

Českomoravská stavební spořitelna, a.s.

Annual Report 2004



Na těchto základech můžete stavět

01 COMPANY PROFILE

Name:	Českomoravská stavební spořitelna, a.s.
Registered office:	Vinohradská 3218/169, 100 17 Prague 10
Telephone (headquarters):	00420 225 221 111
Fax (headquarters):	00420 225 225 999
E-mail:	info@cmss.cz
Internet:	www.cmss.cz
Bank code:	7960
ICO	
(company registration number):	49241397
DIC (tax registration number):	CZ49241397
Date established:	26 June 1993
Date of commencement of business activities:	8 September 1993
Legal form:	Joint stock company
Shareholders:	Československá obchodní banka, a.s. (55 %) Bausparkasse Schwäbisch Hall AG (45 %)

02 ČMSS IN NUMBERS

Status as at 31 December of year	2004	2003	2002
Number of new agreements	253,376	925,267	560,490
Target amount of new agreements (in millions of CZK)	54,617	191,749	84,806
Number of valid agreements (saving and loan agreements)	2,361,442	2,475,790	1,890,555

03 QUANTITY INDICATORS AS AT 31 DECEMBER 2004

A. Capital and Capital Adequacy	
1. Capital adequacy (in %)	9.36
2. Tier 1 (after deductible items, in thousands of CZK)	3,633,779
3. Tier 2 (in thousands of CZK)	-
4. Used Tier 3 (in thousands of CZK)	-
5. Items deductible from a Tier 1 and Tier 2 sum (in thousands of CZK)	-
6. Capital in total (in thousands of CZK)	3,633,779
7. Capital requirement A	3,105,139
8. Capital requirement B	-

B. Proportion Indicators	
1. Return on Average Assets (ROAA) in %	0.38
2. Return on Average Equity (ROAE) in %	8.89
3. Assets per employee (in thousands of CZK)	186,100
4. Administration costs per employee (in thousands of CZK)	1,326
5. Net profit per employee (in thousands of CZK)	646

04 ČMSS SHAREHOLDERS

These are the shareholders of Českomoravská stavební spořitelna, a.s. ("ČMSS"):	
Československá obchodní banka, a.s.	55 % shares
Bausparkasse Schwäbisch Hall AG	45 % shares

ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S. ("ČSOB")

Operates on two national markets, in the Czech and the Slovak market. It is the biggest bank in the Czech Republic and Central Europe measured by its asset value. As a universal bank, it offers a full range of banking services for both retail clients and companies.

ČSOB was established by the government in 1964 as the only bank in Czechoslovakia to offer services in the area of international trade funding and free-currency operations. After 1989 ČSOB extended its activities by services for new business subjects and retail clients. The privatisation of ČSOB in June 1999 was an important milestone in the history of the bank. Belgian KBC Bank, a member of the KBC Group, became the majority owner of ČSOB. This Group focuses on bank insurance activities for retail clients and is also active in areas of administration of assets, services for corporate clients and market trading. Geographically the Group concentrates on Europe. It ranks among the three biggest bank and insurance companies in its primary domestic market in Belgium and acts as one of the biggest financial groups in Central Europe, which the Group defines as its secondary domestic market. The takeover of Investiční a Poštovní banka, a.s. in June 2000 was another milestone in the history of ČSOB. The takeover meant a leap towards strengthening the position of ČSOB in banking for retail clients.

Nowadays, the business profile of ČSOB consists of even segments of retail clients, small and medium enterprises (SMEs), corporate clients and non-banking financial institutions, financial markets and private banking. In accordance with the strategy of KBC Group, ČSOB develops mainly services for retail clients and for SMEs, and the bank-assurance concept. ČSOB uses two trademarks in retail banking - ČSOB and Poštovní spořitelna. The latter makes use of the wide network of Česká pošta (Czech Post Office) for its activities.

ČSOB develops its activities in the Slovak Republic through its foreign branch office. The business of the branch is oriented similarly as business in the Czech Republic.

As at 31 December 2004, ČSOB had approximately a total of 3.2 million clients in the Czech Republic and the Slovak Republic. These clients were served at 210 commercial sites in the Czech Republic (Poštovní spořitelna commercial sites not included) and 81 commercial sites in the Slovak Republic, and through various channels of direct banking.

Both the Moody's and Fitch long-term and short-term as well as the Standard & Poor's short-term rating of ČSOB as at 31 December 2004 are on the highest possible level based on the rating of the Czech Republic, the S&P long-term rating is by one degree lower. While emphasizing the risk management ČSOB succeeds in reaching a long-term high profitability.

For annual reports and other information about ČSOB, please go to www.csob.cz.

ČSOB GROUP

The ČSOB Group currently provides financial services to its clients in the following areas: building savings and mortgages, life and non-life insurance, administration of assets, collective investments, pension supplementary insurance, leasing and factoring. Due to their market share individual companies from the ČSOB Group occupy a significant position in their business branch in the Czech Republic as well as in the Slovak Republic. The ČSOB Group focuses on exploiting its full business potential arising from a strong client base and the extensive distribution range of the entire Group in order to satisfy all its clients' financial needs.

BAUSPARKASSE SCHWÄBISCH HALL AG – YOU CAN BUILD ON THESE FOUNDATIONS

Bausparkasse Schwäbisch Hall ("BSH") is the biggest building society in Germany. It is a member of a group that provides extensive financial services. In 2004 the building society Schwäbisch Hall concluded together with cooperative banks 940,000 building saving agreements and its market share exceeded 26 %. As at 31 December 2004 building society Schwäbisch Hall administered 7.2 million agreements on building savings. Loans amounting to EUR 10 billion were provided in 2004.

As a building society for cooperative banks, BSH is firmly embedded in the FinanzVerbund organisation. Direct shares in BSH are held by VR-Immobilien AG in Frankfurt am Main, holding 95 percent of shares, and by cooperative banks. Deutsche Zentral-Genossenschaftsbank (DZ Bank) in Frankfurt am Main and Westdeutsche Genossenschafts-Zentralbank (WGZ-Bank) in Düsseldorf provide backing for VR-Immobilien AG which was established in 2003.

The BSH Group, together with 1,350 cooperative banks, offers tailored care strategies for future reinsurance, i.e. products and services for building financing, for generation of assets appreciation and retirement financing. Compared to 2003 the volume of these products increased by 36 % to 2 billion EUR. If you add the risk life insurance which is being sold in connection with the building savings loans, then the segment of "Additional prevention" rose even more and amounted to EUR 3.3 billion.

The building society Schwäbisch Hall closed the business year 2004 yielding a record-breaking profit. In comparison to 2003 the partial operating result increased almost by 20 % to EUR 327 million. Its growth is the result of the repeated interest income increase and further operating costs decrease.

SCHWÄBISCH HALL ABROAD

In the course of 2004 the building society Schwäbisch Hall entered two new markets, in China and Romania. This meant a significant expansion of the foreign involvement of the building society. In both countries the building saving started successfully. In the Chinese province Tianjin the Sino-German Bausparkasse (SGB) acquired over 32,000 clients in only ten months. Thus, the target for the first business year corresponding to 25,000 agreements was exceeded in a significant way. The SGB has been active in the market since February 2004 with its 40 external sales representatives and 300 branch offices of China Construction Bank, a partner on the basis of a joint venture.

In Romania the building society Schwäbisch Hall founded together with the Austrian building society Raiffeisen Bausparkasse and the Romanian Raiffeisen Bank the first local building society on the basis of a joint venture. The Romanian building society, which started its operation in June 2004, concluded over 45,000 agreements and it also exceeded the expectations. Its sales network is made of approximately 120 external sales representatives and 200 branch offices of the Romanian Raiffeisen Bank.

Last year the foreign companies concluded a total of roughly 600,000 agreements with a total target amount of EUR 4.2 billion. At the end of the year they administered 3.9 million agreements with a total target amount of EUR 26 billion and they attended to 3.4 million clients in five countries.

**BOARD OF DIRECTORS, SUPERVISORY BOARD AND BANK MANAGEMENT
AS AT 31 DECEMBER 2004**

BOARD OF DIRECTORS

CHAIRMAN:

Ing. Vladimír Staňura

*(member of the Board of Directors since 1 June 2003,
chairman of the Board of Directors since 6 June 2003)*

Section of Management and Economy

University graduate and previous extensive professional experience

Membership in bodies of other companies: none

MEMBERS:

Walter Böhm

*(member of the Board of Directors since 17 April 1998,
vice-chairman of the Board of Directors since 8 January 2003)*

Section of Saving and Management of Clients Accounts, Loans and Organisation

Secondary school graduate and previous extensive professional experience

Membership in bodies of other companies: none

RNDr. Petr Kielar

(member of the Board of Directors since 22 November 2000)

Section of Corporate Planning, Building Administration and Material Supply and IT

University graduate and previous extensive professional experience

Membership in bodies of other companies: none

Manfred Koller

(member of the Board of Directors since 1 January 2003)

Section of Marketing and Sale

University graduate and previous extensive professional experience

Membership in bodies of other companies: none

SUPERVISORY BOARD

CHAIRMAN:

Dr. Alexander Erdland

(vice-chairman of the Supervisory Board between 9 June 1999 and 12 December 1999, chairman of the Supervisory Board since 13 December 1999)

University graduate and previous extensive professional experience

Membership in bodies of other companies:

- Bausparkasse Schwäbisch Hall AG – Board of Directors
- VR-Immobilien AG, Frankfurt am Main – Board of Directors
- Prvá stavebná sporiteľňa, a.s., Bratislava – Supervisory Board
- Bankhaus Hallbaum AG & Co. KG, Hannover – Supervisory Board
- Sino-German Bausparkasse Co. Ltd., Tianjin – Board of Directors
- Deutsche Genossenschafts-Hypothekenbank AG – Supervisory Board
- WL-BANK Westfälische Landschaft Bodenkreditbank, Münster – Supervisory Board

VICE-CHAIRMAN:

Ing. Pavel Kavánek

(member of the Supervisory Board between 1 June 2003 and 23 November 2003, vice-chairman of the Supervisory Board since 24 November 2003)

University graduate and previous extensive professional experience

Membership in bodies of other companies:

- Československá obchodní banka, a.s. – Board of Directors
- ČSOB Asset Management, a.s. – Supervisory Board
- Foundation of Dagmar and Václav Havel VIZE 97 – Supervisory Board
- Česká bankovní asociace – chairman

MEMBERS:

Dr. Thomas Hamann

(member of the Supervisory Board since 2 July 2002)

University graduate and previous extensive professional experience

Membership in bodies of other companies: none

Ing. Martin Novák

(member of the Supervisory Board between 9 July 2002 and 23 November 2004)

University graduate and previous extensive professional experience

Membership in bodies of other companies: none

Philippe Moreels

(member of the Supervisory Board since 23 November 2004)

University graduate and previous extensive professional experience

Membership in bodies of other companies:

- Československá obchodní banka, a.s. - Board of Directors
- ČSOB Asset Management, a.s. - Supervisory Board
- ČSOB stavebná sporitelňa, a.s. - Supervisory Board
- Business Center, s.r.o. - Supervisory Board
- ČSOB Asset Management, správ. spol. - Supervisory Board
- ČSOB d.s.s., a.s. - Supervisory Board
- ČSOB Distribution, a.s. - Supervisory Board
- ČSOB Pojišťovna, a.s. - Supervisory Board
- Českomoravská hypoteční banka, a.s. - Supervisory Board

Ing. Ivan Egyed

(member of the Supervisory Board from 2 January 2002 till 1 January 2005)

University graduate and previous extensive professional experience

Membership in bodies of other companies:

- České nemovitosti, a.s. Praha – Supervisory Board

Jan Jakubec

(member of the Supervisory Board since 2 January 2002)

Secondary school graduate and previous extensive professional experience

Membership in bodies of other companies: none**NEW SUPERVISORY BOARD MEMBER IN 2005:****JUDr. Jitka Hrabáková**

(member of the Supervisory Board since 2 January 2005)

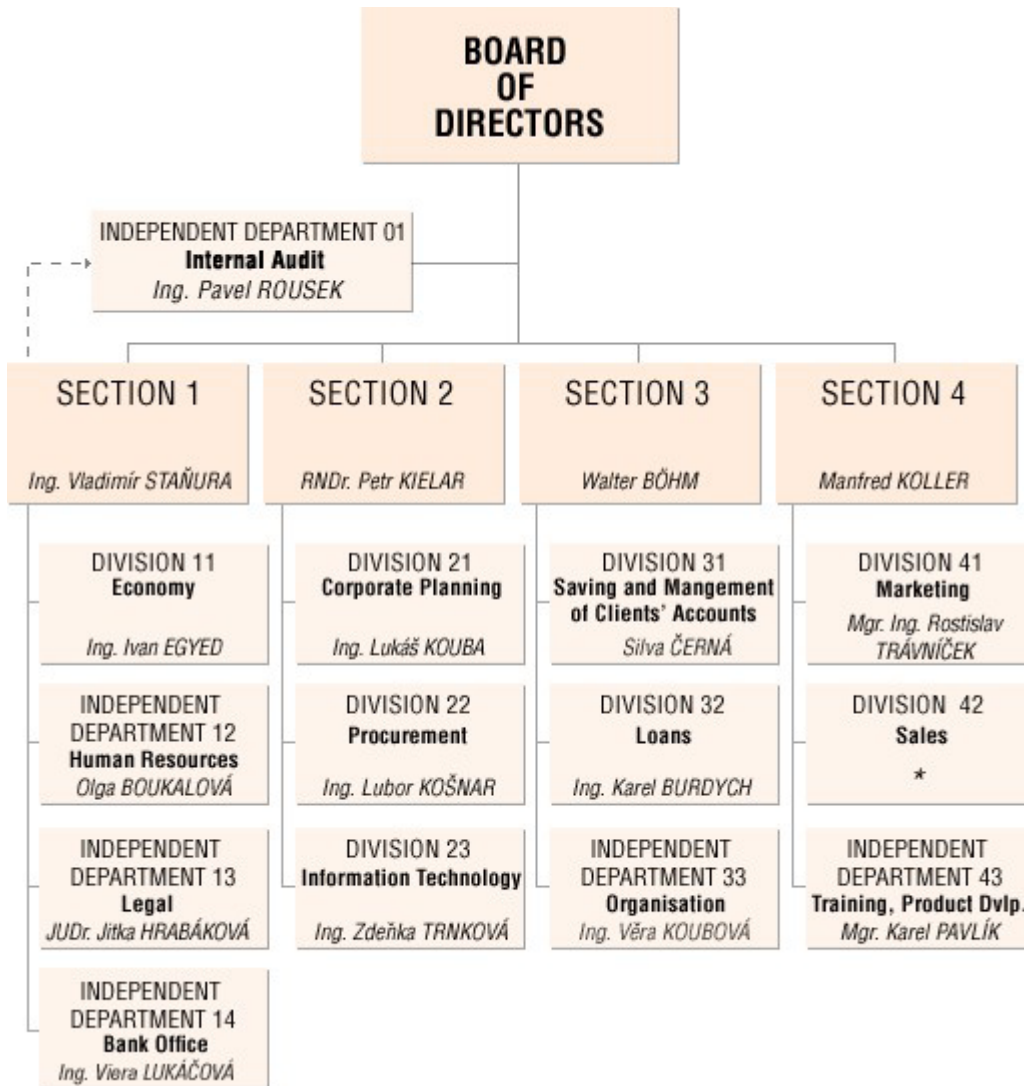
University graduate and previous extensive professional experience

Membership in bodies of other companies: none

BANK MANAGEMENT

Ing. Ivan Egyed	Head of division, member of the Supervisory Board	01.09.2003 02.01.2002	University graduate, banking experience since 1993
Ing. Lubor Kořnar	Head of division	15.11.1993	University graduate, procurement experience since 1985
Ing. Zdeňka Trnková	Head of division	01.11.1993	University graduate, information technology experience since 1969
Ing. Karel Burdych	Head of division	09.05.1994	University graduate, banking experience since 1976
Silva Černá	Head of division	01.07.1999	Secondary school graduate, banking experience since 1993
Mgr. Ing. Rostislav Trávníček	Head of division	01.08.1999	University graduate, banking experience since 1992
Ing. Lukáš Kouba	Head of division	01.04.2003	University graduate, banking experience since 1997
Ing. Pavel Rousek	Head of independent department	01.01.1999	University graduate, banking experience since 1993
JUDr. Jitka Hrabáková	Head of independent department	01.07.2001	University graduate, legal experience since 1981
Olga Boukalová	Head of independent department	01.07.2001	Secondary school graduate, human resources experience since 1978
Ing. Viera Lukáčová	Head of independent department	01.10.2001	University graduate, banking experience since 1998
Ing. Věra Koubová	Head of independent department	01.01.1998	University graduate, banking experience since 1995
Mgr. Karel Pavlík	Head of independent department	01.02.2004	University graduate, sales experience since 1997

06 ORGANISATIONAL CHART



* As at 31 December 2004 - the head of the division had not been appointed.

07 ECONOMIC ENVIRONMENT

The overall business and economic results of ČMSS are also affected by external economic conditions. These conditions form the environment in which the building society carries out its business and they strongly influence consumer behaviour. For the building society the most important factor is current housing situation, which influences the demand for financing housing needs by means of building savings. Among other factors there are the situation on financial markets, overall household indebtedness, amount of government subsidy granted, rate of inflation and rate of unemployment.

OVERALL ECONOMIC SITUATION

In May the Czech Republic became a member of European Union. Among others this had a positive impact also on our economy – the foreign trade results improved, the inflow of portfolio investments increased, in spite of some limitations there are more possibilities for Czech citizens to work abroad etc.

Although the state budget closed with a lower than planned deficit and the fiscal policy affected the economy rather countercyclically, the problems in the area of public finances persisted. The reforms of public finances have not started yet, which is also frequently pointed out by international institutions.

The economic growth surprised by its dynamics and according to the data available it may be expected to be the best in the last four years. Positive was not its speed but especially its structure, as net exports and investments played the major part in the final growth, which is important for further economic development. On the contrary, the growth rate of household consumption, the driver two years ago, decreased, which was connected with the slowdown of the available income growth.

Last year the Czech National Bank ("ČNB") increased interest rates by 0.5 %, although originally everyone expected that the increase would be more significant. However, last macro-economic data showed that neither the economic growth nor the inflation pressures are as high as primarily expected. Moreover, the strengthening of the Czech crown up to maximum amounts over a few years tightened the currency conditions, and thus the need to increase the interest rates declined.

The development on the bond market in the first to third quarter showed a yield growth. However, there was a turning-point in the fourth quarter and the yield on bonds started to fall and at the end of the year 2004 its amount dropped even below the levels recorded previous year. This decline is the result of the development on bond markets in Western Europe affected in particular by the strengthening of Euro against the American dollar, of issue calendar publication for the first quarter 2005 with a low volume of issues as well as of delay of interest rate increase in the Czech Republic.

The Czech securities market got on very well. Last year the achieved profit exceeded 50 % (as measured by the PX-D and PX 50 index).

The average consumer inflation amounted to 2.8 % and was substantially higher than in 2003. In spite of that, the consumer price increase was not as high as expected. The price development was influenced mainly by tax changes and costs factors (price of commodities). The demand inflation pressures were not significant and even the fear of price increase due to the accession of the Czech Republic to the European Union did not set in.

The indebtedness of households increased also in 2004 and the granted loans represented the most dynamic item of debt financing via banking sector. The biggest part of these loans and at the same time the fastest growing item was formed, equally as in 2003, by loans for financing housing needs – building saving loans, bridging loans and mortgages. Unlike the above mentioned products, the growth rate of consumer credits decreased, which was caused, among others, by growing offer of other forms of financing outside the banking sector.

In spite of the high dynamics of household debt the loans are still low compared to the household possession.

Thanks to net exports, investments and partly also thanks to the recovery of consumer demand we can expect that growth rate of our economy will accelerate in 2005. The decline of yields and interest rates at the beginning of this year was brought about mainly by the surprising interest rates decrease by ČNB and partly also by the development on foreign markets. Further yield development will depend particularly on other steps of ČNB, on the situation on the foreign financial markets, on the price movement of the Czech crown and last but not least, also on the domestic economic situation.

In 2005 there are going to be some discussions on the pension reform, reform of the health system and on the European constitution referendum.

Indicator	Unit of measure	2001	2002	2003	2004
Gross Domestic Product	Annual growth in %	2.60	1.50	3.70	4.00
Building production	Annual growth in %	9.60	2.50	8.90	9.70
Industrial production	Annual growth in %	10.60	4.80	5.80	9.90
Rate of inflation (CPI)	Period average in %	4.70	1.80	0.10	2.80
Rate of unemployment	Period end in %	8.90	9.80	10.30	10.30
PRIBOR 3M	Period average in %	5.18	3.55	2.28	2.36
10Y IRS	Period average in %	6.50	5.07	4.25	4.63
2W repo rate of ČNB	Period end in %	4.75	2.75	2.00	2.50

Sources: ČSOB, ČSÚ, ČNB

08 BUILDING SAVING MARKET IN THE CZECH REPUBLIC

Building saving is a historically verified and effective system of saving money for the subsequent funding of housing needs. It has a long history mainly in neighbouring Germany and Austria. The system has been running in the Czech Republic since 1993 and it would not be an exaggeration to state that the passed decade has been very successful. None of the building societies experienced economic difficulties during that period. Building saving has become the most popular financial product on the market and a synonym for stability and safety.

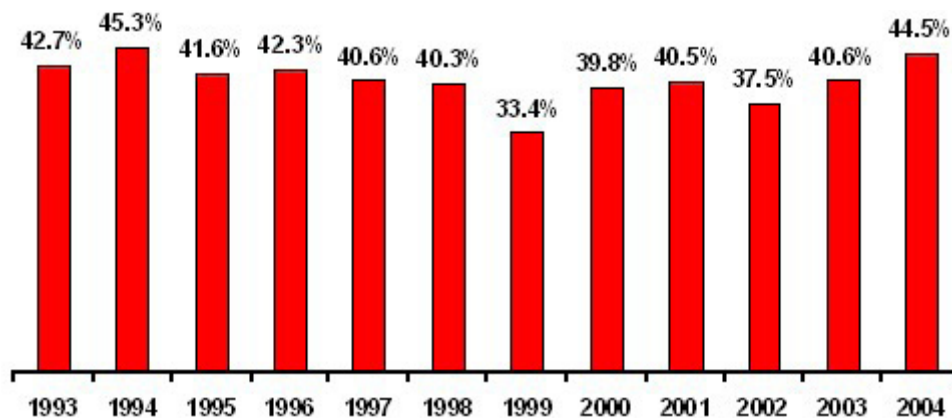
The Building Saving and Building Saving Government Subsidy Act No. 96/1993 Coll., as amended by Act No. 423/2003 Coll., regulates building saving by law. An amendment to the Act effective since 1 January 2004 extends trading and investment options for building societies. It concerns especially the possibility to buy securities of selected foreign issuers and the possibility to deposit liquid assets with foreign banks having their registered offices in member states of the European Union.

Moreover, the amendment to the Act enables the building societies to provide the financial broker's business.

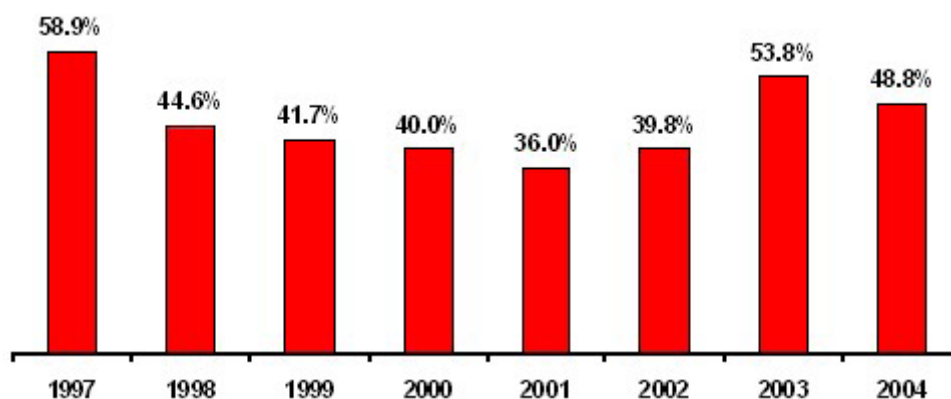
At the end of 2004, there were 6 building societies operating in the Czech Republic.

In 2004, building saving confirmed its position as the most important and most affordable tool for financing public housing needs. The position of ČMSS in the building saving system in the Czech Republic is best characterized by market shares in individual building saving segments. Since its foundation, ČMSS has assumed a permanent leading position on the market – measured both by the total volume of target amounts of agreements concluded in individual years and by the volume of loans granted in individual years as well. Market shares confirm the quality of ČMSS product supply and services that are modified on an ongoing basis to meet changing market conditions. Since individual building societies stopped publishing their results in the course of 2004, the market shares for 2004 are determined by means of an expert estimation.

Market shares by the volume of target amounts of newly concluded agreements between 1993 and 2004:



Market shares by the volume of target amounts of newly granted loans between 1997 and 2004:



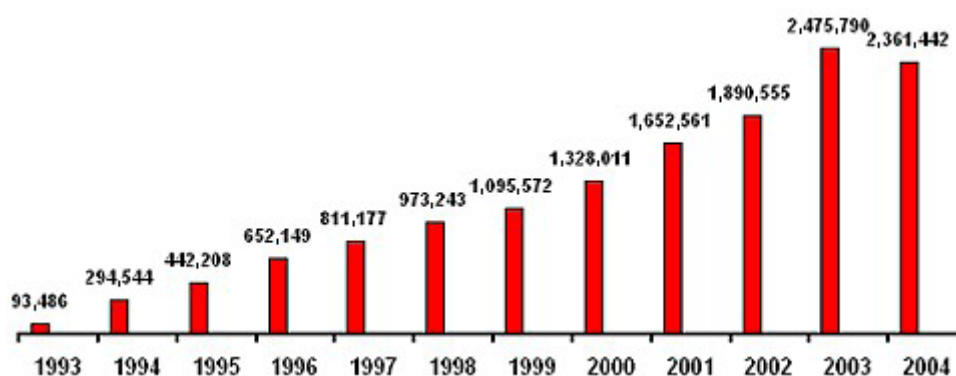
09 BUSINESS RESULTS

From the business point of view, 2004 was a very successful year for ČMSS. During this year 253,376 building saving agreements were concluded. This result is very satisfactory, in particular with regard to the amendment to the Act valid since the beginning of the year and the related fact that due to this many customers had concluded their agreements before the amendment came into force.

ČMSS had 2,361,442 valid building saving agreements (saving and loan agreements) as at 31 December 2004. The total target amount of these agreements amounted almost to CZK 496 billion. The average target amount of building saving agreements concluded in 2004 reached CZK 215.6 thousand, and in comparison with 2003, it increased by CZK 8.4 thousand. Clients' deposits exceeded CZK 102 billion.

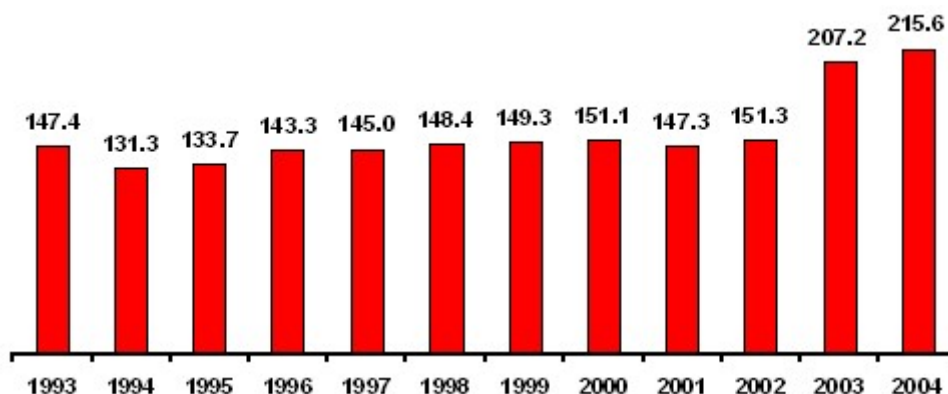
Number of valid building saving agreements between 1993 and 2004:

(saving and loan agreements, status as at 31 December)



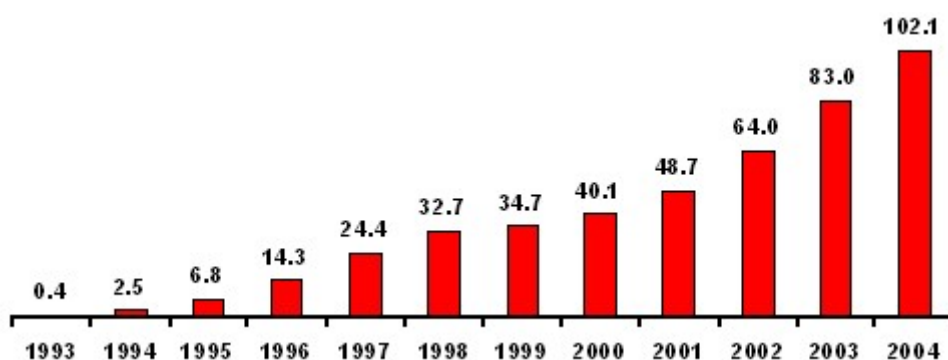
Average target amount of newly concluded agreements between 1993 and 2004:

(in thousands of CZK)



Volumes of clients' deposits between 1993 and 2004:

(in billions of CZK, status as at 31 December)



2004 was just as successful for ČMSS in the area of loans. A total of 73,073 loans were granted (building saving loans and bridging loans) amounting to CZK 19.5 billion. According to an expert valuation ČMSS reached a market share on the building saving market of almost 50 %. During eleven years of its existence ČMSS has granted its customers almost CZK 77 billion in form of bridging and building saving loans. This represents nearly a quarter of all housing loans granted in the Czech Republic.

Thus ČMSS has become the biggest housing loan provider in the Czech Republic.

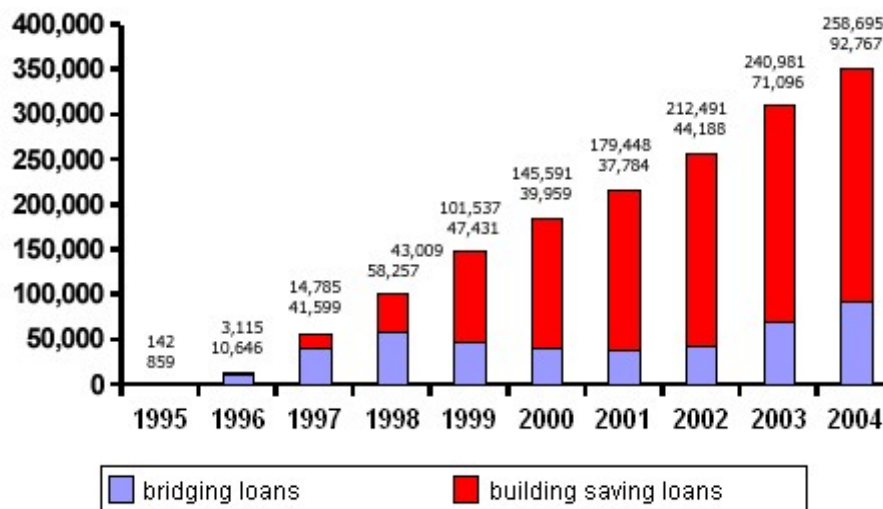
The currently offered tariff INVEST is beneficial for clients because it has a low interest rate of building saving loans (4.8 % p.a.) and the minimum advance payment required is only 40 % of the target amount. The terms and conditions for required loan assurance have also been made more favourable.

Clients continued to show great interest in the TOPKREDIT bridging loan in 2004. Clients wishing to fund bigger volumes who are sufficiently solvent and able to secure the granted real estate loan use this product. TOPKREDIT enables clients to make use of the bridging loan without saving a certain minimum amount before the loan is granted (advance payment = 0) and it also offers a profitable interest rate of 4.8 % p.a. Clients who have saved at least 40 % of the target amount, can acquire the TOPKREDIT bridging loan with an interest rate of 4.3 % p.a.

ČMSS administered 351,462 loans (building saving loans and bridging loans) worth a total of CZK 36.02 billion as at 31 December 2004.

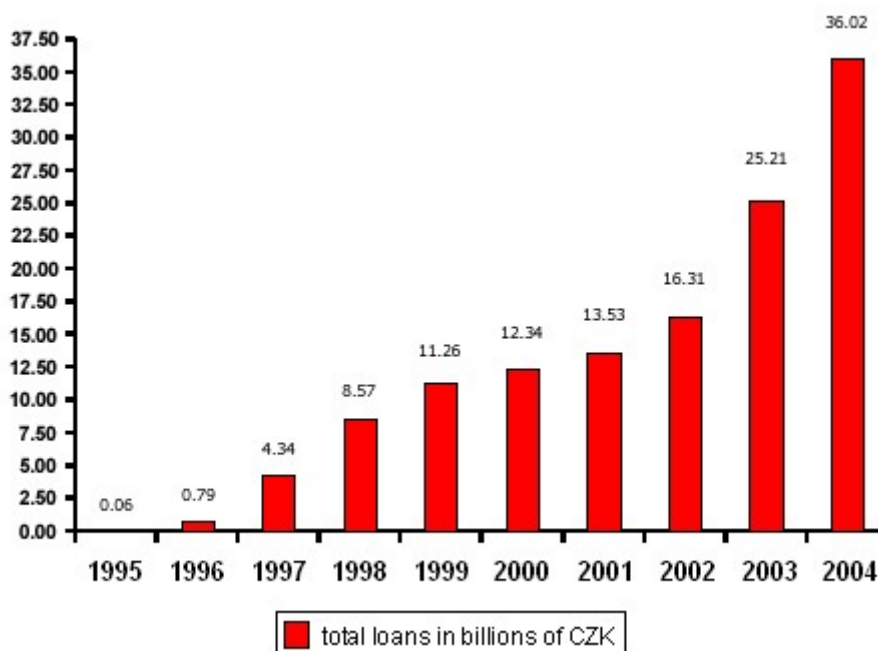
Number of valid building saving loans and of bridging loans between 1995 and 2004:

(status as at 31 December)



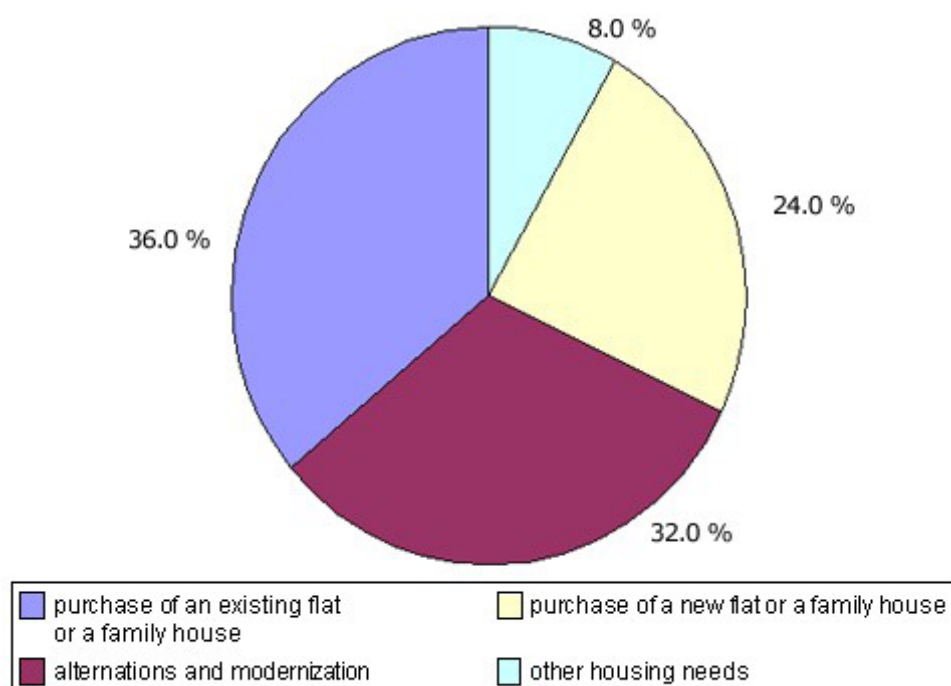
Volumes of valid building saving loans and of bridging loans between 1995 and 2004:

(status as at 31 December)



Clients used the loans and bridging loans granted to them in 2004 most frequently to buy an old flat or house (36 %), for modernisation (32 %) and to buy a new flat or a family house (24 %), the remaining 8 % were invested in other needs connected with housing. As a trend, in particular the growth of the share of clients using loans to buy a new flat or a family house may be regarded as positive. Compared to 2003, the number increased by 1.5 percent. This confirms a growing role of ČMSS in creation of new housing stock.

Purpose of use of building saving loans and bridging loans in 2004:



10 ECONOMIC RESULTS AND 2005 OUTLOOK

Based on the results achieved, ČMSS ranks among the biggest and most successful banks in the Czech Republic.

The economic result of CZK 383,813 thousand according to Czech accounting standards achieved in 2004 may be assessed as positive. Moreover, its amount is affected by the creation of a provision for the financial penalty amounting to CZK 228 million imposed on ČMSS by the Antitrust Office ("ÚOHS").

Českomoravská stavební spořitelna fundamentally disagrees about the findings and the resolution of the ÚOHS dated 24 August 2004 concerning the administrative procedure initiated with six building societies operating on the Czech market on 2 April 2004. ČMSS filed an appeal against it. ČMSS fundamentally rejects the financial penalty imposed on it by ÚOHS for processing statistical overviews on building savings. ČMSS assumes that processing of such overviews does not lead to a violation of fair competition.

The balance sheet amount as at 31 December 2004 was CZK 110.5 billion with a year-to-year increase of 19.6 %.

In 2004 ČMSS recorded further increase in loans. There is an ongoing interest in building saving and the loan business grows every year. For the time being the number of flats in the Czech Republic in proportion to the number of households compared to the advanced European countries is below average. There is a lack of 408,000 habitable flats on the market. At the same time the housing stock in the Czech Republic is neglected, a total of 42 % of the housing stock was built before 1945, which represents a significant potential for investments of Czech citizens in housing and especially in the modernisation of their flats or family houses.

The ČMSS business results for 2004 confirm that its clients trust it and this fact is supported by a number of awards received by ČMSS last year. The standard business offer was extended. The new financial products (pension supplementary insurance and mutual funds) that are on sale since the third quarter of 2004 prove the confidence of ČMSS.

In 2005, the business policy of ČMSS will continue to focus on the granting of building saving loans and bridging loans, and on maintaining the market share in new business. A further increase in the volume of granted loans is expected. ČMSS is fully prepared for these tasks. The business offer, capacity and professional as well as technical background of each of its sections fully complies with the role the building society wishes to play in funding housing needs.

11 RISK MANAGEMENT SYSTEM

Maximum attention is paid to management of individual risks in ČMSS and the management is continuously improved.

A detailed description of the risk management system in ČMSS as well as the individual risk management including the methods used is contained in the Financial Statement (section 23) that forms part of this Annual Report.

**REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDERS
OF ČESKOMORAVSKÁ STAVEBNÍ SPOŘITELNA, A.S.**

We have audited the accompanying balance sheet of Českomoravská stavební spořitelna, a.s. ("the Bank") as at 31 December 2004, the related income statement, statement of changes in shareholders' equity and notes for the year then ended presented in the annual report in chapters 13-17 ("the financial statements"). The financial statements, which include description of the activities of the Bank, and underlying accounting records are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Bank as at 31 December 2004, and the results of its operations and its changes in equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Bank in chapters 1-11, which does not form part of the financial statements for the year ended 31 December 2004, is consistent with the audited financial statements of the Bank. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying report on relations between the Bank and its controlling party Československá obchodní banka, a.s. and between the Bank and the other parties controlled by party Československá obchodní banka, a.s. in chapter 18 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the Report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

The maintenance and integrity of the Bank's website is wholly the responsibility of the Bank's Board of Directors. The work undertaken by us does not include consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the annual report since they were initially presented on the Bank's website. Legislation in the Czech Republic governing the preparation and dissemination of the annual report may differ from legislation in other jurisdictions.

25 February 2005

PricewaterhouseCoopers Audit, s.r.o.
represented by

Paul Cunningham
Partner

Eva Loulová
Auditor, Licence No. 1981

13 BALANCE SHEET AS AT 31 DECEMBER 2004

Assets	Note	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Cash and deposits with central banks	3	264,491	134,558
State treasury and other bills eligible for ČNB refinancing			
of which:	6	40,072,993	33,925,735
issued by government institutions	-	40,072,993	33,925,735
Due from banks	4	17,895,540	17,357,803
a) repayable on demand	-	4,795	22,203
b) other receivables	-	17,890,745	17,335,600
Due from customers			
of which:	5	46,118,804	33,950,660
other receivables	-	46,118,804	33,950,660
Debt securities	6	4,710,529	4,699,053
a) issued by government institutions	-	1,707,740	436,501
b) issued by other entities	-	3,002,789	4,262,552
Participation interests with significant influence	7	-	3,000
Long-term intangible fixed assets	8	75,132	101,505
Long-term tangible fixed assets			
of which:	8	984,606	1,051,282
land and buildings for operating activities	-	830,299	860,765
Other assets	9	400,314	1,124,338
Prepayments and accrued income	9	20,948	29,013
Total assets	-	110,543,357	92,376,947

Liabilities	Note	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Due to banks	11	1,032,451	20,000
Due to customers	12	103,560,170	85,859,471
a) repayable on demand	-	190,645	215,194
b) other payables	-	103,369,525	85,644,277
Other liabilities	13	669,434	1,102,407
Accruals and deferred income	-	73	114
Provisions			
of which:	10	1,158,709	882,240
other provisions	-	1,158,709	882,240
Share capital			
of which:	14	1,500,000	1,500,000
share capital paid up	-	1,500,000	1,500,000
Reserve funds and revenue reserves			
	-	1,217,869	1,213,107
a) statutory reserve funds and risk funds	-	300,000	300,000
b) other reserve funds	-	888,075	888,075
c) other revenue reserves	-	29,794	25,032
Retained earnings from previous periods	-	1,020,838	1,417,589
Profit for the accounting period	-	383,813	382,019
Total liabilities	-	110,543,357	92,376,947

14 OFF-BALANCE SHEET AS AT 31 DECEMBER 2004

Off-balance sheet assets	Note	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Commitments and guarantees given	15	6,360,799	4,963,636
Receivables from spot transactions	-	300,000	-
Receivables written-off	-	7,513	4,497
Total off-balance sheet assets	-	6,668,312	4,968,133

Off-balance sheet liabilities	Note	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Commitments and guarantees received	15	7,122,160	6,360,642
Collaterals received	15	17,669,881	12,244,968
Payables from spot transactions	-	300,000	1,100,000
Total off-balance sheet liabilities	-	25,092,041	19,705,610

15 INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 (CZK'000)	2003 (CZK'000)
Interest receivable and similar income			
of which:	16	4,230,209	3,484,136
interest income from debt securities	-	1,476,392	1,386,761
Interest payable and similar expenses	17	(2,979,122)	(2,489,024)
Income from shares and other interests			
of which:	7	3,000	2,066
income from interests in associated undertakings	-	3,000	2,066
Fee and commission income	18	1,621,482	2,418,629
Fee and commission expense	18	(931,803)	(1,778,026)
Gains less losses from financial transactions	19	(30,596)	636
Other operating income	20	29,566	4,308
Other operating expense	-	(86,055)	(34,753)
Administrative expense			
of which:	21	(787,829)	(818,298)
a) staff costs			
of which:	-	(378,778)	(356,772)
aa) wages and salaries	-	(282,122)	(267,574)
ab) social and health insurance	-	(96,656)	(89,198)
b) other administrative expenses	-	(409,051)	(461,526)
Depreciation, additions and utilisation of provisions for long-term tangible and intangible fixed assets	8	(203,313)	(218,658)
Release of provisions and reserves for loans and guarantees, income from receivables already written-off	10	111,501	79,656
Write-offs, additions and utilisation of provisions and reserves for loans and guarantees	10	(141,193)	(42,294)
Additions and utilisation of other specific provisions	10	(331,671)	(122,548)
Profit on ordinary activities before taxation	-	504,176	485,830
Income tax	21	(120,363)	(103,811)
Profit for the year after taxation	-	383,813	382,019

16 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital (CZK'000)	Social fund (CZK'000)	Other reserve funds (CZK'000)	Obligatory reserve funds (CZK'000)	Retained earnings (CZK'000)	Total equity (CZK'000)
Balance as at 1 January 2003	1,500,000	19,229	888,075	300,000	1,444,041	4,151,345
Approved dividends and profit awards (Note 14)	-	-	-	-	(12,952)	(12,952)
Transfer to social fund	-	13,500	-	-	(13,500)	-
Utilization of social fund	-	(7,697)	-	-	-	(7,697)
Profit for 2003	-	-	-	-	382,019	382,019
Balance as at 31 December 2003	1,500,000	25,032	888,075	300,000	1,799,608	4,512,715
Approved dividends and profit awards (Note 14)	-	-	-	-	(765,570)	(765,570)
Transfer to social fund	-	13,200	-	-	(13,200)	-
Utilization of social fund	-	(8,438)	-	-	-	(8,438)
Profit for 2004	-	-	-	-	383,813	383,813
Balance as at 31 December 2004	1,500,000	29,794	888,075	300,000	1,404,651	4,122,520

1. GENERAL INFORMATION

Českomoravská stavební spořitelna, a.s. (hereinafter referred to as "the Bank") was incorporated on 26 June 1993. The Bank has its registered office at Vinohradská 3218/169, 100 17 Prague 10.

The Bank's activities primarily consist of construction savings operations, as defined in Act No. 96/1993 Coll., on Construction Savings and the State Subsidy of Construction Savings and as amended in Act No. 423/2003 Coll.

2. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and changes in equity and accompanying notes, are prepared in accordance with the Act on accounting, the applicable accounting rules for financial institutions and regulations set by the Ministry of Finance of the Czech Republic. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments held for trading and available-for-sale to fair values.

The financial statements are rounded to thousands of Czech Crowns ("CZK'000") unless stated otherwise.

b) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank ("CNB") effective at the balance sheet date. All resulting foreign exchange gains and losses are recognized in Gains less losses from financial transactions.

c) Fair value of securities

The fair value of a security, which is traded with sufficient liquidity, is determined as the market mid price quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share on the stock-issuer's equity;
- the risk adjusted net present value for debt securities and promissory notes.

d) Available-for-sale securities

Portfolio of available-for-sale securities is a portfolio, which does not include either trading securities or securities held to maturity. It contains debt securities held for liquidity management.

Available-for-sale securities are measured at fair value. All related gains and losses are included in Gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Interest earned on available for sale securities is reported as Interest income from debt securities.

e) Investment securities held-to-maturity

Securities held-to-maturity are securities with fixed maturity date where the Bank has both the intent and the ability to hold them to maturity. They are measured at amortised cost. Amortized cost includes the net purchase price, the accrued difference between net purchase price and the nominal value (premium or discount) and amortized coupon.

f) Transfers between portfolios

Transfers between portfolios are generally allowed if management intentions are changed.

When more than an insignificant part of the portfolio of securities held-to-maturity is sold or transferred, the Bank must transfer the remaining securities held-to-maturity to the portfolio of securities available-for-sale, and until the end of the accounting period, within which the sale or transfer has been realized, and for following two periods, the Bank can not classify any securities into the portfolio of securities held-to-maturity. Exceptions to this rule are allowed for sales made within the last three months before the security's maturity, when the changes in the market interest rate would not have a significant effect on the fair value of the security. Exceptions are also allowed in cases when the sales

are attributable to an isolated event that is beyond the Banks's control and could not be anticipated by the Bank.

g) Securities financing arrangements

Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio; they are accounted on independent analytical accounts and are valued by the same method, which was used before the security was lent or sold under repo agreements. The underlying cash flows are recorded as Due from banks or customers, as appropriate, on the settlement date.

h) Investments in associated undertakings

An associated undertaking is an enterprise within which the Bank has significant influence, which is the power to participate in the financial and operating policy decisions, but not to control.

Investments in associated undertakings are measured at cost less any impairment other than that which is temporary.

i) Interest income and expense

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

Interest income includes accrued interest from construction savings loans and interbank deposits, accrued discount from zero-coupon bonds, accrued coupon and the difference between nominal value and net purchase price from fixed-income securities.

The difference between nominal value and net purchase price from fixed-income securities is recognised on an accrual basis using the effective yield method. Other interest income is accrued on a straight-line basis.

Income on impaired loans is also accrued and capitalised into the related loan balance. Such amounts are considered when estimating the provision for impaired loans.

Interest expense includes accrued interest on construction savings deposits, interest on borrowings and interest on borrowings under repo agreements.

j) Penalty interest

The Bank imposes penalty interest on all impaired receivables. Exceptions are made for restructured receivables and in the case of the death of the debtor or loss receivables, by which the Bank does not expect sufficient fulfillment from collateral. Penalty interest imposed is recognized on an accrual basis.

k) Fee income and expenses

Fee income includes the fee for the accounts' administration, fees for the conclusion of the construction savings contracts, fees for providing of loans and other fees.

Fee expenses include commissions to agents for concluded construction savings contracts, commissions to agents for concluded loan contracts and other fees.

Fee income for accounts' administration is recognized on an accrual basis throughout the year.

Fees and commissions for concluded construction savings contracts and the related expenses relating to commissions to agents are recognised as income and expense immediately at the amount which is virtually certain to be paid by clients.

Other fee income and expenses are recognised as income and expense immediately.

l) Receivables

Receivables originated by the Bank are stated at nominal value less allowances.

Receivables due from customers or banks also include securities purchased in primary issues which are not held for trading. They are measured at amortised cost.

m) Provisions

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

The Bank recognises provisions for interest bonus. The amount of this provision reflects the current estimate of the Bank's management regarding the proportion of "friendly" clients (those not utilizing

construction savings loans), the interest bonus and the accrued interest income with the possibility of ex-post application of interest bonus.

Additions to provisions are recognised in the income statement and their utilisation is recognised together with expenses or losses, for which they were created in the income statement. Release of provisions in the case that they are no longer necessary is recognised in the income.

n) Allowances

Allowances are deducted from the nominal value of each impaired asset.

Receivables are categorised in accordance with the definitions issued by CNB in five categories (standard, watched, substandard, doubtful, loss). Impaired receivables include substandard, doubtful and loss receivables and present the total outstanding principal and accrued interest receivables with payments overdue more than 90 days or with other defaults in contractual terms or in financial performance. Watched receivables represent total outstanding principal and accrued interest receivable with payments overdue no more than 90 days.

The amount of allowances for impaired loans is based on the classification of the individual loans. Loan classification is performed on the basis of the number of overdue repayments. The Bank recognises separate allowances for principal and separate allowances for interest, fees and charges, as determined by the CNB's instruction.

When determining the allowance for impaired loans from construction savings, the Bank does not take into account the collateral.

When determining the allowance for impaired bridging loans, the Bank takes into account as collateral the amount on the associated deposit account. In the case when a receivable is more than 540 days overdue, the collateral represented by the deposit amount is not considered when determining the allowance.

Additions to allowances are recognised in the income statement and their utilisation is recognised together with expenses and losses, associated with the decrease in value of assets, in the income statement. Release of allowances in the case that they are no longer necessary is recognised in income.

o) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets are recorded at cost, which includes the cost of bringing the assets to their current state and location, together with the appropriate value-added tax. Fixed assets are depreciated/amortised by applying the straight-line basis over their estimated useful lives. Low value tangible assets with a unit price lower than CZK 40,000 and low value intangible assets with a unit price lower than CZK 60,000 are classified as fixed assets and are fully depreciated when they are first put to use.

Annual depreciation rates are as follows:	%
Buildings and constructions	3.33 %
Hardware and equipment	8.33 - 25 %
Furniture and fittings	16.6 %
Motor vehicles	25 %
Software	25 %

Repair and maintenance expenditures are charged to expense as incurred. Expenditures which enhance the value of the asset by more than CZK 40,000 are capitalised and depreciated.

p) Value added tax

The Bank has been registered for value added tax ("VAT") since 1 July 2004.

The Bank claims VAT only from promotional items labelled with the Bank's trademark, and which have the purchase price lower than CZK 500. No other VAT refund is claimed in practice by the Bank.

Output VAT is charged on operating revenues not connected with the core business of the Bank (eg. rent, providing special statements on the clients' request and in special listed cases when the service is provided from the European Union).

These revenues and expenses are shown net of the related VAT. There is no other income on which VAT is charged. VAT on expenses for which claim is not made are included with the costs to which they relate.

q) Deferred taxation

Deferred tax liability is recognized on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. Deferred tax asset is recognized on all temporary differences between the carrying amount of an asset or liability in the balance sheet. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

The approved tax rate, for the period in which the Bank expects temporary differences to reverse, is used for the deferred taxation calculation.

r) Staff costs, pensions and social fund

Staff costs are included in Administrative expense and they also include board and management emoluments. Profit awards to the Board of Directors and to the members of the Supervisory Board are approved by the General Meeting and are presented as the distribution of earnings in the statement of changes in equity. Profit awards to the members of statutory bodies are, in accordance with the Czech accounting standards, not presented in the income statement.

No formal or informal pension plan is currently in operation at the Bank.

Regular contributions are made to the state to fund the national pension plan.

The Bank creates a social fund to finance the social needs of its employees and the employees' programme. In compliance with the Czech accounting requirements the allocation to the social fund is not recognised in the income statement, but as a profit distribution. Similarly, the usage of the social fund is not recognised in the income statement, but as a decrease of the fund.

s) Related parties

Related parties are defined as follows:

- board members and senior management of the Bank;
- entities controlling the Bank, their shareholders which hold more than 10 % of capital and their senior management;
- entities in which board members of the Bank, senior management or entities controlling the Bank hold at least a 10 % shareholding;
- shareholders holding more than 10 % of the Bank and entities controlled by them;
- subsidiaries of the Bank.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 4, 5, 6, 7, 11, 12, 15, 16, 17, 18 and 21.

t) Subsequent events

The effects of events that occurred between the balance sheet date and the date of preparation of the financial statements are reflected in the financial statements in the case that these events provide further evidence of conditions that existed at the balance sheet date.

Where significant events which are indicative of conditions, which arose subsequent to the balance sheet date, occur subsequent to the balance sheet date and prior to preparation of the financial statements, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

3. CASH AND DEPOSITS WITH CENTRAL BANKS

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Cash on hand	403	355
Obligatory reserves	264,088	134,203
	264,491	134,558

Obligatory reserves are mandatory deposits with the CNB and they are not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, which was 2.50 % p.a. at 31 December 2004 (31 December 2003: 2.00 % p.a.).

In accordance with the CNB's methodology, the basis for the calculation of the obligatory minimum reserve as at 31 December 2004 and 2003 are clients' deposits with maturity of up to two years.

As at 31 December 2004 and 2003 this condition was met by deposits after the five-year saving period and other deposits repayable on demand.

4. DUE FROM BANKS

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Current accounts with banks	4,795	22,203
Term deposits	9,097,715	7,746,989
Debt instruments purchased in primary issues not held for trading	8,793,030	9,588,611
	17,895,540	17,357,803

BALANCES WITH RELATED PARTIES

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Current accounts with ČSOB, a.s.	4,795	22,203
Mortgage bonds of Českomoravská hypoteční banka, a.s.	2,226,023	1,905,779
	2,230,818	1,927,982

Current accounts with ČSOB, a.s. are under the same conditions and at the same interest rates as those in effect on the market at that time.

5. DUE FROM CUSTOMERS

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Standard receivables from companies and individuals	34,874,673	24,392,229
Debt instruments of government institutions purchased in primary issues not held for trading	10,326,265	8,892,089
Impaired loans to companies and individuals	1,050,469	702,194
Standard loans to municipalities	98,287	114,239
Impaired loans to municipalities	-	228
	46,349,694	34,100,979
Allowance for impaired loans (Note 10)	(230,890)	(150,319)
	46,118,804	33,950,660

In addition to the allowance for watched and impaired receivables, the Bank has reflected a general tax-deductible provision of CZK 55 million at 31 December 2003 (2004: CZK nil). According to the Czech accounting standards, this provision was written off back to income in the year 2004.

As at 31 December 2004 the Bank restructured CZK 101 million of its receivables (31 December 2003: CZK 36 million). Receivables are considered as restructured in the case that the Bank grants relief to clients, because it is likely that the Bank would incur losses if acting otherwise.

a) Quality of loan portfolio

In accordance with the definitions issued by CNB, the receivables due from the loan portfolio can be analysed as follows:

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Standard	45,299,224	33,398,556
Watched	564,481	409,554
Impaired		
substandard	273,856	143,513
doubtful	60,186	42,835
loss	151,947	106,521
	46,349,694	34,100,979

The value of guarantees and collaterals received as collaterals for loans to customers can be analysed as follows:

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Cash	5,922,823	4,632,307
Land and buildings	11,736,017	7,597,375
Other collateral (including bills of exchange, statements of guarantors, etc.)	7,133,201	6,350,928
	24,792,041	18,580,610

As at 31 December 2004 and 2003 the terms and conditions of loans provided did not require collateral for loans and bridging loans up to CZK 0.2 million. As at 31 December 2004 the volume of such loans was CZK 11,231 million (as at 31 December 2003: CZK 6,627 million).

b) Balances with related parties

Standard loans to companies and individuals include the following receivables from related parties

	31 December 2003 (CZK'000)	Additions (CZK'000)	Disposals (CZK'000)	31 December 2004 (CZK'000)
Other related parties				
Supervisory board	28	-	(28)	-
Other members of management	2,040	6,710	(817)	7,933
Total loans to related parties	2,068	6,710	(845)	7,933

All receivables from related parties were made in the ordinary course of business under equal terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

6. DEBT SECURITIES

	State treasury bills at 31 December		Debt securities at 31 December	
	2004 (CZK'000)	2003 (CZK'000)	2004 (CZK'000)	2003 (CZK'000)
Available-for-sale	-	-	4,909,073	-
Held-to-maturity	4,288,235	6,041,667	35,586,214	32,583,121
	4,288,235	6,041,667	40,495,287	32,583,121

As at 31 December 2004 debt securities of CZK 1,029 million (31 December 2003: CZK nil) were used as collateral in repo agreements.

a) Available-for-sale securities

DEBT SECURITIES INCLUDING STATE TREASURY BILLS

All securities in the available-for-sale securities portfolio as at 31 December 2004 were traded on the main or auxiliary market of Prague Stock Exchange.

b) Securities held-to-maturity

DEBT SECURITIES INCLUDING STATE TREASURY BILLS

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Main or auxiliary market of recognised stock exchanges	34,207,516	29,970,277
Free market of recognised stock exchanges	5,666,933	8,654,511
Net book value	39,874,449	38,624,788
Fair value	40,212,480	38,580,344

BALANCES WITH RELATED PARTIES

The held-to-maturity securities as at 31 December 2004 included bonds of CZK 835 million, which were issued by companies within the Group (31 December 2003: CZK 1,437 million).

7. PARTICIPATION INTERESTS WITH SIGNIFICANT INFLUENCE

In 2004 the Bank sold its shareholding in Česká nemovitosti, a.s., with its registered office at Prague 1, Revoluční 3. The profit on the sale was CZK 22 million (Note 20).

	Number of shares	At cost (CZK'000)	Nominal value (CZK'000)	Equity (CZK'000)	Share capital (CZK'000)	Shareholding (%)
As at 31 December 2003	30	450	13,500	3,000	45,000	30

Investments in participation interest with significant influence as at 31 December 2003 comprised solely investments in common stock. Voting rights are equal to the share held.

The income from dividends in 2004 was CZK 3 million (2003: CZK 2 million).

FINANCIAL SUMMARY FOR THE PARTICIPATION INTEREST WITH SIGNIFICANT INFLUENCE ČESKÉ NEMOVITOSTI, A.S.

	Equity (CZK'000)	Total assets (CZK'000)	Revenues (CZK'000)	Earnings before tax (CZK'000)
Audited financial information for 2003	63,575	488,254	195,047	19,502

8. LONG-TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

LONG-TERM INTANGIBLE FIXED ASSETS

	Software (CZK'000)	Other (CZK'000)	Assets not yet put into use (CZK'000)	Total (CZK'000)
At 1 January 2003				
Cost	261,736	14,277	30,535	306,548
Accumulated amortisation	190,862	13,955	-	204,817
Net book amount	70,874	322	30,535	101,731
Year ended 31 December 2003				
Opening net book amount	70,874	322	30,535	101,731
Additions	98,664	2,015	76,656	177,335
Disposals	-	-	(100,679)	(100,679)
Amortisation charge	(74,784)	(2,098)	-	(76,882)
Closing net book amount	94,754	239	6,512	101,505
At 31 December 2003				
Cost	358,457	12,849	6,512	377,818
Accumulated amortisation	263,703	12,610	0	276,313
Net book amount	94,754	239	6,512	101,505
Year ended 31 December 2004				
Opening net book amount	94,754	239	6,512	101,505
Additions	50,706	702	59,215	110,623
Disposals	(38)	-	(51,408)	(51,446)
Amortisation charge	(84,766)	(784)	-	(85,550)
Closing net book amount	60,656	157	14,319	75,132
At 31 December 2004				
Cost	400,369	11,257	14,319	425,945
Accumulated amortisation	339,713	11,100	-	350,813
Net book amount	60,656	157	14,319	75,132

LONG-TERM OPERATING TANGIBLE FIXED ASSETS

	Land (CZK'000)	Buildings (CZK'000)	Equipment (CZK'000)	Other (CZK'000)	Assets not yet put into use (CZK'000)	Total (CZK'000)
At 1 January 2003						
Cost	50,198	934,326	484,015	254,240	40,008	1,762,787
Accumulated depreciation	-	92,701	399,099	139,836	-	631,636
Net book amount	50,198	841,625	84,916	114,404	40,008	1,131,151
Year ended 31 December 2003						
Opening net book amount	50,198	841,625	84,916	114,404	40,008	1,131,151
Additions	-	56	77,850	18,576	63,286	159,768
Disposals	-	-	(29)	(1,349)	(96,483)	(97,861)
Depreciation charge	-	(31,114)	(77,759)	(32,903)	-	(141,776)
Closing net book amount	50,198	810,567	84,978	98,728	6,811	1,051,282
At 31 December 2003						
Cost	50,198	934,382	534,248	262,855	6,811	1,788,494
Accumulated depreciation	-	123,815	449,270	164,127	-	737,212
Net book amount	50,198	810,567	84,978	98,728	6,811	1,051,282
Year ended 31 December 2004						
Opening net book amount	50,198	810,567	84,978	98,728	6,811	1,051,282
Additions	-	730	28,018	20,698	52,066	101,512
Disposals	-	(69)	(576)	(335)	(49,445)	(50,425)
Depreciation charge	-	(31,127)	(56,102)	(30,534)	-	(117,763)
Closing net book amount	50,198	780,101	56,318	88,557	9,432	984,606
At 31 December 2004						
Cost	50,198	935,034	533,110	277,158	9,432	1,804,932
Accumulated depreciation	-	154,933	476,792	188,601	-	820,326
Net book amount	50,198	780,101	56,318	88,557	9,432	984,606

PLEGDED ASSETS

As at 31 December 2004 and 2003 the Bank did not provide any tangible assets as security over its liabilities or liabilities of third parties.

9. OTHER ASSETS AND PREPAYMENTS AND ACCRUED INCOME

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Advances granted	1,110	6,207
Estimated receivables	44,647	255,987
Deferred tax asset (Note 22)	233,270	237,126
Other receivables	126,093	628,827
Allowances to other assets (Note 10)	(4,806)	(3,809)
	400,314	1,124,338
Prepayments	20,320	28,777
Accrued income	628	236
	20,948	29,013

Estimated receivables in 2004 include the accrual related to contracts concluded in 2004, whose related clients' accounts were not opened until 2005. As at 31 December 2004 the accrual was CZK 7 million (31 December 2003: CZK 239 million). Estimated receivables also include the accrual related to contracts concluded and recorded in 2004 which were not paid until 2005. The accrual was CZK 33 million as at 31 December 2004 (31 December 2003: CZK nil).

The decrease in estimated receivables was caused by a lower number of construction savings contracts, which were concluded in December 2004 than in December 2003 (December 2004: 43,218 contracts, December 2003: 306,808 contracts).

Other receivables include cash in transit resulting from clients' payments who made the payment order in 2004 although the Bank received these payments in 2005, of CZK 48 million (31 December 2003: CZK 393 million). As at 31 December 2003, Other receivables also include income tax receivable of CZK 204 million (31 December 2004: income tax liability of CZK 122 million) (Note 13).

10. ALLOWANCES, PROVISIONS AND WRITE-OFFS

THE BANK HAD THE FOLLOWING PROVISIONS AND ALLOWANCES FOR ASSETS AT RISK:

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Other provisions		
General provisions for loans (Note 5)	-	55,202
Specific provisions for interest bonus	930,709	827,038
Other provisions - tax non-deductible	228,000	-
	1,158,709	882,240
Allowances		
Impaired loans and other receivables from clients (Note 5)	230,890	150,319
Other assets (Note 9)	4,806	3,809
	235,696	154,128

Other tax non-deductible provisions represent provision for a penalty imposed by the Antimonopoly office.

As at 2 April 2004 the Antimonopoly office started an administrative procedure against all construction savings banks in the Czech Republic for violation of economic competition on the construction savings market. As at 24 August 2004 the Antimonopoly office rendered a decision which imposed a fine of CZK 228 million on the Bank and, simultaneously, stated the following corrective actions:

- Cancellation of fees for interest bonus within 30 days from the date the decision comes into force;
- Reduction of the level of bank charges for construction savings to the level it was prior to 1 April 1999 within 30 days from the date the decision comes into force;
- Official confirmation by the Bank of corrective actions taken within 30 days of the implementation and no later than 60 days from the date the decision comes into force.

The Bank does not agree with the decision of the Antimonopoly office and as at 10 September 2004 the Bank lodged an appeal against this decision. As at 31 December 2004 the Antimonopoly office had not issued a legitimate decision on the appeal. The Bank assumes that it is probable that the Antimonopoly office will turn down the appeal and thus as at 31 December 2004 the Bank created a provision of CZK 228 million. The provision was not discounted, as it is assumed that a decision on the appeal will be issued during the year 2005. If the Antimonopoly office refuses the appeal lodged by the Bank, the Bank will file a suit to the District court of Brno. Future legal costs of this case are estimated to amount to CZK 1.6 million. These costs do not include any possible costs of the legal process at the Supreme Court which would follow if the decision of the District court of Brno would also be challenged.

The Bank cancelled the fees for interest bonus for the year 2004. The fees for interest bonus for the year 2003 were CZK 87 million.

As at 31 December 2004 the fee for each accounts' administration was CZK 290 (30 March 1999: CZK 100).

THE MOVEMENTS IN PROVISIONS CAN BE ANALYSED AS FOLLOWS:

	General provisions for loans (CZK'000)	Specific provisions for interest bonus (CZK'000)	Other provisions (CZK'000)	Total provisions (CZK'000)
At 1 January 2003	122,831	704,490	11,997	839,318
Additions	-	454,637	-	454,637
Usage	(19)	(332,089)	-	(332,108)
Release	(67,610)	-	(11,997)	(79,607)
At 31 December 2003	55,202	827,038	-	882,240
Additions	-	505,181	228,000	733,181
Usage	-	(401,510)	-	(401,510)
Release	(55,202)	-	-	(55,202)
At 31 December 2004	-	930,709	228,000	1,158,709

THE MOVEMENTS IN ALLOWANCES CAN BE ANALYSED AS FOLLOWS:

	Impaired loans to customers (CZK'000)	Other assets (CZK'000)	Total allowances (CZK'000)
At 1 January 2003	111,129	1,481	112,610
Additions	39,679	2,437	42,116
Usage	(489)	(61)	(550)
Release	-	(48)	(48)
At 31 December 2003	150,319	3,809	154,128
Additions	138,578	1,487	140,065
Usage	(2,186)	(56)	(2,242)
Release	(55,821)	(434)	(56,255)
At 31 December 2004	230,890	4,806	235,696

Since 1 January 2004 the Bank adjusted the system for calculation of allowances, which now allows the allowance to be directly matched to the related receivable. In the year 2003 the addition and release of allowances was carried out on a portfolio basis. The addition and release of allowances for the year 2003 is therefore presented in the net amount.

WRITE-OFFS AND RECOVERY OF AMOUNTS WRITTEN OFF PREVIOUSLY

	2004		2003	
	Written-off amounts (CZK'000)	Recovery of amounts previously written off (CZK'000)	Written-off amounts (CZK'000)	Recovery of amounts previously written off (CZK'000)
Clients	3,292	37	659	-
Agents	33	7	65	1
Other receivables	45	-	23	-
	3,370	44	747	1

Bad debts are written off against related allowances.

11. DUE TO BANKS

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Due to other banks	-	20,000
Loans received from banks based on repo agreements		
ING Bank	841,273	-
ČSOB, a.s.	191,178	-
	1,032,451	-
Total due to banks	1,032,451	20,000

BALANCES WITH RELATED PARTIES

As at 31 December 2004, the Bank received a loan under repo agreements from ČSOB, a.s. of CZK 191 million at an interest rate of 2.2 % p.a. (31 December 2003: CZK 20 million at an interest rate of 1.9 % p.a.)

12. DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS CAN BE ANALYSED AS FOLLOWS:

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Liabilities repayable on demand	190,645	215,194
Savings accounts for fixed term	81,301,152	72,217,335
Savings accounts with fixed notice period	20,618,637	10,523,503
Liabilities from unpaid amounts, from deposit accounts called in by clients	1,421,247	1,778,563
Liabilities from previously unallocated client payments	28,489	1,124,876
	103,560,170	85,859,471

BALANCES WITH RELATED PARTIES

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Board of Directors	747	686
Supervisory Board	140	179
Other members of management	5,714	4,845
	6,601	5,710

The Bank only accepts deposits from those members of its Board of Directors, Supervisory Board and members of management who have Czech citizenship. These are construction savings deposits accepted under the same terms and conditions, including the interest rates, as those prevailing for the Bank's other clients.

13. OTHER LIABILITIES

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Estimated liabilities	88,067	341,145
Deferred tax liability (Note 22)	58,667	77,679
Other liabilities	522,700	683,583
	669,434	1,102,407

Estimated liabilities in 2004 include the accrual for agents' commissions resulting from contracts concluded in 2004, whose related clients' accounts were not opened until 2005. As at 31 December 2004 the accrual was CZK 7 million (31 December 2003: CZK 223 million). Estimated liabilities also include the accrual for agents' commission from the contracts concluded and recorded in 2004 and not paid until 2005 which amounted to CZK 31 million (31 December 2003: CZK nil).

Other liabilities include income tax liability and payable for agents' commissions from concluded contracts. As at 31 December 2004 income tax liability was CZK 122 million (31 December 2003: income tax receivable of CZK 204 million (Note 9)) and liability for agents' commission was CZK 177 million (31 December 2003: CZK 392 million).

As at 31 December 2004 and 2003 the Bank had no overdue liabilities for social insurance and contribution to the state employment policy, no overdue liabilities for health insurance and no overdue tax liabilities payable to relevant tax authority.

14. EQUITY AND PROFIT DISTRIBUTION

SHARE CAPITAL

THE SHARE CAPITAL AS AT 31 DECEMBER 2004 AND 2003 COMPRISED THE FOLLOWING ISSUES OF SHARES:

ISIN	Date of issue	Date of registration	Nominal value of share (CZK)	Number of shares (units)	Nominal value (CZK'000)
770990001750	7 December 1999	7 December 1999	75,000,000	20	1,500,000

SHAREHOLDERS

Name and registered office	Shareholding (%)
Československá obchodní banka, a.s., Praha (ČSOB, a.s.)	55.00
Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Germany (BSH)	45.00
	100.00

IN ACCORDANCE WITH THE BANK'S ARTICLES OF ASSOCIATION:

- The General Meeting constitutes a quorum if it is attended by shareholders owning shares with a nominal value representing at least 80 % of the Bank's share capital.
- The approval of at least 80 % of the votes of all attending shareholders is required for the adoption of a resolution which comes under the decision-making powers of the General Meeting.

Shares of the Bank are not tradable on public markets.

PROFIT DISTRIBUTION

THE NET PROFIT FOR THE YEAR 2003 WAS DISTRIBUTED AND THE NET PROFIT FOR THE YEAR 2004 IS PROPOSED TO BE DISTRIBUTED AS FOLLOWS:

	2004 (CZK'000)	2003 (CZK'000)
Transfer to the social fund	12,500	13,200
Profit awards for the Board of Directors	15,935	15,070
Profit awards for the Supervisory Board	600	500
Dividends	187,500	750,000
Retained earnings	167,278	(396,751)
Net profit	383,813	382,019

15. CONTINGENCIES AND COMMITMENTS

The Bank did not give any guarantee either to banks or to clients as at 31 December 2004 and 2003.

	31 December 2004 (CZK'000)	31 December 2003 (CZK'000)
Received guarantees and pledges		
- from banks within the Group	-	25,000
- from clients	24,792,041	18,580,610
Total guarantees and pledges received	24,792,041	18,605,610
Commitments to clients	6,360,799	4,963,636

A contingent asset results from the appeal of the Bank against the decision of the Antimonopoly office (Note 10).

16. INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 (CZK'000)	2003 (CZK'000)
Interest on inter-bank transactions	259,346	442,009
Interest on loans to customers	1,835,227	1,270,720
Interest on bonds purchased in primary issues	659,244	384,646
Interest on bonds	1,476,392	1,386,761
	4,230,209	3,484,136

In 2004, CZK 57 million of interest income on impaired loans was recognised (2003: CZK 39 million).

As at 31 December 2004, CZK 3.6 million of penalty interest was recognised as income (31 December 2003: CZK 0.7 million).

Waived penalty interest on impaired receivables in the year 2003 amounted to CZK 9 million, of which CZK 4 million related to loan accounts and CZK 5 million related to bridging loan accounts. The Bank did not monitor the waived penalty interest arising on impaired receivables during 2004 because of the infrequency of their occurrence (Note 2 (j)).

TRANSACTIONS WITH RELATED PARTIES

	2004 (CZK'000)	2003 (CZK'000)
Interest on term deposits with ČSOB, a.s. (Note 4)	206	3,663
Interest on mortgage bonds of Českomoravská hypoteční banka, a.s. (Note 4)	59,762	37,630
Interest on securities of Českomoravská hypoteční banka, a.s. (Note 6)	51,213	120,796
	111,181	162,089

17. INTEREST PAYABLE AND SIMILAR EXPENSES

	2004 (CZK'000)	2003 (CZK'000)
Interest on inter-bank transactions	11,857	13,454
Interest on deposits from customers and state	2,967,265	2,475,570
	2,979,122	2,489,024

TRANSACTIONS WITH RELATED PARTIES

Interest on inter-bank transactions in 2004 includes interest on loans received from ČSOB, a.s. of CZK 0.8 million (2003: CZK 9 million) (Note 11).

18. FEE AND COMMISSION INCOME AND EXPENSE

	2004 (CZK'000)	2003 (CZK'000)
Income from contract conclusion fees	660,947	1,616,398
Income from accounts' administration	768,437	682,427
Income from other fees	192,098	119,804
	1,621,482	2,418,629

Fee and commission expense is mainly comprised of commissions to agents.

TRANSACTIONS WITH RELATED PARTIES

	2004 (CZK'000)	2003 (CZK'000)
Commissions paid to ČSOB, a.s.	16,035	33,390
Brokerage for purchase of securities paid to ČSOB, a.s.	796	499
Fees paid to ČSOB, a.s.	3,420	4,750
	20,251	38,639

19. GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

	2004 (CZK'000)	2003 (CZK'000)
Unrealised net gains less losses from available-for-sale securities	35,351	-
Realised gains less losses from the sale of securities	(64,996)	297
Gains less losses from foreign currency transactions	(951)	339
	(30,596)	636

20. OTHER OPERATING INCOME

	2004 (CZK'000)	2003 (CZK'000)
Gains on sale of associates (Note 7)	22,145	-
Rental income	666	590
Other operating income	6,755	3,718
	29,566	4,308

21. ADMINISTRATIVE EXPENSE

	2004 (CZK'000)	2003 (CZK'000)
Rent and lease charges	9,083	8,000
Staff costs	378,778	356,772
Audit, tax and legal advisory services	2,837	2,648
Other administration expenses	397,131	450,878
	787,829	818,298

Other administrative expenses mainly comprise advertising costs, outsourcing costs and other purchased services.

TRANSACTIONS WITH RELATED PARTIES

	2004 (CZK'000)	2003 (CZK'000)
Administrative expense paid to ČSOB, a.s., ČSOB Pojišťovna, a.s. and BSH (rent, software maintenance, postal charges, insurance premiums, trademark licence fees, etc.)	12,144	37,285

STAFF COSTS CAN BE ANALYSED AS FOLLOWS:

	2004 (CZK'000)	2003 (CZK'000)
Emoluments of Board of Directors	18,008	19,381
Emoluments of other members of management	17,371	17,716
Emoluments of Supervisory Board	3,813	3,545
Other wages, personal costs and emoluments of employees	242,930	226,932
Social costs and health insurance	96,656	89,198
Total	378,778	356,772

Members of the Board of Directors also act as the Bank's management body and the above emoluments cover both these functions. Profit awards to the members of the Board of Directors and to the members of Supervisory Board are disclosed in Note 14.

STAFF STATISTICS

	2004	2003
Average number of employees	594	574
Number of members of the Board of Directors	4	4
Number of members of the Supervisory Board	6	6

22. TAXATION

	2004 (CZK'000)	2003 (CZK'000)
Profit before taxation	504,176	485,830
Permanent differences between profit and tax base comprise:		
Non-taxable income	(722,385)	(624,255)
Tax non-deductible expense	737,727	505,688
of which: Other provisions (Note 10)	228,000	-
	15,342	(118,567)
Net taxable profit	519,518	367,263
Corporate tax charge at 28 % (2003: 31 %)	(145,465)	(113,852)
Temporary difference expected to crystallize at different tax rates	25,102	10,041
Tax charge for the year	(120,363)	(103,811)
The tax charge is comprised of:		
Deferred income tax credit/expense	15,156	(49,476)
Current income tax expense	(135,519)	(54,335)
	(120,363)	(103,811)
Deferred income tax liabilities:		
Accelerated tax depreciation	(58,667)	(77,679)
	(58,667)	(77,679)
Deferred income tax assets:		
Allowances for loans	-	21,182
Other allowances	1,183	1,017
Specific provision for interest bonus	232,087	214,927
	233,270	237,126

Czech tax laws and interpretations are still developing. In some cases there is uncertainty regarding their interpretation and regarding the approach of particular financial authorities. As a result, the Bank must in some cases interpret the tax legislation itself. The extent of this uncertainty cannot be reliably quantified.

23. FINANCIAL RISKS

The Bank applies a conservative approach to risk management. As a part of its business the Bank identifies, measures, adopts and monitors the procedures which lead to the limitation of risk exposure. The major types of financial risks are as follows:

- Market risk;
- Credit risk;
- Liquidity risk;
- Operational risk.

The process of risk management is in compliance with regulatory requirements. The specialised department for risk management is strictly separated organisationally, including separation in the Board of Directors. This structure enables the Bank to apply a functional internal risk management and controlling system. The main goal of the risk management department is to set up the strategies for prevention of exposure to undue risk. These strategies have the following main parts:

- Establishment of the methodology for management of risk exposure;
- Establishment of an acceptable level of risks;
- Definition of a limit system which leads to the restriction of risk exposure;
- Implementation of a suitable IT system (regular reporting of the Bank's exposure to risk).

Risk management strategies for different financial risks are reassessed yearly on the basis of current market trends and functionality. Risk management strategies are subject to the approval of the Board of Directors, which is informed on a monthly basis about the Bank's exposure to risk.

With regard to risk management, the Bank cooperates with both shareholders. In cooperation with them, there are several simultaneous projects which are focused primarily on:

- Development of the scoring system and the internal-rating method of the Bank with respect to the requirements of Basel II;
- Meeting the requirements for application of advanced methods in operational risk management with respect to the requirements of Basel II.

a) Strategy in using financial instruments

The Bank's activities are defined under the Construction Savings Act and involve the acceptance of clients' deposits within the construction savings process and the provision of loans. Deposits and loans bear interest at a contractually agreed fixed interest rate.

The Bank's free funds, representing equity of the Bank and the difference between the construction savings clients' deposits and the loans provided, are invested in high-quality assets. The assets in which these free funds may be invested are defined by the Construction Savings Act. The Bank purchases the majority of the financial instruments with the intention and ability to hold them to maturity. The Bank does not trade with these financial instruments and does not make use of short-term market fluctuations.

The Bank has a strict new product policy defining that every new product, before being launched, must be properly approved, its connected risks must be identified and covered, adequate limits must be set and the appropriate accounting treatment must be defined. The Board of Directors of the Bank determines the level of exposure to individual counterparties and to individual types of financial instruments.

b) Credit risk

In the case of transactions on the money market and capital market, the Bank manages the credit risk by means of internal limits of credit exposure for individual counterparties and individual instruments on the consolidated basis within the KBC Group. Risks are periodically reassessed and internal limits are adjusted in order to ensure compliance with all regulatory limits.

For assessing the counterparty risks, the Bank uses rating agencies and internal ratings drawn up by the KBC Group.

In the case of retail transactions, the Bank controls the credit risk by means of structured offers, when the Bank sets different conditions for the provision and collateral of loans to different segments of clients. Loan applicants are divided into different risk classes on the basis of their saving history. Each risk class is characterized by different demands on the loan applicants and loan conditions. The efficiency of this system is analysed and reassessed each year.

The loan applicant must demonstrate sufficient creditworthiness in order to be able to meet the obligations from personal income.

The applicant must provide collateral, which serves for debt repayment in case of the applicant's default. The collateral varies, depending upon the type of product, amount to be lent and risk

classification of the applicant. The Bank uses the following types of collateral: guarantor, real estate, deposit with the Bank or another bank, bank guarantee.

During the year 2004 the Banking Register of Clients' Information started to be used in the process of assessment of retail clients' creditworthiness.

During the classification of receivables, the collateral instrument is not considered. The rating of the receivables into the classification grades is done according to the CNB's Provision no. 9 as of 6 November 2002. Receivables are categorised into either standard receivables or impaired receivables (watched, substandard, doubtful, loss). Categorisation into these groups is performed on the basis of the number of overdue repayments. If there is more than one receivable due from the client, all receivables from this client are rated at the same level as the lowest-rated receivable due from the client. The Bank does not use any internal rating of receivables.

Allowances are created for impaired receivables. Allowances are not created on a portfolio basis; the allowance is created to each impaired receivable separately. A deposit on a respective account at the Bank is considered a deductible amount when creating an allowance for a bridging loan

The process of debt recovery consists of three phases: the phase of automated debt recovery, the phase of individual debt recovery and the phase of legal debt recovery. Debt rescheduling can be made during all three phases. The receivable is written off when the Bank arrives at the conclusion that the receivable is irrecoverable, especially with respect to the financial situation of debtor, and it is assumed that even legal debt recovery would not be successful and that the impairment is permanent.

The Risk management department periodically monitors the development of the structure and risk of the credit portfolio. This process includes performance of specialized analyses (analysed on the basis of products, residence of debtor, amount of credit, etc.), which are presented to the Board of Directors.

GEOGRAPHICAL SEGMENTATION

As at 31 December 2004 the Bank held Czech Crown denominated bonds of the European Investment Bank of CZK 4,496 million (31 December 2003: CZK 7,054 million), reflected within Note 4. Other assets and liabilities as at 31 December 2004 and 2003 are related to domestic entities.

c) Interest rate risk

According to the nature of the construction savings product, the Bank uses two methods based on dynamic GAP analysis to manage interest rate risk:

- Method NIIS, which deals with the impact of market interest rate changes on expected interest income;
- Method BPV, which deals with the impact of market interest rate changes on the fair value of assets and liabilities.

The Bank's strategy is to minimize interest rate risks over the long-term through optimization of the maturity of free funds and by taking into consideration long-term liquidity needs. The Assets and Liabilities Committee manages the structure of assets and liabilities and recommends an optimal investment strategy to the Board of Directors.

The extent of exposure to interest rate risk is evaluated and compared to the given limits on a monthly basis. The system of limits is reassessed every year with consideration of the current market trends and functionality. The level of selected limits is periodically reassessed on the basis of market risk consolidation within the KBC Group.

The Bank performs stress testing of interest rate risk on a quarterly basis. The test simulates a decrease of market interest rates by 2 %.

The Bank does not use any financial derivatives to manage market risk.

The table below summarizes the exposure of the Bank to interest rate risk. Included in the table are the Bank's interest bearing assets and liabilities at carrying amounts, categorized by the earlier of repricing or maturity dates.

31 DECEMBER 2004

Assets (CZK'000)	Within 3 Months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Cash and cash deposits with central banks	264,088	-	-	-	403	264,491
State treasury and other bills eligible for ČNB refinancing	3,166,128	3,681,619	27,461,097	5,764,149	-	40,072,993
Due from banks	5,500,375	1,585,251	9,206,519	1,603,395	-	17,895,540
Due from customers	2,912,480	3,727,296	23,480,066	15,998,779	183	46,118,804
Debt securities	82,464	813,378	3,564,977	249,710	-	4,710,529
Other assets	-	-	-	-	1,481,000	1,481,000
	11,925,535	9,807,544	63,712,659	23,616,033	1,481,586	110,543,357
Liabilities						
Due to banks	1,032,451	-	-	-	-	1,032,451
Due to customers	8,422,751	16,686,366	70,892,992	6,136,813	1,421,248	103,560,170
Provisions	-	-	-	-	1,158,709	1,158,709
Other liabilities and equity	-	-	-	-	4,792,027	4,792,027
	9,455,202	16,686,366	70,892,992	6,136,813	7,371,984	110,543,357
Net assets / (liabilities)	2,470,333	(6,878,822)	(7,180,333)	17,479,220	(5,890,398)	-

31 DECEMBER 2003

Assets (CZK'000)	Within 3 Months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Cash and cash deposits with central banks	134,203	-	-	-	355	134,558
State treasury and other bills eligible for ČNB refinancing	3,377,106	4,507,547	20,152,601	5,888,481	-	33,925,735
Due from banks	4,445,745	1,268,099	8,803,983	2,839,976	-	17,357,803
Due from customers	1,579,004	6,444,597	23,545,287	2,381,003	769	33,950,660
Debt securities	643,016	874,025	2,008,753	1,173,259	-	4,699,053
Other assets	-	-	-	-	2,309,138	2,309,138
	10,179,074	13,094,268	54,510,624	12,282,719	2,310,262	92,376,947
Liabilities						
Due to banks	20,000	-	-	-	-	20,000
Due to customers	6,246,299	19,307,082	56,083,271	2,444,256	1,778,563	85,859,471
Provisions	-	-	-	-	882,240	882,240
Other liabilities and equity	-	-	-	-	5,615,236	5,615,236
	6,266,299	19,307,082	56,083,271	2,444,256	8,276,039	92,376,947
Net assets / (liabilities)	3,912,775	(6,212,814)	(1,572,647)	9,838,463	(5,965,777)	-

d) Currency risk

The Bank is not exposed to currency risk. All assets and liabilities, apart from insignificant foreign currency cash in vault, are denominated in Czech crowns.

e) Liquidity risk

The Bank controls liquidity risk by expected and alternative scenarios of future development of cash inflows and outflows. The forecast of future cash flow is set up periodically and it is classified according to contractual or expected maturity, with respect to the nature of individual assets and liabilities.

The system of limits is set up in order to secure the required level of funds at individual maturity dates for both expected and alternative scenarios. The approved system of limits is considered when the Bank forms its long-term investment strategy. The system of limits is reassessed periodically with consideration of the current market trends and functionality.

The Bank periodically performs back testing of expected and alternative scenarios with real cash flows.

The table below analyses assets and liabilities of the Bank into relevant maturity bands based on the remaining period from the balance sheet date to the contractual maturity date.

The maturity, in the case of due to customers, is expected maturity determined by the historical experience of the Bank's clients' behaviour. Clients' deposits have a notice period of three months. Clients cannot withdraw the deposits, which serve as a collateral instrument of bridging loans. As at 31 December 2004 the total amount of deposits securing the bridging loans after the deduction of the state subsidy was CZK 5,265 million (31 December 2003: CZK 4,143 million). Currently, the Bank is adjusting the information system which is used to generate data regarding the remaining maturity of due to customers' balances. The adjusted system should allow the Bank to analyse the due to customers' balances based on the contractual remaining maturity.

31 DECEMBER 2004

Assets (CZK'000)	Within 3 Months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Cash and cash deposits with central banks	403	-	-	-	264,088	264,491
State treasury and other bills eligible for ČNB refinancing	3,166,128	3,681,619	27,461,097	5,764,149	-	40,072,993
Due from banks	5,500,375	1,585,251	9,206,519	1,603,395	-	17,895,540
Due from customers	2,912,610	3,727,349	23,480,066	15,998,779	-	46,118,804
Debt securities	82,464	813,378	3,564,977	249,710	-	4,710,529
Other assets	164,048	3,600	188	-	1,313,164	1,481,000
	11,826,028	9,811,197	63,712,847	23,616,033	1,577,252	110,543,357
Liabilities						
Due to banks	1,032,451	-	-	-	-	1,032,451
Due to customers	9,843,998	16,686,366	70,892,992	6,136,814	-	103,560,170
Provisions	-	-	-	-	1,158,709	1,158,709
Other liabilities and equity	466,496	21,223	123,121	-	4,181,187	4,792,027
	11,342,945	16,707,589	71,016,113	6,136,814	5,339,896	110,543,357
Net assets / (liabilities)	483,083	(6,896,392)	(7,303,266)	17,479,219	(3,762,644)	-

31 DECEMBER 2003

Assets (CZK'000)	Within 3 Months	3 - 12 months	1 - 5 years	Over 5 years	Not specified	Total
Cash and cash deposits with central banks	355	-	-	-	134,203	134,558
State treasury and other bills eligible for CNB refinancing	3,377,106	4,507,547	20,152,601	5,888,481	-	33,925,735
Due from banks	4,445,745	1,268,099	8,803,983	2,839,976	-	17,357,803
Due from customers	1,579,550	6,444,820	23,545,287	2,381,003	-	33,950,660
Debt securities	643,016	874,025	2,008,753	1,173,259	-	4,699,053
Other assets	684,735	207,694	-	-	1,416,709	2,309,138
	10,730,507	13,302,185	54,510,624	12,282,719	1,550,912	92,376,947
Liabilities						
Due to banks	20,000	-	-	-	-	20,000
Due to customers	8,024,862	19,307,082	56,083,271	2,444,256	-	85,859,471
Provisions	-	-	-	-	882,240	882,240
Other liabilities and equity	676,751	347,979	112	-	4,590,394	5,615,236
	8,721,613	19,655,061	56,083,383	2,444,256	5,472,634	92,376,947
Net assets / (liabilities)	2,008,894	(6,352,876)	(1,572,759)	9,838,463	(3,921,722)	-

f) Operational risk

The Bank's system of operational risk management is designed in accordance with the CNB's Provision no. 2 as of 3 February 2004. During 2004 the Bank reassessed and improved the system for data collection in the area of operational risk management. The data is used not only for the quantification of the operational risks and monitoring of trends in their development, but also for the prevention of further occurrence of such risks in the future. The Bank's management is regularly informed about the development of operational risks. The insurance program represents an important tool for the reduction of potential losses resulting from the operational risks.

24. SUBSEQUENT EVENTS

There were no events which have occurred subsequent to the year-end up until the date of preparation of the financial statements which would have a material impact on the financial statements of the Bank as at 31 December 2004.

These financial statements have been approved for submission to the general meeting of shareholders by the Board of Directors, and upon authorization by the Board of Directors they were signed:

Date of preparation: 25 February 2005

Signature of the statutory representative



Ing. Vladimír Staňura
*Chairman of the Board of
Directors*



Walter Böhm
*Vice-Chairman of the Board of
Directors*

18 REPORT ON RELATIONSHIP BETWEEN LINKED COMPANIES

REPORT ON RELATIONS IN ACCORDANCE WITH SECTION 66A, (9) OF THE COMMERCIAL CODE

The report was drawn up by the Board of Directors of Českomoravská stavební spořitelna, a.s., in accordance with the provision of Section 66a of the Commercial Code No. 513/1991 Coll., as amended.

In accordance with the above Commercial Code, the following are linked entities:

- **Controlling company:** Československá obchodní banka, a.s.
- **Controlled company:** companies controlled by the same controlling company.

The bank is, in accordance with § 66a of the Commercial Code, directly controlled by Československá obchodní banka, a.s. The ultimate holding company of Československá obchodní banka, a.s. as at 31 December 2004 was Almanij N.V., Keizerstraat 8, 2000 Antwerpen, Belgium. The General meeting of Almanij N.V. and KBC Bank and Insurance Holding Company N.V. agreed on the merger on 2 March 2005. Following the merger the ultimate holding company became KBC Bank and Insurance Holding Company N.V.

The reporting period is between 1 January 2004 and 31 December 2004.

AGREEMENTS ENTERED INTO DURING THE QUALIFYING PERIOD:

WITH ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S.

- Agreement on a current account
- Agreement (confirmation) on a deposit
- Agreement (confirmation) on a loan received
- Agreements on buying, selling or lending of securities (government bonds, treasury bills, mortgage bonds)

Other agreements	concluded between the following parties
Agreement on carrying out group audit and non-disclosure agreement	Bausparkasse Schwäbisch Hall AG Československá obchodní banka, a.s.
Insurance agreement	ČSOB Pojišťovna, a.s., member of ČSOB holding
Agreement on lease of non-residential space	ČSOB Pojišťovna, a.s., member of ČSOB holding
Insurance agreement	ČSOB Pojišťovna, a.s., member of ČSOB holding Kooperativa, pojišťovna, a.s.
Agreement on ensuring the company catering	EUREST, spol. s r.o. ČSOB Pojišťovna, member of ČSOB holding
Non-disclosure agreement	ČSOB Penzijní fond Stabilita, a.s., člen skupiny ČSOB
Mandate agreement	ČSOB Penzijní fond Stabilita, a.s., člen skupiny ČSOB
Non-disclosure agreement	ČSOB Penzijní fond Progres, a.s., člen skupiny ČSOB
Mandate agreement	ČSOB Penzijní fond Progres, a.s., člen skupiny ČSOB
Non-disclosure agreement	Československá obchodní banka, a.s. ČSOB Asset Management, a.s. člen skupiny ČSOB
Agreement on co-operation	Československá obchodní banka, a.s. člen skupiny ČSOB ČSOB Asset Management, a.s.
Declaration (relationships towards contract share transfer and blocked account)	SEKYRA Group, a.s. Československá obchodní banka, a.s.
4 orders for the services of the ČSOB Call Centre	Československá obchodní banka, a.s.

THE FOLLOWING MEASURES HAVE BEEN IMPLEMENTED IN THE COURSE OF 2004:

OTHER MEASURES:

Measure specification
1) Processing documents for consolidation according to Belgian accounting standards, International financial reporting standards and Czech accounting standards
2) Reports on fulfilment of the business and financial plan
3) Producing accounting reports (balance sheet, profit & loss statement) and selected indicators about the portfolio of building savings plan customers
4) Drafting the 2005 business and financial plan
5) Minutes and documents of ALCO-Committee

Fulfilment of these measures ensures that system complies with the Bank's information obligations to the controlling company at its request. None of these measures are detrimental to the Bank.

Mutual relationships arising from the agreements entered into during the qualifying period and before the qualifying period:

	Agreement	Counterparty	Subject	Consideration	Detriment incurred
1.	Consignment agreement on handling settlement of securities trading	Československá obchodní banka, a.s.	Fee for handling settlement of securities trading	Fee for handling settlement of securities trading	None
2.	Agreement on co-operation in concluding building savings contracts	Československá obchodní banka, a.s.	Commission for concluding contracts	Concluding contracts, activities directed towards concluding contracts	None
3.	Agreement on co-operation	Československá obchodní banka, a.s.	Offering advantages to ČSOB employees	Offering advantages to ČMSS employees	None
4.	Agreement on provision of services related to settlement and administration of foreign securities	Československá obchodní banka, a.s.	Fee for handling settlement of securities trading and of securities administration	Handling settlement of securities trading and of securities administration	None
5.	Agreement on depositing paper securities	Československá obchodní banka, a.s.	Fee for custody of paper securities	Custody of paper securities	None
6.	Agreement on subscription and purchase of mortgage bonds	Českomoravská hypoteční banka, a.s.	Purchase price of mortgage bonds	Mortgage bonds	None
7.	Agreements (confirmations) on deposits	Československá obchodní banka, a.s.	Term deposits	After a certain period of time Československá obchodní banka, a.s. returns the deposit and pays interest	None
8.	Agreements (confirmations) on loans received	Československá obchodní banka, a.s.	Loans received	Československá obchodní banka, a.s. provides a deposit for a certain period of time	None
9.	Agreements on buy, sell or lending of securities	Československá obchodní banka, a.s.	Securities purchase price	Securities	None
10.	Agreements on buy, sell or lending of securities	ČSOB Asset Management, a.s.	Securities purchase price	Securities	None

11.	Agreements on keeping a current account	Československá obchodní banka, a.s.	Fees for keeping current accounts, fees for international system of payment	Services related to the keeping of an account	None
12.	Non-disclosure agreements	Československá obchodní banka	Providing information	Ensuring confidentiality	None
13.	Agreement on settlement of dealings in the SKD system	Československá obchodní banka, a.s.	Fees for settlement of dealings in the SKD system	Taking care of settlement of dealings in the SKD system	None
14.	Agreement on issue of cheque vouchers done by ČSOB and their processing in ČSOB	Československá obchodní banka, a.s.	Fees for issue of cheque vouchers and their processing in ČSOB	Issue of cheque vouchers and their processing in ČSOB	None
15.	Agreement on using the ČSOB Homebanking 24 service	Československá obchodní banka, a.s.	Fees for using the ČSOB Homebanking 24 service	ČSOB Homebanking 24 service	None
16.	Agreement on using a night vault	Československá obchodní banka, a.s.	Fees for using a night vault	ČSOB makes its night depository available	None
17.	Agreement on authorisation of instructions for settlement of securities and related money transfers sent by fax	Československá obchodní banka, a.s.	Receiving fax instructions	Issuing fax instructions	None
18.	Agreement on provision of cable route	Československá obchodní banka, a.s.	Fee for providing the cable route	Providing the cable route	None
19.	Agreement on carrying out group audit and non-disclosure agreement	Československá obchodní banka, a.s. Bausparkasse Schwäbisch Hall, AG	Providing information	Ensuring confidentiality	None
20.	Agreement on co-operation	Českomoravská hypoteční banka, a.s.	Commission for contracts concluding	Concluding contracts, activities directed towards concluding contracts	None
21.	Agreement on lease of non-residential space	ČSOB Pojišťovna, a.s., member of ČSOB holding	Rent payments	Lease of non-residential space	None
22.	Insurance agreement	ČSOB Pojišťovna, a.s., member of ČSOB holding	Premium payments	Insurance for a set of items	None
23.	Insurance agreement	ČSOB Pojišťovna, a.s., member of ČSOB holding	Insurance of ČMSS clients	Indemnification in case of a claim	None
24.	Agreement on co-operation	ČSOB Pojišťovna, a.s., member of ČSOB holding	Commission for contracts concluding	Concluding contracts, activities directed towards concluding contracts	None
25.	Agreement on co-operation	ČSOB Pojišťovna, a.s., member of ČSOB holding	Insurance of ČMSS clients	Indemnification in case of a claim	None

26.	Agreement on handing information to shareholders	Československá obchodní banka, a.s. Bausparkasse Schwäbisch Hall, AG	Providing information	Confidentiality	None
27.	Agreement on co-operation	ČSOB Pojišťovna, a.s., member of ČSOB holding	Premium payments	Life insurance of ČMSS employees	None
28.	Agreement on lease of safe	Československá obchodní banka, a.s.	Fees for using a safe	ČSOB makes the safe available	None
29.	Insurance agreement	ČSOB Pojišťovna, a.s., member of ČSOB holding, Kooperativa, pojišťovna, a.s.	Premium payments	Insurance for a set of items	None
30.	Agreement on ensuring company catering	EUREST, spol. s r.o. ČSOB Pojišťovna, a.s., member of ČSOB holding	Activating entry cards for ČSOB Pojišťovna employees	Company catering	None
31.	Non-disclosure agreement	ČSOB Penzijní fond Stabilita, a.s., member of ČSOB holding	Providing information	Ensuring confidentiality	None
32.	Mandate agreement	ČSOB Penzijní fond Stabilita, a.s., member of ČSOB holding	Sale of pension supplement insurance	Providing commission	None
33.	Non-disclosure agreement	ČSOB Penzijní fond Progres, a.s., member of ČSOB holding	Providing information	Ensuring confidentiality	None
34.	Mandate agreement	ČSOB Penzijní fond Progres, a.s., member of ČSOB holding	Sale of pension supplement insurance	Providing commission	None
35.	Non-disclosure agreement	Československá obchodní banka, a.s., ČSOB Asset Management, a.s., member of ČSOB holding	Providing information	Ensuring confidentiality	None
36.	Agreement on co-operation	Československá obchodní banka, a.s., ČSOB Asset Management, a.s., member of ČSOB holding	Sale of participation certificate	Providing commission	None
37.	Declaration	SEKYRA Group, a.s. Československá obchodní banka, a.s.	Closing the blocked account	Fee for closing the blocked account	None
38.	4 orders for the services of the ČSOB Call Centre	Československá obchodní banka, a.s.	Provision for received services	Services	None

CONCLUSION:

The ČMSS, a.s. Board of Directors states that due managerial care has been exercised to identify parties controlled by the Controlling company as defined by section 66a, (9) of commercial code for the purpose of this report, in particular by asking the company controlling ČMSS, a.s. about the parties that are controlled by this company.

The ČMSS, a.s. Board of Directors believes that monetary and non-monetary consideration provided under the business transactions conducted with the controlling company were on normal commercial terms during the reporting period.

Date of compilation: 28 January 2005

Českomoravská stavební spořitelna, a.s.



Ing. Vladimír Staňura
Board of Directors Chairman



Walter Böhm
Vice-Chairman