2004

ANNUAL REPORT | VÝROČNÍ ZPRÁVA

ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A. S.

ČSOB

ČSOB´S BASIC INFORMATION

Business name:	Československá obchodní banka, a. s. ("CSOB", the "Bank", "Company")
Registered office:	Praha 1 - Nové Město, Na Příkopě 854/14, Postal Code: 115 20
Legal status:	joint-stock company
Registration:	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration:	21 December1964
ID No.:	00001350

Bank code:	0300
SWIFT:	CEKOCZPP
Telex:	12 22 01, 12 22 65
Telephone:	+420 261 351 111, +420 224 111 111, +420 222 041 111
Fax:	+420 224 113 695, +420 224 225 049
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz

Organisation Unit in Slovak Republic

Business name:	Československá obchodní banka, a. s., branch of a foreign bank in the Slovak Republic
Registered office:	Bratislava, Michalská 18, Postal Code: 815 63
Legal status:	Organisational unit of a foreign entity
Registration:	Registered in the Commercial Registry of the District Court in Bratislava 1, Section Po, Entry 168/B
Date of registration:	8 April 1993
ID No.:	30 805 066

Bank code:	7500
SWIFT:	CEKOSKBX
Telex:	-
Telephone:	+421 259 661 111
Fax:	+421 254 414 795
E-mail:	info@csob.sk
Internet address:	http://www.csob.sk

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LETTER OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

Ladies and gentlemen, dear shareholders,

The year 2004 was a successful year for ČSOB. This was evidenced by the business expansion recorded in all customer segments. We registered an increase in both non-interest income and interest income, which was primarily driven by **growth in the volume of business**, and only slightly by selected price adjustments. Even in the environment of very low basic interest rates, we managed to achieve higher profitability than in the prior year due to increased business. Net profit grew by 9 % and reached CZK 6.8 billion. Thanks to good cost management, we succeeded in decreasing the cost/income ratio from 67.2 % to 61.6 %. ČSOB managed to maintain its market position in a tough competitive environment.

The strategic shift of the ČSOB Group from the area of transaction services to the area of wealth management, which was announced here last year, advanced further. In 2004, ČSOB manifested its ability to orientate itself towards providing advisory services to its clients, to help the diversification of savings into various investment products and to provide personal financial planning and investments, including clients' buying their own homes. I expect that this trend, rapidly bringing the demand for financial products in the Czech Republic close to that existing in the EU-15, will continue further. The Report of the Board of Directors, which is available to you in writing, informs you in detail about the business development in all business segments.

So, I am going only to mention some main trends. **In the segment of small and medium-sized enterprises (SMEs)**, we increased the number of clients for whom we are a Bank of first choice from 20 % to 25 %. The credit portfolio grew roughly by a third, while the quality of assets was maintained. Credit procedures were further simplified. The income generated by this segment showed the fastest dynamic growth. This was helped by the establishment of FX Centers in regions where the Centers support the robustly growing cross-border SME trade exchange after the accession of the Czech Republic and Slovakia to the European Union.

By acceding to the conventions of the European Payments Council Credeuro and the Interbank Convention of Payments, ČSOB was the only domestic bank that **committed itself to observe European payment standards** before accepting the euro as a national currency. Subsequently, it significantly cheapened payments made within the EU, which is in line with the EU Directive on Europayments. Due to this fact, the volume of cross-border payments carried out in ČSOB grew significantly, especially in the SME segment.

In the segment of **corporate clients**, we continue to be a leading bank in the market. However, the competition is getting tougher, because the market for corporate financing has already become an international, European market. Contrary to the market for retail banking, which goes on developing in both the Czech Republic and the Slovak Republic within the framework of their respective national markets.

In retail banking, the ČSOB Group further profiled itself significantly in the area of financing housing needs. In a tough competitive environment, we achieved 43 % growth. From a judicial act of the European Court of Justice, which met a complaint of owners of tenement houses against regulated rent rates in Poland, one can implicitly expect that also in the Czech Republic rent rates will be radically deregulated. This may prompt a new wave of interest in mortgage loans, and we must react to this interest in time. At present, however, the mortgage market is the most competitive market in the Czech Republic and its considerable potential is outweighed by a significant decrease in margins.

Despite good financial results achieved last year, we are not fully satisfied. To become a top company, we need to react to market opportunities much more quickly. The complex character, the diversification and the scope of the ČSOB Group must not be a factor limiting the entrepreneurial spirit of managers or the initiatives of employees. We are aiming at a new arrangement of priorities, at a new leadership model, at new values.

We would not achieve all this without well-motivated **managers and employees of the Group**, who will have a clear plan for career development, powers linked to clear responsibilities, a clear goal and a shared vision.

Our clients must remain at the centre of our efforts. On the road of our change, we must not repeat the mistake, as happened during the merger with IPB, that we, for some time, focus inwards, on ourselves. Our goal is to build a long-term, mutually beneficial partnership with our clients, as we succeeded last year in the **segment of small and medium-sized firms**. In this respect, I am not going to slacken my efforts to make ČSOB a strong and reliable partner for our clients. I know that we are now on a good track that will continue to bring you, the shareholders, value.

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

CONSOLIDATED FIVE YEAR FINANCIAL SUMMARY

(according to International Financial Reporting Standards / International Accounting Standards)

	2004	Reclassified 2003	2002	2001	2000
Results for the year (CZKm)					
Operating profit	9,577	7,253	9,286	8,913	6,465
Income tax expense	2,685	946	2,580	2,878	1,696
Net profit	6,816	6,240	6,591	5,952	4,691
At year-end (CZKm)					
Shareholders´ equity	44,835	46,001	41,275	37,853	34,336
Due to customers	426,058	441,596	418,143	417,743	348,820
Due to banks	24,722	20,254	26,472	27,814	22,891
Debt securities in issue	24,854	16,731	28,169	34,917	66,195
Loans and leases	249,043	230,100	213,682	181,476	164,501
Due from banks	116,880	131,059	142,355	117,194	71,142
Total assets	613,281	606,480	597,044	586,426	535,544
Ratios (%)					
Return on average shareholder´s equity (ROAE)	15.01	14.30	16.65	16.49	14.26
Return on average assets (ROAA)	1.12	1.04	1.11	1.05	1.18
Bank capital adequacy ratio - CNB regulations[1][2]	12.11[3]	15.36	13.99	15.04	13.70
Total shareholders´ equity to total assets[1]	7.31	7.58	6.91	6.45	6.41
Exchange rate CZK / USD[1]	22.37	25.65	30.14	36.26	37.81
Average exchange rate CZK / USD	25.70	28.23	32.74	38.04	38.59
Exchange rate CZK / EUR[1]	30.47	32.41	31.60	31.98	35.09
Average exchange rate CZK / EUR	31.90	31.84	30.81	34.08	35.61

[1] as at 31 December   [2] as reported   [3] Group capital adequacy ratio was 11.21 %

The Group 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 10 March 2005)	Long-term:	Short-term:	Financial strength:	Individual:	Support:
Fitch	A+	F1		C	1
Moody´s	A1	Prime-1	C-		
Standard & Poor´s	BBB+	A-2			
Capital Intelligence	BBB+	A2	BBB+		2

ČSOB's long-term ratings from Fitch, Moody´s and Capital Intelligence are at the same level as the country ceiling (i.e. the highest possible), the rating from S&P is one notch lower.

PROFILE OF THE COMPANY

Československá obchodní banka, a. s. operates on two national markets, Czech Republic and Slovakia. It is the largest bank domiciled in the Czech Republic and in Central Europe, measured by the value of assets. As a universal bank, it offers a full range of banking services to individuals and companies.

ČSOB was established by the State in 1964 as the sole bank providing foreign trade financing and convertible currency operations in what was then Czechoslovakia. After 1989 ČSOB expanded its activity by including services for new entrepreneurial entities and for individuals. A significant milestone in ČSOB's history was its privatisation in June 1999, when the Belgian KBC Bank, a member of the KBC Group, became the majority owner of ČSOB. This Group is focused on bancassurance activities for retail clients and it is also active in areas of asset management, services for corporate clients and market trading. In geographical terms, the Group is focused on Europe. It ranks among the three largest banking and insurance companies operating on the primary home market in Belgium and it is active as one of the largest financial groups in Central Europe, which is defined by the Group as its secondary home market. Another milestone in the history of ČSOB was the take-over of the enterprise Investiční a Poštovní Banka, a.s. in June 2000. In such a way, ČSOB promptly strengthened its position in retail banking.

Today, ČSOB's business profile comprises segments of retail clientele, small and medium-sized companies, corporates and non-banking financial institutions, financial markets and private banking. In compliance with the KBC Group's strategy, ČSOB is developing services primarily for retail clients and small and medium-sized enterprises and the bancassurance concept. In retail banking, ČSOB operates under two brand names - *ČSOB* and *Poštovní spořitelna* (Postal Savings Bank), which uses the large network of the Czech Post for its activities.

ČSOB develops its activities in the Slovak Republic through a foreign branch whose business is oriented towards business activities undertaken in the Czech Republic.

As at 31 December 2004, ČSOB had about 3.2 million clients in the Czech and Slovak Republics. The clients were served through 210 branches in the Czech Republic (sales points of Postal Savings Bank not included), through 78 branches for retail clients and SMEs in the Slovak Republic and through various direct-banking channels.

As at 31 December 2004, the long-term and short-term ratings awarded by Moody's and Fitch and the short-term rating awarded by Standard & Poor´s are at the highest-possible level. The long-term rating awarded by S&P is lower by one notch. While putting the emphasis on risk management, ČSOB has been successful in achieving high profitability for a long time.

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

ČSOB Group

At present, the ČSOB Group provides its clients with financial services in the following areas: building savings and mortgages, life and non-life insurance, asset management, collective investment, pension insurance, leasing and factoring. By market share individual Group companies are in a significant position in their respective businesses both in the Czech Republic and Slovakia. The ČSOB Group focuses on the full utilisation of its business potential arising from a strong customer base and a far-reaching distribution radius of the entire Group with the aim to satisfy, in all respects, the financial needs of its clients.

PROFILE OF KBC GROUP

ČSOB is a member of the KBC Group, which was formed in early 2005 as a result of the merger of KBC Bank and Insurance Holding (created in 1998 through the merger of ABB Insurance group, the Almanij-Kredietbank group and CERA Bank group) and its parent company, Almanij. The KBC Group has five direct subsidiaries, being KBC Bank, KBC Insurance, KBC Asset Management, Kredietbank Luxembourgoise and Gevaert.

The KBC Group is focuses on bancassurance activities for retail and private clients and is also active in asset management, services to corporations, market activities and private equity. Its geographic focus is on Europe. It belongs to the top-three banks and insurance companies in Belgium and figures as one of the largest financial groups in Central Europe, via its network of subsidiaries and participations in the Czech and Slovak Republics, Hungary, Poland and Slovenia.

Main Central European KBC Group companies and participations (31 December 2004)

Country	Company	Interest percentage (direct and indirect)
Czech Republic	ČSOB (bank)	90%
	ČSOB Pojišťovna (insurance company)	98%
	Patria Finance (investment bank)	100%
Hungary	K&H Bank (bank)	59%
	K&H Life (insurance company)	80%
	Argosz (insurance company)	99%
Poland	Kredyt Bank (bank)	85%
	Warta (insurance company)	75%
Slovakia	ČSOB (bank)	see Czech Republic
	ČSOB Poisťovňa (insurance company)	87%
Slovenia	NLB (bank)	34%
	NLB Vita (insurance company)	67%

Some pro forma key figures for the KBC Group as at 31 December 2004 are given below. More information can be found on KBC's corporate website www.kbc.com.

Total assets (EURm)	249,234
Market capitalization (EURm)	17,600
Net profit (EURm)	1,758
Capital Adequacy ratio KBC Bank	12.9 %
Solvency ratio KBC Insurance	389 %
Number of staff (FTEs)	51,000

Long-term ratings (as at 31 December 2004)	Fitch	Moody's	S&P
KBC Bank	AA-	Aa3	A+
KBC Insurance	AA	-	A+

MANAGING AND SUPERVISORY BODIES OF ČSOB

ČSOB´S BOARD OF DIRECTORS (as at 31 December 2004)

First name and surname	Position	Member since	Date of the beginning of the member's current term of office
Pavel Kavánek	chairman* and chief executive officer	17 October 1990	19 May 2004
Petr Knapp	member and senior executive officer	20 May 1996	19 May 2004
Jan Lamser	member and senior executive officer	26 May 1997	19 May 2004
Philippe Moreels	member and senior executive officer	1 March 2002 **	17 April 2002
Patrick Daems	member and senior executive officer	1 April 2002 **	17 April 2002

* re-elected chairman on 26 May 2004 ** co-opted

Introduction of the Members of the Board of Directors

Pavel Kavánek (born on 8 December 1948)
Chairman of the Board of Directors and Chief Executive Officer

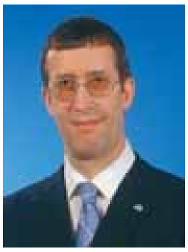
Education: Prague School of Economics and The Pew Economic Freedom Fellowship at Georgetown University. He has been working for ČSOB since 1972. He has been a member of the Board of Directors of ČSOB since 1991 and its Chairman and CEO since 1993.
Membership in other company bodies: Vice-Chairman of the Supervisory Board of ČMSS, Member of the Supervisory Board of ČSOB Asset Management, President of the Czech Banking Association, Chairman of the Supervisory Board of the Dagmar and Václav Havel Foundation.

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

Education: Prague School of Economics. He came to ČSOB in 1979. From 1984, he worked in Teplotechna Praha, a.s., first as Deputy Director and later as Director of Foreign Operations. In 1991 he came back to ČSOB and was appointed Director of ČSOB Corporate Finance Department and later Director of the Credits Section. Since 1996, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.
Membership in other company bodies: Chairman of the Supervisory Board of OB Heller.

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

Education: Mathematics-Physics Faculty of Charles University, Prague School of Economics and Ecole des Hautes Etudes Commerciales in Paris. He has been working for ČSOB since 1995 and has been a member of the Board of Directors since 1997. In 1998, he was appointed Director of Strategic Development and since 1999 he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.
Membership in other company bodies: Chairman of the Supervisory Board of ČSOB Leasing.



Philippe **Moreels** (born on 25 February 1959)
Member of the Board of Directors and Senior Executive Officer

Education: University education focused on computer and social sciences in Belgium, business management studies at Solvay Business School, holder of a Handelsingenieur Solvay diploma. He started his work career as a pension fund analyst with the Unilever Group, where he also worked as an internal auditor. Afterwards, he worked for seven years as manager of Back Office of the Standard Chartered Bank/Westdeutsche Landesbank group. From 1993 until joining ČSOB, he worked at Tatra Banka Bratislava in Slovakia, first as Operations Manager and from 1998 as a member of the Board of Directors. Since 1 March 2002, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.
Membership in other company bodies: Member of the Supervisory Board of ČSOB Asset Management, Member of the Supervisory Board of ČSOB Asset Management, administration company a.s., Chairman of the Supervisory Board of ČMHB, Member of the Supervisory Board of ČMSS, Chairman of the Supervisory Board of ČSOB Stavebná sporiteľňa, Member of the Supervisory Board of ČSOB Poisťovňa, Chairman of the Supervisory Board of ČSOB distribution, Chairman of the Supervisory Board of ČSOB d.s.s., Chairman of the Supervisory Board of Business Center.

Patrick **Daems** (born on 21 April 1948)
Member of the Board of Directors and Senior Executive Officer

Education: University studies focused on economic sciences at U.F.S.I.A. (University Antwerp), Belgium; M.B.A. from University in the U.S.A. First, he worked for the U.N., then at the Belgium-based branch of First Interstate Bank. From 1980, he worked as its Representative Officer in Frankfurt. In the following years, he worked as Manager of the bank's Corporate Banking in Los Angeles. From 1987 to 1992, he worked at Swiss Bank Corporation in the U.S.A. as a Manager in the South-Western Corporate Banking Division. Since 1992, he has been employed at Kredietbank (which later became part of KBC Bank), first as the leading representative in Los Angeles, then in Brussels as the Manager of the Head Office Corporate Division. From 1997, he was the General Manager of International Banking at the Brussels Head Office of the bank.
Since 1 April 2002, he has been a member of the Board of Directors and Senior Executive Officer of ČSOB.
Membership in other company bodies: Member of the Supervisory Board of ČSOB Asset Management, Chairman of the Supervisory Board of ČSOB Investment Banking Services.

The Board of Directors of ČSOB did not change in 2004.

ČSOB´S SUPERVISORY BOARD (as at 31 December 2004)

First name and surname	Position	Member since		Date of the beginning of the member's current term of office	
Jan Švejnar	chairman*	9 October 2003	**	19 May 2004	
François Florquin	member	10 August 1999		13 April 2000	
Roman Glasberger	member (elected by employees)	8 June 2000		8 June 2000	
Petr Korous	member (elected by employees)	8 June 2000		8 June 2000	
André Bergen	member	20 February 2004	**	19 May 2004	
Marko Voljč	member	19 May 2004		19 May 2004	
Anne Fossemalle	member	22 September 2004	**	22 September 2004	**
Riet Docx	member	1 December 2004	**	1 December 2004	**

* re-elected chairman on 9 June 2004 ** co-opted

Introduction of the Members of the Supervisory Board

Jan Švejnar (born on 2 October 1952)
Chairman of the Supervisory Board

Education: Industrial and Work Relations - Cornell University; Ph.D. in Economics - Princeton University. An independent economist living abroad since 1970. Since 1992, he has evenly divided his work capacity between activities in Prague and the U.S.A. He has primarily devoted his academic career to economies in transition and, generally, to economic development. He is Professor at the University of Michigan Business School.
Membership in other company bodies: William Davidson Institute (Executive Director), Center for Economic Research and Graduate Education - CERGE of Charles University (Chairman of the Board), Faculty of Social Sciences of Charles University (Member of the Academic Council), Member of the Board of the BOHEMIAE Foundation

François L. Florquin (born on 4 May 1947)
Member of the Supervisory Board

Education: University degree in economics. From 1972, he worked in CERA Bank in the following positions: Inspector, Head Inspector, Manager, Secretary General, Member of the Board of Directors and Member of the Executive Committee. Currently, he is Managing Director of KBC Bank and a Member of the Executive Committee.
Membership in other company bodies: ČSOB, K&H Bank, Kredyt Bank, CBC Banque (Vice-Chairman), Centea (Chairman), Belgische Raiffeisenstiftung VZW, KBC Asset Management, NLB.

Roman Glasberger (born on 12 January 1971)
Member of the Supervisory Board elected by employees

Education: Prague School of Economics. Between the years 1994 – 1996, he worked for Živnostenská banka, a.s. as a Capital Market Analyst and Credit Analyst. Since 1996, he has been working for ČSOB as a Credit Officer, the Branch Manager and currently as a Retail/SME Credit Specialist in the region Prague 2.

Petr Korous (born on 16 March 1967)
Member of the Supervisory Board elected by employees

Education: Prague School of Economics. Since 1992, he has worked in ČSOB as a Specialist Dealer, Expert Dealer and Head of Customer Service Desk. He is currently Director of the FM Sales Team.

André Bergen (born on 22 September 1950)
Member of the Supervisory Board

Education: Catholic University in Leuven, Faculty of Economics, in 1974. Since 1977, he has been working in the banking sector, first in Kredietbank in Brussels, afterwards in the Chemical Bank (FX operations advisory). From 1982, he worked for Generale Bank and then in Fortis Bank in Brussels (from 1999 to 2000, as a member of the Board of Directors). In the years 2000-2003, he worked as Vice-President and, at the same time, as Chief Financial and Administration Officer in Agfa-Gevaert N.V. Since May 2003, he has been the President of KBC Bank.

Marko Voljč (born on 5 December 1949)
Member of the Supervisory Board

Education: University studies of economics in Lyublana and Beograd (1973) and post-doctorate studies at the IMF in Washington (1997) and at HIID in Boston, U.S.A. (specialisation: economic development, 1981). He started his banking career in 1973 in the Bank of Slovenia as director of the analytical department. Between 1979 and 1987, he managed various projects of the World Bank for Latin America and China. Afterwards, he managed the World Bank's office in Mexico for 3 years. From 1990, he managed the department for Central America and Panama at the Head Office of the World Bank in Washington. From 1992, he worked as General Manager of Ljubljanska Banka. In 2004, he was appointed General Manager of the KBC Directorate for Central Europe in Brussels.
Membership in other company bodies: Kredyt Bank, K&H Bank, LHB Bank, Gorenje (Slovenia).

Anne Fossemalle (born on 16 March 1964)
Member of the Supervisory Board

Education: Institut National Agronomique in Paris, "Masters Degree in Engineering" from Ecole Nationale du Genie Rural des Eaux et des Forets and "Masters Degree in Economics" from Stanford University, U.S.A. From 1989 to 1993, she worked for Credit National, the third largest French bank. Since 1993, she has been working for EBRD. From 1993 to 1994, she was a member of a team engaged in agricultural projects, from 1994 to 1997 she worked as Principal Banker in a team focused on Hungary. Currently, she has been working in a team for financial institutions with EBRD (London) as Senior Banker responsible for major investment projects.
Membership in other company bodies: NLB, BRD (Rumania), FUIB (Ukraine), Ukraine Fund (Ukraine).

Riet Docx (born on 15 September 1950)
Member of the Supervisory Board

Education: Economic studies at Antwerp University. Between 1976 and 1994, she worked in institutions operating in the banking and insurance sector - she held managerial positions in Benelux Bank and in insurance companies Omniver NV and Omniver Leven NV. Since 1994, Mrs. Riet Docx has been working for KBC. In January 2005, she was appointed Executive Manager responsible for the coordination of banking activities in Central European countries at the KBC Directorate for Central Europe.

Changes in the Supervisory Board during 2004

At its session on 20 February 2004, the Supervisory Board of ČSOB discussed the resignation of its previous Vice-Chairman, *Herman Agneessens*. On the same day, *André Bergen* was co-opted to the Supervisory Board.

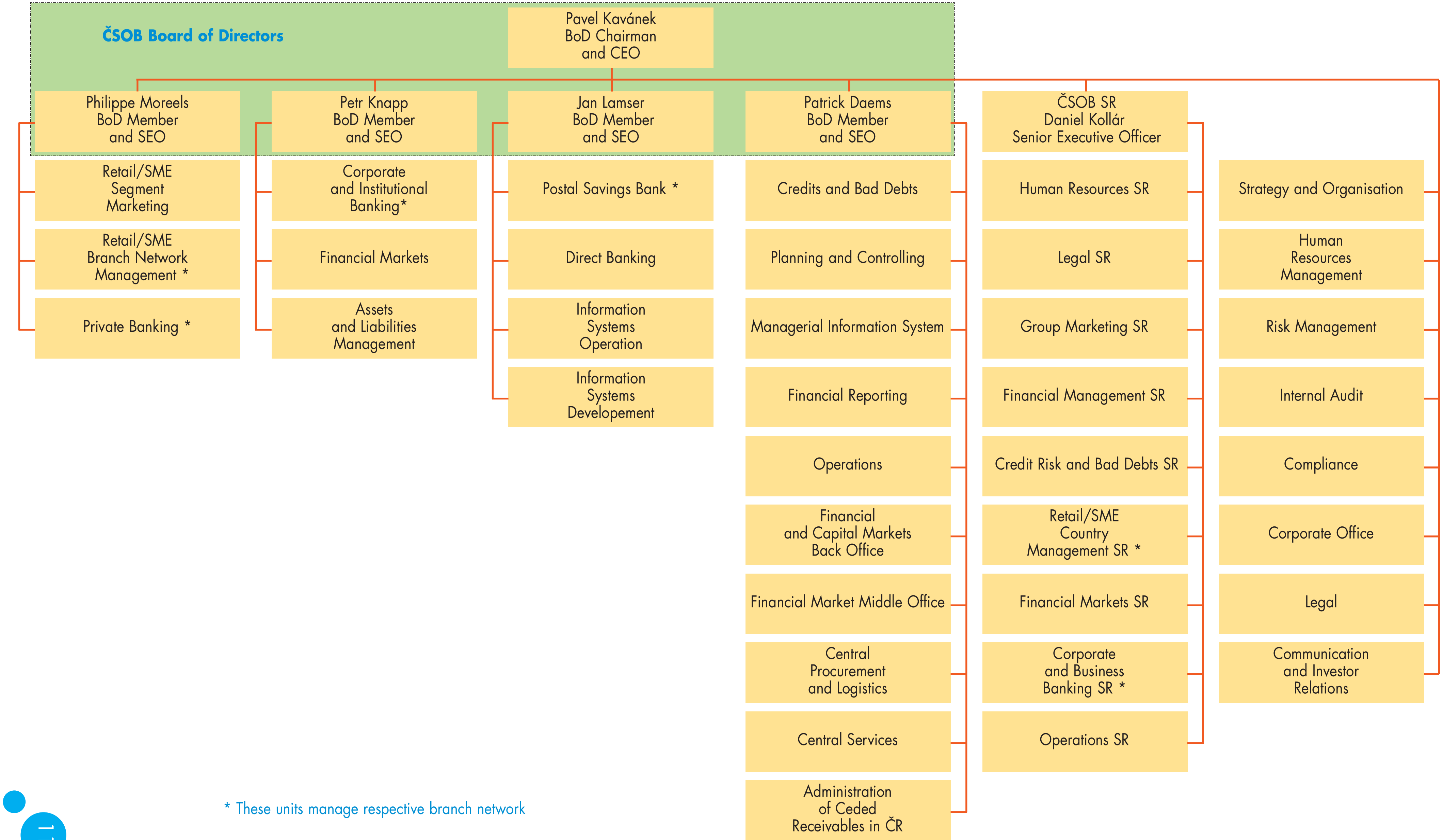
At its session on 21 April 2004, the Supervisory Board discussed the resignation of another member of the Supervisory Board – *Farida Khambata*.

The Ordinary General Meeting of Shareholders of ČSOB that took place on 19 May 2004 elected *Marko Voljč* as a new member of the Supervisory Board of the Bank. Further, it elected the co-opted members of the Supervisory Board - *Jan Švejnar, André Bergen* and *Dirk Mampaey* - as members of the Supervisory Board.

At its session on 22 September 2004, the Supervisory Board of ČSOB discussed the resignation of its member *Kanako Sekine*. At the same session, *Anne Fossemalle* was co-opted to fill the vacated post.

At its session on 1 December 2004, the Supervisory Board of ČSOB accepted the resignation of its member, *Dirk Mampaey*, due to his appointment to another position within the KBC Group. At the same session, the Supervisory Board elected *Riet Docx* to fill the vacant post.

ORGANISATION CHART
OF ČSOB (as of 1st April 2005)



* These units manage respective branch network

BOARD OF DIRECTORS' REPORT

2004 was a successful year for ČSOB, as was evidenced by its business growth resulting in higher profitability. ČSOB achieved very good financial results – consolidated profit according to International Financial Reporting Standards (IFRS) grew by 9 % since 2003, reaching CZK 6.8 bn.

Successful development of the business in the area of lending to retail customers and small and medium-sized enterprises as well as sales of mutual funds, together with cross-selling and the quality of advisory services, was recognised by the prestigious specialist magazine Global Finance. Prizes obtained were "The Best Bank in the Czech Republic" and "The Best Foreign Exchange Bank in the Czech Republic" in 2004.

ČSOB maintained its strong position in the Czech market with three million customers and a 24 % share of the deposit market and a 18 % share of the loan market. ČSOB is a market leader in **housing loans**, and the volume of ČSOB Group's housing loans increased by roughly 40 % in 2004. The biggest competitive advantage of ČSOB in the area of services to retail clientele is **wealth management for clients**, on which the Bank´s advisory services concentrate. Growth in assets in **mutual funds** confirmed the preference of retail customers for more sophisticated financial instruments, supported by the Bank´s advisory services. Deepening relationships with SME customers brought an increase in the volume of **SME loans** of roughly 30 %. The year 2004 was also successful for ČSOB in the corporate segment and in the area of the financial markets. SME and corporate customers welcome the support from the **EU Centre**, which was established within ČSOB in June 2004 just after the Czech Republic had joined the EU. ČSOB provides advisory services relating to projects subsidised from EU funds and is co-financing them. In **bancassurance,** ČSOB continued to develop and sell insurance products through its branch network, with the main focus on life insurance. The expansion of the branch network for retail clients and SMEs **in Slovakia** continued: 8 new branches were opened in 2004, bringing the total number to 78. In Slovakia, ČSOB is among the top five banks. In the Slovak market as well, good results were achieved in sales of mutual funds facilitated by establishing a ČSOB Asset Management subsidiary.

In December 2004, the International Centre for the Settlement of Investment Disputes (ICSID) in Washington announced its award in a long-running dispute between ČSOB and the Slovak Republic. Pursuant to this award, the Slovak Republic must pay to ČSOB SKK 24.9 bn. The dispute was related to the outstanding debt of Slovenská inkasní jednotka (Slovak Collection Unit) to the Bank. Subsequently, ČSOB and the Ministry of Finance of the Slovak Republic have agreed in principle that the due amount will be fully paid in installments in 2005 – SKK 16 bn and the rest on 1 January 2006. The financial impact on ČSOB´s performance in the year 2005 will reflect the coverage of the outstanding debt by the Czech state in 1998.

A bank-wide project called "Blue Effect" was started in 2004 with the aim to **enhance performance**. Within the framework of the project, causes of lower efficiency will be identified and removed, and the Bank will be transformed into a high-performing bank, as well as creating a new corporate culture. By the end of 2004, a diagnosis of the current state of the Bank was made and a proposal of further steps was prepared.

As part of efforts to increase efficiency, ČSOB has been rightsizing its staff numbers in the Czech Republic since September 2002. The aim was to reduce the number by 1000 employees by the end of 2004 and, after having made an adjustment for the business volume increase, this target was achieved. At the same time, new initiatives have been started up to achieve further cost savings.

Within the group, **ČSOB** further deepened cooperation between members with the aim to **make use of synergies** for development of cross-selling. In the non-commercial area, the cooperation was focused on human resource management, on marketing and on credit risk management. Another goal of cooperation is savings in the cost area.

A traditionally cautious approach to risk management (along with KBC support, strong market position and financial profile) is reflected in the rating of ČSOB by rating agencies. In 2004, the **agencies** further **increased the rating of ČSOB**: in August, **Standard & Poor's** increased the long-term rating of ČSOB, in April 2004 **Fitch** increased the long-term rating (by two notches) as well as the short-term rating of ČSOB, and, in January 2005, **Capital Intelligence** increased both the long-term and the short-term ratings of ČSOB. ČSOB has long-term ratings from Fitch, Moody's and CI at the level of country ceiling, i.e. the highest possible, and the rating from S&P is one notch lower.

ČSOB strategy

ČSOB´s ambition is to be a leading bank-insurance group in the Czech market, built upon a substantial, stable retail franchise, efficiently providing financial services to its customers according to their needs, and ensuring an increasing, sustainable return to its shareholders by leveraging its current position. ČSOB wants to maintain its current strong position also in the segment of corporate clients and in financial markets.

To accentuate the leading position of the ČSOB Group in the Czech market and, at the same time, to robustly strengthen its position in Slovakia, ČSOB must use its traditional strengths better – in particular, financial stability, strong brands, extensive distribution network, and quality customer portfolio – and, at the same time, find new ways to distinguish itself from its competitors.

Therefore, the Bank will continue to notably strengthen cooperation with its subsidiaries as well as mutual cooperation among subsidiaries themselves. An important goal is the significant improvement of customer service and client relationship management. ČSOB is striving to find an optimal balance to effectively serve both retail clients and small enterprises through networks of its traditional "bricks-and-mortar" branches, tied agents and e-banking channels. To achieve sustainable growth in income, ČSOB will make its best efforts to not only better understand and take advantage of use market opportunities, and to support innovative behaviour patterns, but also to monitor, carefully and purposefully, cost platforms and to consistently increase productivity.

According to total assets under management, ČSOB is a key manager of client assets

Assets under ČSOB Group management reached a total of CZK 530 bn at the end of 2004 (bank deposits, building savings, mutual funds, asset under discretionary management, pension funds). In the structure of total assets, rapid growth of client assets under discretionary management and mutual funds has been recorded (to CZK 95 bn), in line with client preference for investments into financial markets instruments. The volume of building savings increased as well and reached CZK 60 bn. The market value of pension fund investments increased to CZK 9 bn.

Improved offering for retail clients and small and medium-sized enterprises

Advisory as key competence differentiating ČSOB in the retail segment

The retail segment was marked by two main trends in the year 2004. In the area of deposits, structural changes, resulting from clients' efforts to achieve better appreciation of their savings, continued. In the consumer lending market, **mortgage loans and loans from building savings** became a clear **growth accelerator**, while ČSOB Group defended its position as market leader in housing loans. Its market share of total loans provided to individuals (housing loans and consumer credits) reached 25 %. The portfolio of consumer lending products was expanded by including ČSOB Mortgage, ČSOB Car Loan and gold credit card. In mortgage sales, the ČSOB Group applied a strategy involving two brands while making use of synergies in the back-office.

Mortgage bank **Českomoravská hypoteční banka** (ČMHB) has taken 3rd place in the mortgage market, with a 21% share (measured by the volume of mortgages in the balance sheet). Taking into account business expansion in the area of mortgages, ČSOB doubled capital in ČMHB to CZK 2.6 bn. In 2004, ČMHB provided new mortgage loans of CZK 12.4 bn, which is an increase year-on-year of roughly one third. The building society **Českomoravská stavební spořitelna** (ČMSS), with a 36% share in deposits and a 43% share in loans, strengthened its leading position in the building savings market. The company **ČSOB Leasing** maintained its leading position in the leasing market with a 14% share (measured by the volume of new leasing business).

Thanks to early recognition of market trends and clients' needs and thanks to a flexible offer in the area of asset management (especially of guaranteed funds), ČSOB Group managed to keep its **strong position in individuals' banking assets**. With a 29 % market share at the end of 2004, it is one of the most significant market players. In the same period, the Bank significantly increased its share of the collective investment market from 20 % to 22 %. The Bank benefited from its **key competence in increasing clients' financial assets** and introduced **investment advisors** in its branch network who specialise in collective investment, and who significantly contributed to the growth in this area.

Successful sale of banking services under Poštovní spořitelna's brand

Business development under the brand of Poštovní spořitelna (Postal Savings Bank - PSB) continued and the Bank offered simple products designed for the mass market at about 3,350 post offices in the Czech Republic (and at 8 PSB's own branches). In 2004, the trend of developing clients' investments in the capital market asserted itself also in Postal Savings Bank. The volume of consumer loans and credit cards grew in the Postal Savings Bank as well. The credit cards bring significant added value to the clients as insurance for the card holder against injury, a loss of the card or its misuse is included. Postal Savings Bank was successful in acquiring young clients – and opened more than 20 thousand new accounts in the Junior and Mini Program in 2004. The number of PSB´s accounts (Postgiro and Postkonto) reaches about 1 million and also the number of PSB´s payment card holders is roughly the same.

Small and medium-sized enterprises segment

Year-on-year, ČSOB increased its market penetration as a main financial institution for SMEs from 20 % to 25 %. This had the most significant effect on the **growth of credit exposure,** of about 30 %. The product offer was expanded to include permitted account overdraft with regular instalments. Training provided within the branch network resulted in a simplified and faster credit process and made it possible for merchants to arrange acceptance of payment cards at any branch. **FX Centres** introduced within the branch network offer to clients solutions taken over by a Bank for their foreign exchange transactions.

Bancassurance

ČSOB, in cooperation with the insurer ČSOB Pojišťovna and ČSOB Asset Management, continued to develop the concept of selling insurance products through the Bank's branch network. The Bank launched **further innovative products** of the ČSOB Savings Programme on the market – Maximal Invest (a combination of investment into guaranteed fund and life insurance) in February 2004 and Maximal Invest 2 in September 2004. In 2004, the Bank concluded, overall, 2.5 thousand new Maximal Invest and Optimal Profit contracts with a total premium written of over CZK 670 mn, which represents an **increase in single-premium life insurance** of 148 % against 2003. At the same time the Bank reached largest sales of unit linked products in the Central European region within KBC Group..

Since February 2004, ČSOB Pojišťovna has been offering applicants for a ČSOB Mortgage advantageous **insurance of buildings and households**, and, since March 2004, they have also offered **credit risk life insurance**. In 2004, the Bank succeeded in concluding contracts on insurance of buildings and households for 56 % of ČSOB Mortgage contracts and credit risk life insurance covered 45 % of the provided volume of mortgage loans.

More than two thirds of the market in the area of guaranteed funds belongs to ČSOB

At the end of 2004, the **volume of assets managed** in the funds of the ČSOB/KBC Group reached more than CZK 43 bn, which is an increase of about 5 % compared to the end of 2003. The growth in the volume of pro-actively sold retail funds reached as much as 37 %. In 2004, the volume of assets in investment funds transformed from coupon privatisation further decreased.

In 2004 ČSOB **successfully continued its sales of mutual funds.** Year-on-year, sales increased by 15 % and reached CZK 16.9 bn. In 2004, money market funds and also capital guaranteed funds (which guarantee a pre-set minimum yield) were once again the most popular. Overall, through its sales network ČSOB offers more than a hundred mutual funds managed by ČSOB Investiční společnost (Investment Company) and by the parent company, KBC. The **interest in guaranteed funds** especially continued to grow significantly, and, in 2004, ČSOB created and successfully sold 17 new guaranteed funds. The share of guaranteed funds in total sales was more than a quarter, while clients invested more than CZK 4.4 bn in these new funds. This represents an increase of more than 60 % year-on-year. An effect of this is also a dominant position of ČSOB in this area – it is estimated that **ČSOB's share of the market** of guaranteed funds in the Czech Republic is about 69 %.

In 2004, ČSOB also continued to significantly develop the sale of mutual funds **within the sales network of Poštovní spořitelna (Postal Savings Bank).** In the framework of the so-called Postal Investment Programme clients showed great interest in guaranteed funds and also, for example, mixed mutual funds, in this part of the distribution network as well. Therefore, in 2004, ČSOB created three funds specially designed for the needs of Postal Savings Bank´s clients. During the year 2004, the **sale of mutual funds within the network of the building society ČMSS** was launched. Also, the creation of mutual funds specially designed for clients of this network is envisaged for this sales channel.

The activity of ČSOB in the area of mutual funds received notable appraisals from independent assessors in 2004. **By a public vote in the Zlatý Měšec 2004 poll**, ČSOB Investment Company was chosen as the **most popular financial institution** in the category of investment companies.

In the area of **collective investment**, the investment company První investiční společnost was incorporated, in January 2004, into investment company ČSOB Investiční společnost and through this, the activities of the entire ČSOB Group regarding the area of mutual funds were concentrated. At the end of 2004, ČSOB IS managed 10 open-ended mutual funds.

Another step forward in the Corporate and Institutional Banking unit

In the year 2004, the merger of Corporate Banking with International Banking was accomplished. This merger resulted in the creation of the **Corporate and Institutional Banking unit.** This new arrangement enabled comprehensive focus on both corporate and institutional clients and also on the **public sector**.

The segment continued to focus on mid-cap companies, while maintaining profitable relationships with large international companies. The foundation of the Corporate Specialised Finance unit especially has brought mainly acquisition and real estate financing, as well as project and long-term export finance and syndications. ČSOB established **EU Centre** and started to provide support for SMEs and corporates in finding the optimal way to obtain finance from EU funds.

The Corporate and Institutional Banking segment further strengthened its outstanding position in providing **international cash management** services and continued, in co-operation with KBC, to introduce an **Internet-based electronic banking system** by launching pilot projects with several clients.

Record deals for clients in financial markets

In 2004, ČSOB achieved **excellent results** in the area of operations in financial markets. In line with the Bank´s strategy, the share of **trading for clients** in income further significantly increased and exceeded half of all income. The turnover grew by 12 % at the same time, even when margins were decreasing. Clients increasingly used derivatives, so the Bank was able to compensate lower income from plain vanilla products with income from so-called "new products", mainly offered over the two last years (including derivatives to hedge against interest rate risk). In operations **on foreign exchange markets**, ČSOB strengthened its leading position in the local market. This succeeded thanks to an appropriately chosen trading strategy and very good relations with most foreign banks and investment houses that are using ČSOB as the main bank with which execute their business deals. The Bank was also successful in trading **on capital markets** (especially in trading with non-banking financial institutions), where it maintained a leading position in the local market of bonds and other derived products. Also, the area of **derivatives** contributed to good results, where ČSOB managed to follow market trends correctly and introduced a broad range of new and structured products (both FX and IR related). **In money markets**, the Bank maintained its traditional leading position in the local market. In the area of **primary issues**, ČSOB, in addition to the realisation of several bond programmes and promissory note programmes, maintained its leading position as a paying agent.

Prompt implementation of all EU regulations in the area of payment services

ČSOB is the only bank in the Czech Republic to join the European Payments Council Credeuro and ICP (Interbank Convention on Payments) conventions. ČSOB has thus undertaken to observe the time limit for processing payment orders within 3 days and has introduced a flat, significantly **lower fee for cross-border euro-payments** (which meet the requirements of EU regulations). Since May 2004, ČSOB is an indirect participant in the EU EBA/STEP2 clearing system accessed through the parent KBC Bank. The introduction of so-called collection boxes at ČSOB branches through which clients give payment orders in CZK without being assisted by branch employees enabled ČSOB to further increase the effectiveness of processing payment orders and also to provide advantageous fees charged for this service. On average, the level of fully automated processing of non-documentary payments reached 75 % for incoming payment orders and 40 % in the Czech Republic for outgoing payment orders.

ČSOB still maintains its **leading position in the area of clearing services for banking clients**. At the end of 2004, ČSOB kept about 460 vostro accounts, mostly from Europe and North America. The share of automatically processed interbank transfers reached a level of 53 % of the total number of incoming payment orders. Banks are offered extended service, especially in the cut-off times for processing incoming payment orders.

Direct banking

Market position:

- ČSOB is the **largest operator of a network of payment terminals in the Czech Republic.**
- ČSOB is the **second largest issuer of payment cards in the Czech Republic** (after Česká Spořitelna). Almost 1.7 m cards were in issue in the Czech and Slovak Republics as at 31 December 2004 (of which in the CR: almost 1.6 m).
- ČSOB is also the **second largest issuer of EMV-standard chip cards in Central and Eastern Europe** (after Komerční

Banka). More than 420 ths. chip cards (VISA Electron and Maestro) were issued in both Republics by the end of the year 2004. In 2003, ČSOB started issuing VISA Electron chip payment cards with international validity (EMV) and, in 2004, ČSOB used this well-tried platform for the Maxkarta cards of the Postal Savings Bank to offer the **first multi-application card with an EMV chip** in the Czech market. Further, ČSOB started to issue Maestro EMV chip cards. EMV chip cards meet international standards and provide clients and merchants with a considerably higher security level. The **number of issued EMV cards** reached more than 420 ths. at the end of the year, which represents a **quarter of all cards issued by ČSOB**.

In 2004, ČSOB continued the **expansion of its ATM network** – it increased the number of its own ATMs both in the Czech Republic and in the Slovak Republic by 26 %. ČSOB further expanded, in the Czech Republic, its service of administration of ATM networks for small banks (Volksbank, Oberbank, Raiffeisenbank im Stiftland – Cheb, BAWAG, Waldviertel Sparkasse von 1842) and their number reached 35 at the end of 2004. So, at the end of 2004, overall 524 ATMs were already installed and operated in the Czech Republic, and 106 ATMs in the Slovak Republic. ČSOB's goal is to reach 700 ATMs in the network by the end of 2005.

The **development of the network of POS terminals** of ČSOB at merchants' business places maintained its high **dynamics** in 2004 – their number grew by 20 % to 12 ths. at the end of the year. The volume of transactions at these business places grew, year-on-year, by 26 %.

In June 2004, ČSOB was the **first in the Czech Republic** to offer **acceptance of payment cards within the Internet environment through 3D Secure technology**, which is supported by VISA and MasterCard as a fully secure technology.

The number of ČSOB clients who have some **electronic banking** services installed to their accounts further increased in 2004 and reached 890 ths. in the Czech Republic and 110 ths. in the Slovak Republic. At the end of 2004, of the offered phone, internet or PC banking services, 28 % of clients in the Czech Republic and 36 % of clients in the Slovak Republic had one activated. In December 2004, the share of electronically given orders in the overall number of executed domestic payments amounted to 68 % in the Czech Republic and 49 % in the Slovak Republic.

Several fundamental changes were made in the area of electronic banking in ČSOB in 2004. The offer of electronic banking channels was expanded to include the "Max" series, which represents the **comprehensive services of phone and internet banking for clients of Postal Savings Bank**. Clients of ČSOB's sales network in the Czech Republic were further offered a completely **new service, ČSOB BusinessBanking 24**, which has been mainly designed for entrepreneurs and companies. A suitable supplement to this service is also the **qualified certificate with secured electronic signature**, and ČSOB is thus the first bank in the Czech Republic to enable its clients to use this tool for the authorisation of electronic transactions within the framework of ČSOB Internetbanking 24 and ČSOB BusinessBanking 24 services.

Development of ČSOB's business in the Slovak market

The total market share of ČSOB in Slovakia did not change in 2004 and, at the end of 2004, it made 6 % of deposits and loans. In the segment of individuals, the share of deposits has reached the level of 4 % and the share of loans 3 %. **The development of the branch network** for retail clients and SMEs in Slovakia continued with less intensity than it did in the year before – 8 new branches were opened and their total number reached 78. Lending to retail clients developed, as well as lending to small and medium-sized enterprises, while the range of offered investment products and short-term credit products was broadened. In 2004, the volume of mortgages (outstanding) doubled to SKK 1.4 bn and the volume of consumer loans increased by roughly 30 % to SKK 1.9 bn. The volume of loans to SMEs grew by roughly 40 % to SKK 3.7 bn. As in the Czech Republic before, in 2004 new packages of services for retail clients were introduced and a new way of providing advisory services for retail clients - ČSOB Key Plan - was adopted. Also new packages of services for small and medium-sized enterprises were introduced. Net sales of ČSOB mutual funds in 2004 reached SKK 2.4 bn, which represents an increase in market share from 6 % to 8 %. In 2004, ČSOB's offer of guaranteed mutual funds was enlarged from 1 to 4, and, overall, clients invested almost SKK 1 bn in them. In the corporate segment, ČSOB participated in financing many important transactions. The Bank succeeded in strengthening its position in the growing market of syndicated loans. Also in 2004 ČSOB was successful in acquiring clients from among foreign investors entering the Slovak market. In 2004, ČSOB executed a **2nd issue of mortgage bonds** in Slovakia in a total amount of SKK 700 mn.

In the area of **asset management in Slovakia**, two significant events took place within the ČSOB Group in 2004. In May 2004, the ČSOB Group founded an administration company called ČSOB Asset Management správ. spol., a.s. (ČSOB AM), which was separated from the Slovak part of the Bank. At the end of 2004, the administration company managed mutual funds of SKK 4.6 bn and clients' assets of SKK 2.7 bn. In line with the strategy of the ČSOB Group, aimed at providing comprehensive services, ČSOB also entered the second pillar of the Slovak pension system and founded a pension administration company called ČSOB d.s.s., a.s. Company **ČSOB Leasing SR** mantained its second position in the leasing market with a 16% share (measured by the volume of new leasing business). In August 2004, ERGO pojisťovňa was renamed ČSOB Poisťovňa.

ČSOB Group – value creation through cross-selling and use of distribution synergies

In 2004, cooperation between members of the ČSOB Group was further deepened with a focus on the use of the distribution networks of its members to offer other financial products of the Group. From the beginning of 2004, factoring services of the O.B.Heller were – with success – actively offered to SMEs and corporate clients. The building society ČMSS broadened its offer through products of other members of the Group - pension insurance and mutual funds. ČSOB took a leading or strong position in the market of main non-banking financial products.

As of the beginning of the year 2005, the ČSOB Group is offering its clients services in the following areas:

- **Building savings and mortgages**
  Českomoravská stavební spořitelna
  ČSOB stavebná sporiteľňa (SR)
  Českomoravská hypoteční banka
- **Insurance**
  ČSOB Pojišťovna
  ČSOB Poisťovňa (SR, formerly ERGO poisťovňa)
- **Asset management**
  ČSOB Asset Management
  ČSOB Asset Management (SR, administration company)
- **Collective investment**
  ČSOB Investiční společnost
- **Securities trading**
  Patria Finance
- **Pension insurance**
  ČSOB Penzijní fond Stabilita (formerly Českomoravský penzijní fond)
  ČSOB Penzijní fond Progres (formerly ČSOB Penzijní fond)
  ČSOB d.s.s. (SR, pension administration company)
- **Leasing**
  ČSOB Leasing
  ČSOB Leasing (SR)
- **Factoring**
  O.B. HELLER
  OB HELLER Factoring (SR)

ČSOB's financial performance in the year 2004

Despite the demanding competitive environment in 2004, ČSOB maintained its high profitability. In 2004, the ČSOB Group achieved very good financial results showing a net profit of CZK 6.8 bn and ROE of 15.0 %.

Positive financial results have been primarily achieved thanks to good business growth across all the client segments, and, consequently, due to an increase in interest income, fee income and significant contribution from ČSOB Group companies. Interest income growth resulted from provision an increased volume of loans and from a better situation regarding interest rate development on the market.

All of the financial figures set out below were drawn from ČSOB's 2004 **audited consolidated** financial statements prepared **in accordance with International Financial Accounting Standards (IFRS)**.

Consolidated Profit and Loss Account

Net profit of the ČSOB Group for 2004 (after tax) was CZK 6.8 bn, which is 9 % above the 2003 reported profit of CZK 6.2 bn. The main driver contributing to the growth was an increase of 30 % in operating profit due to an increase in operating income by 11 %, while operating costs grew by only 2 %. The growth in operating profit was partially eliminated by the growth in income tax costs. Details behind individual items are explained below.

Cost/Income Ratio (defined as operating costs to operating income) showed a considerable decrease from 67.2 % to 61.6 % due to increased operating income and good cost management.

Net Interest Income increased by CZK 1.1 bn (8 %) to CZK 15.8 bn. This was due to an increased volume of loans provided within the entire ČSOB Group, which was further supported by the growth in market interest rates and by appropriate proprietary treasury investments into higher-yield products.

Average Net Interest Margin for the ČSOB Group increased by 0.27 percentage points to 2.42 %. This was mainly due to the growth in market interest rates – 3-month PRIBOR interest rates increased from 2.28 % (average of 2003) to 2.36 % (average of 2004), which was corrected by the environment of growing competition.

Net Fee and Commission Income increased by CZK 344 m (5 %) to CZK 6.7 bn, mainly driven by fast growing income from the sale of mutual funds, from payment cards and income from credit products. On the other hand, fee income from subsidiaries (e.g., ČMSS) decreased year-on-year.

Net Trading Income amounting to CZK 1.8 bn grew by CZK 687 m (62 %) compared to the year 2003. The growth in income was mainly due to a good business policy; good results of FX transactions and growth in income from fixed-yield instruments offset lower income from transactions with interest rate contracts.

Operating Expenses increased by CZK 258 m (2 %) to CZK 15.8 bn. Operating expenses showed only a small increase compared to 2003 as a result of cost-reduction initiatives and good cost control across most cost categories which compensated the negative effects of changes in VAT.

Impairment Losses on Loans and Advances – in 2004, the releases of provisions exceeded the creation of provisions in the amount of CZK 16 m (in 2003, net releases amounted to CZK 27m). The item was affected by releasing provisions in the corporate segment thanks to the improved quality of the portfolio and also thanks to successful recovery of debts from the historical portfolio and their sale.

Income Tax Expense increased by CZK 1.7 bn to CZK 2.7 bn due to the de-recognition of deferred tax related to one of the ČSOB subsidiaries, FINOP (CZK 1.1 bn), in 2003, which did not repeat itself in 2004.

Consolidated Balance Sheet

At the end of 2004, consolidated **assets** totalled CZK 613.3 bn, which represents an increase by CZK 6.8 bn (1 %) compared to the end of 2003.

Cash and Balances with Central Banks of CZK 16.5 bn decreased from the end of 2003 by CZK 2.7 bn (14 %) due to good cash management.

Amounts Due from Banks decreased by CZK 14.2 bn (11 %) to CZK 116.9 bn due to the allocation of funds to trading assets.

Trading Assets increased by CZK 10.1 bn (16 %) to CZK 73.9 bn, mainly as a result of increased trading.

The volume of Investment Securities decreased only slightly - by CZK 4.3 bn (3 %) to CZK 126.9 bn, which is mainly due to the continued trend of reinvesting clients' deposits into higher-yield financial instruments with the aim to maximise net interest income in the environment of relatively low interest rates.

Loans and Leases grew by CZK 18.9 bn (8 %) to CZK 249.0 bn. Business lending in ČSOB Bank in core business segments showed a 1 % increase and, in subsidiaries, the overall increase was 25 % (mainly in ČMHB and ČMSS).

Goodwill of CZK 3.5 bn is mainly related to the acquisition of IPB.

Amounts Due to Banks increased by CZK 4.5 bn (22 %) to CZK 24.7 bn.

Trading Liabilities increased by CZK 20.4 bn (44 %) due to increased trading activity via short-term money market deposits and reached CZK 66.8 bn.

Amounts Due to Customers of CZK 426.1 bn showed a decrease, year-on-year, of 4 % compared to 2003. This development is in line with the general trend of clients in all client segments seeking alternatives to the standard deposit products given the current low interest rates on deposits. The effect was clearly visible in the continuing fast growth in **assets under management** (including an advisory mandate for management of mutual funds) where the ČSOB Group saw a growth of 21 % in 2004, from CZK 78.3 bn to CZK 95.0 bn.

Debt Securities in Issue increased by CZK 8.1 bn (49 %) to CZK 24.9 bn.

Return on Average Equity (ROAE) for 2004 was 15.0 % (compared to 14.3 % in 2003).

Capital Adequacy Ratio of the Bank (as defined by the Czech National Bank's regulation No. 2 on capital adequacy dated 3 July 2002) decreased from 15.36 % as at 31 December 2003 to 12.11 % as at 31 December 2004, mainly due to the payment of an extraordinary dividend in the course of the year with the aim to optimise capital. The capital adequacy ratio of the ČSOB Group as at 31 December 2004 was at 11.21 % compared to 13.56 % as at 31 December 2003.

Acquisition of treasury shares

As at 1 January 2004, the Bank possessed 98,997 treasury shares with a nominal value of CZK 1,000 / 1 share. This represented 1.94% of the share capital. During 2004, the following changes in the number of treasury shares held by ČSOB took place:
Overall, 1,900 shares with a nominal value of CZK 1,000 / 1 share were bought for CZK 22,800 ths. The shares were bought within the framework of a compulsory buyout (Article 161b (1c) of the Commercial Code).
100,897 shares with a nominal value of CZK 1,000 / 1 share were sold for a total sale price of CZK 1,210,764 ths.
The purchase and sale prices were CZK 12,000 / 1 share in each case.
As at 31 December 2004, the Bank did not hold any treasury shares.

RISK MANAGEMENT

The process of risk management is an inherent part of the Bank's activity and of the other members of the ČSOB Group.

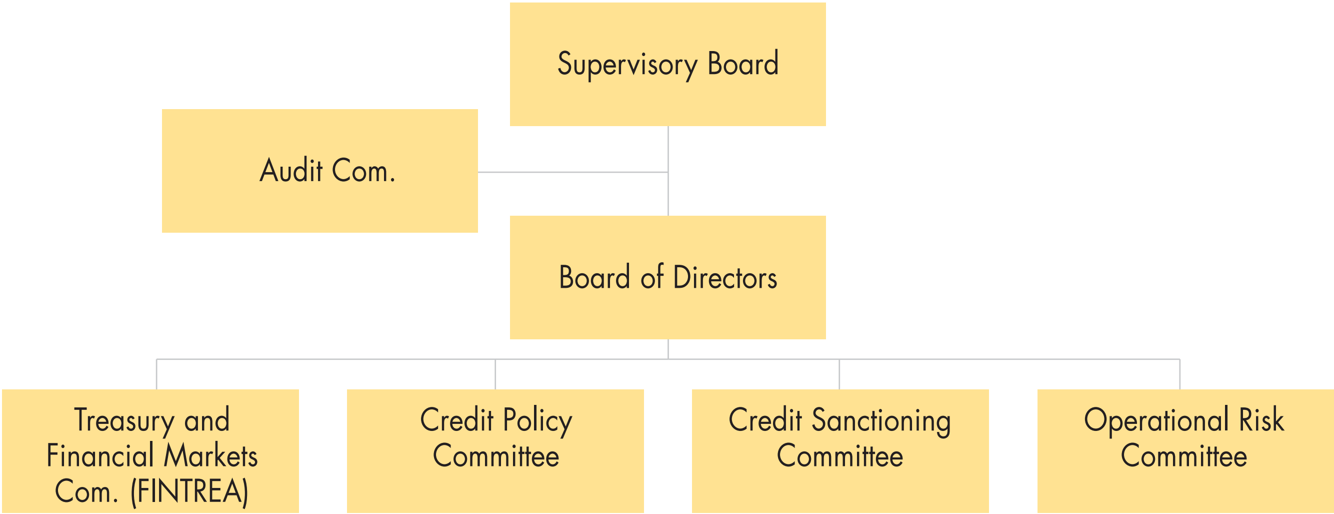
The ČSOB Group is exposed to a number of risks resulting from its business activities. The most significant risks are credit, market, operational and liquidity risks. Great attention is also paid to other types of risks, such as strategic and reputation risk.

The Bank is actively preparing for changes in the regulation of the banking sector according to the recommendations of the Basel Committee on Banking Supervision as well as for changes in the legislation of the European Union. Activities undertaken in this area are connected with our participation in a joint project together with the Czech National Bank ("ČNB"), the Czech Banking Association, other banks and with the Czech Chamber of Auditors.

Organisation of risk management

The structure of risk management in ČSOB is based on a uniform principle of risk management applied within the KBC Group, which includes the:

- Involvement of companies' top bodies in the process of risk management,
- Activities of specialised committees and independent departments involved in risk management at the level of ČSOB with group-wide powers; and the
- Primary risk management within departments and organisational units of individual companies.



Besides the above-mentioned bodies of the Bank Group and Committees with decision-making or advisory powers, risk management is mainly undertaken by the Risk Management and Credits and Bad Debts departments. Both coordinate the activities of the risk management committees and cover risk management within the ČSOB Group.

CREDIT RISK

The mission of the Credits and Bad Debts department is to support all relevant business units in processing and administering credit transactions and to provide adequate risk measurement and management, ensuring the creation of consistent value. The responsibilities of the Credits and Bad Debts department are divided among the following four organisational units:

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

The following section describes the activities performed by the above-mentioned individual units in more detail. A special project vehicle (QCR programme) is running parallel to the line units with the aim of ensuring implementation of Basel II rules in the Credits area.

Credit Risk Management

Acceptance process

The acceptance process for corporates and small and medium-sized enterprises (SME) is organised as follows:

- The relationship manager of the applicant entity prepares a credit proposal in writing.
- The proposal is screened by an independent advisor[1] who reports to the Credit Risk Management unit.
- A decision is made at the appropriate decision-making level (either meeting as a committee or otherwise). The "four eyes" principle is always respected.

The acceptance process for corporate and SME clients is supported by an expert rating model (incorporated within a dedicated counterparty rating tool). A new rating model based on the Bank's own historical data was simultaneously developed in 2004 and will be introduced into the acceptance process from mid-2005.

Data consolidation and ČSOB Group management

In 2004 special attention was paid to the consolidation of credit exposures and to the coordination of approval processes within selected subsidiaries. These efforts resulted in the following changes:

- ČSOB established a group risk database which enables the Bank to determine its credit exposure with regard to the entire ČSOB Group risk and, consequently, to make decisions at the appropriate decision-making level. The database is available to all relevant employees of ČSOB and subsidiaries via the Intranet.
- ČSOB adjusted the approval process accordingly. All credit exposures that represent country risk or banking risk are decided at ČSOB's decision-making levels only. Corporate credit risk is normally decided by subsidiaries themselves (within the newly defined delegations). However, transactions exceeding the assigned delegation limits are still approved in ČSOB.

Retail and Standard SME Credits

The unit is responsible for the design and realisation of the process (acceptance, support, collection) and risk management (methodology, implementation, reporting) in the area of retail credits.

New application processing system

Significant progress was achieved in 2004 with respect to the implementation of a new application processing system (CRIF). The aim of the system is to cover maintenance and collection processes for Retail and (standard) SME clients. The launch of the process is planned for the beginning of 2005. Other phases will follow.

[1] *For SME clients, the advisor has co-decision rights in certain instances.*

Acceptance process

The retail acceptance process fully uses the capability of ČSOB to develop a variety of high quality scorecards on its own. Each application process uses self-developed scorecards as a key decision support tool. This system allows complex control over the new deal flow risks. Scorecards are typically based on both socio-demographic and behavioural data.

Portfolio risk management

Retail portfolio risk management tools were upgraded during 2004. For all major portfolios, high-quality models for loss predictions are used. Regular back testing of these models shows a high level of accuracy of the predicted trends. The use of these modelling techniques and the newly developed scorecards, together with management techniques significantly reduces the credit risk undertaken within retail portfolios, although the acceptance rate has remained almost the same.

Bad Debts

Restructuring and recovery

The core activity of the Bad Debts unit consists of monitoring and managing problematic credit cases. The unit monitors all substandard credit cases (rated as E) and is directly responsible for the management of doubtful loans (rated as F or worse). As a standard, credit cases rated as E and F (partially) are restructured – the Bad Debts unit aims to ensure that the exposure is repaid without litigation and the client is returned back to the business segment. Credit cases rated as F (partially), G and K typically enter the recovery process when the repayment is based mainly on lawsuits or bankruptcy proceedings.

Ex-IPB transaction and assets administration

In 2004, the Bad Debts unit was still responsible for the completion of operations related to the acquisition of IPB. Specifically, the unit coordinated the transfer of the credit portfolio to the Czech Consolidation Agency, disentangled assets placed in ex-IPB special limited partnerships and IPB Group Holding (IPBGH) and managed the sale of the ex-IPB "0-10" loan portfolio.

The Bad Debts unit continued to administer special-status assets for the Ministry of Finance of the Czech Republic and for the Ministry of Finance of the Slovak Republic. Additionally, the Bad Debts unit assumed responsibility for the administration of the cooperative housing loan portfolio (ČSOB administers this portfolio for the Czech Consolidation Agency).

Organisational changes

The unit went through a significant headcount reduction last year, decreasing the number of FTEs by 23% to the present 91. The unit also adopted a new organisational structure. The Bad Debts unit is now composed of three sub-units with the following responsibilities:

- "Middle cases of bad debts" provides for the restructuring of cases of up to CZK 20 million and for recovery regarding cases of up to CZK 50 million.
- "Large cases of bad debts" covers credit cases exceeding CZK 50 million.
- "Transactions with debts and other assets administration" monitors and manages cases exceeding CZK 20 million

Recovery of collateral

To improve the quality and availability of business data, the Bad Debts unit will develop, together with the QCR programme, a new internal database focused on the recovery of collateral. The database will allow retrieval of information that will be used both internally (performance monitoring) and externally (development of its own Loss Given Default estimates required by Basel II).

New write-off policy

In 2004, the ČSOB Group approved and implemented, in all of its business segments, a new write-off policy based on objective triggers. The triggers, which identify the credits and leases to be written off, are especially efficient in the retail and SME segments, where exposures are composed of a large number of small individual credits and leases.

The new policy allows management to veto, under certain circumstances, the proposed write-off and to extend the time required for a decision. The implementation of the new write-off policy led to a higher amount of write-offs in 2004 in comparison with the year before (see also Table 1 Loan Portfolio Structure - consolidated). Nevertheless, the exposures written off in 2004 only concerned credits and leases that had already been fully provisioned.

Credit Administration Unit (CAU)

Organisational changes

The CAU department is responsible for the administration of approved credits and loan documentation, for first-level legal advice to the branch network and for evaluation (appraisal) of collateral in cases where real estate is pledged. The following changes took place in CAU during 2004:

- The Credit monitoring unit was fully integrated into CAU,
- CAU assumed responsibility for processing corporate special finance transactions,
- CAU started to process corporate and SME receivables.

"Cost-out" project

The most important activity realized in CAU in the course of 2004 was the "Cost-out" project, which reviews the credit process for corporate and non-standard clients. The project analyses key "back office" activities such as the preparation of credit proposals, collateral analysis, credit approvals, preparation of credit documentation, credit drawing, credit administration and credit review. The principle goal of the project is to streamline and simplify the credit process, which can eventually indicate a potential reduction in headcount.

Quantitative Credit Risk (QCR) programme

ČSOB pays continuous attention to the Basel II project. To ensure that regulatory requirements of Basel II are implemented in the required time and quality and that the Bank can benefit from Basel II in its internal processes, in 2003 the manager of the Credits and bad debts unit established a dedicated QCR programme which coordinates all Basel II related activities in the area of credit risk (see below). ČSOB plans to comply with the IRB (Internal rating based) approach to all material exposures as of 31 December 2006.

FIRB (Foundation Internal Rating Based) approach to Corporate/SME exposures

Following the Basel II requirements, in the course of 2004 the Bank developed a new internal rating model for its corporate and SME clients. The model is based on a 5 year historical data basis and has a good predicative potential. The Bank will use the new model for rating purposes from mid-2005. Consequently, ČSOB will officially request the Czech regulator to certify the model for capital adequacy calculations.

AIRB (Advanced Internal Rating Based) approach to Retail exposures

ČSOB achieved major progress in its preparation for Basel II in the Retail area. The structure of retail portfolios, which was proposed during 2004, allows the Bank to quantify expected and unexpected losses for most of its retail portfolios in line with Basel II rules. The system of retail portfolios will be submitted for official regulatory approval during 2005.

Implementation of risk-based pricing

The Bank is actively implementing the principles of Basel II in its standard business procedures. In 2004, the Bank completed the development of a risk-based pricing tool, which allows for estimation of the expected loss and the required economic capital. The Bank is currently using the indicator RAROC (Risk Adjusted Return On Capital) as a key profitability measure for corporate lending and ALM investments. In 2005, the use of RAROC and risk-based pricing will be implemented in the SME segment as well.

Implementation of an IT solution for Pillar 1 calculation

ČSOB is implementing a dedicated software tool for the calculation of capital adequacy. The application is developed by Fermat, a software house which supplies its Basel II solution to the whole KBC Group. The implementation, which started in mid-2004, will continue throughout 2005. The Bank expects to receive the first estimates of required capital by the end of 2005.

Loan Portfolio Structure – consolidated

Table 1 Loans to non-banking customers - IFRS consolidated, gross amounts (CZK bn)

	31.12.2004[2]	31.12.2003[3]
Historical exposure	22.7	24.1
Of which:	-	-
- MF CR (SI)	21.3	21.7
- other	1.4	2.4
Write-offs (during the year)	1.4	-
Current exposure	232.1	215.5
Write-offs (during the year)	1.8	0.4
Total	254.8	239.6
Total write-offs (during the year)	3.2	0.4

Note: The "historical exposure" consists of bad loans granted in the period of the centrally managed economy. The portfolio, composed of loans to Slovenská Inkasná (SI) and other clients, was included into the second stage of ČSOB's consolidation and fully provisioned at the end of 1993. The exposure to the MF CR is considered to be very low risk and, therefore, it is standard-rated.

Loan Portfolio Quality – consolidated

Table 2 Non-performing loans - IFRS consolidated, gross amounts (CZKbn)

	31.12.2004[2]	31.12.2003[3]
Total loans	254.8	239.6
of which non-performing loans (NPLs)	3.8	6.5
Total provisions	5.8	9.5
NPLs to total loans ratio (%)	1.5 %	2.7 %
Coverage of NPLs by total provisions	152.6 %	146.2 %

Note: ČSOB applies a conservative approach to classification of non-performing loans. If at least one instalment of principal or interest is more than 90 days overdue, all loans granted to the particular client are classified as non-performing.

Table 3 Loans according to ČSOB internal classification - IFRS consolidated, gross amounts

	31.12.2004		31.12.2003	
	Loans[3] CZK bn	% of total loans	Loans[2] CZK bn	% of total loans
Standard (A-C)	197.9	77.7	179.6	74.9
Classified	35.6	14.0	38.3	16.0
Watch (D)	24.5	9.6	23.2	9.7
Sub-standard (E)	5.9	2.3	5.8	2.4
Doubtful (F)	2.0	0.8	2.7	1.1
Loss (G)	3.2	1.3	6.6	2.8
MF CR (including SI)	21.3	8.3	21.7	9.1
Total	254.8	100.0	239.6	100.0

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

[2] including Czech Consolidation Agency (CZK 8.5 bn)   [3] including Czech Consolidation Agency (CZK 12.0 bn)

Country risk

Table 4 Country exposures by main geographical regions – IFRS consolidated, net amounts (CZK bn)

Territory	Total risk exposure	Of which by type of transaction			
		Dealing	Commercial transactions	Credits	Bonds
Western Europe[4]	18,580	7,484	15	130	10,951
Central and Eastern Europe[5]	7,552	270	83	797	6,269
Africa	91	-	91	-	-
Northern America	5,392	1,127	58	143	4,064
Asia	607	80	386	62	-
Australia	154	2	-	-	152
Latin America	23	-	7	15	-

[4] excluding Eurozone [5] excluding the Czech Republic and the Slovak Republic

Notes:

- The figures represent the residual risk only, that is, reflecting the security of the Export Guarantee and Insurance Company (EGAP).
- Total risk exposure also includes other specific transactions, different from the transactions tabled above.
- Dealing - money market transactions, foreign exchange transactions and financial derivatives.
- Commercial transactions - confirmed documentary letters of credit, forfeited trading claims with bank risk and trade-related bank guarantees.

Table 5 Country exposures in problem countries *) – IFRS consolidated, net amounts (CZK m)

Territory Country	Total risk exposure	Of which by type of transaction				Total provisions
		Commercial	Credits	Export financing	Performance risk	
Central & Eastern Europe	3	-	-	3	-	-
Serbia & Montenegro	3	-	-	3	-	-
Asia	275	212	63	-	-	32
Turkey	236	205	31	-	-	-
Iraq	32	-	32	-	-	32
Lebanon	7	7	-	-	-	-
Latin America	1	-	-	1	-	-
Cuba	1	-	-	1	-	-

(*) 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, reflecting the security of the Export Guarantee and Insurance Company (EGAP).
- Total risk exposure also includes other specific transactions, different from the transactions tabled above.
- Performance risk - transactions with the risk of non-fulfilment of an obligation to manufacture or deliver goods.

MARKET RISK

Market risk is the risk of potential losses resulting from adverse development of market prices and other market factors (foreign exchange rates, interest rates, share prices, commodity prices, and volatilities) on financial markets. ČSOB is active in trading interest rate and exchange rate instruments; it does not run share or commodity risk, nor is it involved in trading real estate.

The Bank's market risk is managed by a system of limits, separate for the trading book and the banking book of the Bank. The limits proposed are discussed by the FINTREA Committee and approved by the Bank's Board of Directors. Market risk of the trading book is evaluated on a daily basis, and market risk of the banking book is evaluated on either a weekly or monthly basis. Reports on the utilisation of limits are regularly included in risk reports submitted to the FINTREA Committee, to the Board of Directors and to the Supervisory Board of the Bank. In 2004, separate market risk limits for the foreign branch in the Slovak Republic were defined and monitored.

Trading book

The ČSOB Front Office (dealing room) is primarily focused on the provision of customer services on currency and interest rate markets. It facilitates financial activities of the Bank and, to a limited degree, it trades for its own account (especially trading in interest rate instruments).

To measure and monitor interest rate and foreign exchange risks in the trading book, the Bank uses the Historical Value-at-Risk (VAR) method. This method is used to measure the potential loss of the Bank during a 10-day holding period at a 99% one-sided confidence level, while using a 250-day historical series of market data (in accordance with international standards). The accuracy of figures estimated by the method is verified through back-testing.

Standard VAR calculations are supplemented with a sophisticated system of stress tests. These allow for analysis of scenarios of extraordinary events on the markets and their impact on the market value of positions currently held by the Bank in its trading portfolio. In 2004, in addition to scenarios dependent on the Bank's position and hypothetical scenarios, historical scenarios were also evaluated on a regular basis. Results of these stress tests form part of regular reports to Management.

To supplement the system of risk management, the Bank is also using other methods of risk monitoring, such as IRM (Interest Rate Mismatch), interest rate sensitivity (BPV - Basis Point Value), concentration limits or stop-loss limits.

To estimate the size of potential losses from option products, the Bank is using a method of two-dimensional scenario analysis, which evaluates a broad range of changes in the prices of underlying instruments and their volatilities, where utilisation of the limit depends on the most negative result of the given scenario. The system of limits has been supplemented with sensitivity indicators of the option portfolio which measure the risk with respect to price development (delta and gamma), volatility changes (vega) and time (theta).

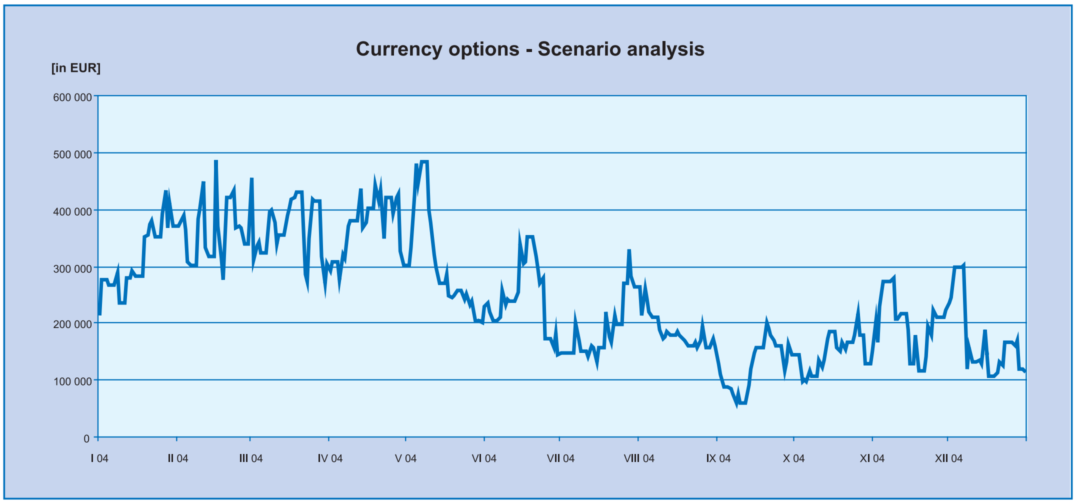
Risk in 2004

The risk of the Bank's trading book is managed by a system of limits with a uniform basic structure within the whole KBC Group, supplemented by the local limits structure.

Foreign exchange risk of the trading book moved, throughout the year, at a low level. On average, the utilisation of the foreign exchange VAR limit did not exceed 20% of the limit, and the maximum utilisation was 72% of the limit.

The Bank's foreign exchange risk from trading operations (in EUR ths.)

	Average	Maximum	31.12.2004
Currency options – Scenario analysis	248	487	116
VAR – Foreign exchange risk	192	717	109



Regulatory limits are set for an open foreign exchange position in any currency at 15% of the Bank's regulatory capital. At the same time, the overall foreign exchange position for all currencies must not exceed 20% of the Bank's regulatory capital. A slight increase in the utilisation of limits has been caused by a slight decrease in the Bank's regulatory capital.

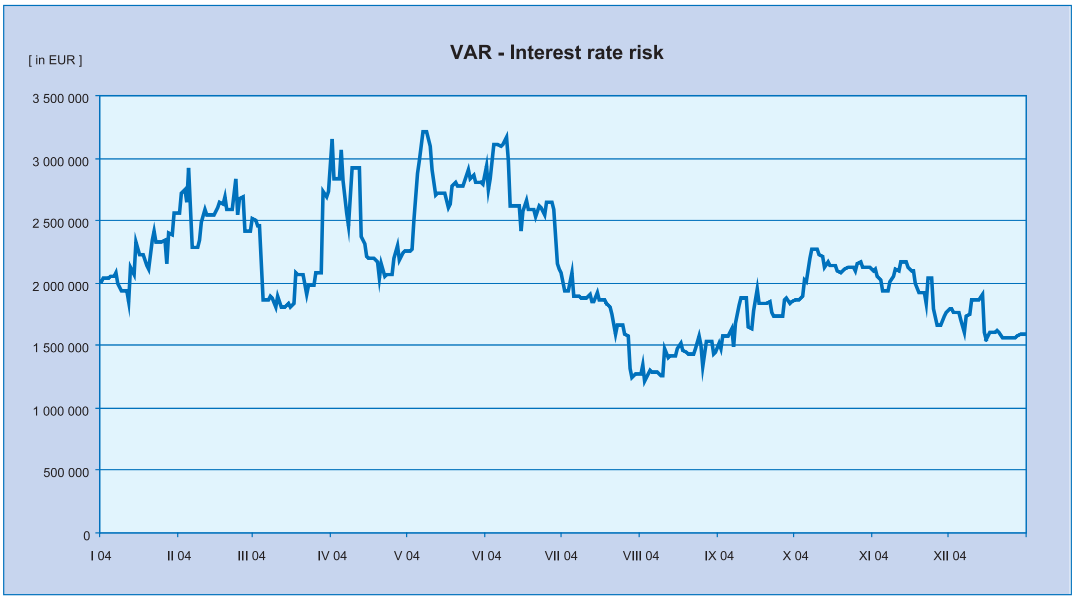
Open foreign currency position (as a % of regulatory capital)

	CNB limit	31.12.2003	31.12.2004
Total open position	20	1.36	2.43
CZK open position	15	0.62	2.13

Interest rate risk of the trading book moved within a range of 30% - 80% of the limit. Utilisation of the limit reacted to events on financial markets flexibly and reflected opportunities offered by trend changes, in particular in CZK and SKK.

The Bank's interest rate risk from trading operations (in EUR ths.)

	2004 average	Maximum	31.12.2004
VAR – Interest rate risk	2,115	3,214	1,587



Throughout the year, both foreign exchange risk and interest rate risk moved within the limits.

Banking book

Management of the market risk of the banking book forms part of assets and liabilities management; that is, the management of the balance sheet and off-balance-sheet positions that are not part of the trading book. As all positions of ČSOB subsidiaries are part of ČSOB Group banking book, risks are managed and monitored on both an individual and ČSOB Group level.

Uniform risk governance principles are applied for the whole CSOB Group.

Significant types of risk from the point of view of assets and liabilities management:

- Foreign exchange risk – is connected with the Bank's own trades as well as with its participating interests abroad (investments in Slovak subsidiaries).
- Interest rate risk – arises from the provision of financial services to ČSOB clients as well as from investing in debt securities on the Bank's own account.

Foreign exchange risk of the banking book is managed with the aim to minimise positions held in individual currencies. Tradable positions are transferred to the trading book on a daily basis. When managing foreign exchange risk, the Bank monitors the economic substance of the risk, which is not always identical to the risk implied by particular accounting standards.

Interest rate risk of the banking book has been centralised within the Bank and is managed through a system of market-oriented internal prices of products with fixed maturities. The Bank is minimising this structural interest rate risk through hedging derivative deals.

Products with non-specified maturities (current accounts, notice deposits) are incorporated in the system in the form of benchmarks, i.e., structures of liabilities' maturities specified with regard to the actual behavioural experience of the product. The Bank is minimising its interest rate risk by investing in assets with parameters identical to those of the set benchmarks. The risk is evaluated on a weekly basis.

Interest rate risk of the banking book is measured by means of a system of sensitivity limits (BPV - Basis Point Value), duration and interest rate mismatch limits (interest rate gaps).

A similar system of measurement of foreign exchange and interest rate risks is also applied in significant subsidiary companies.

Risk in 2004

Interest rate sensitivity to parallel shifts of the yield curve by +10 basis points (BPV), in CZK millions

Average values	ČSOB Bank	ČSOB Group	limit +/- ČSOB Group
1Q	12	(7)	282
2Q	5	(5)	282
3Q	(24)	(24)	282
4Q	(18)	(6)	282
December 2004	(30)	(19)	282

Throughout the year, the interest rate risk of the banking book moved within the range of set limits.

LIQUIDITY RISK

Liquidity risk is the risk of possible losses which a company may suffer if it is not able to refinance its financial obligations efficiently. The Bank secures sufficient liquidity by diversifying its resources, mainly thanks to a stable broad client base.

Short-term liquidity is managed on a daily basis and includes monitoring account balances with the Czech and Slovak central bank in both local currencies (CZK, SKK), management of nostro account balances in foreign currencies and, finally, management of cash flows within the Bank.

Medium- and long-term liquidity is monitored on a monthly basis in currencies in which the Bank holds a significant position (CZK, SKK, EUR, USD). The monitoring is based on the creation of liquidity scenarios reflecting the probable behaviour of individual assets and liabilities and on the comparison of the current situation with the set limit.

The Bank also regularly revises its plans for liquidity management in extraordinary situations.

Individual liquidity indicators are monitored for the Bank and the ČSOB Group as a whole and, on a separate basis, also for the ČSOB foreign branch in the Slovak Republic.

Risk in 2004

The Stock Liquidity Ratio (quickly liquid assets/expected outflow of funds within 7 days), in %

Average values	ČSOB Bank	ČSOB Group	limit ČSOB Group min.
1Q	397 %	546 %	110 %
2Q	289 %	408 %	110 %
3Q	318 %	430 %	110 %
4Q	807 %	1126 %	110 %
December 2004	1163 %	1654 %	110 %

During the year 2004, the liquidity of the Bank and of the ČSOB Group was significantly above the limits.

OPERATIONAL RISK

Operational risk management in ČSOB is carried out in compliance with ČNB's decree No. 2/2004 Internal Management and Control System of the Bank, with the methodology applied within the framework of the KBC Group and with new capital adequacy requirements in accordance with the rules of the Basel Committee on Banking Supervision (Basel II). Operational risk management within the ČSOB Group is conducted under the umbrella of the Operational Risk Committee. The coordination of activities and collection of data is carried out by the Risk Management department, which works together with local operational managers appointed for individual bank units and subsidiaries.

In 2004, the systematic collection of data on operational-risk events was started in compliance with the uniform classification applied in the KBC Group. The data obtained are evaluated and analysed on a regular basis. Significant events and losses which arise due to operational risk are regularly reported to the Bank's management.

In the area of processes, the implementation of standards of control principles in key areas of the Bank's activities continued in 2004 in compliance with experience gained within the KBC Group and according to the best international practice. These principles were compared with the Bank's internal standards and the gaps identified will be eliminated during 2005 on the basis of prepared action plans.

In the area of prevention and procedures leading to reducing potential losses, work has been started on business continuity plans in individual departments of the Bank with a special focus on defining crucial activities of individual departments. Next year, preventive measures will be prepared for the entire ČSOB Group.

COMPLIANCE RISK

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

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

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

Although substantial progress in general awareness of compliance risks has been achieved, the strengthening of the prevention function and increasing the proactive role of the Compliance unit remain the main tasks.

CHIEF ECONOMIST'S REPORT

The Czech Economy in 2004

For the Czech economy, the year 2004 was not a year of great changes. This is true despite the fact that the country became a member of the European Union on May 1st. As expected, formal accession to the EU has not resulted in any significant negative shocks (for example, in the area of inflation or workforce migration). Instead, we have experienced some positive surprises (the results of Czech exports).

In 2004, the domestic political arena saw a restoration of the minority government, the effect of which on the national economy should result, among other things, a greater emphasis on the quality of the business environment, support for the supply-side of the economy and a streamlining of public spending.

When we evaluate last year's performance of the national economy of the Czech Republic from the point of view of gross domestic product, the result is not quite clear. We can be satisfied with the shift of the structure of GDP towards a stronger role of investment at the expense of household consumption. Not inconsiderable is the achieved level of real growth, especially when we compare it with that in the Eurozone. On the other hand, also last year, Czech GDP growth lagged behind not only that of its regional competitors but also behind the value that the Czech economy should be able to reach for at least the next several years (about 5 % p.a.).

This failure to satisfy pro-growth ambitions was one of the factors that enabled the Czech National Bank to keep the development of price levels within the range of its inflation target. While in the first months of 2004 the CNB was afraid of a price explosion and, by August, increased its key rate by 50 basis points in two steps, its fears, especially of demand-driven inflation, eased at the end of the year and, in January 2005, the rates were even decreased by a quarter of a percentage point down to 2.25 %.

The industrial and building sectors managed to accelerate year-on-year growth of production in 2004 as well (+9.9 % and +9.7 %, respectively), which contributed to the growth of GDP in a significant way. The development of the production capacities of foreign-controlled enterprises played an important role in this. Concerning the industrial sector, exporters benefited from growing demand from abroad, which has opened the way to a reduction of the full-year trade deficit to its lowest level since 1994.

The narrowing trade deficit, supported by the favourable development of terms-of-trade and the simultaneous strengthening of the Czech crown against the dollar (by almost 9 %), allowed the maintanance of the current account deficit at 5.2 % of GDP. In the financial account, it is especially worth mentioning an increased interest in both direct and portfolio investments in the Czech Republic, giving investors an opportunity to earn attractive yields (for example, the share index of the Prague Stock Exchange, the PX-50, grew by more than 55 % in 2004).

While the stability of the main aggregate figures which describe the external balance of the Czech economy does not constitute a reason for uneasiness, this is certainly not true of the repeatedly high public-finance balance, despite the fact that the 2004 budget deficit dropped to "only" 3 % of GDP.

Last year, the Czech economy recorded ambiguous results in the area of (un)employment. At the end of 2004, the unemployment rate remained at about the same level as it had been in December 2003 (8.2 % according to Eurostat methodology). The situation in the hardest hit regions did not change for the better, either. On the other hand, a positive point is the decreasing mismatch between the number of registered unemployed people and the available vacancies in 2004. Moreover, the fact that the unemployment rate has stabilized can be interpreted as an unpleasant side effect of the otherwise positive increase in labour productivity in the economy.

The tranquil development of the Czech economy was accompanied in 2004 by the favourable development of the banking sector. While on one hand, tough competition gave rise to intensive efforts to decrease the growth of costs, on the other hand, it led to increased efforts to maximise market share, particularly where growth is most dynamic (especially mortgage loans). An incentive for further economic growth was the revival of the positive growth rate of the volume of loans provided by banks to non-financial enterprises. With respect to financial results, 2004 has been the most successful year for the Czech banking sector since 1990.

Macroeconomic indicators of the Czech Republic 2000-2004

Indicator	Measurement Unit	2000	2001	2002	2003	2004
GDP	%, y/y	3.9	2.6	1.5	3.7	4.0
Industrial output	%, y/y	1.5	10.6	4.8	5.8	9.9
Construction output	%, y/y	5.3	9.6	2.5	8.9	9.7
Inflation rate (CPI)	average, %	3.9	4.7	1.8	0.1	2.8
Unemployment rate	at year-end, %	8.2	7.7	7.3	8.2	8.2
Current account	% of GDP	(4,9)	(5.4)	(5.6)	(6.3)	(5.2)
Foreign direct investment	% of GDP	8.9	9.0	11.2	2.1	3.7
Official FX reserves	months of imports	4.0	4.0	6.0	5.0	4.0
Gross foreign indebtedness	% of GDP	38.0	35.0	33.7	35.1	36.8
Public budgets balance	% of GDP	(3.7)	(5.9)	(6.8)	(11.7)	(3.0)
Money supply (M2)	at year-end, %, y/y	5.6	13.0	3.5	6.9	4.4
PRIBOR 3m	average, %	5.35	5.18	3.55	2.28	2.36
CZK/EUR	average	35.61	34.08	30.81	31.84	31.90
CZK/USD	average	38.59	38.04	32.74	28.23	25.70

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

The Slovak Economy in 2004

2004 was another successful year for Slovakia. In March, the Slovak Republic became a member of NATO and, at the beginning of May, along with the other nine European candidate countries, it joined the European Union. The growth of the economy further accelerated and inflation started to slow down. At the beginning of 2004, Slovakia carried out a fundamental change to its tax system. It unified value added tax rates at the level of 19 %, at the same level as income tax rates for private individuals and legal entities. In that year, the Slovak Republic also finished the preparation of a comprehensive reform of the pension system, introducing an obligatory fund-based pillar with effect from January 2005.

The growth of Slovak GDP in 2004 increased to 5.5 %, mainly thanks to a recovery in household consumption, supported by real wage growth and investment by the private and public sectors. Export expansion also continued in 2004, especially in the car and steel branches of industry; but, due to accelerated imports, the trade deficit started to widen again. However, the current account deficit, reaching +3.5 % of GDP, was fully compensated by foreign direct investment. In the near future, investment inflows will intensify as another two car makers with their suppliers come to Slovakia. Higher economic growth, together with the reform of the social system, showed itself in a decrease in the unemployment rate.

The average inflation rate in 2004 dropped slightly (to 7.5 %) and was within the target range set by the Monetary Programme of the National Bank of Slovakia (NBS). High inflation was mainly caused by extensive changes in indirect taxes (the unification of VAT rates and an increase in excise taxes) and by an increase in regulated prices; however, at the end of the year, the inflation rate, adjusted for the effect of administrative changes, was only 1.5 %.

The activity of foreign investors in Slovak financial markets significantly intensified last year. Over the year, investors doubled the volume of their deposits and bonds. The interest of foreign investors in Slovak assets showed itself mainly in the development of the exchange rate of the Slovak crown, which, last year alone, strengthened against the euro by more than 5 %. Due to the weaker exchange rate of the US dollar on world markets, the Slovak crown appreciated against the dollar by as much as 15 %. The NBS intervened against the quick appreciation of the currency several times by carrying out foreign-exchange interventions, by decreasing official interest rates and by leaving available crown liquidity on the money market.

The NBS, in trying to slow down the appreciation of the crown, lowered its two-week repo rates four times – altogether by two percentage points, which also showed up subsequently in lower interest rates on deposits and loans. Lower rates supported the ongoing expansion of mortgage loans and consumer credits provided to retail clients. By contrast, the volume of credits granted to non-financial enterprises dropped slightly in 2004. On the other hand, the surplus of liquidity in financial markets increased last year and, in December, it reached 258 billion crowns on average, while it was 161 billion crowns the year before.

In 2004, the fiscal results were better than originally expected. The decline in income tax revenues was easily offset by higher revenues from value added tax, so the deficit of the state budget only slightly exceeded 80 billion crowns. The great interest of domestic and foreign investors in government bonds, together with lower interest rates, showed itself in lower income from both primary and secondary bond markets. In addition, the state issued, as it did in 2003, euro-denominated bonds in foreign markets. With a view to the expected development of public finance, the Slovak Republic has a great chance to get ready for the adoption of the euro in 2009. The crown could enter ERM2 as early as 2006.

Macroeconomic indicators of the Slovak Republic 2000-2004

Indicator	Measurement Unit	2000	2001	2002	2003	2004
GDP	%, y/y	2.0	3.8	4.6	4.5	5.5
Industrial output	%, y/y	8.4	7.6	6.7	5.3	4.1
Construction output	%, y/y	(0.4)	0.8	4.1	6.0	5.7
Inflation rate	average, %	12.0	7.1	3.3	8.5	7.5
Unemployment rate	at year-end, %	18.4	19.2	18.5	18.2	16.9
Current account	% of GDP	(3.5)	(8.4)	(7.9)	(0.8)	(3.5)
Foreign direct investment	% of GDP	9.4	7.4	17.1	2.1	3.1
Official FX reserves	months of imports	3.0	3.0	5.0	5.0	5.0
Gross foreign indebtedness	% of GDP	54.8	53.0	48.1	49.6	50.9
Public budgets balance	% of GDP	(12.3)	(6.0)	(5.7)	(3.7)	(3.3)
Money supply (M2)	at year-end, %, y/y	15.4	11.8	3.4	5.6	5.8
BRIBOR 3m	average, %	8.59	7.77	7.79	6.18	4.67
SKK/EUR	average	42.59	43.31	42.70	41.49	40.05
SKK/USD	average	46.20	48.35	45.34	36.77	32.27

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

ČESKOMORAVSKÁ STAVEBNÍ SPOŘITELNA, A. S. (ČMSS)

Date of establishment June 26, 1993

Business activities

Construction savings in accordance with Act No. 96/1993 Coll. on Construction Savings and State Support for Construction Savings, as amended.

Share capital (CZK 000) 1,500,000

Shareholders as of December 31, 2004

55 % Československá obchodní banka, a. s.

45 % Bausparkasse Schwäbisch Hall A/G

	2004	2003	2002
Loans and bridging loans (CZK m)	35,792	25,058	16,314
Volume of client deposits (CZK m)	102,110	82,956	64,008
Number of valid contracts	2,361,442	2,475,790	1,890,555
Volume of target amounts of newly concluded contracts (CZK m)	54,617	191,749	84,806
Market share (%) (by volume of target amounts of newly concluded contracts)	44.5	40.6	37.5
Market share (%) (by volume of newly granted loans)	48.8	53.8	39.8

Note: 2004 market shares are not known and have been set on the basis of an expert estimate.

ČMSS is the largest construction savings bank in the Czech market from several perspectives. The company can boast of having the largest number of concluded construction savings contracts, the largest volume of client deposits and the largest volume of loans provided. ČMSS has maintained all of these top positions continuously since its foundation. For that reason, it has the largest, stable share of the construction savings market in the Czech Republic.

ČMSS helps its clients to meet their housing needs. A guarantee of this is a team of highly trained financial advisors and the financial force of this construction savings bank. ČMSS consistently applies a principle of permanent customer care, with individual financial advisors caring for clients from the moment when they conclude a construction savings contract to the moment of termination of the contractual relationship, and sometimes even longer. Consultancy service is always oriented towards clients' individual needs, which is the basis of the commercial success of ČMSS.

The offer of ČMSS rates has been conceived so as to compete successfully with other financial institutions providing special-purpose housing loans. Clients can benefit from the currently offered INVEST rate, especially from its low interest rate on construction savings loans (4.8 % p.a.) and from the required minimum advance payment amounting to 40 % of the target amount. Besides that, in 2004, ČMSS further advantaged conditions regarding the security for bridging loans and construction savings loans.

Clients' great interest in TOPKREDIT bridging loans continued in 2004. TOPKREDIT meets the needs of clients who want to finance larger volumes, who are sufficiently solvent and who can secure the provided loan with real estate. TOPKREDIT allows client to draw on a bridging loan without being acquired to have saved a certain minimal amount prior to granting the loan (advance payment = 0 % of the target amount) at a very advantageous interest rate of 4.8 % p.a., which will not change throughout the duration of the credit relationship with the client. Clients who have saved at least 40 % of the target amount can obtain, a TOPKREDIT bridging loan at an interest rate of 4.3 % p.a.

The constant interest of clients in ČMSS Products is evidenced by the development of business activities in 2004. In 2004, when an amendment to the Construction Savings Act became effective, 253,376 new contracts were concluded with a total target amount of CZK 54,617 million. The volume of client deposits also grew - by CZK 19,154 million. Clients' great interest in ČMSS credit products continued in 2004. ČMSS managed to maintain its position as the largest provider of loans for housing needs in the Czech Republic. Compared to competitors, according to an expert estimate, we achieved approximately 49 % market share in terms of new credit transactions (new bridging loans + new loans). The quality of the construction savings bank's offer was also appraised by the professional public, and, for the third time in a row, ČMSS received the prestigious "Construction Savings Bank of the Year 2004" award. CMSS was also successful in a public poll, called "Golden Pouch 2004", choosing the best construction savings bank.

In 2005, the focus of ČMSS's business policy will be – as far as granting bridging loans and construction savings loans are concerned - the maintenance of its market share in the area of new sales. Further growth is expected in the volume of loans provided.

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ČSOB STAVEBNÁ SPORITEĽŇA, A. S. (ČSOB SP)

Date of establishment November 8, 2000
Business activities
Construction savings in accordance with Act No. 310/1992 Coll. on Construction Savings, as subsequently amended.

Share capital (SKK 000) 720 000
Shareholders as of December 31, 2004
100 % Československá obchodní banka, a. s.

	2004	2003	2002
Loans and bridging loans (SKK m)	2,817	1,772	979
Volume of client deposits (SKK m)	4,395	3,733	2,866
Number of valid contracts	128,643	123,561	118,277
Volume of target amounts of newly concluded contracts (SKK m)	2,726	3,242	8,751
Market share in the Slovak Republic (%) (by the number of newly concluded contracts)	13.2 (*)	11.2	12.6

(*) estimated figure

ČSOB SP is a specialised bank established to support construction and housing. ČSOB SP began its operations on 1 December 2000. Since then, it has shown stable growth both in the number of participants in the construction savings scheme and in the volume of client deposits. In 2004, ČSOB SP provided construction savings products to private individuals only.

A strong point of ČSOB SP is its extensive and transparent offer of five savings types, the parameters of which allow clients to make use of various options and manners of financing their housing needs and they also offer an advantageous appreciation of available funds. In 2004 alone, ČSOB SP supported residential housing in Slovakia by an amount exceeding SKK 1.4bn, and, over the whole period of its existence, it has paid out about SKK 3.5bn for housing purposes. Despite a tough competitive environment, ČSOB SP recorded growth in its market share in 2004.

Also in 2004, ČSOB SP confirmed its character as an innovative bank and launched a number of interesting new products. In co-operation with insurance company ČSOB Poisťovňa, ČSOB SP has made construction savings more attractive for the youngest savers, and, since February 2004, it has been providing accident insurance to "Profit Kľúčik" as a bonus. Hence the child and the child's guardian are insured against the threat of a serious accident over the period of regular savings.

A fast interim loan, an extraordinary bridging loan where the client can be provided with an advantageous bridging loan as soon as he/she has saved 20 % of the target amount, has also become popular with clients. The fast interim loan allows clients to obtain necessary funds at an advantageous interest rate quickly and in a flexible way.

ČSOB SP succeeded in reducing the administrative workload in providing loans. ČSOB SP does not require clients to make a notarial deed when loans are secured through real estate. For other forms of collateral, a notarial deed may be replaced with a blank bill of exchange.

The structure of the sales network was reshaped in 2004 with the aim to streamline its activities and make its operations more effective all over the territory of the Slovak Republic. The number of regional directorates was reduced by half and new area directorates were established. Therefore customer services are now even more focused on individual needs of participants in construction savings plans.

The year 2005 will be distinguished as a year of product innovations, widening the portfolio of provided products and following the opportunities offered by the last amendment to the Act on Construction Savings. At the beginning of the year, a new product will be launched for legal entities, which will make the financing of renovations and repairs of residential houses easier.
ČSOB SP will try to add further benefits and advantages to the construction savings product also in 2005 in co-operation with the other members of the ČSOB Group in Slovakia.

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ČESKOMORAVSKÁ HYPOTEČNÍ BANKA, A. S. (HYPOTEČNÍ BANKA)

Date of establishment January 10, 1991

Business activities

Execution of banking transactions in compliance with the Act on Banks, and execution of other activities within the scope of generally binding legal regulations and licences, permits and approvals granted by the Czech National Bank if they are necessary for the execution of such activities.
Issuance of mortgage bonds according to a special act.

Share capital (CZK 000) 2,634,739

Shareholders as of December 31, 2004

99,84 % Československá obchodní banka, a. s.
0.16 % other shareholders

	2004	2003	2002
Volume of mortgage loans (balance sheet figure, in CZKm)	34,226	24,724	18,127
Number of newly approved mortgage loans	11,164	8,678	6,184
Volume of newly approved mortgage loans (in CZKm)	12,354	9,231	6,493
Market share in the Czech Republic (%) (by volume of newly approved mortgage loans for citizens)	22	23	23

Since 1 January 2005, Českomoravská hypoteční banka has been using a new name, "Hypoteční banka". Besides that, it is using a new logo composed of the new name of the bank and a graphic symbol depicting a house and a human figure. The goal of this change is to strengthen the perception of the bank by the general public and thus enhance its market position even more. In the Commercial Register, it is still registered under the business name of Českomoravská hypoteční banka, a.s.

Hypoteční banka is a modern, customer-friendly and stable bank exclusively focused on providing mortgage loans. Its strategic clients are citizens, municipalities and housing co-operatives.

In 2004, Hypoteční banka, together with ČSOB's network, approved altogether 11,164 mortgage loans totalling CZK 12.35 billion, of which 11,080 were loans of CZK 11.65 billion provided to private individuals, which represents a year-on-year growth of 29 % in terms of their number and 39 % in terms of their volume.

Despite a tough competitive environment, Hypoteční banka has managed to maintain its leading position on the mortgage market. Measured by the number of mortgage loans granted to private individuals in 2004, with a market share of 27 %, it has taken second place in the market behind Česká spořitelna with a 35 % market share. Komerční banka, with a 21 % market share, has taken third place.

In 2004, the share capital of the bank was significantly increased by CZK 1.3 billion, and, as at 31 December 2004, it reached CZK 2.6 billion. Due to this fact, ČSOB increased its share in the voting rights and share capital of Hypoteční banka by 0.64 percentage points to 99.84 %.

Besides its specialisation, a significant advantage of Hypoteční banka is also its individual approach and its wide range of products designed to finance not only real estate. This enables the bank to come up with solutions tailored exactly to the condition and needs of individual clients. In connection with an amendment to the Act on Bonds, the bank launched, in 2004, so-called American-type mortgage (a type of mortgage loan with no specific purpose) and Co-operative Housing Mortgage. The portfolio of services was expanded by including a Mortgage without Fees and a Guaranteed Interest Rate mortgage. In March 2004, Hypoteční banka expanded its offer with interest rates with three-, ten- and fifteen-year fixation. Hypoteční banka was the first bank in the Czech Republic to introduce a special mortgage loan for associations of homeowners.

Hypoteční banka's sales network covers the whole Czech Republic. It consists of 13 branches with their own mortgage offices and more than 1,500 external mortgage advisors operating in parallel with ČSOB's branch network. The co-operation of Hypoteční banka with the ČSOB Group in the use of its distribution networks resulted, in 2004, in the introduction of products called ČSOB Mortgage, ČSOB American Mortgage and ČSOB Mortgage for Co-operative Housing. These "ČSOB-branded" products have been exclusively designed for selling in ČSOB's distribution network.

Hypoteční banka is the largest issuer of mortgage bonds in the Czech Republic; therefore, it is a significant entity operating on the Czech capital market. As at 31 December 2004, mortgage bonds issued by Hypoteční banka accounted for 45 % of all mortgage bonds circulating in the Czech Republic.

The year 2005 will be a year of a new corporate identity, represented not only by a new brand and logo, but it will also follow the bank's new concept of providing mortgages and customer care. In the product sales area, the bank will further develop its co-operation with the ČSOB Group, and it will also develop its own external sales network (among other things, by building up a chain of advisory centres). Hypoteční banka wishes to continue to set the tone in mortgage banking through innovations, through services provided at a professional level and through a customer-oriented approach.

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ČSOB POJIŠŤOVNA, A. S., A MEMBER OF THE ČSOB HOLDING (ČSOB POJIŠŤOVNA)

Date of establishment April 17, 1992
Business activities
Insurance of citizens and entrepreneurs in the area of life and non-life insurance.

Share capital (CZK 000) 920,000
Shareholders as of December 31, 2004
75% KBC Insurance N.V.
25% Československá obchodní banka, a. s.

	2004	2003	2002
Number of insurance contracts	345,860	328,218	285,862
Volume of written premium (CZK thousand)	6,056,908	6,027,381	6,171,948
Number of claims settled	136,582	144,703	150,512
Market share in the non-life insurance market (%)	4.0	4.4	5.0
Market share in the life insurance market (%)	7.7	7.8	10.0

ČSOB Pojišťovna is an important universal insurance company offering a range of products in the area of life and non-life insurance for private individuals and legal entities alike. The wide range of ČSOB Pojišťovna's insurance products and the possibility of combining them with other financial services offered by the ČSOB Group allows its clients to tend to their financial needs comprehensively and under advantageous conditions. On the Czech insurance market, ČSOB Pojišťovna holds 4th place in terms of total premium written, 4th place in life insurance and 6th place in non-life insurance. In 2004, the company primarily focused on improving technical results of the life and non-life insurance business and on enhancing overall profitability of the company.

During 4th quarter of 2004, Standard&Poor´s, a prominent world rating agency, made an assessment of the financial strength and credibility of ČSOB Pojišťovna. On the basis of detailed analyses, ČSOB Pojišťovna was awarded with a long-term rating of its financial strength at a level of BBB- with a stable outlook. In its assessment, Standard&Poor´s positively appreciated good capitalisation of ČSOB Pojišťovna and its position within KBC Bank & Insurance Holding group.

In the business area, restructuring of the sales network continued. The sale of insurance policies has begun through general representatives (11) and the sale secured through exclusive insurance agents (PAE) was expanded. In the business area, preparations for the implementation of new acts, effective as of 1 January 2005 (Act on Insurance Contract, Act on Insurance Agents and Insurance Claims Adjusters, changes is the Trade-Licensing Act), further proceeded.

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ČSOB POISŤOVŇA, A. S. (FORMER ERGO POISŤOVŇA, A. S.)

Date of establishment January 1, 1992
Business activities
Insurance activity in the field of life, non-life and accident insurance.

Share capital (SKK 000) 450,000
Shareholders as of December 31, 2004
75 % KBC Insurance N.V.,
13,67 % Československá obchodní banka, a. s.
11,33 % Prvá slovenská investičná skupina, a. s.

	2004	2003	2002
Number of insurance contracts	329,310	173,544	167,583
Volume of written premium (SKK m)	1,234,371	1,078,781	996,297
Number of claims settled	15,067	13,029	12,395
Market share of the non-life insurance market (%)	1.72	1.54	1.69
Market share of the life insurance market (%)	3.82	4.01	4.28

ČSOB Poisťovňa, a.s., is a universal insurance company offering life and non-life insurance products. In retail insurance – insurance of persons – it offers various types of life insurance, including modern products providing security in case of a serious illness. The offer includes travel insurance, insurance of family houses and apartments and also insurance of motor vehicles. In corporate insurance – insurance of companies - it covers risks connected with business activities of firms and large industrial enterprises.

The incorporation of the insurance company in the ČSOB Group and its renaming in 2004 created qualitatively new opportunities in the area of offering and selling insurance products. Co-operation with ČSOB bank and ČSOB construction savings bank in the area of bancassurance continued. New products were developed, supplementing the offer of various companies of the ČSOB Group. The restructuring of the sales network further continued with the aim to create a network of professional financial advisors.

Main goals for the next period are:

- stabilisation of financial results of the insurance company,
- professionalism of the sales network,
- use of cross-selling tools within the insurance company in co-operation with members of the ČSOB Group,
- more intensive activity in the area of bancassurance.

ČSOB Poisťovňa wants to be an attractive employer who is able to create a friendly and high standard working environment and conditions and to develop a feeling of partnership and loyalty of our employees and colleagues to the company.

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ČSOB ASSET MANAGEMENT, A. S., A MEMBER OF THE ČSOB GROUP

Date of establishment December 31, 1995
Business activities
Stock-broker services within the authorization pursuant to a special law.

Share capital (CZK 000) 34,000
Shareholders as of December 31, 2004
79,41 % Patria Finance, a. s.
20,59 % Československá obchodní banka, a. s.

	2004	2003	2002
Assets under management (CZK bn)	43.1	34.1	32.8

The company was established in 1995 as a member of the Patria Finance Group. From the very beginning, it was among the leading asset managers in the Czech Republic. In 2000, similarly to ČSOB in 1999, it became a member of the KBC Group. In 2002, ČSOB became a 20% shareholder of the company. As a result, ČSOB acquired the majority of voting rights in Patria Asset management, a.s. and the name of the company was changed to ČSOB Asset Management, a.s.

ČSOB Asset Management provides its clients with investment services in the field of securities management. The total volume of assets under management was more than CZK 43 billion as at December 31, 2004. According to preliminary information, this amount represents roughly a 25% share of the Czech market. At present, the company's clients are entities such as insurance companies, pension funds, municipalities, commercial, manufacturing and energy companies, trade unions, foundations and other non-profit organisations, as well as private individuals.

In both acquiring and servicing its clients, ČSOB Asset Management works in cooperation with the CSOB distribution network. In this context, it is worth mentioning its co-operation with the ČSOB private banking segment in serving selected private individuals, where the volume of assets of these clients grew by 70% during 2004. ČSOB Pojišťovna, ČSOB Penzijní Fond Stabilita, and ČSOB Penzijní Fond Progres are among ČSOB Asset Management's institutional clients. A significant field of ČSOB Asset Management's activities is investment advisory services provided to selected Czech-crown denominated funds of the KBC Group.

In 2005, ČSOB Asset Management plans to further improve the efficiency of processes relating to asset management by taking advantage of synergies within the ČSOB Group and KBC Group.

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ČSOB INVESTIČNÍ SPOLEČNOST, A. S., A MEMBER OF THE ČSOB GROUP (ČSOB IS)

Date of establishment July 3, 1998
(transformed from O.B. INVEST, investiční společnost, spol. s r.o.)
Business activities
Collective investing.

Share capital (CZK 000) 216,000
Shareholders as of December 31, 2004
73,15 % Československá obchodní banka, a. s.
15,28 % Auxilium, a.s.
11,57 % ČSOB Asset Management, a. s., a member of the ČSOB Group

	2004	2003	2002
Assets under management (CZK bn)	13.1*	3.9	8.8

* A year - to - year growth related to a takeover of managed by První investiční společnost, a. s.

Business activities of the company in 2004 were determined by the accomplished integration of investment companies in the ČSOB Group. Within the framework of this integration, První investiční společnost, a.s. ceased to exist as of 13 January 2004 without liquidation and assets of this extinct company were transferred to the successor company ČSOB Investiční společnost, a.s., a member of the ČSOB Group. The entry of these changes in the Commercial register was permitted by a decision of the Municipal Court in Prague of 13 January 2004. On the basis of a decision by the Securities Commission, ČSOB IS also took over management of assets placed in open-ended mutual funds of the extinct První investiční společnost.

The merger of the two companies contributed to the more efficient management of internal processes, and the previous relocation of the company in the near vicinity of the parent bank made it possible to use its service background facilities.

In the first half of 2004, all investment funds had already been transformed into open-ended mutual funds, which subsequently resulted in a significant outflow of unit-holders' assets. This showed itself in partial lowering of commissions received for asset management. The trend of gradually decreasing the volume of assets under management will also continue in 2005, in particular, in connection with transferring assets coming from the former Investiční a Poštovní banka to the Czech Consolidation Agency. During this process, the participation of the so-called off-shore structures in open-ended mutual funds is considerably decreasing. A project is prepared for the near future when five ex-privatisation mutual funds will be merged, which will make the management of the funds even more efficient.

At the end of 2004, ČSOB IS managed 10 open-ended mutual funds, representing assets of more than CZK 13 billion.

Funds managed by ČSOB Investiční společnost, a.s., a member of the ČSOB Group, as of December 31, 2004

- ČSOB akciový mix, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB bond mix, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB středoevropský, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB fond bohatství, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB křišťálový fond, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB fond obchodu, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB nadační, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB KVANTO Kombinovaný, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB KVANTO Korunový dluhopisový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund
- ČSOB výnosový, ČSOB Investiční společnost, a.s., a member of the ČSOB Group, open-ended mutual fund

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PATRIA FINANCE, A. S.

Date of establishment	May 23, 1994	**Share capital (CZK 000)**	100,000
Business activities		**Shareholders as of December 31, 2004***	
Securities trading and consultancy services in the field of corporate finance.		75 % KBC Bank N.V. 25 % KBC Securities N.V.	

*) In February 2005, the following change in the shareholder structure of Patria Finance took place: 100% KBC Securities N.V.

Patria Finance was one of the first financial institutions based in Prague which focused on investment banking services including securities trading on its own account and on the behalf of clients, financial asset management, 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 belongs to one of 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 an Internet portal at the address www.patria.cz. Results of the company's own financial research are also available at this address.
- Patria Direct, a.s., which provides for clients' 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 corporate finance.
- ČSOB Asset Management, a.s., which manages clients' financial assets. The share of Patria Finance, a.s. is 79 %, ČSOB owns 21 %. Voting rights in ČSOB Asset Management, a.s., are divided among ČSOB (53 %), KBC Asset Management NV (26 %) and Patria Finance, a.s. (21 %).

Following the period of restructuring business activities in 2002 and 2003 and in relation to other activities of the KBC group in the Czech Republic, the year 2004 brought a stronger position for Patria Finance, a.s. in the area of securities trading and consultaney services provided in the field of corporate finance.

Securities transactions were made almost exclusively on stock markets, while bond transactions were made only for internal needs of the Treasury Department. Measured by the volume of shares trading carried out in 2004 on the Prague Stock Exchange, Patria Finance, a.s. finished in first place. Compared to 2003, the volume of trading in foreign securities increased further. In 2004, revenues from client commissions charged for clients' trades effected through the Internet also significantly increased. The number of clients trading via the Internet reached 3,000. The overall gross revenue of the Shares Trading Department and interest revenues reached almost CZK 163 million, up by more than 50 % compared to 2003.

Patria Online, a.s., took a leading position from the point of view of the number of website hits on financial portals. The company offered a new product of paid information, Patria Plus, provided via the Internet.

2004 was another successful year for the Corporate Finance Department with a team of business consultancy specialists working on some 34 mandates from mergers, acquisitions and sales of companies, namely in the fields of entertainment, power engineering, construction, information technology, telecommunications and machine engineering as well as in the service sector. A very significant element in the course of the year was the strengthening of cooperation with the ČSOB Corporate Banking Department and the Corporate Specialised Finance Department. Within the KBC group, pilot projects with KBC Investco in the area of interim financing were successfully accomplished.

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ČSOB PENZIJNÍ FOND STABILITA, A. S., A MEMBER OF THE ČSOB GROUP

Date of establishment October 26, 1994
Business activities
Supplementary pension insurance with state contribution.

Share capital (CZK 000) 97,167
Shareholders as of December 31, 2004
100 % Československá obchodní banka, a. s.

	2004	2003	2002
Number of contracts	47,687	50,526	42,529
Funds registered in favour of participants (CZK m)	8,735	7,507	6,609
of which contributions of participants (CZK m)	6,770	5,784	5,058
Market value of investment portfolio (CZK m)	9,250	7,671	6,798
Appreciation of participants' funds (%)	4.2	2.3	3.0
Market share in the Czech Republic by the number of participants (%)	10.52	11.0	11.6

ČSOB Pension Fund Stabilita, a.s., a member of the ČSOB Group (formerly Českomoravský penzijní fond, a.s., hereinafter also referred to as "ČSOB PFS") has been operating on the pension insurance market since 1994. ČSOB PFS provides pension insurance with state contribution pursuant to Act no. 42/1994 Coll. on Supplementary Pension Insurance with State Contribution, i.e., it collects funds from subscribers to supplementary pension insurance and contributions from the state provided to the credit of the subscribers, manages the funds and pays out pension insurance according to the pension plan in question. ČSOB PFS negotiates and pays out all of the types of pensions and other benefits that a pension fund can provide.

On 1 April 2004, Act No. 36/2004 Coll. became effective, which changes Act No. 42/1994 Coll. on Supplementary Pension Insurance with State Contribution and on Changes in Some Acts Relating to its Introduction, as subsequently amended. This amended Act has brought changes in the area of supplementary pension insurance, in particular: widening the circle of subscribers to supplementary pension insurance plans by including persons with residence in the territory of other EU member states and widening investment opportunities of pension funds by inclusion of investment in financial instruments of OECD member states or central banks. On 1 September 2004, a new pension plan and new statutes of ČSOB PFS became effective, which reflect all changes contained in the amended Act.

ČSOB PFS maintains a conservative investment strategy primarily based on investments in fixed-yield securities. Along with the strong background of the fifth strongest pension fund in the Czech Republic, ČSOB PFS aims its clients stable annual yields.
A significant milestone in the development of ČSOB PFS's distribution network was the start of the sales through agents of ČMSS in September 2004. At present, ČSOB PFS has one of the largest distribution networks among pension funds in the Czech Republic.

In 2004, 47,687 new contracts were concluded and 29,943 contracts were terminated, which is an increase in the number of active clients by 17,744. The average age of new subscribers to supplementary pension insurance decreased by 1.9 years to 49.7, and the average amount of the arranged monthly contributions amounted to CZK 405.
In 2004, a new product was introduced for corporate clients in co-operation with ČSOB PFS's parent company, ČSOB, and other members of the group - "ČSOB Motivation Programme". This programme includes both benefits for companies contributing to their employees' supplementary pension insurance in ČSOB pension funds and benefits for the employees themselves.
The goal for ČSOB PFS in 2005 will be, in particular, the maintenance of its previous market position. Another goal is to establish co-operation with corporate clients and offer to them the ČSOB Motivation Programme.
Beyond the scope of the services generally provided – conclusion of contracts for supplementary pension insurance – ČSOB PF Stabilita offers its clients above-standard services. These involve, for example, the Optimum programme, which allows its clients to obtain the maximum tax relief and state contributions without unnecessary administration. Thanks to the fact that the fund belongs to the ČSOB Group, clients can also take advantage of other benefits provided by the Bank's subsidiaries and other companies:

- 5 % discount on insurance of movable assets and real estate - DOMUS with ČSOB Pojišťovna;
- a six-month "fee holiday" when opening a Postgiro account or Postkonto account with Poštovní Spořitelna;
- 100 % discount on administrative fees when arranging a consumer loan with Poštovní Spořitelna.
- 7% discount on selected residence tours of the Čedok Travel agency.

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ČSOB PENZIJNÍ FOND PROGRES, A. S., A MEMBER OF THE ČSOB GROUP

Date of establishment February 14, 1995
Business activities
Supplementary pension insurance with state contribution.

Share capital (CZK 000) 50,000
Shareholders as of December 31, 2004
100 % Československá obchodní banka, a. s.

	2004	2003	2002
Number of contracts	10 631	4,828	3,827
Funds registered in favour of participants (CZK m)	476.6	330.8	206.2
of which contributions of participants (CZK m)	394.0	279.1	165.3
Market value of investment portfolio (CZK m)	552.5	383.2	238.4
Appreciation of participants' funds (%)	5.2	4.3	4.26
Market share in the Czech Republic by the number of Participants (%)	0.8	0.6	0.5

ČSOB Pension Fund Progres, a.s., a member of the ČSOB Group (formerly ČSOB Pension Fund, hereinafter also referred to as "ČSOB PFP") has been operating on the market of pension insurance since 1995. ČSOB PFP operates pension insurance with a state contribution pursuant to Act no. 42/1994 Coll. on Supplementary Pension Insurance with State Contribution, i.e., it collects funds from subscribers to pension insurance and contributions from the state provided to the credit of the subscribers, manages the funds and pays out pension insurance according to the pension plan in question. ČSOB PFP negotiates and pays out all of the types of pensions and other benefits that a pension fund can provide.

On 1 April 2004, Act No. 36/2004 Coll. became effective, which changes Act No. 42/1994 Coll. on Supplementary Pension Insurance with State Contribution and on Changes in Some Acts Relating to its Introduction, as subsequently amended. This amended Act has brought changes in the area of pension insurance, in particular: widening the circle of subscribers to pension insurance plans by including persons with residence in the territory of other EU member states and widening investment opportunities of pension funds by inclusion of investment in financial instruments of OECD member states or central banks. On 1 September 2004, a new pension plan and new statutes of ČSOB PFP became effective, which reflect all changes contained in the amended Act. Following its strategy adopted in 2003, ČSOB PFP is the only pension fund with a focus on young people who are interested in savings for a longer period of time and who are willing to accept a certain level of risk. The dynamic investment strategy of the Progres fund, based on a higher portion of shares and foreign bonds, allows, in the case of longer-time savings, to achieve appreciation of funds better than that offered by most pension funds operating in the Czech Republic. In 2003, ČSOB PFP achieved the highest appreciation of funds among pension funds operating in the Czech Republic (4.3 %). In 2004 expected appreciation of funds is 5.2%.

A significant milestone in the development of ČSOB PFP was the start of sales through agents of ČMSS in September 2004, so the sales network has been expanded by more than 1,800 agents of ČMSS. The number of newly concluded contracts reached 10,631, which represents an increase by 5,803 contracts (120.2 %) against 2003. Another significant indicator proving the correctness of ČSOB's strategy in the area of supplementary pension insurance is the decrease in the average age of new subscribers to 37.2 years. The average amount of arranged monthly contributions from new clients has reached CZK 515.

In 2004, a new product was introduced to corporate clients in co-operation with ČSOB PFP's parent company, ČSOB, and other members of the group - "ČSOB Motivation Programme". This programme includes both benefits for companies contributing to their employees' supplementary pension insurance in ČSOB pension funds and benefits for the employees themselves. The goal of the business strategy for 2005 is growth in market share and maximising benefits from sales effected through ČMSS's sales network and ČSOB's branch network.

Beyond the scope of the services generally provided – conclusion of contracts for supplementary pension insurance – PF Progres also offers its clients above-standard services. These involve, for example, the Komfort programme, which allows its clients to obtain maximum tax relief and state contributions without unnecessary administration. Thanks to the fact that the fund belongs to the ČSOB Group, clients can also take advantage of other benefits provided by the Bank's subsidiaries and other companies. Particularly interesting benefits are:

- 5 % discount on insurance of movable assets and real estate - DOMUS with ČSOB Pojišťovna;
- a six-month "fee holiday" when opening a Postgiro account or Postkonto account with Poštovní Spořitelna.
- 7% discount on selected residence tours of the ČEDOK Travel agency.

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ČSOB LEASING, A. S.

Date of establishment October 31, 1995
Business activities
Financial services (financial and operational leasing, hire-purchase)

Share capital (CZK 000) 600,000
Shareholders as of December 31, 2004
100 % Československá obchodní banka, a. s.

	2004	2003	2002
Volume of new leasing transactions in the Czech Republic (CZK bn)	14.7	14.8	14.3
Number of contracts in the Czech Republic	21,129	22,462	22,338
Overall market share in the Czech Republic by volume of transactions* (%)	12.24	12.72	12.23
Relevant market share in the Czech Republic by volume of transactions** (%)	13.82	13.26	13.31

* The overall market includes the leasing market (movables and immovables) and the relevant market of hire purchase and consumer loans.
** The relevant market includes the leasing market of movables.

ČSOB Leasing, a.s., is a universal leasing company with a nationwide range of activity which possesses a network of 14 branches. According to the Leasing Companies Association, ČSOB Leasing, a.s., has maintained first position on the Czech leasing market for four years. The company provides financial services for private individuals, small entrepreneurs, entrepreneurial entities, corporate and state non-profit organisations.

ČSOB Leasing, a.s., is focused primarily on the area of financing transportation vehicles, machinery, equipment, technology, capital equipment and computer technology. It offers its clients financial leasing in CZK, EUR and USD, hire-purchase and also operational leasing, including the most comprehensive form of it: full-service leasing. ČSOB Leasing, a.s. also provides related services such as favourable insurance rates, economic and tax consultancy, etc. In its own Used-Car Dealership in Prague – Čakovice, the company offers well-tested passenger and utility vehicles for leasing and sale.

In 2005, the centre of attention at ČSOB Leasing, a.s. will be primarily the further development of the offer of products, especially fleet management and consumer loans, more intensive co-operation with suppliers of financed commodities and continued internal organizational and processional changes. The company also plans to concentrate on increased use of cross-selling within the ČSOB Group.

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ČSOB LEASING, A. S. (SR)

Date of establishment	December 10, 1996	**Share capital (SKK 000)**	1,500,000
Business activities		**Shareholders as of December 31, 2004**	
Financial services (leasing, hire-purchase)		90 % Československá obchodní banka, a. s.	
		10 % ČSOB Leasing, a.s.	

	2004	2003	2002
Volume of new leasing transactions in the Slovak Republic (SKK bn)	7.4	6.5	6.4
Number of contracts in the Slovak Republic	8,728	9,171	10,653
Market share in the Slovak Republic by volume of transactions (%)	15.9	15.2	16.1

ČSOB Leasing, a.s. has been operating on the Slovak market since 1996 as a universal leasing company offering a comprehensive range of financial products from financial leasing in SKK and EUR, through operational leasing, including full-service, to hire-purchase. The commodity structure includes a wide range of commodities - from transportation vehicles to machinery and equipment. 9 branches are open in the Slovak Republic.

In 2004, the company achieved turnover of SKK 7.4 billion and concluded 8,728 new leasing contracts. According to the information of the Association of Leasing Companies, as of the end of 2004 ČSOB Leasing, a.s. maintained the second position on the Slovak leasing market with a 15.9 % market share. The market share increase of ČSOB Leasing, a.s. was based on the growth in commodities such as lorries (year-on-year growth by 45 %) and machinery and equipment (year-on-year growth by 32 %).

In 2004, new financial leasing services were launched on the market, in particular, a new product for small and medium-sized enterprises called "Benefit leasing" regarding commodities such as lorries, machinery and equipment. In this type of product, the client gets a bonus in the form of a last instalment that is not to be paid up to the amount of SKK 200,000.-, according to the purchase price. For the commodity of new passenger and utility cars, an exceptional product was introduced called "3+3 Years of Insurance Free of Charge", where the client gets 3 years of accident insurance and 3 years of liability insurance free of charge. Along with a focus on customers, seasonal repayment for hire-purchase arrangements and Euro leasing, that is, repayment made in EUR, were also prepared for passenger and utility cars.

In 2005, the company will continue to cover the entire commodity structure of financed objects – passenger and utility cars, lorries, machinery and equipment. As recently as 2004, ČSOB Leasing entered the market of used cars sold through used-car shops. It is expected that, in 2005, the position of ČSOB Leasing will be strengthened also in this segment. Besides well-established products such as financial leasing, operational leasing, operational leasing with the offer of a comprehensive set of services and hire-purchase, ČSOB Leasing will also develop in 2005 a consumer loans product, which will enlarge clients' options in the area of product financing.

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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, 2004
50 % Československá obchodní banka, a. s.
50 % NMB-Heller Holding N.V., Netherlands

	2004	2003	2002
Debt turnover (CZK bn)	16.2	15.2	14.5
Market share in the Czech Republic (%) (by factoring receivables turnover)	20.5	24.2	26.8

O.B.HELLER is a factoring company which provides its clients with operational capital in the form of funding customers via the assignment of receivables arising from the delivery of goods to customers. It is a very flexible form of financing, combining an overdraft facility with comprehensive management of receivables, including secured collection and protection against customers' insolvency.

Compared to 2003, the volume of assigned receivables increased by 9.5%. The turnover achieved in 2004 implies a market share of 20.5 % among the members of the Association of Factoring Companies in the Czech Republic. The company succeeded in establishing co-operation with 53 new clients who accounted for turnover exceeding CZK 1.5 billion during the year. The envisaged factoring turnover with these clients should exceed CZK 4 billion, which means that there is a significant growth potential for O.B.HELLER in the upcoming period. The largest share in the contracted turnover of new acquisitions belonged to industries such as metal-working production, the building industry and textile production.

Since 1 April 2004, clients have on-line access to the company's information system FACTORLINK. This significant qualitative shift means continuous access to open receivables, surveys of payments, etc. Also in the area of everyday communication, the on-line co-operation means a significant refinement of information flows for clients.

The business and financial plan of O.B.HELLER for 2005 forecasts an increase in the turnover of factoring operations up to CZK 18.95 billion crowns. This plan also forecast a massive sale of products through ČSOB's branch network. The year 2004 had already produced an increase in trades mediated by the Bank.

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OB HELLER FACTORING A. S.

Date of establishment February 24, 1997
Business activities
Factoring.

Share capital (SKK 000) 30,000
Shareholders as of December 31, 2004
100 % O.B.HELLER a. s., Česká Republika

	2004	2003	2002
Turnover of receivables (in SKKbn)	4.48	5.18	5.44
Market share in the Slovak Republic (%) (by overall turnover of receivables)	18	33	41

Joint-stock company OB HELLER Factoring a.s. has been operating on the Slovak financial market since 1997. Through its shareholders, it has joined the HELLER international factoring network operating in approximately 25 countries. OB HELLER Factoring a.s. belongs to the ČSOB Group and specialises in providing financial services relating to domestic and export factoring, especially for ČSOB clients.

In 2004, OB HELLER Factoring a.s. succeeded, despite strong pressures from competitors, in maintaining its leading position among factoring companies. This success in the dynamically developing Slovak market was mainly achieved due to the quality of provided services, long-term experience and a customer-oriented approach. This is also evidenced by the number of newly concluded contracts. In 2004, OB HELLER Factoring a.s. acquired 28 new trading partners.

We regard the implementation of a new information system, Factor-Link, in 2005 as a competitive advantage and as a contribution to fundamentally improve the quality of customer service. The information system has been developed within the NMB - Heller Holding group and it will enable clients to have on-line access to their accounts and it will also provide them with a number of detailed managerial and accounting surveys.

In 2005, we will focus on continuous improvement of the quality of provided financial services, mainly through recourse factoring with a comprehensive administration of receivables. We will support the achievement of this goal by developing co-operation within the ČSOB Group, in particular.

In 2005, we want to continue to be a universal financial partner for our clients.

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PRICEWATERHOUSECOOPERS

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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. ("the Bank") and its subsidiaries ("the Group") as at 31 December 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended ("the consolidated financial statements"). These consolidated financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the acoompanying consolidated financial statements present fairly, in all material respects, the finacial position of the Group as at 31 December 2004, 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.

11 March 2005

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

Paul Cunningham
Partner

Marek Richter
Auditor, Licence No. 1800

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Incert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Year Ended 31 December 2004 (Prepared in accordance with International financial Reporting Standards)

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2004

(CZKm)	Notes	2004	Reclassified 2003
Interest income		24,847	25,149
Interest expense		(9,005)	(10,419)
Net interest income	3	**15,842**	**14,730**
Net fee and commission income	4	6,658	6,314
Net trading income	10	1,790	1,103
Other income	5	1,402	1,023
Non-interest income		9,850	8,440
General administrative expenses	6	(13,877)	(14,186)
Other expenses	7	(1,945)	(1,378)
Operating profit before provisions		**9,870**	**7,606**
Impairment losses on loans and advances	14	16	27
Other provisions	23	(309)	(380)
Operating profit		**9,577**	**7,253**
Income tax expense	22	(2,685)	(946)
Net profit before minority interests		**6,892**	**6,307**
Minority interests		(76)	(67)
Net profit		**6,816**	**6,240**

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

(CZKm)	Notes	31.12.2004	Reclassified 31.12.2003
ASSETS			
Cash and balances with central banks	8	16,505	19,238
Due from banks	9	116,880	131,059
Trading assets	10	73,910	63,771
Investment securities	11	126,854	131,183
Loans and leases	13	249,043	230,100
Property and equipment	15	11,435	12,434
Goodwill	16	3,472	3,798
Other assets, including tax assets	17	8,875	8,403
Prepayments and accrued income		6,307	6,494
Total assets		**613,281**	**606,480**
LIABILITIES			
Due to banks	18	24,722	20,254
Trading liabilities	10	66,847	46,458
Due to customers	19	426,058	441,596
Rescue acquisition state assistance payable		-	4,737
Debt securities in issue	20	24,854	16,731
Other liabilities, including tax liabilities	21	22,860	27,129
Accruals and deferred income		1,590	1,734
Other provisions	23	1,166	1,383
Total liabilities		**568,097**	**560,022**
Minority interests		**349**	**457**
SHAREHOLDERS' EQUITY			
Share capital	24	5,105	5,105
Share premium account		2,259	1,439
Statutory reserve		18,687	19,250
Cumulative gains/(losses) not recognised in the income statement		187	(180)
Treasury shares		-	(368)
Retained earnings		18,597	20,755
Total shareholders' equity		**44,835**	**46,001**
Total liabilities, minority interests and shareholders' equity		**613,281**	**606,480**

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 11 March 2005 and signed on its behalf by:

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

Patrick Daems
Member of the Board of Directors
and Senior Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

(CZKm)	Share capital (Note 24)	Share premium account	Statutory reserve	Cumulative gains/(losses) not recognised in the income statement [1]	Treasury shares	Retained earnings	Total Equity
At 1 January 2003	5,105	1,006	19,223	94	(576)	16,423	41,275
Net after-tax unrealised gains on available-for-sale securities	-	-	-	(138)	-	-	(138)
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	(297)	-	-	(297)
Foreign currency translation	-	-	-	254	-	-	254
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(101)	-	-	(101)
Net after-tax losses on derivatives used as cash flow hedges transferred to net profit	-	-	-	8	-	-	8
Net after-tax gains not recognised in the income statement	-	-	-	(274)	-	-	(274)
Net profit	-	-	-	-	-	6,240	6,240
Transfer to statutory reserve	-	-	27	-	-	(27)	-
Purchase of treasury shares	-	-	-	-	(20)	-	(20)
Sale of treasury shares	-	433	-	-	228	-	661
Dividends paid	-	-	-	-	-	(1,881)	(1,881)
At 31 December 2003	**5,105**	**1,439**	**19,250**	**(180)**	**(368)**	**20,755**	**46,001**
Correction of opening balance due to change in the consolidation scope (Note 35)						162	162
At 1 January 2004 - after correction	**5,105**	**1,439**	**19,250**	**(180)**	**(368)**	**20,917**	**46,163**
Net after-tax unrealised gains on available-for-sale securities	-	-	-	533	-	-	533
Net after-tax gains on derivatives used as cash flow hedges	-	-	-	468	-	-	468
Foreign currency translation	-	-	-	10	-	-	10
Net after-tax (gains) on available-for-sale securities transferred to net profit	-	-	-	(285)	-	-	(285)
Net after-tax (gains) on derivatives used as cash flow hedges transferred to net profit	-	-	-	(359)	-	-	(359)
Net after-tax gains not recognised in the income statement	-	-	-	367	-	-	367
Net profit	-	-	-	-	-	6,816	6,816
Transfer from statutory reserve	-	-	(563)	-	-	563	-
Purchase of treasury shares	-	-	-	-	(23)	-	(23)
Sale of treasury shares	-	820	-	-	391	-	1,211
Dividends paid (Note 37)	-	-	-	-	-	(9,699)	(9,699)
At 31 December 2004	**5,105**	**2,259**	**18,687**	**187**	**-**	**18,597**	**44,835**

(1) Accumulated gains/(losses) not recognised in the income statement consists of the valuation allowance for foreign currency translation adjustments of CZK (367)m, CZK (113)m and CZK (103)m as at 1 January 2003, 31 December 2003 and 31 December 2004, respectively; net gains on available-for-sale securities of CZK 292m, CZK 53m and CZK 301m as at 1 January 2003, 31 December 2003 and 31 December 2004, respectively; net gains/(losses) on derivatives used as cash flow hedges of CZK 169m, CZK (120)m and CZK (11)m as at 1 January 2003, 31 December 2003 and 31 December 2004, respectively.

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

(CZKm)	Note	2004	Reclassified 2003
Cash flow from / (used in) operating activities			
Operating profit		9,577	7,253
Adjustments for			
Allowances and provisions for credit losses	14	(16)	(27)
Other provisions	23	309	380
Depreciation of property and equipment	6	1,988	1,920
Property impairment charge	7	369	-
Amortisation of discounts and premiums		278	112
Amortisation of goodwill	7	224	205
Net gain on disposal of securities other than trading		(534)	(159)
Net gain on disposal of property and equipment	5	(16)	(16)
Own bonds adjustment		(5)	(100)
Change in cumulative gains / (losses) not recognized in the income statement		517	(298)
Other		(86)	(275)
(Increase) / decrease in operating assets:			
Due from banks, non-demand		16,105	9,885
Trading assets		(10,275)	(6,888)
Loans and leases		(19,059)	(16,920)
Other assets		(1,172)	(920)
Prepayments and accrued income		230	(379)
Increase / (decrease) in operating liabilities:			
Due to banks, term		(162)	(109)
Trading liabilities		20,389	5,702
Due to customers		(13,941)	16,704
Promissory notes and certificates of deposit		9,852	(7,489)
Other liabilities		(7,912)	(3,301)
Accruals and deferred income		(360)	(366)
Net cash flow from operating activities before income tax		6,300	4,914
Net income tax paid		(265)	(2,430)
Net cash flow from operating activities		6,035	2,484
Cash flow from / (used in) investing activities			
Acquisition of IPB, net of cash paid		(4,627)	56,655
Change in consolidation scope	35	77	(239)
Purchase of securities		(71,470)	(128,890)
Maturity/disposal of securities		68,263	81,975
Purchase of property and equipment		(2,145)	(1,928)
Disposal of property and equipment		957	427
Net cash flow (used in) / from investing activities		(8,945)	8,000
Cash flow from / (used in) financing activities			
Issue of bonds		4,368	2,901
Repayment of bonds		(6,093)	(6,750)
Sale of treasury shares		1,188	641
Decrease in minority interests		(108)	(517)
Increase / (decrease) in borrowings		3,266	(3,309)
Dividends paid	37	(9,699)	(1,881)
Net cash flow (used in) financing activities		(7,078)	(8,915)
Effect of exchange rate changes on cash and cash equivalents		(3)	138
Net (decrease) / increase in cash and cash equivalents		**(9,991)**	**1,707**
Cash and cash equivalents at beginning of year	28	29,471	27,764
Net (decrease) / increase in cash and cash equivalents		(9,991)	1,707
Cash and cash equivalents at the end of year	28	**19,480**	**29,471**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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 all its subsidiaries (together the Group) which have been prepared in accordance with and comply with the International Financial Reporting Standards (IFRS). 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.

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 intra-group balances and a separate disclosure for minority interests. Joint ventures included in the Group consolidation are proportionally consolidated, which requires a venturer's share of the assets, liabilities, income and expenses in the joint venture to be combined with those of the venturer on a line-by-line basis. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Fair valuation

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments classified as held for trading or available-for-sale are fair valued using the quoted market prices if there is a published price quotation in an active public market. For financial instruments that are not traded on an active public market 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 Cumulative 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

Foreign currency transactions are translated into the measurement currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the 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 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 Net 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 assets and liabilities held for trading 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. They are initially recognised at cost (which includes transaction costs) and subsequently carried at amortised cost. Amortised cost is the initial measurement amount less principal repayments, plus or minus the cumulative amortisation to interest of any difference between the initial amount recognised and the maturity amount, and minus any provision for impairment.

Securities held for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin are classified as trading securities and are initially recognised at cost (which includes transaction costs) and subsequently carried 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. Available-for-sale securities are initially recognised at cost (which includes transaction costs) and subsequently carried at fair value with net unrealised gains and losses included in Cumulative gains/(losses) not recognised in the income statement on an after-tax basis. Interest income arising from available-for-sale assets is recorded separately in Net interest income. Dividends received from equity shares are recorded in Other income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in Cumulative gains/(losses) not recognised in the income statement is reversed and included in Other income.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. An impairment loss on a held-to-maturity security is recorded along with Impairment losses on loans and advances. An impairment loss on an available-for-sale security is recognised by first reversing the cumulative impairment loss previously recognised in Cumulative gains/(losses) not recognised in the income statement and then charging the entire loss amount to Other expenses.

i) Loans and leases

Loans are carried at amortised cost adjusted for unamortised deferred origination fees less allowance for credit losses (Note 2j). Loan interest income is recognised using the effective interest method based on recoverable value. Loan origination fees are deferred and recognised as adjustments to interest income over the lives of the related loans.

Finance leases are carried at the aggregate level of lease payments receivable plus the estimated residual value of the leased property less unearned income and less allowance for credit losses (Note 2j). Unearned lease income is amortised over the lease terms using the net investment method.

An impaired loan or lease is classified as non-performing when any contractual payment is in arrears for more than 90 days.

j) Allowance for credit losses

The Allowance for credit losses is management's estimate of losses in the credit portfolios. It reduces the recorded amounts of the credit portfolios to their recoverable values. Net additions to the allowance are charged to Impairment losses on loans and advances. An individual credit exposure is written-off directly to the allowance when management deems it to be uncollectible. Recoveries of previously written-off amounts are credited to the allowance.

An allowance for credit losses is established if, based on current information and events, there is objective evidence that the Group may be unable to collect all amounts due, including principal and interest, according to the contractual terms of the credit agreement. Factors considered by management to identify impairment include payment status and the probability of collecting scheduled payments when due.

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

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

Credit losses in the off-balance sheet credit portfolios are recognised as Provisions for guarantees and undrawn credit lines in Other liabilities; net additions are charged to Impairment losses on loans and advances.

Change in accounting estimate

In December 2004, the Group better defined its estimation criteria to determine when a loan or lease becomes "uncollectible" and, thus, should be written-off. This change in accounting estimate was based on a review of the Group's recent loan and lease collection experience.

The financial impact from this change in December 2004 was a one-off reduction in gross loans and leases as well as the allowance for credit losses of CZK 3,269m, i.e. having no impact on net profit. It is expected that the future impact from this change will be more timely recognition of loan and lease write-offs.

k) Property and equipment

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

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

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

Buildings	30 years
Furniture	6 years
Equipment	4-30 years

l) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share on the net assets of the acquired business or subsidiary company at the date of acquisition. Goodwill is deferred and amortised on a straight-line basis to Other expenses. Based on the analysis of the useful life, the amortisation period has been changed from 10 years used in 2002 to 20 years starting 2003.

Negative goodwill represents the excess of the fair value of the Group's share on the net assets of the acquired business or subsidiary company over its cost of acquisition at the date of acquisition. Negative goodwill arising after 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 is recognised in the statement of income immediately.

m) Income taxes

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

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset 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 statement of income together with the deferred gain or loss.

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

The Group recognised the future tax effects on changes in the carrying amount of its subsidiary companies and joint ventures. Bank management does not foresee the reversal of the respective deferred tax effects in the future. Accordingly, in 2004 the respective cumulative prior-year tax effects of CZK 148m have been reversed in the current year's income (2003: CZK 1,117m). Had this continued, an additional deferred tax income of CZK 67m would have been recognised in 2004 (2003: deferred tax charge CZK 32m).

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

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

o) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in the Net trading income.

The Group uses derivatives, designed on the date a contract is entered into, as hedging 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. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. A derivative is considered highly effective if the Group achieves offsetting changes in cash flows between 80 percent and 125 percent for the risk being hedged.

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 Net trading income. Amounts in Cumulative gains/(losses) not recognised in the income statement are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed 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. If the hedged anticipated transaction is no longer expected to occur related remaining amounts in Cumulative gains/(losses) not recognised in the income statement are reclassified immediately to statement of 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 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 statement of income.

p) Fees and commissions paid and received

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised ratably over the period the service is provided.

q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

r) Employee retirement benefits

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

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

s) Treasury shares

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

t) Offsetting

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

u) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks, trading assets, debt securities, due from banks (demand) and due to banks (demand).

v) Recently issued accounting pronouncements

In 2004 the IASB published improved versions of several existing International Accounting Standards (IAS), including amendments to IAS 32, 36, 38 and 39. Also new International Financial Reporting Standards (IFRS) were published (IFRS 1, 2, 3, 4 and 5) during 2004. The Group is implementing these standards in 2005. The most significant impact of the new standards is expected to come from the reclassification and subsequent restatement at fair value, of securities classified as originated by the enterprise as at 31 December 2004. The total estimated after-tax impact on Shareholders' equity as at 31 December 2004 resulting from the reclassification of securities classified as originated by enterprise to available-for-sale and financial assets at fair value through profit and loss is an increase of CZK 880m. The Group is still quantifying the impact of other changes to the standards.

3. NET INTEREST INCOME

(CZKm)	2004	2003
Interest income		
Mandatory minimum reserves with central banks	174	178
Due from banks	2,997	3,013
Trading assets	3,195	3,649
Investment securities	3,829	4,019
Loans and leases	14,652	13,796
Rescue acquisition state assistance receivable	-	494
	24,847	**25,149**
Interest expense		
Due to banks	799	859
Trading liabilities	654	861
Due to customers	6,622	7,274
Debt securities in issue	920	1,058
Rescue acquisition NAV compensation payable	-	110
Discount amortisation on other provisions (Note 23)	10	257
	9,005	**10,419**
Net interest income	**15,842**	**14,730**

4. NET FEE AND COMMISSION INCOME

(CZKm)	2004	Reclassified 2003
Commission income	8,053	8,017
Commission expense	(1,395)	(1,703)
	6,658	**6,314**

5. OTHER INCOME

(CZKm)	2004	Reclassified 2003
Net gain from derecognition of available-for-sale financial assets	327	159
Operating leasing and rental income	317	220
Net gain on disposal of originated by enterprise securities	207	-
Dividend income	35	37
Net gain on disposal of property and equipment	16	16
Receivables transferred	3	168
Income from insurance claims	-	20
Negative goodwill amortisation	-	6
Net loss on disposal of other financial investments	-	(41)
Other	497	438
	1,402	**1,023**

6. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2004	Reclassified 2003
Personnel expenses	5,929	5,605
Depreciation of property and equipment (Note 15)	1,988	1,920
Other general administrative expenses	5,960	6,661
	13,877	**14,186**

Personnel expenses

(CZKm)	2004	2003
Salaries and bonuses	4,228	4,080
Social security costs	1,428	1,365
Other pension costs, including retirement benefits	273	160
	5,929	**5,605**

The time-weighted average number (in full-time equivalents) of Group personnel including Executive Board members during 2004 was 10,211 (2003: 10,511).

Management bonus scheme

Salaries and remuneration of the members of the Board of Directors, as well as the remuneration principles are subject to approval of the Compensation Committee of the Supervisory Board. The level of the remuneration is based on the growth of the net consolidated profit per share. As a motivating tool, the members of the Board of Directors may purchase at fair value the shares of the Bank within a specific Share purchase programme, the number of such shares depending on the growth of the net consolidated profit per share as well. Based on this scheme members of the Board of Directors acquired in total 3,546 shares of the Bank in 2004.

For his membership in the Supervisory Board only the chairman is remunerated.

Retirement benefits

The Bank provides its Czech Republic employees with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries to the ČSOB Penzijní fond Stabilita, a.s. or the ČSOB Penzijní fond Progres, a.s. wholly-owned subsidiaries of ČSOB, with a contribution of the Bank of 2% or 3% of their salaries, respectively.

Other general administrative expenses

(CZKm)	2004	Reclassified 2003
Information technology	1,121	803
Marketing and public relations	797	839
Retail service fees	787	768
Rent and maintenance	734	1,119
Telecommunications and postage	667	897
Administration	272	464
Professional fees	303	581
Travel and transportation	153	136
Training	99	123
Insurance	73	74
Other	954	857
	5,960	**6,661**

7. OTHER EXPENSES

(CZKm)	2004	2003
Deposit insurance	828	479
Transfer to pension insurance funds	348	230
Amortisation of goodwill (Note 16)	224	211
Property impairment charge (Note 15)	369	-
Other	176	458
	1,945	**1,378**

8. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	31.12.2004	31.12.2003
Cash on hand	7,969	9,295
Balances with central banks	7,357	8,826
Other cash values	1,179	1,117
	16,505	**19,238**

Mandatory minimum reserves are not available for use in the Group's day to day operations. Mandatory minimum reserves as at 31 December 2004 represented CZK 5,399m (31 December 2003: CZK 6,141m).

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)	31.12.2004	31.12.2003
Analysed by product and bank domicile:		
Current accounts		
domestic	187	190
foreign	1,274	1,289
Term placements		
domestic	4,973	4,490
foreign	14,240	18,115
Loans		
domestic	79,095	86,314
foreign	17,220	20,801
	116,989	131,199
Allowance for credit losses (Note 14)	(109)	(140)
Net due from banks	**116,880**	**131,059**

Financial assets were accepted as collateral from a related party as at 31 December 2004 and 2003 (Note 36).

Gross non-performing due from banks amounted to CZK 699m at 31 December 2004 (31 December 2003: CZK 759m).

The fair value of financial assets accepted as collateral in connection with reverse repo transactions (within Loans domestic) as at 31 December 2004 was CZK 71,718m, of which CZK 2,583m has been sold or repledged (31 December 2003: CZK 79,517m and CZK 1,363m 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)	2004	2003
Net trading income - as reported	1,790	1,103
Net interest income (Note 3)	2,541	2,788
Total trading-related net income	**4,331**	**3,891**
Foreign exchange	2,054	1,070
Fixed-income securities and money market	3,004	2,722
Interest rate contracts	(860)	(111)
Equity shares	133	210
Total trading-related net income	**4,331**	**3,891**

Trading Assets and Liabilities

The fair value of the components of the Group's trading assets and liabilities as at 31 December 2004 and 2003 were:

	Fair value	
(CZKm)	31.12.2004	31.12.2003
Trading assets		
Treasury bills	19,733	15,277
Reverse repo transactions	17,916	14,678
Debt securities	10,856	10,203
Equity shares	739	954
Derivative contracts (Note 27)	4,162	3,686
Term deposits placed with Banks	20,504	18,973
	73,910	**63,771**
Trading liabilities		
Securities sold, not yet purchased	3,744	1,659
Promissory notes	7,669	5,297
Repo transactions	3,187	2,187
Derivative contracts (Note 27)	6,095	4,730
Term deposits taken from Banks	46,152	32,585
	66,847	**46,458**

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2004 was CZK 20,763m, of which CZK Nil has been either sold or repledged (31 December 2003: CZK 14,670m and CZK Nil respectively). Under reverse repo transactions, the Group maintains legal ownership of the respective collateral received and, thus, is permitted to utilise the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

The carrying value of trading assets pledged as collateral to secure borrowed funds in connection with trading repo transactions as at 31 December 2004 was CZK 449m (31 December 2003: CZK 1,161m).

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

11. INVESTMENT SECURITIES

(CZKm)	31.12.2004	31.12.2003
Securities available-for-sale - at fair value		
Treasury bills	4,485	17,250
Debt securities	34,860	18,823
Equity securities	5,712	4,039
Total available-for-sale portfolio	45,057	40,112
Securities held-to-maturity - at amortised cost		
Treasury bills	5,059	24,339
Debt securities	76,738	66,732
Total held-to-maturity portfolio	81,797	91,071
Total securities	**126,854**	**131,183**

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 2004 was CZK 5,423m (31 December 2003: CZK 317m).

Schedule of Activity in Investment Securities

(CZKm)	2004			2003
	Available-for-sale	Held-to-maturity	Total	Total
At 1 January	40,112	91,071	131,183	77,224
Exchange adjustments	(489)	(2,550)	(3,039)	(191)
Purchases	33,267	32,872	66,139	131,110
Disposals (sales or redemption)	(28,510)	(39,219)	(67,729)	(81,816)
Change in consolidation scope	(121)	-	(121)	5,160
Amortisation of discounts and premiums	(325)	(377)	(702)	(227)
Gains from changes in fair value	699	-	699	(192)
Other	424	-	424	115
At 31 December	**45,057**	**81,797**	**126,854**	**131,183**

12. RESCUE ACQUISITION OF INVESTIČNÍ A POŠTOVNÍ BANKA, A. S. (IPB)

Introduction

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

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

- Purchase consideration, which depended, inter alia, on independent valuation and independent audit of the net assets of IPB (NAV statement). An agreement executed between the CMoF and ČSOB (CMoF Agreement) guaranteed that ČSOB would be compensated for any shortfall in IPB's net assets through various mechanisms and conversely should the net assets of IPB at 19 June 2000 be positive, ČSOB would be obliged to pay compensation to the Czech Republic for the amount of the net asset surplus.
- Potential liabilities to be covered by the CNB. An agreement executed between the CNB and ČSOB (CNB Agreement) set out the indemnities granted by the CNB to reimburse ČSOB for losses and damages it may incur arising from contingencies and commitments in connection with the purchase of the IPB Enterprise. On 5 November 2002, ČSOB unilaterally represented to the CNB to cap the indemnity at CZK 160bn and establish an expiry date of 31 December 2016.

In 2003 and 2004 the process of settling of the remaining issues between ČSOB, the Czech Consolidation Agency (CKA) and the CMoF continued to a conclusion. The NAV statement liability was settled in January 2004 including relating accrued interest. The final audit of the value of one remaining bad loan portfolio was finalised in June 2004, which was the basis for final adjustment of goodwill and purchase price consideration and final settlement with CMoF in this respect.

Goodwill

IPB goodwill movements from rescue acquisition activity in 2004 and 2003 are summarised as follows:

(CZKm)	2004	2003
At 1 January	2,787	2,128
Purchase consideration adjustments	(110)	(2)
Additional costs directly attributable to the acquisition	-	504
Add: Change in acquired IPB net assets - at fair value	-	305
Net changes in IPB goodwill - gross (Note 16)	**(110)**	**807**
Amortisation	(166)	(148)
31 December	2,511	2,787

13. LOANS AND LEASES

(CZKm)	31.12.2004	31.12.2003
Analysed by category of borrower:		
Czech Ministry of Finance (reflecting Slovenská inkasná - see Slovenská inkasná note below)	21,332	21,729
Government bodies	51,293	55,112
Industrial companies	32,281	34,710
Retail customers	60,407	42,942
Other service companies	34,469	29,084
Trade companies	19,719	21,569
Finance lease customers	24,985	23,878
Other	10,363	10,549
Gross loans and leases	254,849	239,573
Allowance for credit losses (Note 14)	(5,806)	(9,473)
Net loans and leases	**249,043**	**230,100**

Finance lease receivables may be analysed as follows:

(CZKm)	31.12.2004	31.12.2003
Not later than 1 year	14,057	13,555
Later than 1 year and not later than 5 years	13,505	12,981
Later than 5 years	27	33
Gross investment in finance leases	27,589	26,569
Unearned future finance income on finance leases	(2,604)	(2,691)
Net investment in finance leases	**24,985**	**23,878**
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	12,453	11,869
Later than 1 year and not later than 5 years	12,508	11,981
Later than 5 years	24	28
Net investment in finance leases	**24,985**	**23,878**

The allowance for uncollectible finance lease receivables included in the provision for credit losses amounted to CZK 673m at 31 December 2004 (31 December 2003: CZK 1,333m).

Gross non-performing loans and leases amounted to CZK 3,752m at 31 December 2004 (31 December 2003: CZK 6,500m).

1993 restructuring

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

Slovenská inkasná

Background

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

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

Legal proceedings

On 18 April 1997, the Bank filed a request for arbitration under the auspices of the International Centre for Settlement of Investment Disputes (ICSID) in Washington, D.C. of its claim against the Slovak Republic arising from the Slovak Republic's failure to perform under the Consolidation Agreement. On 29 December 2004 the ICSID Tribunal issued a final award. The Award required the Slovak Republic to pay within 30 days from the date of the Award compensation of SKK 24,879m and USD 10m as a contribution to ČSOB's arbitration proceeding costs. Thereafter, the awarded amounts accumulate interest at 5% p.a. until paid.

On 10 February 2005 ČSOB and SMoF concluded an agreement (Settlement Agreement), which stipulates conditions of the settlement of the Award. Based on the Settlement Agreement SMoF paid an advance of SKK 16,000m to ČSOB on 11 February 2005. The remaining balance will be settled in 2006. However, both parties retained their right to appeal against the Award. Should either of the parties appeal, the Settlement Agreement is null and void. The deadline for such an appeal expires on 29 April 2005.

State coverage

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

In view of the legal considerations arising from the SI bankruptcy, a second Stabilisation Agreement was executed on 25 June 1998 between the Bank and the CMoF pursuant to which the CMoF agreed to provide support to the Bank as above. An amendment to the Stabilisation Agreement was concluded on 31 October 2001 (Amendment) with the CMoF including the effect of postponing by two years, to 31 December 2004, the date on which the CMoF will advance state support as above to ČSOB. A second amendment concluded on 28 April 2004 postponed the state support by one more year.

Based on the Settlement Agreement a third amendment to the Stabilisation Agreement was concluded on 10 February 2005 specifying the conditions for final settlement of the Stabilisation Agreement. Under this amendment 85% of the amount awarded by the ICSID Tribunal will be offset against the receivable from the CMoF. The residual part of the receivable will be settled by 31 December 2007. Should the Settlement Agreement become null and void, this third amendment is similarly null and void.

Accounting treatment

In accordance with the terms of the Stabilisation Agreement as amended, the Bank recognizes its receivable from the CMoF with interest accruing according to this contract. As of 31 December 2004 and 2003 the total receivable amounted to CZK 21,332m. The SI loan balance is recorded off balance sheet where it continues to accrue interest in accordance with the agreed loan terms (Note 25). Should the Bank receive any proceeds from the dispute or loan repayment, it is required to off-set such proceeds against the receivable from CMoF.

Due to the continuing uncertainty regarding SMoF's right of appeal against the Award, the Bank has reflected the Award as of 31 December 2004 as a contingent asset with corresponding contingent liability towards CMoF (Note 25).

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 2004 and 2003:

(CZKm)	2004	2003
At 1 January	10,744	10,177
Change of consolidation scope	5	-
Write-offs	(4,531)	(405)
Recoveries	1,162	997
Decrease in credit loss allowance and provisions	(16)	(27)
Foreign currency translation and other adjustments	(187)	2
Transfers	(480)	-
31 December	**6,697**	**10,744**

The Allowance for credit losses and Provisions for guarantees and undrawn credit lines as at 31 December 2004 and 2003 are distributed as follows:

(CZKm)	31.12.2004	31.12.2003
Allowance for credit losses		
Loans and leases (Note 13)	5,806	9,473
Due from banks (Note 9)	109	140
Provisions for guarantees and undrawn credit lines (Note 25)	782	1,131
	6,697	**10,744**

15. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Historical cost				
At 1 January 2004	11,505	10,026	769	22,300
Exchange adjustments	(2)	(3)	-	(5)
Change in consolidation scope	-	370	7	377
Transfers	307	960	(1,267)	-
Additions	41	720	1,384	2,145
Disposals	(622)	(717)	(539)	(1,878)
At 31 December 2004	11,229	11,356	354	22,939
Accumulated depreciation and impairment				
At 1 January 2004	2,917	6,949	-	9,866
Exchange adjustments	(1)	(6)	-	(7)
Change in consolidation scope	-	235	-	235
Disposals	(176)	(591)	-	(767)
Impairment utilization and release	(183)	3	-	(180)
Impairment charge (Note 7)	369	-	-	369
Charge for the year (Note 6)	337	1,651	-	1,988
At 31 December 2004	3,263	8,241	-	11,504
Net book value				
At 1 January 2004	**8,588**	**3,077**	**769**	**12,434**
At 31 December 2004	**7,966**	**3,115**	**354**	**11,435**

An impairment charge of CZK 150m relates to certain headquarter buildings, which are intended to be sold, due to the construction of a new building. A further amount of CZK 113m relates to the planned sale of branch buildings in the Slovak Republic. The recoverable amount of the impaired buildings represents the net selling price, determined by reference to prevailing market prices.

16. GOODWILL

(CZKm)	2004	2003
Net book value		
At 1 January	3,798	2,266
Other acquisitions	8	930
Net changes in IPB goodwill (Note 12)	(110)	807
Amortisation (Notes 5 and 7)	(224)	(205)
31 December	**3,472**	**3,798**
Gross amount acquired	4,402	4,513
Accumulated amortisation	(930)	(715)
31 December	**3,472**	**3,798**

17. OTHER ASSETS, INCLUDING TAX ASSETS

(CZKm)	31.12.2004	31.12.2003
Other debtors, net of provisions	3,963	3,989
Hedging derivative contracts (Note 27)	2,785	761
Net deferred tax asset (Note 22)	1,148	262
Items in the course of collection	275	217
Other clearing accounts	263	715
Other receivables from clients	164	498
Estimated receivables	154	277
Current income tax receivable	39	861
Receivables from securities clearing entities	25	31
VAT and other tax receivables	8	792
Other	51	-
	8,875	**8,403**

18. DUE TO BANKS

(CZKm)	31.12.2004	31.12.2003
Analysed by product and bank domicile:		
Current accounts		
domestic	416	221
foreign	2,607	1,611
Term deposits		
domestic	-	104
foreign	113	-
Borrowings		
domestic	7,012	4,641
foreign	14,574	13,677
Total due to banks	**24,722**	**20,254**

19. DUE TO CUSTOMERS

(CZKm)	31.12.2004	Reclassified 31.12.2003
Analysed by product:		
Current accounts	186,204	195,027
Term deposits	239,854	246,569
Total due to customers	**426,058**	**441,596**
Analysed by customer type:		
Individuals and households	257,562	263,116
Private companies and entrepreneurs	83,591	105,500
Foreign	41,654	13,449
Government bodies	13,231	21,111
Non-profit institutions	10,735	10,889
Liability to pension fund policy holders	8,788	7,641
Other financial institutions	6,801	12,337
Insurance companies	3,696	7,011
Other	-	542
Total due to customers	**426,058**	**441,596**

20. DEBT SECURITIES IN ISSUE

Issue date	Currency	Maturity date	Effective interest rate	31.12.2004 (CZKm)	31.12.2003 (CZKm)
Bonds issued:					
February 1999	CZK	February 2004	8.90%	-	2,497
February 1999	CZK	February 2004	6.76%	-	3,005
June 1999	CZK	June 2004	8.20%	-	595
May 2000	CZK	May 2005	6.59%	1,430	1,365
December 2000	CZK	December 2005	6.57%	1,875	1,228
May 2002	CZK	May 2007	4.60%	1,268	1,067
December 2002	CZK	December 2007	PRIBOR-0.31%	502	590
February 2003	CZK	February 2008	3.14%	746	694
June 2003	CZK	June 2008	2.71%	450	450
September 2003	SKK	September 2008	4.94%	197	196
September 2003	CZK	September 2008	3.36%	1,269	1,211
November 2003	CZK	November 2010	3.85%	399	384
February 2004	CZK	February 2009	3.62%	1,131	-
March 2004	CZK	December 2008	3.48%	55	-
June 2004	CZK	June 2009	4.03%	868	-
June 2004	CZK	June 2009	PRIBOR-0.32%	861	-
October 2004	SKK	October 2009	4.80%	492	-
November 2004	CZK	November 2007	3.45%	10	-
				11,553	**13,282**
Promissory notes				13,295	3,415
Certificates of deposit				6	34
Total debt securities in issue				**24,854**	**16,731**

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

21. OTHER LIABILITIES, INCLUDING TAX LIABILITIES

(CZKm)	31.12.2004	Reclassified 31.12.2003
Items in the course of transmission	5,861	7,792
Other creditors	4,610	5,010
Liability to Česká finanční, s.r.o.	2,461	5,377
Other clearing accounts	2,280	2,910
Current income tax payable	1,964	94
Estimated payables	1,692	2,003
Hedging derivative contracts (Note 27)	1,649	1,410
Provisions for guarantees and undrawn credit lines (Note 25)	782	1,131
Current accounts from which value was collected	314	249
Payables to securities clearing entities	299	260
VAT and other tax payables	297	165
Net deferred tax liability (Note 22)	79	151
Other	572	577
	22,860	**27,129**

ČSOB assumed from IPB obligations to repurchase former Banka Haná bad loans from Česká Finanční, s.r.o. (ČF) in connection with the CNB-sponsored restructure of that bank. Those loans, with an estimated value of zero, would have been repurchased at their nominal value. On 13 August 2003 the Bank and ČF signed the Settlement Agreement which clarified all rights and liabilities of both counter parties. The liability of CZK 2,461m represents the discounted value of the last instalment payable by 31 July 2005. As at 31 December 2003 three instalments were outstanding with a discounted value of CZK 5,377m.

22. INCOME TAXES

(CZKm)	2004	2003
Current tax expense	3,892	1,668
Previous year over accrual	(109)	(13)
Deferred tax income relating to the origination and reversal of temporary differences	(1,098)	(709)
	2,685	**946**

(CZKm)	2004	Reclassified 2003
Profit before taxation	9,577	7,253
Applicable tax rates	28%	31%
Taxation at applicable tax rates	2,682	2,248
Previous year over accrual	(109)	(13)
Tax effect of non-taxable income	(1,117)	(1,998)
Tax effect of non-deductible expenses	1,397	1,870
Prior years' deferred tax that will not reverse (Note 2m)	(148)	(1,117)
Effect of foreign taxes	(18)	(22)
Effect on opening deferred taxes due to reduction in tax rate	19	60
Other	(21)	(82)
	2,685	**946**

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

Deferred income taxes are calculated on all temporary differences under the liability method using the 26% income tax rate enacted for 2005 as management expects the majority to reverse in 2005.

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

(CZKm)	2004	2003
At 1 January	111	(623)
Income statement credit	1,098	709
Available-for-sale securities		
Fair value remeasurement	(165)	(121)
Transfer to net profit	42	58
Cash-flow hedges		
Fair value remeasurement	(168)	128
Transfer to net profit	126	(4)
Foreign currency translation	-	(35)
Change of consolidation scope	23	-
Exchange differences	2	(1)
At 31 December	**1,069**	**111**

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

(CZKm)	31.12.2004	31.12.2003
Deferred income tax assets		
Legal claim	318	27
Allowances for credit losses	312	75
Impairment of occupied properties	309	318
Other provisions	209	176
Available-for-sale securities	186	28
Interest rate bonus	127	118
Accelerated tax depreciation	41	4
Trading assets and liabilities valuation	32	-
Unrealised foreign exchange results	10	-
Cash flow hedges	5	48
Tax loss carryforward	1	74
	1,550	**868**
Deferred income tax liabilities		
Available-for-sale securities	197	88
Finance lease	126	-
Accelerated tax depreciation	71	55
Amortization of goodwill	8	-
Credit provisions	-	243
Share in Group companies	-	148
Trading assets and liabilities valuation	-	72
	402	**606**
Net deferred income tax asset (Note 17)	**1,148**	**262**

(CZKm)	31.12.2004	31.12.2003
Deferred income tax assets		
Available-for-sale securities	12	-
Trading assets and liabilities valuation	10	4
Allowances for credit losses	1	137
Accelerated tax depreciation	1	-
Other provisions	-	38
	24	**179**
Deferred income tax liabilities		
Trading assets and liabilities valuation	44	-
Finance lease valuation	30	279
Credit provisions	13	6
Accelerated tax depreciation	12	14
Securities valuation	4	5
Unrealised foreign exchange gains/losses	-	17
Available-for-sale securities	-	8
Cash flow hedges	-	1
	103	**330**
Net deferred income tax liability (Note 21)	**79**	**151**

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

(CZKm)	31.12.2004	31.12.2003
Tax loss carryforward	(69)	(60)
Amortization of goodwill	(8)	-
Securities valuation	6	(5)
Impairment of occupied properties	8	(4)
Interest rate bonus	13	18
Unrealised foreign exchange results	17	(27)
Other provisions	36	(123)
Accelerated tax depreciation	58	2
Trading assets valuation	61	(37)
Finance lease valuation	123	(21)
Prior years' deferred tax that will not reverse (Note 2m)	148	1,117
Available-for-sale securities	160	28
Allowances for credit losses	271	(65)
Legal claim	293	(6)
Share in Group companies	-	(48)
Deferred tax expense resulting from reduction in tax rate	(19)	(60)
	1,098	**709**

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	Combination restructuring charges	Staff reduction charges	Onerous rent contract losses	Total
At 1 January 2004	952	31	155	245	1,383
Net provision charge	228	-	81	-	309
Discount amortisation (Note 3)	-	-	-	10	10
Utilised during year	(410)	(12)	(80)	(34)	(536)
At 31 December 2004	**770**	**19**	**156**	**221**	**1,166**

The provision for litigation and other losses is not discounted to its net present value, as the moment of its utilisation could not be predicted with the sufficient certainty. The discounting effect on provision for combination restructuring charges and staff reduction charges is negligible.

Combination restructuring charges

As part of its efforts to gain further cost synergies from the acquisition of IPB, ČSOB announced a programme to close redundant branches throughout the Czech Republic.

Staff reduction charges

In 2002 ČSOB announced 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. By the end of 2004 approximately 86% of the total planned reduction was achieved. In 2004 another staff reduction program started, which aims to reduce the number of personnel by approximately a further 350. A charge of CZK 123m was recorded in 2004.

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 2004 and 2003 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 2004 was Nil (31 December 2003: 98,997).

25. CONTINGENT ASSET, LIABILITIES AND COMMITMENTS

(CZKm)	31.12.2004		31.12.2003	
	Contract amount	Risk weighted amount	Contract amount	Risk weighted amount
Contingent asset				
Slovenská inkasná loan	30,788	-	28,653	-
Contingent liabilities				
Czech Ministry of Finance	30,788	-	28,653	-
Acceptances and endorsements	-	-	41	41
Guarantees issued	15,632	7,176	13,381	5,340
	46,420	**7,176**	**42,075**	**5,381**
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	59,639	27,128	130,057	20,370
Documentary credits	1,005	450	1,312	566
	60,644	**27,578**	**131,369**	**20,936**
Provisions for guarantees and undrawn credit lines (Notes 14 and 21)	782		1,131	

The above contractual amounts represent the maximum credit risk which would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became 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. According to the Award SMoF should pay SKK 24,879m (translated at 2004 year-end exchange rate CZK 19,562m) of this amount. According to the Settlement Agreement ČSOB will not claim repayment of the residual amount, i.e. up to CZK 30,788m, if the terms of the Settlement Agreement are met in full (Note 13). Should ČSOB receive payments on that loan they will be used, among other things, to offset the CMoF receivable. This obligation is represented above by the CMoF contingent liability.

26. OTHER CONTINGENT LIABILITIES

a) Litigation

Other than the litigation for which provisions have already been raised in Note 23, the Group is named in and defending a number of legal actions in various jurisdictions arising in the ordinary course of business. Management does not believe a material impact on the financial position of the Group will result from the ultimate resolution of these legal actions.

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

Further, the Group has initiated a number of legal actions to protect its assets, including a receivable of CZK 595m. 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 48,886m as at 31 December 2004 (31 December 2003: CZK 54,773m). Assets held by the Group under custody arrangements amounted to CZK 146,379m as at 31 December 2004 (31 December 2003: CZK 130,189m).

d) Operating lease commitments

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

(CZKm)	31.12.2004	31.12.2003
Not later than 1 year	21	415
Later than 1 year and not later than 5 years	168	1,428
Later than 5 years	175	1,700
	364	**3,543**

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

27. DERIVATIVES

Derivative instruments are utilised by the Group for trading and asset and liability management (ALM) purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance 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 non-credit 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 2004 and 2003 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

(CZKm)	31 December 2004			31 December 2003		
	Contract/ Notional	Fair value Positive	Fair value Negative	Contract/ Notional	Fair value Positive	Fair value Negative
Interest rate related contracts						
Swaps	131,528	1,924	3,410	93,526	1,053	1,584
Forwards	106,809	104	120	84,540	17	21
Written options	7,920	1	6	239	-	-
Purchased options	7,920	6	-	239	-	-
	254,177	**2,035**	**3,536**	**178,544**	**1,070**	**1,605**
Foreign exchange contracts						
Swaps	75,922	1,808	1,883	74,549	2,377	2,686
Forwards	15,123	168	456	16,341	126	184
Written options	19,592	-	220	16,738	-	235
Purchased options	10,976	151	-	14,665	113	-
	121,613	**2,127**	**2,559**	**122,293**	**2,616**	**3,105**
Equity contracts						
Forwards	-	-	-	106	-	20
Total derivatives held for trading	**375,790**	**4,162**	**6,095**	**300,943**	**3,686**	**4,730**

Asset and Liability Management activities

The Group's 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. 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 2004 and 2003.

The contract or notional amounts and positive and negative fair values of the Group's outstanding hedging derivatives as at 31 December 2004 and 2003 are set out as follows:

(CZKm)	31 December 2004			31 December 2003		
	Contract/ National	Fair value Positive	Fair value Negative	Contract/ National	Fair value Positive	Fair value Negative
Single currency interest rate swaps	31,857	486	21	20,847	479	144
Cross currency interest rate swaps	28,319	2,299	1,628	18,893	282	1,266
Total hedging derivatives	**60,176**	**2,785**	**1,649**	**39,740**	**761**	**1,410**

The fair value of the embedded derivative included in the collateralised debt obligations entered into during 2004 was CZK NiL (Note 36).

28. CASH AND CASH EQUIVALENTS

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

(CZKm)	31.12.2004	31.12.2003
Cash and balances with central banks	16,505	19,238
Trading portfolio assets	998	1,134
Investment securities	1,819	9,451
Due from banks, demand	3,165	1,480
Due to banks, demand	(3,007)	(1,832)
Cash and cash equivalents	**19,480**	**29,471**

29. SEGMENT REPORTING

The Group's primary segment reporting is by customer segment. Geographical segment information is not presented for 2004 and 2003 as the Group's Czech Republic results are not materially different from Group in aggregate.

Segment reporting information by customer segments for 2004

(CZKm)	Retail / SME	Corporate	Historic	State assisted balances	Other	Group Total
Net interest income	10,216	1,514	138	(16)	3,990	15,842
Non-interest income	6,036	1,805	222	61	1,726	9,850
Segment expenses	(8,087)	(776)	(370)	(93)	(6,496)	(15,822)
Segment result	8,165	2,543	(10)	(48)	(780)	9,870
Provisions	(1,635)	981	703	(4)	(338)	(293)
Operating profit before taxation	6,530	3,524	693	(52)	(1,118)	9,577
Income tax (expense)/benefit	(1,828)	(987)	(194)	14	310	(2,685)
Segment profit	4,702	2,537	499	(38)	(808)	6,892
Minority interests	-	-	-	-	(76)	(76)
Net profit	**4,702**	**2,537**	**499**	**(38)**	**(884)**	**6,816**
Assets	**362,698**	**71,950**	**26,582**	**-**	**152,051**	**613,281**

Segment reporting information by customer segments for 2003

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

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

Definitions of customer segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover less than CZK 300m.

Corporate: Companies with a turnover greater than CZK 300m and non-banking institutions in the financial sector.

Historic: Exceptional loans with Czech state coverage (see Note 13) and certain other loans granted by the Group to previously state-owned companies.

State assistance balances: Czech state assistance balances in connection with the acquisition of IPB (see Note 12).

Other: Non-banking subsidiaries, Asset Liability Management segment, Dealing segment, Headquarters, unallocated expenses and eliminating and reconciling items.

The Bank also operates Poštovní spořitelna (Postal Savings Bank) which has approximately 2.2m customer accounts with deposits amounting to approximately CZK 92bn and a network that spans approximately 3,400 points of sale in the Czech Republic. The results of the Postal Savings Bank are included above in the Retail / SME customer segment.

30. CURRENCY RISK

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

(CZKm)	31.12.2004	31.12.2003
USD	(407)	(559)
SKK	(1,570)	335
EUR	1,093	(72)
JPY	5	36

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 table below summarises the effective interest rate by major currencies:

(%)	2004				2003			
	CZK	EUR	SKK	USD	CZK	EUR	SKK	USD
Assets								
Cash and balances with central banks	0.70	-	0.37	-	0.69	-	0.42	-
Due from banks	3.64	2.68	5.18	7.29	1.82	2.33	4.25	6.16
Trading assets	2.62	2.45	2.26	2.15	1.90	2.60	3.24	1.33
Securities	4.76	4.65	6.13	5.83	3.15	5.39	8.10	6.05
Loans (brutto)	5.11	4.01	6.29	6.51	3.74	3.96	9.55	5.78
Finance leases	8.66	8.07	12.69	-	10.69	8.16	15.64	-
Liabilities								
Due to banks	2.48	2.01	2.85	5.49	2.96	2.58	2.13	6.10
Due to customers	2.26	1.01	2.64	0.87	1.98	1.08	5.31	0.33
Debt securities in issue	4.27	0.41	4.82	-	6.67	-	-	-

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 non-trading assets less non-trading interest rate sensitive liabilities) of the Group 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 2004:

(CZKm)	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 12 months
CZK	(12,485)	(8,376)	20,682	(18,401)	18,580
EUR	(6,626)	6,740	(537)	695	(272)
USD	(721)	564	410	268	(521)
SKK	(7,354)	6,978	(827)	611	(1,062)

Set out below is management's estimate of the interest rate sensitivity gap positions for the Group in the major currencies as at 31 December 2003:

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

The above tables show interest rate sensitivity gap positions of the ČSOB Group (i.e. interest rate sensitive assets - interest rate sensitive liabilities in each time bucket). Liabilities with non-specified maturities (current accounts, notice deposits) are incorporated into interest risk management in the form of benchmarks, i.e. structures of liabilities' sensitivities specified with regard to the actual behavioural experience of the product.

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

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

32. LIQUIDITY RISK

The following table sets out the financial assets and liabilities of the Group by remaining maturity as at 31 December 2004:

(CZKm)	Demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	10,118	-	-	-	-	6,387	16,505
Due from banks	3,165	85,953	2,032	23,893	1,254	583	116,880
Trading assets	-	55,177	2,930	4,721	6,138	4,944	73,910
Investment securities	-	5,063	11,950	53,347	50,782	5,712	126,854
Loans and leases	4,390	54,213	27,980	78,443	56,943	27,074	249,043
Other financial assets	88	276	15	10	33	6,913	7,335
Total assets	17,761	200,682	44,907	160,414	115,150	51,613	590,527
Liabilities							
Due to banks	3,007	6,231	4,540	1,236	9,698	10	24,722
Trading liabilities	-	54,368	2,498	2,052	1,834	6,095	66,847
Due to customers	196,691	123,695	27,435	54,617	23,304	316	426,058
Debt securities in issue	-	13,040	3,563	7,851	400	-	24,854
Other financial liabilities	116	542	2,885	-	-	13,893	17,436
Total liabilities	199,814	197,876	40,921	65,756	35,236	20,314	559,917
Net liquidity gap	**(182,053)**	**2,806**	**3,986**	**94,658**	**79,914**	**31,299**	**30,610**

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

(CZKm)	Demand	Up to 3 pmonths	3-12 months	1-5 years	Over 5 years	Unspecified	Total
Assets							
Cash and balances with central banks	13,568	-	-	-	-	5,670	19,238
Due from banks	1,480	99,666	2,533	17,672	9,100	608	131,059
Trading assets	-	40,216	8,770	4,928	4,960	4,897	63,771
Investment securities	-	25,210	30,313	37,918	33,701	4,041	131,183
Loans and leases	5,702	27,239	46,734	88,658	35,945	25,822	230,100
Other financial assets	96	1,022	252	2	-	4,783	6,155
Total assets	20,846	193,353	88,602	149,178	83,706	45,821	581,506
Liabilities							
Due to banks	1,832	2,324	5,155	8,097	2,843	3	20,254
Trading liabilities	-	38,085	2,008	1,142	515	4,708	46,458
Due to customers	196,126	162,269	34,417	42,134	6,397	253	441,596
Debt securities in issue	853	7,932	699	6,841	384	22	16,731
Other financial liabilities	80	2,461	3,245	2,461	-	16,508	24,755
Total liabilities	198,891	213,071	45,524	60,675	10,139	21,494	549,794
Net liquidity gap	**(178,045)**	**(19,718)**	**43,078**	**88,503**	**73,567**	**24,327**	**31,712**

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

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

The unspecified band includes assets and liabilities for which the remaining maturity could not be reliably estimated.

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:

(CZKm)	31.12.2004		Reclassified 31.12.2003	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Due from banks	116,880	117,119	131,059	131,133
Investment securities	81,797	82,100	91,071	91,015
Loans and leases	249,043	254,130	230,100	231,985
FINANCIAL LIABILITIES				
Due to banks	24,722	24,799	20,254	20,257
Due to customers	426,058	425,297	441,596	441,646
Debt securities in issue	24,854	25,107	16,731	17,174
Rescue acquisition NAV compensation payable	-	-	4,737	4,737

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

Due from banks

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

Securities

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

Loans and leases

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

Rescue acquisition NAV compensation payable

Rescue acquisition NAV compensation payable has floating-rate characteristics; accordingly, its carrying value represents an estimate of its fair value.

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)	2004	2003
Net interest income	12,125	11,274
Net commission income	5,449	5,186
Net trading income	1,727	958
Other income	2,709	2,424
Operating income	**22,010**	**19,842**
Operating expenses	(13,019)	(13,046)
Operating profit before provisions	**8,991**	**6,796**
Provisions	479	296
Operating profit	**9,470**	**7,092**
Income tax expense	(2,654)	(890)
Net profit	**6,816**	**6,202**

Condensed balance sheet

(CZKm)	31.12.2004	31.12.2003
ASSETS		
Cash and balances with central banks	16,309	19,127
Due from banks	113,711	125,943
Trading assets	73,988	62,517
Investment securities	100,363	107,036
Loans and leases	167,529	168,114
Consolidated subsidiary companies - at equity	18,580	14,468
Other assets	25,715	26,280
Total assets	**516,195**	**523,485**
LIABILITIES AND EQUITY		
Due to banks	12,411	8,048
Trading liabilities	66,847	45,218
Due to customers	356,647	383,882
Debt securities in issue	13,190	7,517
Other liabilities	22,265	32,806
Shareholders´ equity	44,835	46,014
Total liabilities and shareholders' equity	**516,195**	**523,485**

Included in shareholders' equity are non-distributable statutory reserves of CZK 18,687m and CZK 19,250m as at 31 December 2004 and 2003, respectively.

Condensed cash flow statement

(CZKm)	2004	2003
Net cash flow from operating activities before income tax	5,881	5,280
Net income tax paid	18	(1,975)
Net cash flow from operating activities	5,899	3,305
Net cash flow (used in) / from investing activities	(8,398)	9,754
Net cash flow used in financing activities	(7,215)	(9,902)
Effect of exchange rate changes on cash and cash equivalents	(3)	138
Net (decrease) / increase in cash and cash equivalents	**(9,717)**	**3,295**

35. SIGNIFICANT SUBSIDIARY AND JOINT VENTURE COMPANIES

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

Name	Country of incorporation	Direct ownership 31.12.2004	Direct ownership 31.12.2003
Subsidiaries			
Bankovní informační technologie, s.r.o.	Czech Republic	100 %	100 %
Business Center, s.r.o.	Slovak Republic	100 %	100 %
Českomoravská hypoteční banka, a.s.	Czech Republic	100 %	99 %
ČSOB Asset Management, a.s.	Czech Republic	21 %	21 %
ČSOB Investiční společnost, a.s.	Czech Republic	73 %	73 %
ČSOB Investment Banking Services, a.s.	Czech Republic	100 %	100 %
ČSOB Leasing, a.s.	Czech Republic	100 %	100 %
ČSOB Leasing, a.s.	Slovak Republic	90 %	90 %
ČSOB Penzijní fond Stabilita, a.s.	Czech Republic	100 %	100 %
ČSOB stavebná sporiteľňa, a.s.	Slovak Republic	100 %	100 %
Joint ventures			
Českomoravská stavební spořitelna, a.s.	Czech Republic	55 %	55 %
O. B. Heller a.s.	Czech Republic	50 %	50 %

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

Based on the Agreement on the exercise of voting rights the Group is entitled to a total of 53% of the voting rights in the ČSOB Asset Management, a.s., therefore the company is part of the consolidation scope.

In 2004 ČSOB included Bankovní informační technologie, s.r.o. in the consolidation scope for the first time. The subsidiary was acquired by ČSOB in 2000. The impact of this change in the consolidation scope as at 1 January 2004 reflected in Retained earnings represents CZK 113m. The prior year financial statements were not restated.

O. B. Heller Factoring, a.s., subsidiary of O. B. Heller was also included in the consolidation scope in 2004 for the first time. The impact of this change as at 1 January 2004 reflected in Retained earnings represented CZK 49m. The prior year financial statements were not restated.

In 2004 ČSOB increased its share in Českomoravská hypoteční banka, a.s. The purchase consideration paid represented CZK 16m and related goodwill was CZK 4m.

Additionally, in September 2004 ČSOB contributed CZK 3,156m to the share capital and share premium of Českomoravská hypoteční banka, a.s further increasing the Group's relative shareholding.

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.

(CZKm)	Due from banks and Loans and leases		Due to banks and customers	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Directors and employees	707	598	1,767	1,972
KBC Bank N.V.	4,182	5,122	1,772	1,855
Unconsolidated subsidiaries and associated companies	175	277	1,505	1,970

A number of banking transactions are executed with related parties and employees in the normal course of business. These transactions were carried out at 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 transactions are as follows:

Interest income recognised on the KBC Bank N.V. loans in 2004 amounted to CZK 265m (2003: CZK 483m). Interest expense incurred on the KBC Bank N.V. loans in 2004 amounted to CZK 24m (2003: CZK 51m).

The loans to KBC Bank N.V., as at 31 December 2004, were not collateralised (31 December 2003: collateralised by Belgian-state obligations of market value of CZK 991m).

In 2004 ČSOB offered part of the treasury shares to its shareholders, of which KBC Bank N.V. purchased 98,728 shares (2003: 45,900) (Note 38).

In 2004 ČSOB purchased collateralised debt obligations at fair value of CZK 2,285m from a related party within KBC group (Note 27).

37. DIVIDENDS

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 19 May 2004, a dividend of CZK 1,900 per share was approved. In respect of 2003 net profit the dividend represented a total amount of CZK 3,510m. Additional dividend of CZK 6,189m has been distributed from Retained earnings. The dividend in respect of 2004 will be ratified at the Annual General Meeting, which is expected to be held in April 2005.

38. ČSOB's SHAREHOLDERS

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

	2004	2003
KBC Bank N.V.	89.88%	85.03%
European Bank for Reconstruction and Development	7.47%	7.62%
International Finance Corporation	-	4.47%
Others	2.65%	2.88%
Total	100.00%	100.00%

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

On 31 December 2004, the Bank was directly controlled by KBC Bank NV - KBC Bank's ownership interest in ČSOB represented 89.88% (31 December 2003: 85.03%). On the same date, KBC Bank NV was controlled by KBC Bank and Insurance Holding Company NV, a majority shareholder of which was Almanij (the abbreviated form of Algemene Maatschappij voor Nijverheidskrediet NV). Thus, Almanij was a company indirectly exercising ultimate control over ČSOB.

On 23 December 2004, Almanij's and KBC Bank and Insurance Holding Company's Boards of Directors decided on an intention to restructure the current shape of the group by merging Almanij and KBC Bank and Insurance Holding Company through acquisition of Almanij by KBC Bank and Insurance Holding Company and the creation of the new KBC Group NV. Almanij's and KBC Bank and Insurance Holding Company's extraordinary General Meetings agreed on the merger on 2 March 2005. Following the merger, Almanij was dissolved and it lost its controlling position over ČSOB, which is now held by KBC Group NV.

STATEMENT BY THE COMPANY ON THE DEGREE OF COMPLIANCE OF ITS ADMINISTRATION AND MANAGEMENT WITH THE CODE OF CORPORATE GOVERNANCE AND ADMINISTRATION BASED ON OECD PRINCIPLES

After the accession of the Czech Republic to the European Union, internationally recognised principles and standards of corporate governance and administration have also been applied to the due administration of the company. Their reflection in the Czech business environment is via the Code of Corporate Governance and Administration based on OECD Principles. The Code has been prepared by the Securities Commission. Československá obchodní banka, a.s, as a company with a significant foreign participating interest, acknowledges these principles and it is gradually implementing them in its operations. Rich international experience of the most significant shareholders is playing an important role in this process.

The Board of Directors of the Bank has a fully executive structure complying with the requirements of the Banking Act. Its members are elected by the General Meeting of the Bank. All of the Board members have undergone a review by the Czech National Bank as required by law, which verified their specialised qualifications, their prerequisites for undertaking skilled operations in bank management, and especially their sufficient experience in the area of management, internal managing and control systems and compliance, which includes their ability to apply them in practice. The unification of the positions of chairman of the Board of Directors and chief executive officer corresponds with the requirements of the Banking Act regarding the executive Board of Directors. The shareholders of the Bank and also its clients are regularly informed about the composition of the Board and about professional and personal prerequisites of its members for due performance of their positions in regular reports containing all data required by law.

The Bank's Board of Directors fulfils its tasks as a statutory body in accordance with the Statutes and applicable basic governing documents of the Bank. The Board of Directors fulfils its tasks with due professional care and bears full responsibility for them as required by the Commercial Code.

The Board of Directors meets regularly, once a week, and follows a fixed agenda, arranged on the basis of a strategic calendar of main topics and other documents of a more operational nature submitted by individual members of the Board of Directors for discussion. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. The director of the Bank's office is present at the sessions of this top body and fulfils the role of its secretary and is responsible for the preparation of the sessions and the taking of minutes.

The Supervisory Board of Československá obchodní banka, a. s., is comprised, as required by the company Statutes, of nine members, of which six members are selected by the General Meeting and three members are selected by the Bank employees. In the year 2004, Mrs. Farida Khambata, Mrs. Kanako Sékine, Mr. Herman Agneessens and Mr. Dirk Mampaey finished their activity in the Supervisory Board. The vacated positions were filled by co-opting Mr. André Bergen and Mr. Marko Voljč to the Supervisory Board, and their co-option was confirmed by Ordinary General Meeting in May 2004. Other vacant posts have been filled by co-opting Mrs. Anne Fossemalle and Mrs. Riet Docx.

The element of independence of the composition of the Supervisory Board also continues as far as the post of its Chairman is concerned. This post is held by Mr. Jan Švejnar from the University of Michigan Business School.

Pursuing its work agenda, the Supervisory Board held five sessions in 2004, where it discussed topics pertaining to it. A flexible approach was taken to the issues requiring discussion by the Supervisory Board in the short term (proposals for transfers of shares) as it is made possible by the company's Statutes.

The basic materials for discussions by the Supervisory Board were prepared and sent out in advance of each meeting so that the members of the Supervisory Board had enough time to study them. The members of the Board of Directors also take part in the Supervisory Board's sessions on a regular basis to present the discussed basic materials in person. During the discussions, the Supervisory Board sometimes requested presentation of additional documents and its requests were always fulfilled at the next session.

Both working bodies of the Supervisory Board – the Committee for Audit and the Committee for Remuneration held regular meetings and informed the Supervisory Board of their activities. The Supervisory Board approved the recommendations of both Committees regarding some discussed issues.

Within the framework of its powers, the Supervisory Board selected the external auditor of the Bank. This auditor regularly participates in discussions held by the Audit Committee and thus provides independent, comprehensive and professional supervision of the accuracy, in all material respects, of the financial statements expressing the condition and performance of the Bank.

The company office provides administrative and organisational support for the Supervisory Board based on the procedural rules of the company office, and the director of the office is responsible for taking minutes of the sessions.

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

In accordance with valid rules of procedure, company shareholders may then ask questions during the course of the Bank's General Meeting. At this Meeting, both members of the Board of Directors and the Supervisory Board are present and prepared to give respective explanations to the shareholders.

A REPORT OF THE SUPERVISORY BOARD OF ČSOB

Statement by the Supervisory Board of ČSOB

1. The Supervisory Board has performed its tasks in compliance with Articles 197 – 201 of the Commercial Code as amended, ČSOB's Articles of Association and the Supervisory Board's Rules of Conduct. The Board of Directors has submitted regular reports on ČSOB's activities and its financial situation to the Supervisory Board.

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

3. Both sets of financial statements were audited by PricewaterhouseCoopers Audit, s.r.o., Praha. The auditors have opined that the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004, the results of its operations, its changes in shareholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards. The auditors have also opined that the unconsolidated financial statements present fairly, in all material respects, the assets, liabilities and equity of ČSOB as at 31 December 2004 and the results of its operations and changes in its equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

4. The Supervisory Board has reviewed the 2004 annual financial statements and the proposal for distribution of profit, has accepted the results of the audit of the 2004 annual financial statements and has recommended to the General Meeting to approve them. The Supervisory Board has also checked the Board of Director's Report on Relations between Related Parties.

CONCLUSIONS OF THE ORDINARY GENERAL MEETING

The General Meeting of Československá obchodní banka, a. s., held on 20th April 2005, approved the unconsolidated financial statements of the Bank as of 31st December 2004 prepared according to Czech Accounting Standards (CAS) and the consolidated financial statements as of 31st December 2004 prepared according to International Financial Reporting Standards (IFRS). It thus confirmed that, in 2004, the Bank and its subsidiary companies operated at a profit of CZK 6.8 bn according to IFRS and the amount of total assets reached, in the given period, CZK 613.3 bn according to IFRS.

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

The General Meeting further approved:

1. distribution of profit;
2. conditions for paying out a dividend;
3. remuneration to members of the Board of Directors and of the Supervisory Board; and
4. election of members of the Supervisory Board (François L. Florquin, Anne Fossemalle, Riet Docx)

According to the decision of the General Meeting, the profit of ČSOB stated in the unconsolidated financial statements for 2004 in the line profit for the current accounting period will be distributed as follows:

a) dividends CZK 3,844,065 ths; and
b) account of retained earnings CZK 3,241,239 ths.