	29,190	34,917	35,702
Rescue acquisition NAV surplus payable	4,731	4,731	6,804	6,804

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

Due from banks

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

Securities

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

Loans and leases

A substantial majority of the loans and advances to customers reprice within relatively short time spans; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates.

Rescue acquisition state assistance receivable and Rescue acquisition NAV surplus payable

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

Due to banks

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

Due to customers

The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue

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

34. CONDENSED FINANCIAL INFORMATION OF THE BANK

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

Condensed statement of income

(CZKm)	2002	2001
Net interest income	10,266	10,748
Net commission income	4,781	5,216
Net trading income	3,073	2,880
Other income	2,821	2,237
Operating income	**20,941**	**21,081**
Operating expenses	(13,137)	(13,754)
Operating profit before provisions	**7,804**	**7,327**
Provisions	1,315	1,528
Operating profit	**9,119**	**8,855**
Income tax expense	(2,533)	(2,868)
Net profit	**6,586**	**5,987**

Condensed balance sheet

(CZKm)	31.12.2002	31.12.2001
ASSETS		
Cash and balances with central banks	21,069	21,519
Due from banks	131,909	110,855
Trading assets	54,570	49,605
Investment securities	63,689	32,140
Loans and leases	167,007	143,863
Consolidated subsidiary companies - at equity	11,335	9,005
Rescue acquisition state assistance receivable	57,088	146,822
Other assets	25,611	21,440
Total assets	**532,278**	**535,249**
LIABILITIES		
Due to banks	13,919	16,236
Trading liabilities	40,965	27,242
Due to customers	380,279	389,772
Debt securities in issue	18,183	26,618
Other liabilities	37,627	37,492
Shareholders' equity	41,305	37,889
Total liabilities and shareholders' equity	**532,278**	**535,249**

Included in shareholders' equity are non-distributable statutory reserves of CZK 19,223 million and CZK 19,224 million as at 31 December 2002 and 2001, respectively.

Condensed cash flow statement

(CZKm)	2002	2001
Net cash flow from operating activities before income tax	(21,968)	9,473
Net income tax paid	(2,274)	(665)
Net cash flow from / (used in) operating activities	(24,242)	8,808
Net cash flow from / (used in) investing activities	39,432	(2,562)
Net cash flow from / (used in) financing activities	(11,734)	(9,011)
Effect of exchange rate changes on cash and cash equivalents	17	(243)
Net increase / (decrease) in cash and cash equivalents	**3,473**	**(3,008)**

35. SIGNIFICANT SUBSIDIARY AND JOINT VENTURE COMPANIES

The following are the significant subsidiaries and joint ventures of ČSOB as at 31 December 2002 (all of which were consolidated as at 31 December 2002):

Name	Country of incorporation	Direct ownership
Subsidiaries		
ČSOB Leasing, a.s.	Czech Republic	100%
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100%
Business Center, s.r.o.	Slovak Republic	100%
Finop Holding, a.s.	Czech Republic	95%
ČSOB Leasing, a.s.	Slovak Republic	90%
První investiční, a.s.	Czech Republic	81%
Českomoravská hypoteční banka, a.s.	Czech Republic	59%
ČSOB Asset Management Group	Czech Republic	20%
Joint ventures		
Českomoravská stavební spořitelna, a.s.	Czech Republic	55%
O.B. Heller, a.s.	Czech Republic	50%

During 2002 ČSOB acquired a 20% share in the ČSOB Asset Management Group. Based on the Agreement on the exercise of voting rights the Group is entitled to 79% of voting rights in the ČSOB Asset Management Group, therefore the ČSOB Asset Management Group has been consolidated.

The 90% share in ČSOB Leasing Slovak Republic has been gained through ČSOB participation in the capital increase in 2002, while the former majority shareholder ČSOB Leasing Czech Republic did not participate in that increase and holds the residual 10% share.

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 84.05% of ČSOB voting shares. Almanij N.V. has control of KBC Bank N.V. through its 68.05% 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)	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Directors and employees	321	480	3,122	3,070
KBC Bank N.V.	14,805	13,610	5,053	65
Unconsolidated subsidiaries and associated companies	220	5,334	1,841	2,161

Interest income recognised on the KBC Bank N.V. loans in 2002 amounted to CZK 607m (2001: CZK 379m). Interest expense incurred on the KBC Bank N.V. loans in 2002 amounted to CZK 138m (2001: Nil).

The borrowings to KBC Bank N.V., as at 31 December 2002, were collateralised by Belgian-state obligations of market value of CZK 3,943m (31 December 2001: CZK 11,412m), held directly in the name of ČSOB and can, therefore, be readily sold but only in case of default.

The compensation of the Executive Board members is approved by the shareholders in General Meeting. In addition, bonuses of the Executive Board amounting to CZK 20m in 2002 (2001: CZK 19m) were approved by the Compensation Committee of the Supervisory Board.

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 of CZK 380 per share (2001 actual dividend CZK 670 per share) amounting to a total of CZK 1,898m (2001 actual CZK 3,343m) is to be proposed. The financial statements for the year ended 31 December 2002 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2003.

38. ČSOB's SHAREHOLDERS

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

	2002	2001
KBC Bank N.V.	84.05%	78.12%
European Bank for Reconstruction and Development	7.70%	7.68%
International Finance Corporation	4.53%	4.51%
KBC Verzekeringen N.V.	-	5.71%
Others	3.72%	3.98%
Total	100.00%	100.00%