

*United in trust*



Austria

Bosnia and Herzegovina

Croatia

## **CZECH REPUBLIC**

France

Hungary

Italy

Malta

Romania

Slovakia

Slovenia

Serbia - Montenegro



**Jitka Gottfriedová (1982)**

„Slunce“

• 40 x 40 cm, olej na dřevě, 2003

Heršpická 5

658 26 Brno

Tel.: +420 543 525 111

Fax: +420 543 525 555

---

**VOLKSBANK CZ**

---

[mail@volksbank.cz](mailto:mail@volksbank.cz)

[www.volksbank.cz](http://www.volksbank.cz)



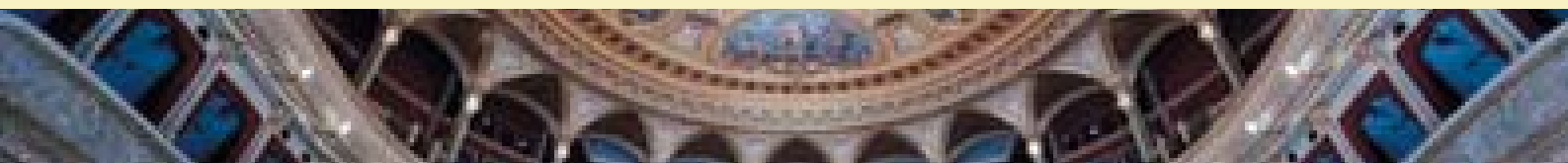


**Jitka Gottfriedová (1982)**

„An Eye“

• 140 x 120 cm, Oil painting on canvas, 2003

## CONTENT



ANNUAL REPORT	1
Foreword from the Board of Directors	8
Key Figures in Summary	11
The Volksbank Group	12
Governing Bodies	13
Organisation Chart	18
General Economic Background	20
Business Activities	22
Risk Management	31
Balance Sheet	36
Profit and Loss Account	39
Notes to the Financial Statements	42
Quantitative Indices	100
Report on Relationships	101
Report of Independent Auditors	102
Report of the Supervisory Board	104
SERVICE	107
International Desks	108
Our Network	110

## JITKA GOTTFRIEDOVÁ

Was born on June 10th, 1982 in South-Moravian town Slavičín. In 2001 she finished the Secondary School of Applied Arts in Uherské Hradiště, with focus on applied painting under academic painter Miroslav Malina. Between 2001-2002 she attended The Institute of Art Creation at Ostrava University, in the class of academic painter Daniel Balabán. Afterwards she entered the Brno University of Technology – Faculty of Fine Arts, Studio of Painting II, in the class of senior lecturer academic painter Martin Mainer.

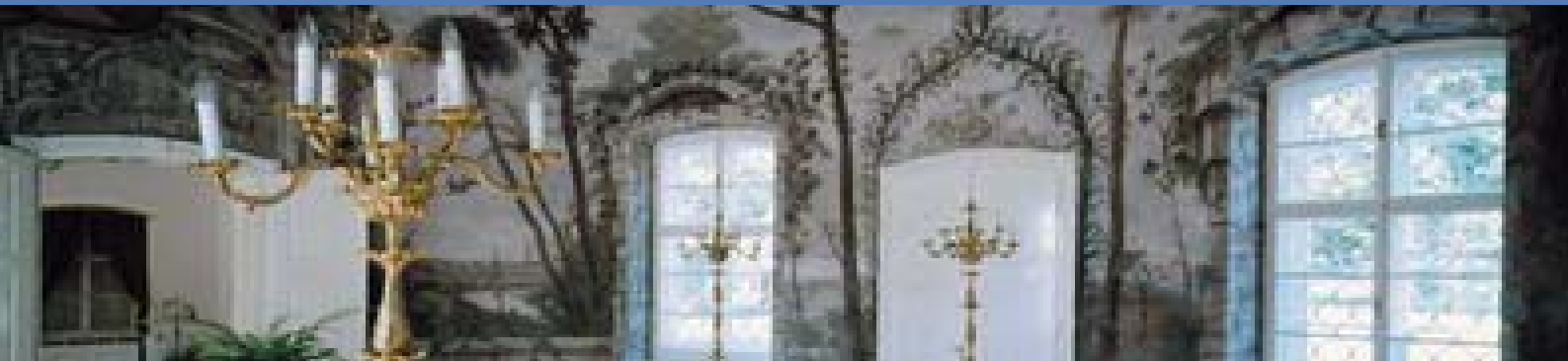
She has exhibited at several exhibitions in Slavičín and Veselí n. Moravou.



**Jitka Gottfriedová (1982)**

„Fish“

• 150 x 100 cm, Oil painting on canvas, 2002



## ANNUAL REPORT 2003

Austria

Bosnia and Herzegovina

Croatia

### CZECH REPUBLIC

France

Hungary

Italy

Malta

Romania

Slovakia

Slovenia

Serbia - Montenegro



## *Foreword from the Board of Directors*

Ladies and Gentlemen,  
Dear Clients, Business Partners  
and Shareholders,

Another year has passed and we now have the pleasant duty of proudly presenting to you details of the activities and successes of Volksbank CZ, a.s. in 2003. In May of last year, together with our clients and business partners, we celebrated the tenth anniversary

achieved are particularly pleasing. We should particularly like to express our thanks not only to our customers but also to our partners Victoria-Volksbanken pojišťovna, a.s. and Českomoravská stavební spořitelna, a.s.

Total assets, as at 31 December 2003, recorded a year-on-year growth of 17% reaching CZK 19,013 billion. Specific successes were achieved in lending, thanks



of our presence on the Czech market. The Board of Directors has entered the second decade strengthened by a new Director – Mr. Dieter Fennel, a risk management specialist, who was appointed on 23 May 2003. His many years of experience in the financial industry, gained both internationally and in the Czech Republic, will be a considerable addition to the Bank.

In accordance with our growth strategy, we recorded further success in asserting our Bank's position in the Czech Republic in 2003, despite very low interest rates and even stronger competition in the banking services market. Fiercer competition was notable specifically within the small and medium enterprise segment, public sector entities, as well as within the retail banking segment. Given the conditions, the results

to active acquisition, with an increase of 30%, while the total volume of loans provided exceeded CZK 15,986 billion. A similar growth, of 34%, was recorded in client deposits, which increased to CZK 10,842 billion.

With regard to the growth in lending, continuous emphasis has been placed on the quality of the portfolio and the management of related risk. The strategy pursued by the Bank has been justified as the proportion of classified loans, represented only 4.7%, as at 31 December 2003. Compared to the banking sector as a whole, this figure is well below the average and we are justly proud of this achievement.

We are pleased to announce that the Bank's results have shown successful development in all segments of financial activities. Thanks



to the firm financial foundations we have been building ever since our initial presence in the Czech Republic, we were able to proceed with confidence and open another three branches, ending the year with a network of 18 branches.

In May, Volksbank CZ, a.s. entered for the first time the largest area of industrial concentration in the Czech Republic, that is the North Moravia region, more specifically its very heart – the city of Ostrava. In the second quarter, the Bank launched its third branch in Prague, in the busy Vinohradská street. This branch was the very first to be equipped with a 24-hour self-service zone. In November renovation work, including an extension, was completed at the existing and highly successful branch in the town of Zlín. All of the above branches have been built according to an open plan concept, which represents a transparent and functional design of the banking space. The last branch to open in 2003 was again in Prague, in the busy Strossmayerovo Square. Since the beginning of 2004, we have continued our expansion by opening a fifth Prague branch located centrally in Kaprova Street. We have an optimistic outlook for the future, with the opening of 4 further business sites in the pipeline for 2004.

In pursuit of our goal of fulfilling our clients' requirements and needs, we always aim to offer an individual approach and professional advice. We prefer mutual dialogue and the development of long-term relationships with our clients, which consequently provide an opportunity for us to get to know their needs better and to offer them prompt and efficient solutions. This approach has been appreciated by our small and medium sized enterprise clients, public sector entities, real estate investors, as well as by the clients of our specialised International Desk.

Thanks to the continuous education and training of our employees with respect to the introduction of new products and services, we are able to offer first-rate service to our

clients. This new approach to employee training has stressed the strengthening of sales and management knowledge and skills and improved knowledge of products and lending issues.

Following the successful introduction of modernised lending products for both private clients and individual businesses (consumer loans and overdraft facilities, housing loans) we are planning the following: to widen the existing range of issued debit cards in 2004 by adding VISA hybrid cards (bearing both the magnetic stripe and chip); to commence operation of an updated version of our Internet banking programme; to simplify still further the procedures involved in the funding of corporate clients, housing co-operatives and developer projects and to add trade finance products to the range of products we already offer.

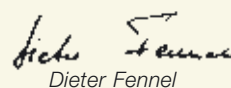
As a result of the above, we feel confident that our successful development will continue in 2004, with Volksbank CZ, a.s. continuing to be a reliable partner and provider of flexible financial services.

Sadly, 2003 was not filled only with joy. In September, we had to part for the last time from the Chairman of our parent company, Österreichische Volksbanken-AG, Dr Klaus Thalhammer, who died suddenly. He had also been the Chairman of the Supervisory Board of Volksbank CZ, a.s. since 1996. The Bank had to suffer yet another stroke of fate in January 2004 when Ing. Jaroslav Šindelář, our Branch Manager in Jihlava, died tragically. In both of these people, the Bank has lost not only renowned professionals but also eminent personalities.

Dear Clients and Business Friends of the Bank, Dear Shareholders, Let us avail ourselves of this opportunity to thank you for the trust you have shown us and to express the hope that you will continue to support us in the forthcoming year. Our thanks also goes to the professional and successful team of our employees who have made a significant contribution to the excellent results of the Bank.

  
Václav Vitha

  
Johann Lyrf

  
Dieter Fennel





## KEY FIGURES IN SUMMARY

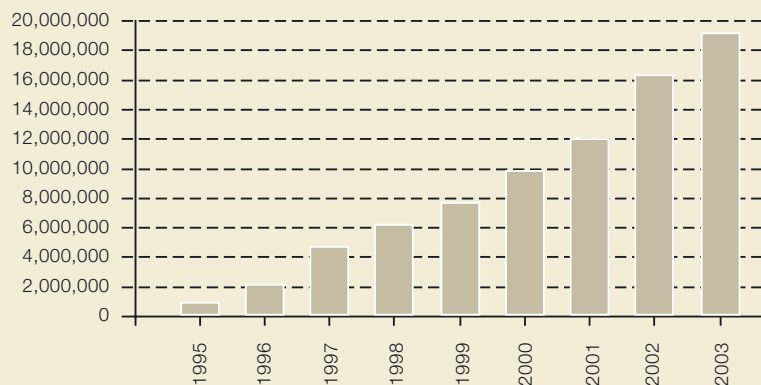
In Million CZK	2001	2002	2003
Total assets	11,899	16,222	19,013
Liabilities to clients, including deposit certificates	6,343	8,087	10,842
Receivables from clients	8,544	12,308	15,986
Income on financial transactions before general and specific provisions	531	564	606
Operating Expenses	316	396	437
Profit on ordinary activities before tax	68	58	136
Employee numbers at 31 December	307	362	386*
Number of branches	13	15	18
Number of entities (organisational units)	19	33	25

11

\* plus 36 Employees are on Maternity Leave

### GROWTH OF TOTAL ASSETS

(tsd. CZK)



# The Volksbank Group

**Volksbank CZ, a. s. has been successfully active in the Czech market since 1993. The bank's main shareholder is Volksbank International AG (a subsidiary of Österreichische Volksbanken-AG).**

Österreichische Volksbanken-AG (ÖVAG) was founded in 1922 by commercial lending cooperatives. The bank is the central institute of one of the most important banking groups in Austria and is majority-owned by more than 60 independent "Volksbanken". Today ÖVAG is an international commercial bank and a strong partner in Central and Eastern Europe.

More than 10 years ago ÖVAG began its successful expansion into Central and Eastern Europe in Slovakia. To date ÖVAG has an international network comprising about 130 offices in eleven countries. ÖVAG's subsidiaries - with strategic shareholdings held by German, French, Italian and Turkish partner banks - are located in Slovenia, Croatia, Bosnia-Herzegovina, Serbia-Montenegro, the Czech Republic, Slovakia, Hungary and Romania. As per 31.12.2003 the subsidiaries had combined total assets of EUR 2.8 billion. In addition, in Italy ÖVAG has branch in Verona as well as a subsidiary in Malta and a representative office in Paris.

Via its co-operation with the Confédération Internationale des Banques Populaires, which has a network of more than 30,000 banking outlets in the member states in Europe, North Africa, Argentina, Canada and Japan, Volksbank CZ, a. s. is able to offer its clients a presence in all major financial centres worldwide.

United in trust – our logo clearly reflects the very special partnership which exists between us and our clients. The mutual trust which is so important, in particular in international business, is the result of joint planning and activities. This trust is the best basis for a long-lasting relationship and good long-term business.

Shareholders	Holding in %
<i>Volksbank International AG, Vienna</i>	71,50
<i>Banque Fédérale des Banques Populaires, Paris</i>	10,00
<i>DZ Bank AG, Frankfurt</i>	6,67
<i>WGZ Bank, Düsseldorf</i>	3,33
<i>Banca Popolare di Vicenza, Vicenza</i>	2,50
<i>Banca Agricola Mantovana, Mantova</i>	2,50
<i>Banca Popolare dell'Emilia Romagna, Modena</i>	2,50
<i>Niederösterreichische Landesbank-Hypothekenbank AG, St. Pölten</i>	1,00

*Situation at 31 December 2003*



# Governing Bodies

## SUPERVISORY BOARD

### CHAIRMAN (until 22 September 2003)

#### † Klaus THALHAMMER

Chairman, Supervisory Board

Appointed on: 11 October 1996

Experience: 36 years of banking experience, 20 years of managerial experience

Membership of other companies' bodies:

Österreichische Volksbanken-AG: General Manager; ARZ Allgemeines Rechenzentrum GmbH: Board Member, Advisory Committee Member; BP Investconsult GmbH, Co-operation Committee President; CIBP – Confédération Internationale des Banques Populaires, Executive Commission Member; Plate-Forme Internationale, Chairman; Industriellenvereinigung, Regular Member, Member for Landesgruppe Wien; Investkredit Bank AG, Supervisory Board Member; Leasing-West GesmbH & Co KG, Board Member; Ľudová Banka, a.s., Slovakia, Supervisory Board Chairman; Magyarországi Volksbank Rt., Hungary, Supervisory Board Chairman; Niederösterreichische Landesbank-Hypothekenbank AG: Supervisory Board Deputy Chairman, Credit Committee Member; Österreichische Bankwissenschaftliche Gesellschaft, Member of Board of Directors; Österreichischer Genossenschaftsverband, Co-operatives Association Board Vice-President, Mutual Fund Executive Board Deputy Chairman; Raiffeisen Zentralbank Österreich AG, Supervisory Board Member; Österreichische Kontrollbank, Supervisory Board Member; Schulze-Delitzsch Haftungsgenossenschaft, Supervisory Board Deputy Chairman; VICTORIA-VOLKSBANKEN Versicherungs-AG, Supervisory Board Deputy Chairman; Volksbank BH d.d., Bosnia and Herzegovina, Volksbank d.d., Croatia, Volksbank Ljudska Banka d.d., Slovenia, Volksbank a.d., Serbia and Montenegro, Supervisory Board Chairman; Volksbank, Gewerbe- und Handelsbank Kärnten AG, Supervisory Board Member; Volksbank Alpenvorland, Amstetten, Supervisory Board Deputy Chairman; Volksbank-BeteiligungsgesmbH, Supervisory Board Deputy Chairman; Wirtschaftsbund Niederösterreich, Section Management Member; Wirtschaftskammer Niederösterreich, Sektion Bank und Versicherung NÖ, Section Deputy Chairman, Fachvertretung der Kreditgenossenschaften nach dem System Schulze-Delitzsch, Chairman; Wirtschaftskammer Österreich, Bundessektion Bank und Versicherung, Industry Conference Member; Fachverband der Kreditgenossenschaften nach dem System Schulze-Delitzsch, Professional Association Chairman; Grundumlagenausschuss des Fachverbands der Kreditgenossenschaften nach dem System Schulze-Delitzsch, Chairman

13

### CHAIRMAN (as of 1 December 2003)

#### Manfred KUNERT

Chairman, Supervisory Board

Appointed on: 1 December 2003

Experience: 39 years of banking experience, 34 years of managerial experience

Membership of other companies' bodies:

Österreichische Volksbanken-AG, Member of Board of Directors; ACI Austria, President; ACI International, Council Member; Victoria-Volksbanken Pensionskassen AG, Supervisory Board Chairman; Victoria-Volksbanken Mitarbeitervorsorgekasse AG, Supervisory Board Deputy Chairman; Victoria-Volksbanken Versicherungs gesellschaft AG, Supervisory Board Member; Victoria-Volksbanken Életbiztosító Rt. and Victoria-Volksbanken Biztosító Rt., Supervisory Board Member; Victoria-Volksbanken pojišťovna, a.s., Prague: Supervisory Board Deputy Chairman; Wiener Börse AG, Supervisory Board Member; Bank Amerykanski w Polsce S.A., Polsko, Supervisory Board Deputy Chairman; Credit and Audit Committee of Bank Amerykanski w Polsce S.A., Poland, Committee Deputy Chairman; Gewerbe-FinanzierungsAG, Board of Directors Chairman; Volksbank International AG, Supervisory Board Member; VB Investment Bank AG, Supervisory Board Chairman; Donaueuropäisches Institut – International Business Relations Unit, Board Member; Pro Oriente Foundation, Finance Committee Member; Der Österreichische Schutzverband der Wertpapierbesitzer, Union Member; Volksbank Wien AG, Supervisory Board Chairman; Bank für Wirtschaft und freie Berufe AG, Supervisory Board Chairman; Volksbank, Gewerbe- und Handelsbank Kärnten AG, Supervisory Board Member; Volksbank Linz-Mühlviertel reg.Gen.m.b.H., Supervisory Board Chairman; Volksbank d.d., Croatia, Supervisory Board Chairman; Volksbank-Ljudska banka d.d., Slovenia, Supervisory Board Member; Ľudová banka, a.s., Slovakia, Supervisory Board Member

#### DEPUTY CHAIRMAN

---

**Christian KALTENBRUNNER**

Deputy Chairman, Supervisory Board

Appointed on: 13 May 2002

Experience: 22 years of banking experience, 19 years of managerial experience

Membership of other companies' bodies:

Volksbank International AG, Board of Directors Chairman; Ľudová Banka, a.s., Slovakia, Volksbank-Ljudska Banka d.d., Slovenia, Volksbank d.d., Croatia, Volksbank BH d.d., Bosnia and Herzegovina, Supervisory Board Deputy Chairman; Volksbank Romania S.A., Romania, Member of Managing Board; Volksbank a.d., Serbia and Montenegro, Supervisory Board Chairman; Magyarországi Volksbank Rt., Hungary, Supervisory Board Chairman; Volksbank Malta Ltd., Director, Member of Board of Directors; Volksbank Romania SA, Romania, Advisory Committee Deputy Chairman; ALB EDVService GmbH, Advisory Committee Chairman

#### SUPERVISORY BOARD MEMBERS

---

**Hans JANESCHITZ**

Supervisory Board Member

Appointed on: 22 September 1997

Experience: 24 years of banking experience, 18 years of managerial experience

Membership of other companies' bodies:

Volksbank Linz-Mühlviertel registrierte Genossenschaft mit beschränkter Haftung, Supervisory Board Deputy Chairman; VB Factoring Bank AG, Board of Directors Chairman; VB Gewerbe- und Handelsbank Kärnten AG, Supervisory Board Member; Volksbank Wien AG, Member of Board of Directors; Ludová banka, a.s., Slovakia, Supervisory Board Member; Magyarországi Volksbank Rt., Hungary, Supervisory Board Deputy Chairman; Volksbank BH d.d., Bosnia and Herzegovina, Supervisory Board Member; VB-Holding AG, Supervisory Board Deputy Chairman; Volksbank International AG, Supervisory Board Member; Volksbank Romania S.A., Romania, Member of Managing Board; VB-Unternehmensholding GmbH, Statutory Representative; Immoconsult Leasinggesellschaft m.b.H., Advisory Committee Member; Unternehmensbeteiligungs Gesellschaft mit beschränkter Haftung, Statutory Representative; VB ManagementBeratung GmbH, Statutory Representative; VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Advisory Committee Member; Volksbank a.d., Serbia and Montenegro, Supervisory Board Deputy Chairman; Volksbank d.d., Croatia, Supervisory Board Member; Volksbank Linz – Mühlviertel registrierte Genossenschaft mit beschränkter Haftung: Credit Committee Chairman; Volksbank-Ljudska banka, Slovenia, Supervisory Board Member; Volksbank-Reisen GmbH, Advisory Committee Member

**Primo BRIONI**

Supervisory Board Member

Appointed on: 3 May 1999

Experience: 35 years of banking experience, 19 years of managerial experience

15

Membership of other companies' bodies:

Alpha Bank Romania S.A., Romania, Board of Directors Member; Banque du Sud S.A., Tunisia, Board of Directors Member; Banca Monte dei Paschi di Siena Limited, Normand Islands, Board of Directors Member

**GD Daniel DUQUESNE**

Supervisory Board Member

Appointed on: 3 May 1999

Experience: 30 years of banking experience, 30 years of managerial experience

Membership of other companies' bodies:

Banque Populaire Loire et Lyonnais, General Manager; Banque Fédérale des Banques Populaires, Member of Managing Board; Natexis Banques Populaires, Member of Managing Board; Sepel, Member of Managing Board; Natexis Asset Management, Member of Managing Board; I.N.S.A., Member of Managing Board; Honorary Consulate of the Czech Republic in Lyon: Honorary Consul

**Rainer SCHON**

Supervisory Board Member

Appointed on: 15 June 2001

Experience: 39 years of banking experience, 17 years of managerial experience

Membership of other companies' bodies:

No membership of other companies' bodies

**Jaroslava SCHAFFEROVÁ**

Supervisory Board Member

Appointed on: 5 September 2001

Experience: 6 years of banking experience, 6 years of managerial experience

Membership of other companies' bodies:

No membership of other companies' bodies

**Irena ŠTÉRBOVÁ**

Supervisory Board Member

Appointed on: 5 September 2001

Experience: 10 years of banking experience, 8 years of managerial experience

Membership of other companies' bodies:

No membership of other companies' bodies

**Luboš VLČEK**

Supervisory Board Member

Appointed on: 5 September 2001

Experience: 6 years of banking experience, 11 years of managerial experience

Membership of other companies' bodies:

No membership of other companies' bodies



## BOARD OF DIRECTORS

### **Johann LURF**

Chairman, Board of Directors

Appointed on: 10 December 1996

Experience: 28 years of banking experience, 17 years of managerial experience

Membership of other companies' bodies:

No membership of other companies' bodies

### **Václav VITHA**

Member of Board of Directors

Appointed on: 1 March 2002

Experience: 12 years of banking experience, 6 years of managerial experience

Membership of other companies' bodies:

No membership of other companies' bodies

### **Dieter FENNEL**

Member of Board of Directors

Appointed on: 23 May 2003

Experience: 34 years of banking experience, 21 years of managerial experience

Membership of other companies' bodies:

No membership of other companies' bodies

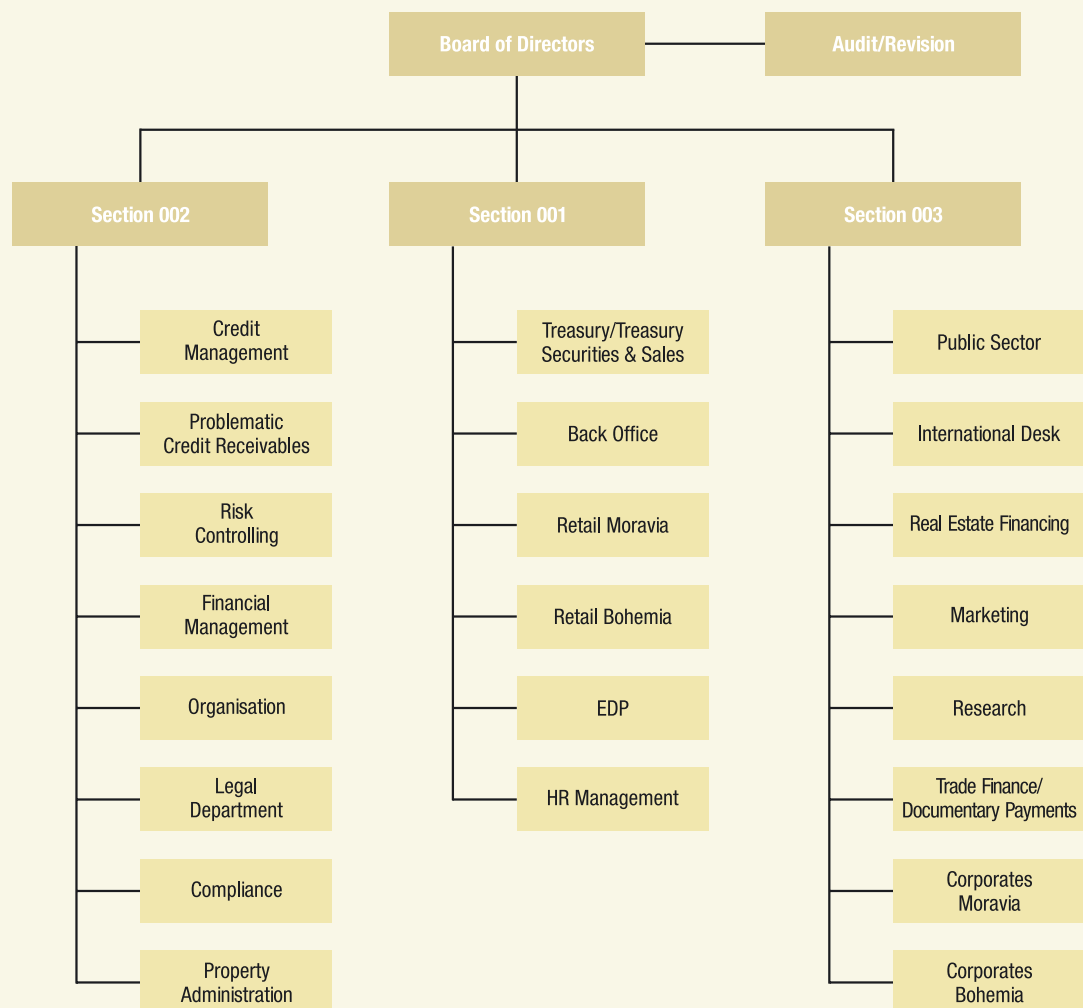
Changes in composition of the Board of Directors during 2003:

### **Herbert SKOK**

Member of Board of Directors until 23 May 2003

Appointed on: 11 September 1998

# Organisation Chart





**Jitka Gottfriedová (1982)**

„Still-life“

• 60 x 60 cm, Oil painting on canvas, 2003

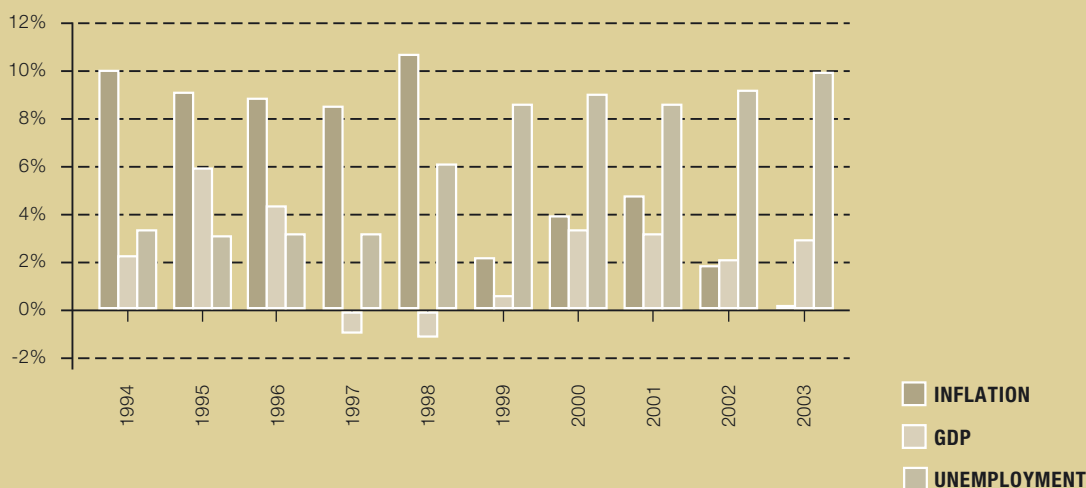
# General Economic Background

Czech economic growth regained its vigour in 2003. While the national economic growth rate was 2.4% in the first and second quarter, it jumped to 3.4% in the third quarter. This development was due in particular, to the unexpectedly rapid growth of household consumption and the recovery of investment activities. Factors which contributed to a slowing down of the growth in the economy included the foreign trade sector and surprisingly, in the third quarter, the year-on-year drop in Government expenditure.

year on a year-to-year basis. This deflation was the result of a combination of several factors: a drop in food prices, the lingering effects of the strong CZK / Euro exchange rate, fierce competition for customers, which pushed down prices, and also the halt in the deregulation process. Due to this, the January Consumer Prices Index sank to -0.4%. The economy overcame consumer deflation only in October. At this time food prices began to increase rapidly, reflecting the very modest agricultural harvest caused by the unusual dry

## DEVELOPMENT OF THE INFLATION, GDP AND UNEMPLOYMENT

(inflation and GDP - year-on-year changes, unemployment - annual mean)



From the inflation perspective, 2003 was an unusual year. Consumer prices (as measured by the CPI – Consumer Price Index) as well as industrial producer prices (as measured by the PPI – Producer Price Index) fell throughout most of the

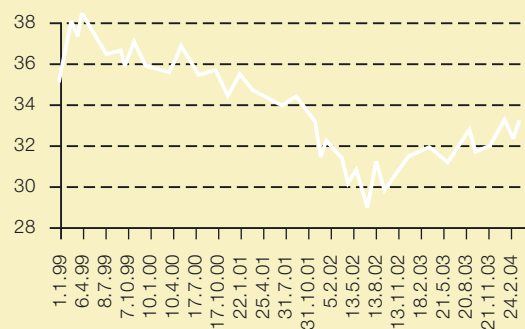
and hot spell. Average consumer inflation over the whole year amounted to 0.1%. The labour market situation remained tense throughout 2003. The average unemployment rate was 9.2% in 2002, while it increased to 9.9% in 2003. The unemployment



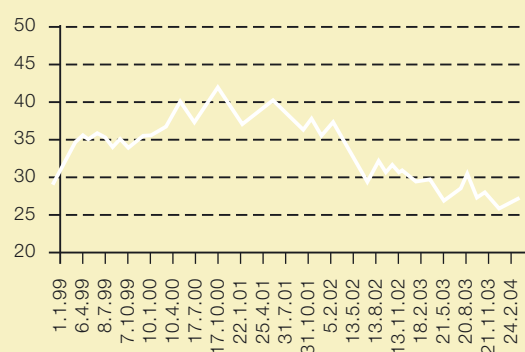
figures, with the exception of a single month, exceeded a half million. The reason for such high unemployment was ongoing industrial restructuring as a result of which over the last year approximately 50,000 people lost their jobs over the last year. Businesses were striving to combat weak foreign demand by reducing their costs, which they often did by cutting jobs.

Foreign trade has been improving in the long term. The 12-month accumulated deficit has decreased from CZK 130 billion in the middle of 2001 to just over CZK 70 billion by the end of 2003. The acceleration of export and import growth rates was a positive factor linked to the economic revival in the EU, and mainly Germany at the end of 2003. After two years, import and export growth rates for a period of several months exceeded the psychological level of 10%. In 2003, the CZK exchange rate weakened moderately, or rather stagnated within the 31 to 33 CZK to the Euro range. The main reason for the relative weakness of the Czech currency, in comparison with the previous years, was the slow-down of the inflow of direct foreign investments into the Czech Republic due to the recession in Western Europe. Also the fears of political instability played a great role, which negatively affected nearly all of the foreign exchange markets in Central and Eastern Europe. In 2003, the signatories to the Visegrad Agreement began to talk more often about the adoption of the Euro and the related fulfilment of the Maastricht criteria. Interest rates underwent a process of convergence and at the end of 2003 the interest rate differential with the Euro-zone was zero (2-week repo rate = 2%). This convergence was made possible by the expansive monetary policy of the Czech National Bank, which, throughout the last two years, has steadily led to decreasing interest rates.

**EXCHANGE RATE**  
CZK/EUR



**EXCHANGE RATE**  
CZK/USD



# *Business Activities*

## **Corporate Clients – Bohemia**

For the Corporate Clients – Bohemia Department 2003 represented a highly successful year. Thanks to its enhanced acquisition activity, the Bank won numerous new clients among both local and international companies, including some truly renowned names. The Department provides services to a wide range of manufacturing and business companies, while it is also active in the financing of real estate property projects. Despite a rapid increase in the number of deals, the very good quality of the loan portfolio has been maintained.

The strengthening and improvement in the quality of relationships with existing clients was equally important. This success has been based on the flexible and individually tailored approach to customers, which our employees follow in order to co-operate with clients in an effort to find optimum solutions to their needs.

## **Corporate Clients – Moravia**

For the Corporate Clients – Moravia Department, 2003 was a highly important year for two key reasons. The Corporate Clients – South Moravia Department was successfully reinforced with new and experienced account managers, a change that distinctly helped it to not only meet but also

exceed its projected business objectives. Further, the Corporate Clients – North Moravia Department was set up. In conjunction with this, a newly opened branch commenced operation with its registered office in Ostrava, which enabled the Bank to support its North Moravian clients directly in the very heart of the region.

The already established Corporate Clients – South Moravia Department ranked among the leading departments in terms of profit generation within the Bank in the last year. This was achieved specifically thanks to the 12% year-on-year increase in the number of clients, while the total volume of deals increased by almost 30%. The core products in 2003, designed for corporate clients, included specifically loans intended for the financing of operations, and investment loans especially for the construction of new properties or corporate complexes.

The Department's goal for 2004 is to continue along these lines, while considerable emphasis will be placed on developing the new department in North Moravia.

## **Retail Banking**

In the retail segment, the Bank focused on the standardisation of its housing financing products,



consumer lending, overdraft facilities and single-purpose loans to private clients. The clients' individual wishes and needs continue to be of central importance. The Bank also placed emphasis on improving service quality and speed.

The range of investment products for retail clients was expanded as a result of the newly commenced co-operation with ING Investment Management in the field of unit trusts, clients being offered products such as unit trusts denominated in CZK. Sales of such products commenced at Volksbank CZ, a. s. branches following detailed training of our employees.

Co-operation with the Bank's other partners was successful, both in the sales of insurance products of the VICTORIA-VOLKSBANKEN insurance company and sales of the building society products of Českomoravská stavební spořitelna.

The existing branch network is also available for use by Aura credit card holders. As a result of co-operation with Cetelem, a member of the French BNP Paribas financial group, which issues the Aura Card, cash payments are possible upon presentation of the Card at any branch of the Bank.

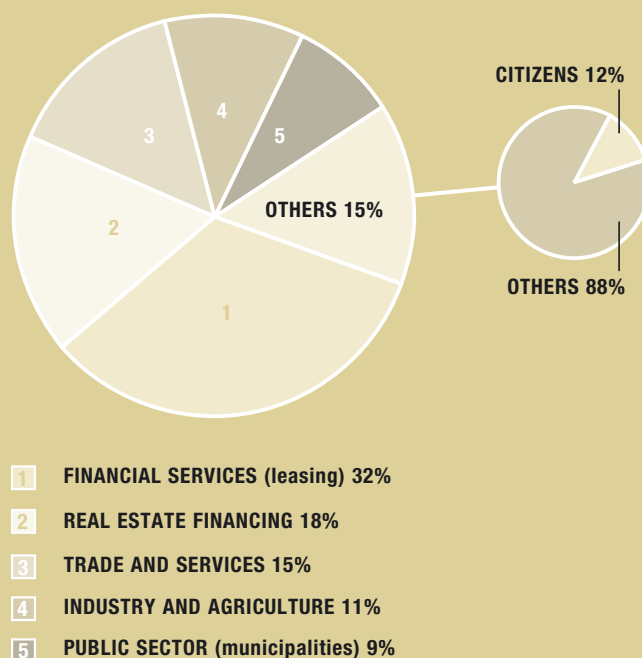
#### Retail Clients – Bohemia

The Bank's market position in Bohemia was reinforced in the capital city with the opening of two new branches - in Vinohradská Street and Strossmayerovo Square. By the end of the year work was in progress to commence operations in the Kaprova Street branch, which opened in January 2004.

Branch Manager positions were filled within the Retail Clients – Bohemia Department for the cities of Liberec and Pilsen and for the Spálená Street branch in Prague.

#### LOAN STRUCTURE BY ECONOMIC SECTOR

(total volume CZK 16,317 mil., before allowances, as per December 31, 2003)



#### Retail Clients – Moravia

The newly opened branch in Ostrava enhanced the support given by the Retail Clients – Moravia Department and the Bank entered the North Moravia region for the first time. The open plan layout of the branch, emphasising client friendliness, was applied in the renovation of the Zlín branch.

### International Desk

In 2003 the internal re-organisation of the International Desk team, consisting of 8 staff members, was completed. As a result the team was able to increase its deal volume significantly, namely by 80%. In the field of both corporate finance and the financing of SMEs the International Desk Department became a significant player in the market for French and Italian speaking clients in the Czech Republic. This area of business has proved to be one of the most important for the Bank, not least as a result of major real estate financing projects.

The Bank continued to deepen its relationships with its partner banks, with the corresponding beneficial impact on the development of deals. The Bank gained two new partners in the year under review: South Tyrolean Volksbank and Banca Etruria.

### Public Sector

The number of clients from the public and municipalities sector increased in the year under review. Notwithstanding the tense competitive environment in the financial services market for towns and municipalities, all projected objectives were met. The level of the Bank's lending exposure to public sector entities represented 8.7% of the Bank's total lending. A particularly successful project in 2003 was the methodical preparation

for and participation by the Bank in the co-funding of projects under the SAPARD EU pre accession programme. The high point in this field was the Bank's involvement in the funding of the largest project for NUTS II South-East. Participation by the Bank in the above pre accession projects laid the foundations necessary for future involvement in projects co-financed by EU structural funds. The Bank believes this business segment has great potential for the near future.

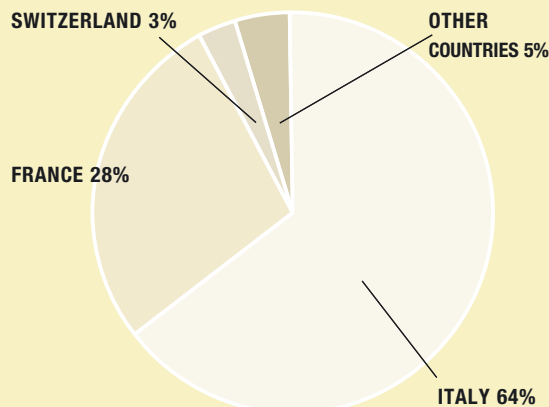
The other major assignments completed in the year under review included the funding of investment projects in housing construction and sewage treatment, the funding for the renovation of municipal facilities and the continued development of business relationships as a partner with an important client from local government to whom a loan was extended for the operation of healthcare facilities that were transferred to it as part of the Czech local administration reform programme.

### Real Estate Financing

The real estate market undoubtedly recorded the highest growth rate in the Czech Republic in the last year. In 2003, the Real Estate Financing Department commenced financing of several major residential projects.

### LOANS TO INTERNATIONAL DESK CLIENTS

(total volume CZK 1,430 mil.,  
as per December 31, 2003)



As opposed to the previous years, when loans were for the greater part used for refurbishment and renovation of smaller-size commercial spaces, the financing of housing-designated projects has developed into an important area of business. Thanks to exceptionally low interest rates and a greater supply of residential projects, interest in home mortgage loans has increased.

Despite the increasing prices of apartments, the demand in the housing market was enormous and this trend is likely to continue in 2004. The Bank will therefore continue its involvement in the financing of housing projects.

### Treasury

In terms of trading in the interbank market, 2003 was the most successful year for the Bank in its ten-year history. The largest number of trades were concluded in the Czech Crown and foreign exchange deposit market, in the foreign exchange spot market and the derivatives market. The Treasury Department co-operated with the majority of banks active in the Czech market, including foreign banks and leading financial institutions.

In the course of the year the Treasury Department focused on several areas of business including trading on the interbank market and continuing the expansion of the range of financial products offered to the Bank's clients via individual offers, presentations and training events. It was specifically the quality of day-to-day client care by the Treasury staff that brought a significant increase in the numbers of clients using these services. The largest transaction volumes with the Bank's clients were recorded for spot deals, forward and swap transactions and deposit transactions.

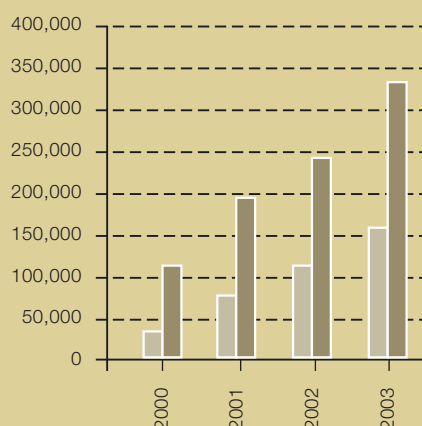
### Securities

For our clients who trade in securities and for the Securities Department 2003 was a successful year thanks to favourable developments in the capital markets. Levels of client assets invested in securities and managed by the Bank grew by 17% and approached CZK 800 million. Further, a year-on-year increase of more than 30% was recorded in the volume of securities held in safe custody from clients. The Securities Department contributed significantly to the co-operation with ING Investment Management (C.R.) a.s. and from Autumn the latter's products were offered to the Bank's clients. As a result the Bank was in the position to complement its current offer of Volksbank-Investmentfonds unit trusts with the sale of unit trusts denominated in CZK.

### Payments

As the numbers of clients and new branches grew, so too did the number of direct debit/credit transactions completed over the last year. In the domestic payments area the number of outgoing

NUMBER OF PAYMENT CARD TRANSACTIONS



■ POS ■ ATM



payments increased year-on-year by 30.6% and their volume by 45.9%. The number of incoming payments grew by 22.6% and their volume by 38.6%. An increased level of activity was also recorded in international payments. Our clients completed 17.1% more international payment transactions, representing an increase in volume of 22.9%. The number of incoming international payments grew by almost 11% or by 19.3% in volume.

Clients' interest in e-communication with the Bank showed an increasing trend, as documented by the following figures: the number of our clients using the already proven direct banking product (Home Banking) via modem increased by more than 11%. Another popular tool of direct communication with the Bank – Internetbanking – was used by 200% more clients than in 2002. The popularity of direct banking is further supported by the number of e-payments as a proportion of total processed payments. 58.3% of domestic payments and 38.6% of international payments were undertaken electronically.

#### **Payment cards**

The Payment Cards Department worked on the preparation of the documentation required for the Bank to enter into the strategic partnership with Československá obchodní banka. This field of mutual co-operation was formally confirmed by the signing of an agreement to this end at the beginning of 2004. This partnership will result in our clients being able to choose from a wider range of payment cards – in addition to Maestro, MasterCard and Diners Club cards, the Bank will also be able to issue payment cards of the VISA International Association. Furthermore, all current

ATM facilities of Volksbank CZ will accept VISA cards and there will be an additional option of accepting MasterCard, VISA, Diners Club and JCB debit cards through the terminals located at the business sites of the Bank's clients.

Another six ATMs were installed in 2003 – at the Municipal Authority of Brno -Bystrc Metropolitan District; in the Ostrava Branch; two ATMs were installed in the Prague branch in Vinohradská Street (one of them within the 24-hour self-service zone); and another two in the Prague branches in Strossmayerovo Square and Kaprova Street. The current network consists of 20 ATMs. The number of ATM transactions grew by 6.5% year-on-year, which represents a year-on-year increase of 6.7% in volume.

The number of cards issued increased by 28%, half of the total cards issued were from the MasterCard Association. The fact that card payments involve specific advantages has been appreciated by a growing number of clients. This is shown by the significant increase in the number of transactions performed by clients with their payment cards namely a full 40%. This growth was also reflected in the 39% increase in the total volume of said transactions. At the same time, POS terminal transactions, i.e. card payments for goods or services directly at retail outlets, increased by a full 50% compared with 2002.

#### **Automation/ EDP**

In the field of information technology support for Bank services, 2003 may be characterised as a year of further improved efficiency in handling documents in a digital format. Significant time savings have been achieved in the processing

and printing of client contracts which can also take place during meetings with clients. Once issued, the contracts are immediately stored in the electronic archives of the Bank and are accessible at any branch, at any time. In the middle of the year, the testing stage began for the project "Provision of selected information in an e-mail format." The service will soon be made available to all of the Bank's clients. It is a further top class electronical product which the client can either access himself via Infoterminals or via Internet.

As part of its intercompany communication, the Bank has been moving gradually to the electronic "paperless" office. Any information is processed immediately and data stored directly at the Bank's Headquarters. The rapidly expanding electronic archive of documents has brought considerable time savings and improved levels of service support to clients at all branches.

A due diligence exercise was performed for the Bank by an international firm during 2003, focused exclusively on the IT and data areas. The review has documented that the Bank is fully prepared for and has complied with the demanding requirements of safety and data protection and the prevention of misuse of data.

#### **Property Administration**

During 2003, in addition to the standard services relating to the Bank's operation, the Property Administration Department ensured that the expansion of the branch network could be implemented. Three entirely new branches were opened. In May 2003, a representative branch was established directly in Ostrava's city centre, within the city's pedestrian zone. Another branch opened in Prague's busy Vinohradská street in July and

included the very first 24-hour self-service zone. Towards year end the Bank's position in the capital city was strengthened when the fourth branch in Prague opened in the busy Strossmayerovo Square. This was followed shortly afterwards by the opening of the fully-equipped fifth Prague branch in Kaprova Street at the very beginning of 2004. Apart from extending the branch network, the department also undertook the renovation project of the existing highly successful Zlín branch, which was greatly expanded in November, in order to meet new operational demands, using the new open-plan layout.

#### **Product Development**

The work of the Product Development Department in 2003 supported the modernisation of the Bank's product range, adding overdraft facilities, consumer credit and housing loans to the portfolio of products – all of them available for use by both private individuals and entrepreneurs.

In the housing co-operatives segment the Bank responded flexibly to banking market developments and introduced a new product – Housing Co-operatives Financing. The Product Development Department also provided support in the sales of insurance contracts offered by the Victoria-Volksbanken insurance company and building society products from Českomoravská stavební spořitelna. Insurance sales recorded a significant increase in 2003, due in particular to increased insurance sales of the so-called CR-insurance (residual debt insurance) and life insurance. Building society savings continued in their dynamic growth, despite the forthcoming change in legislation which is due to reduce the government allowance paid for this type of housing financing.

As of the beginning of 2003, active co-operation was established with the European Investment Bank (EIB) in the refinancing of loans extended to small and medium enterprises. The Bank thus aided the growth of this business segment. For the refinancing of said loans the Bank drew down a total of EUR 15 million from the EIB's global line.

#### **Human resources management**

As in previous years, in 2003 considerable attention was devoted to the selection and recruitment of new employees in the course of the Bank's expansion. In the selection process specific emphasis was placed on the relevant experience and professional expertise of new staff. The total employee numbers increased from 362 at the end of 2002 to 422 at the end of 2003. New positions were created in the course of the establishment of the new branches in Ostrava and Prague, and new members of staff also entered the Corporate Client Departments both in Bohemia and Moravia. As a result of the Bank's increased trading activities, new staff were employed in the Bank's service and administration departments.

During 2003 a new policy was prepared for the training of the Bank's employees for the period 2004 – 2006, emphasising 5 key areas: sales skills of employees; product knowledge; lending risk principles; management knowledge; and skills required for specific activities. The new policy will be implemented gradually, in close co-operation with the Volksbanken Akademie, an educational institution serving the Austrian Volksbanken which ensures high quality education throughout the Volksbank Group.

#### **Marketing**

"10" could be the figure describing marketing activities of the Bank in 2003. "10" years of the Bank's presence in the Czech Republic, an anniversary celebrated by the Bank and its clients and business partners in Brno, in the newly refurbished ancestral home of the Kunštát family.

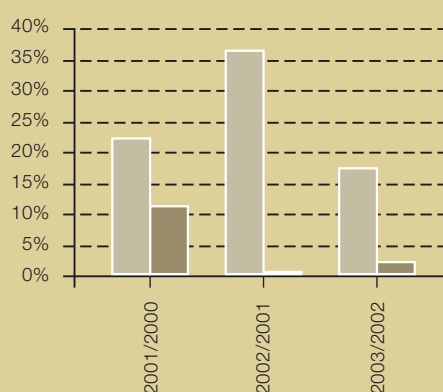
"10" is the slogan "10 minutes = 100 Crowns" that was used in the latter half of 2003 for an advertising campaign. The campaign focused on communicating that quality of service meant not having to wait a long time for service in the branches. The slogan "Your business wouldn't wait, why should you?" was a complementary motif. The idea of speed was also a motto of the Volksbank Racing rallies, while visitors to the Volksbank CZ Virtual Gallery were invited to express in graphics the theme "Time is money". The whole campaign was highly successful and there was an excellent response in particular to its Internet based activities. Internet communication with both current and prospective clients via the Bank's website [special.volksbank.cz](http://special.volksbank.cz) was further enhanced by several interactive contests, such as the quiz with a focus on improving the clients' knowledge of the products and services offered by the Bank.

"10" also appeared in the Bank's sponsorship programmes. The Bank became the general sponsor of the 10<sup>th</sup> Janáček' Hukvaldy Musical Festival, which was linked to the launch of the new branch in Ostrava. In its sponsorship role, the Bank concentrates specifically on culture, sporting activities, the support of education and charity events.

### COMPARISON OF THE GROWTH IN THE CZECH BANKING SECTOR WITH VOLKSBANK CZ

(year-on-year changes of total assets)

■ VOLKSBANK CZ  
■ CZECH BANKING SECTOR



As far as cultural activities are concerned, long-term co-operation continued between the Bank and the Mahler 2000 Civic Association, resulting in the organisation of the traditional classical music festival in the town of Jihlava. Another event which was sponsored was the Summer Violin Courses given by Václav Hudeček that were organised in the Luhačovice Spa. Further projects included the support of the exhibition of the works of Daniel Spoerri, organised by the House of Arts of the City of Brno and, in the film sector, the Bank provided support to the Academia Film Olomouc Festival, as part of its co-operation with the Palacký University which is resident in the same town. The Bank supported the education sector via the Austrian School in Prague and Pražáčka Grammar School as well as the Haptic Art School organised by the "Blindworms" Association for the Non-Blind and Blind in Tasov. Further, the Bank contributed to the implementation of a unique project to promote

reading among the young called "The Devil's Reading Room" in Prague.

Assistance was extended also to sporting activities, such as skiing, swimming, gymnastics and the games of football and ice hockey which are traditionally favoured in the Czech Republic.



**Jitka Gottfriedová (1982)**

„Mars“

- 200 x 145 cm, Ink drawing on satin, 2004



# Risk Management

The Bank has adopted a conservative approach to risk management. As part of its activities the Risk Management Department manages the structure and extent of the following risk groups:

- lending risk
- market risk;
- liquidity risk and
- operational risk.

The risk management process is performed in accordance with the regulatory bodies' requirements and the policies of Volksbank Group. The Bank's risk management strategy is authorised by the Bank's Board of Directors which has developed, in accordance with the above strategy and Basel Committee rules, a risk management system based on the strict organisational separation of business activities and risk assessment. The structure enables application of a functional internal control system, adherence to internal limits and independent assessment of the acceptability of individual risk exposures.

During 2003, an autonomous Risk Controlling Department was created as part of changes to the organisational structure of the Bank. The department is responsible for risk monitoring

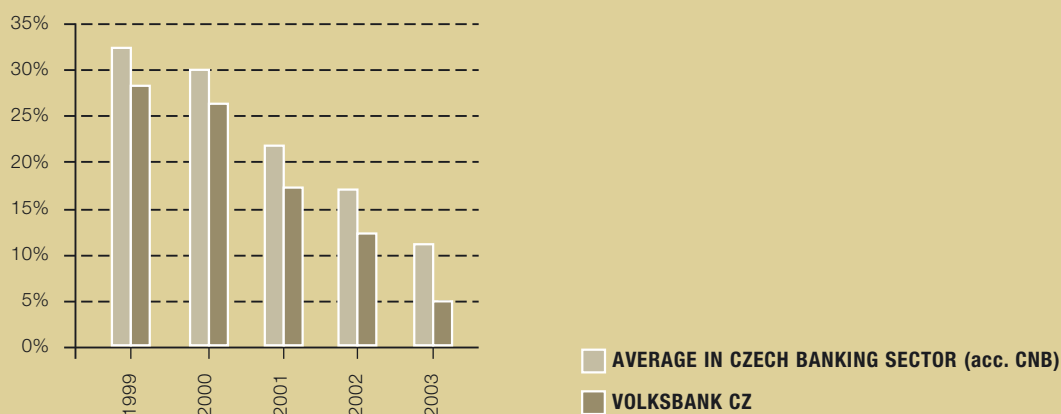
and analysis and reports directly to the Board of Directors.

## Lending Risk Management

The Bank's lending policy includes the key rules of lending risk management. The rules are harmonised with the lending policy of the Bank's parent company ÖVAG and contain definitions of both the client target groups and fixed industry risk limits. Clear definitions are stipulated for responsibilities, areas of competence and authorisation powers relating to the lending process. The principle of clear organisational separation of sales and risk assessment is complied with. Further, the Bank has a clearly defined procedure and criteria applicable to addressing problem loans. The Bank is guided by a conservative approach in the measurement of types of collateral (securing of loans) and in the valuation of real estate properties. Responsibilities, powers and controls are stipulated by internal guidelines and the internal control system of the Bank. The Bank's internal guidelines comply with the current Regulations of the Czech National Bank (CNB) and, together with the contractual template documentation, are updated on an ongoing basis.

31

## CLASSIFIED LOANS



In the course of 2003 the Bank began to use a scoring model for private clients that takes account of both financial and non-financial factors and is used in the decision-making process.

Within the Group, preparation of the set of seven internal rating programmes was continued, designed for:

- businesses using double-entry accounts; (the programme has been implemented already and is regularly used in the lending process;)
- businesses using single-entry accounts;
- municipalities;
- project financing of real estate properties;
- individuals – non-business;
- newly established firms and
- other clients.

Introduction of the above internal ratings represents one of the parts of the projects necessary for application of the Basel Committee rules in the lending risk management area.

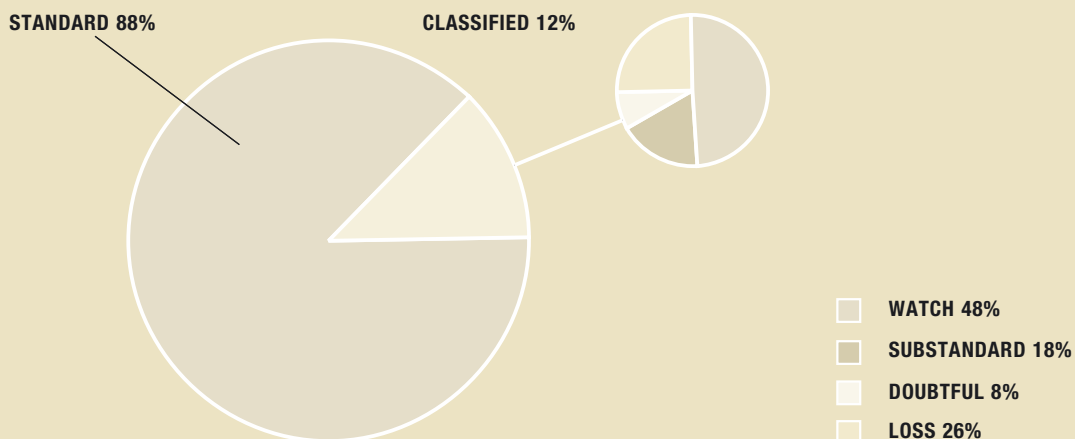
Both the Directors and Management of the Bank receive regular information on the quality and development of the loan portfolio. As a result of new loans granted in 2003 the total volume of loans increased to CZK 15,986 billion, i.e. an increase of approximately 30% compared to the previous year. Over the same period, the proportion of the Bank's classified loans dropped from 12.08% to 4.73%. The proportion of classified loans within the Czech banking sector in general was 11.06%, according to data published by the Czech National Bank as at 31 December 2003.

#### Market Risk Management

The market risk involves the risk of loss that may be incurred due to price, exchange rate and interest movements on the financial markets, and it includes interest rate, currency and share price risks, as well as other risks attached to the movements in market prices. Responsibilities, powers and controls in the market risk management process are governed by the internal guidelines and internal controls system of the Bank. The objectives of the market risk management process are as follows:

#### STRUCTURE OF THE LOAN PORTFOLIO AS PER DECEMBER 31, 2002

(total volume CZK 12,672.4 mil., before allowances)



- to enhance the Bank's abilities to identify economic changes and market changes quickly and to respond adequately to them;
- to ensure the structure of the Bank's positions to be able to prevent exposure to an uncontrolled market risk;
- to develop and implement GAP analysis systems enabling a speedy and flexible response to the changes on the interest rates market and
- to identify weaknesses as a result of which the Bank is exposed to an excessive market risk.

In 2003, the Kondor+ system was implemented in the Bank. This system is used throughout the Volksbanken Group to measure and manage market risks. The key tool consists of a set of limits applicable to separate market risk types. Limits according to VaR (Value at Risk) have been set down for currency and interest rate risks.

The establishment of and compliance with limits is subject to ongoing monitoring and represents a basis for regular reports prepared for the meetings of the Asset/Liability Management Committee (ALCO) which lay down the Bank's strategy and objectives in the management of these market risks. As part of the supervision of these limits, the reason for each infringement of any limits is identified and corresponding counter-measures introduced.

#### Currency Risk

The Bank concludes deals in foreign currencies both in the local and international markets. Separate currency risk limits are set up as part of the risk management process at Group level. In foreign currencies the Bank trades mainly with its clients. On the interbank market, the Bank acts

specifically with the aim of hedging the positions that have resulted from deals with its customers.

- Open positions are monitored and evaluated on an ongoing basis.
- For currency risk management requirements the Bank uses fixed limits that are based on the limits stipulated by CNB regulations, while the currency risk methodology concentrates on compliance with both the intra-day and overnight limits.
- The Bank abstains from any speculative trading in derivatives.
- Market valuation of derivatives is based on current CNB methodology and applicable accounting policies.
- Re-evaluations of currency positions are performed daily, in accordance with the methodology in force.

#### Interest Rate Risk

The objective of interest rate risk management is to ensure an optimum interest structure for the Bank, while taking into account the daily fluctuations of the markets.

- The Bank regularly monitors the interest rate risk and performs its monitoring with the help of GAP analysis, stress scenarios and models and a system simulating the impacts of changes in market conditions on the extent of the accepted risk.
- The Bank uses its own IT applications to measure and monitor interest rate risk.
- Interest rate risk is monitored using key currencies (CZK, EUR, USD, CHF).
- The Bank uses derivative transactions for hedging interest rate positions.

A Group-wide project addressing interest rate risk issues is due to commence in 2004.

#### Share Price Risk

The Bank fixes and approves limits for trading in shares both on the local and international markets. Separate limits for all subsidiaries are established by the Head Office Risk Management Department. During 2003 the Bank mostly traded on behalf of its clients. The portfolio of shares held for trading on its own account was always very small.

#### **Liquidity Risk**

Liquidity risk represents the risk to the Bank that it will be unable to meet its financial liabilities at pre-determined due dates or to fund its assets. Reasons for lack of liquidity may be the result of not ensuring that maturities for assets and liabilities are appropriately managed or the result of persistent balance sheet losses of the bank or a general liquidity crisis on the market as a whole. Liquidity management is based on planning for the inflow and outflow of funds based on the residual maturities of assets and liabilities, as well as on the experiences obtained from an analysis of the previous periods' development. Within its information system the Bank forecasts the net

cash flow on a daily basis for the next five banking days for every major currency. For each currency a cash flow estimate, actual liquidity statement, basic scenarios and standby scenarios are prepared. The Bank establishes the limits separately for each key currency and jointly for all currencies.

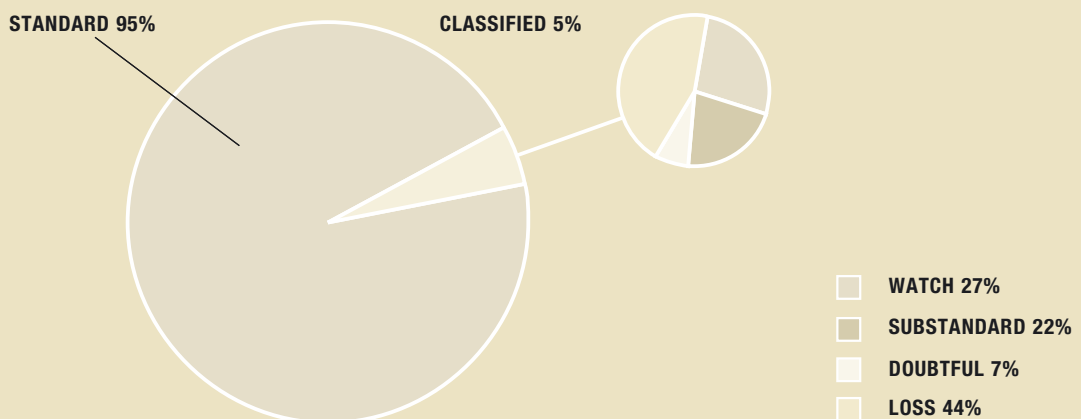
The following limits are monitored on a daily basis:

- short-term assets with a maturity of up to one week relative to client deposits with a maturity of up to three months;
- assets with a maturity of up to three months relative to client deposits with a maturity of up to three months and
- assets with a maturity of up to one year relative to client deposits with a maturity of up to one year.

In conjunction with the business activities plan and the projected structure of its balance sheet, the Bank prepares its liquidity plan. This plan is authorised by the Board of Directors together with the business activities plan since both plans are closely related. As part of the liquidity management

#### **STRUCTURE OF THE LOAN PORTFOLIO AS PER DECEMBER 31, 2003**

(total volume CZK 16,317.2 mil., before allowances)



process and in the event of extraordinary emergency situations the Bank has a clearly defined contingency plan which includes steps required in order to improve liquidity. Throughout the year under review the Bank had sufficient levels of liquidity available to it.

### **Operational Risk**

Operational risk represents a major part of the Bank's risk policy. Operational risk can be defined as a risk arising as a result of the inadequacy or the failure of internal procedures, as a result of either intentional or unintentional human error and/or as the result of the total or partial breakdown of systems due to external or internal events. The Bank has been included in the project, managed by the Group, for a comprehensive solution to operational risk management and monitoring, in accordance with the Basle Committee rules. The "standard method" has been adopted to manage operational risk. As part of the above-mentioned project, the implementation of a self-assessment programme has begun and at the same time work has commenced on the establishment of a single system of recording losses and events resulting from operational risk, the implementation of which is due to begin in 2004.



# **BALANCE SHEET AS AT 31 DECEMBER 2003**

## **ASSETS**

**CZK million**

	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>1 Cash and deposits with central banks</b>	<b>290</b>	<b>385</b>	<b>376</b>
<b>2 Due from banks</b>	<b>1,938</b>	<b>2,903</b>	<b>2,572</b>
of which: a) repayable on demand	194	81	39
b) other receivables	1,744	2,822	2,533
<b>3 Due from customers</b>	<b>15,986</b>	<b>12,308</b>	<b>8,544</b>
of which: a) repayable on demand	913	339	228
b) other receivables	15,073	11,969	8,316
<b>4 Debt securities</b>	<b>318</b>	<b>227</b>	<b>-</b>
of which: a) issued by government institutions	175	178	-
b) issued by other entities	143	49	-
<b>5 Shares, mutual shares and other interests</b>	<b>23</b>	<b>21</b>	<b>-</b>
<b>6 Participation interests with controlling influence</b>	<b>-</b>	<b>1</b>	<b>1</b>
of which: in other subjects	-	1	1
<b>7 Intangible fixed assets</b>	<b>36</b>	<b>23</b>	<b>17</b>
<b>8 Tangible fixed assets</b>	<b>260</b>	<b>264</b>	<b>263</b>
of which: land and buildings for banking activities	117	125	133
<b>9 Other assets</b>	<b>58</b>	<b>66</b>	<b>55</b>
<b>10 Prepayments and accrued income</b>	<b>104</b>	<b>24</b>	<b>71</b>
<b>Total assets</b>	<b>19,013</b>	<b>16,222</b>	<b>11,899</b>

**BALANCE SHEET AS AT 31 DECEMBER 2003 (continued)**

LIABILITIES				
CZK million	2003	2002	2001	
<b>1 Due to banks</b>	<b>6,702</b>	<b>6,631</b>	<b>4,204</b>	
of which: a) repayable on demand	350	49	227	
b) other payables	6,352	6,582	3,977	
<b>2 Due to clients</b>	<b>9,032</b>	<b>7,329</b>	<b>5,269</b>	
of which: a) repayable on demand	5,586	3,893	2,770	
b) other payables	3,446	3,436	2,499	
<b>3 Liabilities from debt securities</b>	<b>1,810</b>	<b>758</b>	<b>1,074</b>	
of which: a) issued debt securities	1,810	758	1,074	
<b>4 Other liabilities</b>	<b>475</b>	<b>525</b>	<b>551</b>	
<b>5 Accruals and deferred income</b>	<b>7</b>	<b>18</b>	<b>38</b>	
<b>6 Provisions</b>	<b>25</b>	<b>38</b>	<b>48</b>	
of which: a) other provisions	25	38	48	
<b>7 Share capital</b>	<b>750</b>	<b>750</b>	<b>650</b>	
of which: a) share capital paid up	750	750	650	
<b>8 Share premium</b>	<b>100</b>	<b>100</b>	<b>-</b>	
<b>9 Reserve funds and other funds from profit</b>	<b>12</b>	<b>11</b>	<b>8</b>	
of which: a) statutory reserve funds and risk funds	12	11	8	
<b>10 Retained earnings or accumulated losses from previous periods</b>	<b>5</b>	<b>26</b>	<b>19</b>	
<b>11 Profit or loss for the accounting period</b>	<b>95</b>	<b>36</b>	<b>38</b>	
<b>Total liabilities</b>	<b>19,013</b>	<b>16,222</b>	<b>11,899</b>	

# OFF-BALANCE SHEET AS AT 31 DECEMBER 2003

## OFF-BALANCE SHEET ASSETS:

CZK million	2003	2002	2001
1 Commitments and guarantees given	2,482	1,580	872
2 Receivables from spot transactions	358	187	63
3 Receivables from term instruments	1,495	288	382
4 Receivables written-off	4	5	1
<b>Total off-balance sheet assets</b>	<b>4,339</b>	<b>2,060</b>	<b>1,318</b>

## OFF-BALANCE SHEET LIABILITIES:

CZK million	2003	2002	2001
1 Commitments and guarantees received	23,190	11,646	7,962
2 Collateral received	7,266	10,040	3,646
3 Payables from spot transactions	385	216	129
4 Payables from term instruments	1,510	347	378
5 Assets under custody	1,144	945	1,160
<b>Total off-balance sheet liabilities</b>	<b>33,495</b>	<b>23,194</b>	<b>13,275</b>

29 March 2004  
Signature of the statutory representative

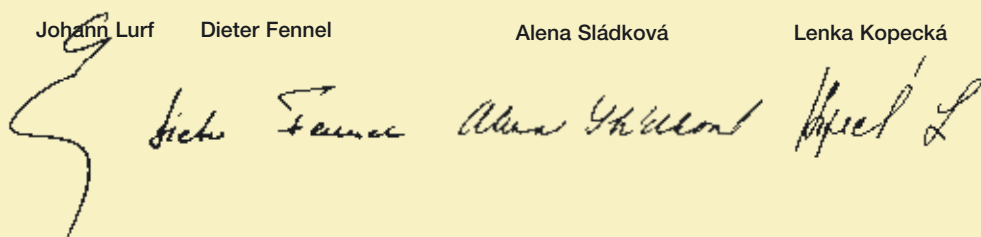
Johann Lurf Dieter Fennel

Person responsible  
for accounting

Alena Sládková

Person responsible for the financial  
statements preparation

Lenka Kopecká



# INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

CZK million	2003	2002	2001
<b>1 Interest receivable and similar income</b>	<b>786</b>	<b>772</b>	<b>752</b>
of which: interest income from debt securities	10	8	1
<b>2 Interest payable and similar expense</b>	<b>(398)</b>	<b>(409)</b>	<b>(397)</b>
<b>3 Fee and commission income</b>	<b>140</b>	<b>101</b>	<b>78</b>
<b>4 Fee and commission expense</b>	<b>(48)</b>	<b>(33)</b>	<b>(34)</b>
<b>5 Net profit from financial operations</b>	<b>126</b>	<b>133</b>	<b>132</b>
<b>6 Other operating income</b>	<b>4</b>	<b>9</b>	<b>4</b>
<b>7 Other operating expense</b>	<b>(10)</b>	<b>(18)</b>	<b>(22)</b>
<b>8 Administrative expense</b>	<b>(437)</b>	<b>(396)</b>	<b>(316)</b>
of which: a) staff costs	(199)	(159)	(100)
including: aa) wages and salaries	(150)	(120)	(75)
ab) social and health insurance	(49)	(39)	(25)
b) other administrative expense	(238)	(237)	(216)
<b>9 Depreciation, creation and use of reserves and provisions for tangible and intangible fixed assets</b>	<b>(69)</b>	<b>(76)</b>	<b>(65)</b>
<b>10 Release of provisions and reserves to receivables and guarantees, income from receivables already written-off</b>	<b>47</b>	<b>112</b>	<b>26</b>
<b>11 Depreciation, creation and use of receivables and guarantees</b>	<b>(5)</b>	<b>(137)</b>	<b>(90)</b>
<b>12 Profit or loss on ordinary activities before taxation</b>	<b>136</b>	<b>58</b>	<b>68</b>
<b>13 Extraordinary income</b>	<b>-</b>	<b>-</b>	<b>4</b>
<b>14 Extraordinary expense</b>	<b>-</b>	<b>-</b>	<b>(4)</b>
<b>15 Income tax</b>	<b>(41)</b>	<b>(22)</b>	<b>(30)</b>
<b>16 Profit or loss for the year after taxation</b>	<b>95</b>	<b>36</b>	<b>38</b>

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003**

40

CZK million	Share capital	Share premium	Reserve funds	Social fund	Retained earnings	Profit for the period	Total
<b>At 1 January 2001</b>	<b>650</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>3</b>	<b>46</b>	<b>705</b>
Net profit for current period	-	-	-	-	-	38	38
Dividends	-	-	-	-	(28)	-	(28)
Transfers to funds	-	-	2	1	(3)	-	-
Transfer to retained earnings	-	-	-	-	46	(46)	-
Use of funds	-	-	-	(1)	-	-	(1)
<b>At 31 December 2001</b>	<b>650</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>19</b>	<b>38</b>	<b>715</b>
Net profit for current period	-	-	-	-	-	36	36
Dividends	-	-	-	-	(28)	-	(28)
Transfers to funds	-	-	2	1	(3)	-	-
Převod do nerozděleného zisku	-	-	-	-	38	- 38	-
Use of funds	-	-	-	(1)	-	-	(1)
Issued shares	100	100	-	-	-	-	200
<b>At 31 December 2002</b>	<b>750</b>	<b>100</b>	<b>10</b>	<b>-</b>	<b>26</b>	<b>36</b>	<b>922</b>
Net profit for current period	-	-	-	-	-	95	95
Dividends	-	-	-	-	(54)	-	(54)
Transfers to funds	-	-	2	1	(3)	-	-
Transfer to retained earnings	-	-	-	-	36	(36)	-
Use of funds	-	-	-	(1)	-	-	(1)
<b>At 31 December 2003</b>	<b>750</b>	<b>100</b>	<b>12</b>	<b>-</b>	<b>5</b>	<b>95</b>	<b>962</b>

29 March 2004

Signature of the statutory representative

Johann Lurf

Dieter Fennel

Person responsible  
for accounting

Alena Sládková

Person responsible for the financial  
statements preparation

Lenka Kopecká





**Jitka Gottfriedová (1982)**

„Levitaj“

- 40 x 40 cm, Oil painting on wood, 2003

## NOTES TO FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

Volksbank CZ, a.s. (hereinafter referred to as “Bank”) was incorporated on 31 October 1996. The Bank has its registered office in Brno and has 18 domestic regional branches in the Czech Republic. The ultimate holding company is Österreichische Volksbanken AG, which is incorporated in Austria.

The Bank’s operations primarily consist of:

- providing of Czech and foreign currency loans and guarantees,
- accepting and placing deposits in Czech and foreign currency,
- accepting current and term accounts denominated in Czech and foreign currency,
- rendering of general banking services through a network of branches and agencies,
- providing foreign exchange transactions on the inter-bank money market,
- providing foreign trade finance and related banking services,
- trading in securities and portfolio management.

### 2 ACCOUNTING POLICIES

#### a) Basis of preparation

The financial statements, including a balance sheet, statements of income and changes in equity and accompanying notes, are prepared in accordance with the Act on accounting and the applicable accounting rules 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 millions of Czech Crowns (“CZK million” or “CZK m”) unless otherwise stated and are not consolidated.

#### 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 (hereinafter referred to as the “CNB”) effective at the balance sheet date. All resulting foreign exchange gains and losses are recognized in gains less losses from financial transactions.

## **2 ACCOUNTING POLICIES (CONTINUED)**

### **c) Fair value of securities (continued)**

The fair value of a security is determined as the market value quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share on the investee's equity for equities;
- the risk adjusted net present value for debt securities and notes.

### **d) Trading securities**

Trading securities were either acquired for generating profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognized at cost, which includes expenses incurred in connection with their acquisition, and they are further measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognized on a settlement date basis. Forward trades are treated as derivatives. Interest earned on trading securities is reported as interest income on securities.

### **e) Available-for-sale securities**

Available-for-sale securities are neither trading securities nor securities held to maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management. Available-for-sale securities are measured in the same way as trading securities.

### **f) Securities held-to-maturity**

Securities held-to-maturity are securities with fixed maturity where the Bank has both the intent and the ability to hold them to maturity. They are measured at amortized cost.

## **2 ACCOUNTING POLICIES (CONTINUED)**

### **g) Transfers between portfolios**

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- trading securities cannot be transferred;
- on sale or transfer of any securities held-to-maturity, the Bank must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity within the two following accounting periods. Exceptions to this rule are allowed within the last three months before maturity or in the case of a significant deterioration in an issuer's creditworthiness.

### **h) Investments in subsidiary and associated undertakings**

A subsidiary is an enterprise that is controlled by the Bank, which means that the Bank has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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

Investments in subsidiary and associated undertakings are measured at cost less any impairment other than temporary.

### **i) Securities financing arrangements**

Securities borrowed or purchased under agreements to resell (resale or reverse repo agreements) are not recognized on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cash flows are recorded as loans and borrowings respectively on a settlement date basis.

## **2 ACCOUNTING POLICIES (CONTINUED)**

### **j) Finanční deriváty a zajišťování**

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

Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value.

The Bank does not apply hedge accounting. Changes in the fair value of derivatives are included in gains less losses from financial transactions.

45

### **k) Due to banks**

Loans from banks are recognized at amortised cost. Interest on these loans including fees for loan origination is accrued and included in the loan balance.

### **l) Interest income and expense**

Interest income and expense for all interest bearing instruments are accrued using a linear yield method. Interest income includes accrued coupons, discount and premium on all fixed income instruments. Accrued interest is recorded together with the underlying assets and liabilities.

Income from non-performing loans is also accrued and capitalized into the related loan balance with the exception of selected cases of loss loans that are administrated individually. Such amounts are considered in estimating the provision for non-performing loans.

Penalty interest income which was not enforced is excluded from penalty interest income.

## **2 ACCOUNTING POLICIES (CONTINUED)**

### **m) Fee and commission income**

Fixed fee income for arrangement of loans, guarantees and other activities is recognized immediately, whereas commission is accrued over the period to maturity.

### **n) Provisions**

Provisions are recognized 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. In addition, general provisions for banking risk recorded prior to 1 January 2002 are recognized in the balance sheet, however, these must be utilized or written back to income by 31 December 2005. The Bank is reducing this balance by at least 25 % each year over the period 2002 - 2005. All provisions are presented in liabilities.

The creation of a provision is recognized in the income statement, its use is recognized as an expense. Release of an utilized provision is recognized as income.

### **o) Allowances**

Allowances are deducted from the cost of each impaired asset. The amount of allowance for impaired loans and other assets is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral. The market in the Czech Republic for many collaterals is at an early stage of development and there is a low level of liquidity for certain types of collateral. As a result, the realizable value on foreclosure may differ from the value ascribed in estimating allowances.

The creation of allowances is recognized in the income statement, its use is recognized as an expense. Release of an utilized allowance is recognized as income.

Allowances for receivables from financial activity stated in foreign currency are created in respective foreign currency.



## **2 ACCOUNTING POLICIES (CONTINUED)**

### **p) Tangible and intangible fixed assets**

Tangible and intangible fixed assets are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition and value added tax (hereinafter referred to as "VAT").

Tangible and intangible fixed assets are depreciated or amortized by applying the straight-line or accelerated basis over the estimated useful lives. The accounting depreciation rates used by the Bank equal the depreciation rates for tax straight-line depreciation and for tax accelerated depreciation as appropriate. However, these tax depreciation rates are applied on a monthly basis with respect to accounting depreciation. Fixed assets purchased from 1993 until 1996 have been depreciated on the straight-line basis using the depreciation rates for tax straight-line depreciation. Fixed assets purchased from 1997 until 2003 have been depreciated on accelerated bases using the rates for tax accelerated depreciation.

Since 2003 low value tangible and intangible assets with a unit cost of less than CZK 10,000 are not treated as fixed assets and are fully depreciated upon the inception of use. It is recorded in off balance sheet. Low value assets with a unit cost higher than CZK 10,000 but lower than CZK 40,000 (for low value tangible assets) or CZK 60,000 (for low value intangible assets) are depreciated based on professional judgment of useful life over 3, 4 or 6 years.

Until 2002 low value tangible and intangible assets with a unit cost of less than CZK 25,000 are treated as fixed assets and are fully depreciated upon the inception of use. Low value assets with a unit cost higher than CZK 25,000 but lower than CZK 40,000 (for low value tangible assets) or CZK 60,000 (for low value intangible assets) are depreciated based on professional judgment of useful life over 3, 4 or 6 years.

## 2 ACCOUNTING POLICIES (CONTINUED)

### p) Tangible and intangible fixed assets (continued)

The depreciation periods used are as follows:

	Purchased 1993 - 1996	Purchased 1997 - 2003
Buildings and constructions	45	30
Hardware and equipment	4	4
Fixtures and fittings	8	6
Safes	15	12
Motor vehicles	4	4
Software	4	4

Purchased licenses are amortized over 4 years or over the life of the license agreement, if shorter.

Tangible assets' repairs and maintenance expenditures are charged to expense as incurred. Improvement expenditures exceeding CZK 40,000 per unit in one year for tangible fixed assets and CZK 60,000 for intangible fixed assets are capitalized.

### q) Value added tax

The Bank is registered for VAT. Fixed tangible and intangible assets and inventories are stated at cost including appropriate VAT. The Bank does not raise claims for input VAT, since the ratio of income subject to VAT is lower than 5 % of the total income of the Bank. Input VAT incurred is expensed immediately.

### r) Deferred taxation

Deferred tax is recognized based on tax rates valid for the periods where its utilization is expected. 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 and its tax base. 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 utilized.

## **2 ACCOUNTING POLICIES (CONTINUED)**

### **s) Staff costs and pensions**

Staff costs are considered as a part of administration costs. 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.

Social fund contributions are not charged to the income statement as in accordance with Czech accounting rules and are presented within equity. Similarly, usage of such funds is also recorded directly in equity.

### **t) Related parties**

Related parties are defined in accordance with the Act on Banks as follows:

- board members, senior management and their relatives;
- corporates controlling the Bank, their shareholders holding more than 10 % of capital and their senior management and its relatives;
- corporates with 10% shareholding of the Bank's board members, senior management or corporates controlling the Bank;
- shareholders holding more than 10% of the Bank and corporates controlled by them;
- subsidiaries of the Bank.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in individual notes.

### **u) Subsequent events**

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

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

## **2 ACCOUNTING POLICIES (CONTINUED)**

### **v) Extraordinary items and changes in accounting policy**

Since 2002 extraordinary items include one-off effects of events outside the scope of the Bank's activities and effects of changes in accounting policies. Changes in accounting policy have been adopted by the Bank prospectively, therefore comparative financial information for year 2001 has not been restated.

The use of allowances and provisions is recognized as an expense, not as income. The comparative financial information for previous period has been restated.

In 2003 no significant changes in accounting and evaluating policies were performed. The change in depreciation policy of fixed assets (2 (p)) had no significant impact on the Bank's profit for 2003.

At 1 January 2002, significant changes in recognition, measurement and presentation of the financial position and results were made in accordance with the amendments to the Act on Accounting. These changes did not have any material impact on the Bank's equity at 1 January 2002 or its profit for 2002.

### 3 CASH AND DEPOSITS WITH CENTRAL BANKS

CZK million	31 December 2003	31 December 2002	31 December 2001
Cash on hand	158	177	213
Obligatory reserves	106	168	128
Current accounts with central banks	26	40	35
	<b>290</b>	<b>385</b>	<b>376</b>

Obligatory reserves are mandatory deposits with the ČNB and they are not available for use in the Bank's day-to-day operations. These deposits bear interest at the CZK repo rate, at 31 December 2003: 2.0 % p.a (at 31 December 2002: 2.5% p.a., at 31 December 2001: 2.5% p.a).

#### 4 DUE FROM BANKS

CZK million	31 December 2003	31 December 2002	31 December 2001
Current accounts with banks	194	95	39
Term deposits with commercial banks	1,706	2,773	2,533
Other due from banks	38	35	-
	1,938	2,903	2,572

#### Receivables due from related parties:

The Bank included CZK 218 million due from related parties within receivables due from other banks as at 31 December 2003 (at 31 December 2002: CZK 316 million; at 31 December 2001: CZK 329 million).

## 5 DUE FROM CUSTOMERS

CZK million	31 December 2003	31 December 2002	31 December 2001	
Standard loans to companies and individuals	14,122	9,864	6,282	
Impaired loans to companies and individuals	748	1,273	1,211	
Loans to governmental entities	-	6	-	
Standard loans to municipalities	1,411	1,270	1,099	
Impaired loans to municipalities	22	259	304	
Other receivables from customers	14	-	-	53
	<b>16,317</b>	<b>12,672</b>	<b>8,896</b>	
Allowance for impaired loans (Note 11)	(331)	(364)	(352)	
	<b>15,986</b>	<b>12,308</b>	<b>8,544</b>	



## 5 DUE FROM CUSTOMERS (CONTINUED)

In addition to the allowance for impaired loans the Bank has reflected a general tax-deductible provision for loans of CZK 23 million at 31 December 2003 (at 31 December 2002: CZK 34 million, at 31 December 2001: CZK 45 million). This provision has to be utilized or written back to income by 31 December 2005 (Notes 2(n) and 11).

In 2003 the Bank restructured loans of a total amount of CZK 11 million (2002: CZK 162 million).

### a) Quality of loan portfolio

Loans are categorized in accordance with the definitions issued by the CNB in five categories (standard, watch, substandard, doubtful, loss). Impaired loans include substandard, doubtful and loss loans and represent total outstanding principal and accrued interest receivable with service payments overdue more than 90 days or other defaults in contractual terms or financial performance.

CZK million	31 December 2003	31 December 2002	31 December 2001
Standard	15,547	11,140	7,381
Watch	209	744	723
Substandard	166	270	264
Doubtful	53	122	107
Loss	342	396	421
	<b>16,317</b>	<b>12,672</b>	<b>8,896</b>

The value ascribed to assets received as collateral for loans to customers can be analyzed as follows:

CZK million	31 December 2003	31 December 2002	31 December 2001
Cash	70	66	109
Securities	1,317	76	59
Land and buildings	2,496	1,994	1,585
Bank guarantees	8,446	7,670	5,044
Other assets	165	208	119
	<b>12,494</b>	<b>10,014</b>	<b>6,916</b>

## 5 DUE FROM CUSTOMERS (CONTINUED)

### b) Loans to related parties

Standard loans to companies and individuals include the following loans to related parties:

CZK million	31 December 2003	31 December 2002	31 December 2001
Management of the Bank	1	1	1
VB Leasing CZ, spol. s r.o.	5,405	4,838	3,255
Other related parties	1,525	864	-
<b>Total loans to related parties</b>	<b>6,931</b>	<b>5,703</b>	<b>3,256</b>

55

All loans to related parties were made in the ordinary course of business on substantially the same 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 unfavorable features.

## 6 SYNDICATE LOANS

At 31 December 2003 the Bank led syndicate loans, which can be analysed as follows:

56

Participant	Loan currency	Loan balance CZK mil.	Share of syndicate manager %	Share of syndicate members %
Niederösterreichische Landesbank – Hypothekenbank AG	EUR	12	80	20
Niederösterreichische Landesbank – Hypothekenbank AG	CZK	75	50	50
Erste Bank Sparkasse CZ	EUR	12	80	20
Weinviertler Volksbank	EUR	9	50	50
Weinviertler Volksbank	EUR	4	50	50
Oesterreichische Volksbanken AG	CZK	110	56	44
Oesterreichische Volksbanken AG	EUR	19	1	99
Oesterreichische Volksbanken AG	EUR	96	1	99
Oesterreichische Volksbanken AG	EUR	43	1	99
Oesterreichische Volksbanken AG	EUR	170	1	99
Oesterreichische Volksbanken AG	EUR	7	1	99
Oesterreichische Volksbanken AG	EUR	53	1	99
Kommunalkredit AG	CZK	5	50	50
		<b>615</b>		

## 6 SYNDICATE LOANS (CONTINUED)

At 31 December 2002 the Bank led syndicate loans, which can be analysed as follows:

Participant	Loan currency	Loan balance CZK mil.	Share of syndicate manager %	Share of syndicate members %	
Niederösterreichische Landesbank – Hypothekenbank AG	EUR	14	80	20	57
Niederösterreichische Landesbank – Hypothekenbank AG	CZK	100	50	50	
Erste Bank Sparkasse CZ	EUR	14	80	20	
Weinviertler Volksbank	EUR	11	50	50	
Weinviertler Volksbank	EUR	6	50	50	
DZ Bank	EUR	3	40	60	
Oesterreichische Volksbanken AG	EUR	23	1	99	
Oesterreichische Volksbanken AG	EUR	183	1	99	
Oesterreichische Volksbanken AG	EUR	104	1	99	
Kommunalkredit AG	CZK	6	50	50	
		<b>464</b>			

## 6 SYNDICATE LOANS (CONTINUED)

At 31 December 2001 the Bank led syndicate loans, which can be analysed as follows:

58

Participant	Loan currency	Loan balance CZK million	Share of syndicate manager %	Share of syndicate members %
Hagebank VB Voecklabruck	EUR	24	-	100
Kommunalkredit AG	CZK	15	50	50
Erste Bank Sparkasse CZ	EUR	85	80	20
Nideroofterroichische Landesbank – Hypothekenbank AG	EUR	74	80	20
Nideroofterroichische Landesbank – Hypothekenbank AG	CZK	250	50	50
DZ Bank	EUR	8	40	60
Weinviertel Volksbank	EUR	26	50	50
Oofterroichische Volksbanken AG	EUR	26	1	99
Oofterroichische Volksbanken AG	EUR	204	1	99
Weinviertel Volksbank	EUR	17	50	50
Oofterroichische Volksbanken AG	EUR	116	1	99
		<b>845</b>		

## 7 SECURITIES

CZK million	Bonds and similar debt securities at 31 December			Shares and similar equity securities at 31 December		
	2003	2002	2001	2003	2002	2001
Trading	312	227	-	-	-	-
Available for sale	6	-	-	23	21	-
	<b>318</b>	<b>227</b>	<b>-</b>	<b>23</b>	<b>21</b>	<b>-</b>

The Bank did not have securities held-to-maturity in its portfolio as at 31 December 2003, 2002 and 2001.

### a) Trading securities

59

#### Bonds and similar debt securities

CZK million	31 December 2003	31 December 2002	31 December 2001
Main or auxiliary market of recognized stock exchanges	215	227	-
Free market of recognized stock exchanges	97	-	-
	<b>312</b>	<b>227</b>	<b>-</b>

As a result of the low liquidity of many securities on the Czech market and high market volatility, realizable prices may differ from the stated fair or market value.

#### Shares and similar equity securities

There were no shares and similar equity securities in the Bank's trading portfolio as at 31 December 2003, 2002 and 2001.

## 7 SECURITIES (CONTINUED)

### b) Securities available for sale

#### Bonds and similar debt securities

CZK million	31 December 2003	31 December 2002	31 December 2001
Free market of recognized stock exchanges	6	-	-

As a result of the low liquidity of many securities on the Czech market and high market volatility, realizable prices may differ from the stated fair or market value.

#### Shares and similar equity securities

CZK million	31 December 2003	31 December 2002	31 December 2001
Unquoted	23	21	-

As a result of the low liquidity of many securities on the Czech market and high market volatility, realizable prices may differ from the stated fair or market value.



## 8 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

### a) Investment in associated undertakings

There were no investments in associated companies as at 31 December 2003, 2002 and 2001.

### b) Investments in subsidiary undertakings

Investment in subsidiary undertakings represents investment in equity shares.

#### At 31 December 2003

Name and registered office and major business	Number of shares	At cost CZK mil.	Nominal value CZK mil.	Equity capital CZK mil.	Share capital CZK mil.	Shareholding %	61
VB Komunální poradenství a.s. - v likvidaci, Heršpická 5, Brno, 639 00 Provision for diminution in value (Note 10)	100	2 (2)	-	-	1	100	
		-					

#### At 31 December 2002 and 31 December 2001

Name and registered office and major business	Number of shares	At cost CZK mil.	Nominal value CZK mil.	Equity capital CZK mil.	Share capital CZK mil.	Shareholding %	
VB Komunální poradenství a.s. - v likvidaci, Heršpická 5, Brno, 639 00 Provision for diminution in value (Note 10)	100	2 (1)	-	1	1	100	
		1					

The company VB Komunální poradenství a.s. - v likvidaci, IČO 25 50 87 84 was incorporated on 28 November 1997 by registration into Commercial register of Regional commercial court in Brno, section B, inset 2497. At 24 June 2003 the Bank decided during the general meeting to liquidate the company as at 1 July 2003.

## **8 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (CONTINUED)**

### **c) Movements in investments in subsidiary and associated undertakings**

During 2003, 2002 and 2001 the Bank held one investment in subsidiary undertakings and held no investment in associated undertakings.

## 9 INTANGIBLE AND TANGIBLE FIXED ASSETS

### Intangible fixed assets

CZK million	31 December 2001	31 December 2002	Additions	Disposals	31 December 2003	
<b>Cost</b>						
Software	68	82	13	-	95	
Assets in the course of construction and advances provided	-	-	10	-	10	
Others	6	6	-	-	6	
	<b>74</b>	<b>88</b>	<b>23</b>	<b>-</b>	<b>111</b>	63
<b>Accumulated amortization</b>						
Software	52	60	10	-	70	
Others	5	5	-	-	5	
	<b>57</b>	<b>65</b>	<b>10</b>	<b>-</b>	<b>75</b>	
<b>Net book amount</b>	<b>17</b>	<b>23</b>			<b>36</b>	

## 9 INTANGIBLE AND TANGIBLE FIXED ASSETS (CONTINUED)

### Operating tangible fixed assets

64

	CZK million	31 December 2001	31 December 2002	Additions	Disposals	31 December 2003	
	Cost						
64	Land	1	1	-	-	1	
	Buildings	164	164	1	-	165	
	Equipment	169	195	25	(4)	216	
	Technical improvements	36	44	8	-	52	
	Others	81	107	16	(2)	121	
	Assets in course of construction and advances provided	8	3	5	-	8	
		459	514	55	- 6	563	
	Accumulated depreciation						
	Buildings	32	41	8	-	49	
	Equipment	100	123	32	(4)	151	
	Technical improvements	3	6	3	-	9	
	Others	61	80	16	(2)	94	
		196	250	59	(6)	303	
	Net book amount	263	264			260	

The value of low value fixed assets not included in the balance sheet as at 31 December 2003 was CZK 3 million (at 31 December 2002, 2001: CZK 0).

### Assets under charge

The Bank owns no assets encumbered by lien as at 31 December 2003, 2002 and 2001.

### Fixed assets held under lease contracts

The Bank does not use any material assets under finance lease contracts.

## 10 OTHER ASSETS

CZK million	31 December 2003	31 December 2002	31 December 2001	
Due to and from state budget	20	24	19	
Advances granted	5	4	5	
Settlement clearance accounts	3	2	5	
Derivative financial instruments (Note 26(d))	1	1	-	
Deferred tax asset (Note 24)	4	7	11	
Estimated receivables	1	5	-	
Inventories	3	2	2	
Other receivables	21	20	13	
	<b>58</b>	<b>65</b>	<b>55</b>	<b>65</b>

Other assets as at 31 December 2003 include CZK 1 million due from related parties (at 31 December 2002: CZK 1 million; at 31 December 2001: CZK 3 million).

## 11 ALLOWANCES, PROVISIONS AND WRITE OFFS

The Bank had the following provisions and allowances for assets at risk:

	CZK million	31 December 2003	31 December 2002	31 December 2001
	<b>Provisions</b>			
	General provisions for loans (Note 5)	23	34	45
	General provisions for guarantees	2	2	3
	Specific provisions for guarantees (Note 17)	-	2	-
		<b>25</b>	<b>38</b>	<b>48</b>
	<b>Allowances</b>			
	Impaired loans to customers (Note 5)	331	364	352
	Investments in subsidiaries (Note 7)	2	1	1
		<b>333</b>	<b>365</b>	<b>353</b>

## 11 ALLOWANCES, PROVISIONS AND WRITE OFFS (CONTINUED)

The movements in provisions can be analyzed as follows:

	Všeobecné	General provisions	Specific provisions	Total	
CZK million	provisions for loans	for guarantees	for guarantees		
<b>At 1 January 2001</b>	<b>45</b>	<b>3</b>	<b>-</b>	<b>48</b>	
Addition	-	-	-	-	
Release	-	-	-	-	
<b>At 31 December 2001</b>	<b>45</b>	<b>3</b>	<b>-</b>	<b>48</b>	
Addition	-	-	2	2	
Release	(11)	(1)	-	(12)	67
<b>At 31 December 2002</b>	<b>34</b>	<b>2</b>	<b>2</b>	<b>38</b>	
Addition	-	-	-	-	
Release	(11)	-	(2)	(13)	
<b>At 31 December 2003</b>	<b>23</b>	<b>2</b>	<b>-</b>	<b>25</b>	



## 11 ALLOWANCES, PROVISIONS AND WRITE OFFS (CONTINUED)

The movements in allowances can be analyzed as follows:

	Impaired receivables	Trading	Investments in subsidiaries	
CZK million	to customers	securities	and associates	
<b>At 1 January 2001</b>	<b>288</b>	<b>3</b>	<b>1</b>	
Addition	89	-	-	
Usage	(1)	-	-	
Release	(24)	(3)	-	
<b>At 31 December 2001</b>	<b>352</b>	<b>-</b>	<b>1</b>	
Addition	110	-	-	
Usage	(24)	-	-	
Release	(74)	-	-	
<b>At 31 December 2002</b>	<b>364</b>	<b>-</b>	<b>1</b>	
Addition	-	-	1	
Usage	(5)	-	-	
Release	28	-	-	
<b>At 31 December 2003</b>	<b>331</b>	<b>-</b>	<b>2</b>	

Write-offs of loans and receivables by the Bank are covered by internal regulations. Loan receivables and balances on debit accounts without any cash movements are considered for write-off, any write-off must be approved by Board of Directors or responsible officer within authority limits. Classified receivables are covered by allowances in accordance with CNB's regulation No. 9 from 6 November 2002. Allowances are released in case of write-offs. Written-off receivables are recorded as off balance sheet assets unless there are reasons for their deletion.

In case of changes of receivable classification the related allowances are released and created in the updated amount in 2001 and 2002. As a result, the amounts of creation and use of allowances and of release of allowances are overstated for these years. The respective amounts for the year 2003 were accordingly decreased. The comparative financial information for years 2002 and 2001 has not been restated.

## 11 ALLOWANCES, PROVISIONS AND WRITE OFFS (CONTINUED)

### Write-offs and recovery of amounts written off previously

CZK million	2003		2002		2001		
	Amounts written off	Recovery of amounts written off previously	Amounts written off	Recovery of amounts written off previously	Amounts written off	Recovery of amounts written off previously	
Customers	6	-	24	-	1	-	

Bad debts are written off against established general provisions, specific allowances or directly expensed in the case that management asserts their recoverability as being remote.

## 12 DUE TO BANKS

CZK million	31 December 2003	31 December 2002	31 December 2001	
Due to central banks	-	-	55	
Due to other banks	6,702	6,631	4,149	
	<b>6,702</b>	<b>6,631</b>	<b>4,204</b>	

## Deposits from related parties

CZK million	31 December 2003	31 December 2002	31 December 2001	
70 Companies under common control	5,571	6,126	3,968	

Management considers that deposits from related parties were accepted on substantially the same 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 interest rate and liquidity risk or present other unfavorable features.

### 13 DUE TO CUSTOMERS

CZK million	31 December 2003	31 December 2002	31 December 2001
Current accounts	5,496	3,816	2,687
Saving accounts	232	231	258
Term deposits	3,304	3,282	2,323
	<b>9,032</b>	<b>7,329</b>	<b>5,269</b>

#### Deposits from and debt securities held by related parties

CZK million	31 December 2003	31 December 2002	71
Management of the Bank	3	4	
Subsidiary	-	1	
Other related parties	600	443	
	<b>603</b>	<b>448</b>	

Data for 2001 is not presented since the preparation would require unreasonable additional cost exceeding additional benefit from the disclosure.

Management considers that deposits from related parties were accepted on substantially the same 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 interest rate and liquidity risk or present other unfavorable features.

#### 14 LIABILITIES FROM DEBT SECURITIES

CZK million	31 December 2003	31 December 2002	31 December 2001
Depository notes	1,810	758	1,074

## 15 OTHER LIABILITIES

CZK million	31 December 2003	31 December 2002	31 December 2001
Payables for subscribed shares	-	-	200
Settlement clearance accounts	253	263	183
Derivative financial instruments (Note 27(d))	21	3	2
Suppliers	115	198	121
Estimated payables	24	14	15
Other liabilities	62	47	30
	<b>475</b>	<b>525</b>	<b>551</b>

Other liabilities as at 31 December 2003 includes CZK 104 million of related party transactions (at 31 December 2002: CZK 173 million). Data for 2001 is not presented as the preparation would require unreasonable additional cost exceeding additional benefit from the disclosure.

## 16 EQUITY AND PROFIT DISTRIBUTION

### Share capital

CZK million	31 December 2003	31 December 2002	31 December 2001	
Issued and paid	750	750	650	

Issues of shares							
ISIN	Date of issue	Date of registration	Nominal value of share CZK	Number of shares pieces	Nominal value CZK mil.		
770980001406	23 October 1998	no registered security	5,000	30,000	150		
770980001406	7 August 2002	no registered security	5,000	4,600	23		
770980001414	23 October 1998	no registered security	5,000	100,000	500		
770980001414	7 August 2002	no registered security	5,000	15,400	77		
					750		

## 16 EQUITY AND PROFIT DISTRIBUTION (CONTINUED)

### Share capital (continued)

#### SHAREHOLDERS OF THE BANK AS AT 31 DECEMBER 2003

Name and registered office	Holding %
Volksbank International AG, Wien	71.50
Banque Fédérale des Banques Populaires, Paris	10.00
DZ Bank AG, Frankfurt	6.67
WGZ Bank, Düsseldorf	3.33
Banca Popolare di Vicenza, Vicenza	2.50
Banca Agricola Mantovana, Mantova	2.50
Banca Popolare dell' Emilia Romagna, Modena	2.50
Niederösterreichische Landesbank-Hypothekenbank, St. Pölten	1.00
	<b>100.00</b>

75

Bank shares are not owned by members of the Board of Directors, Supervisory Board or management.

### Profit distribution

The 2002 and 2001 net profit were allocated as follows:

CZK million	2002	2001
Statutory reserve	2	2
Social fund	1	1
Dividends	54	27
Retained earnings	(21)	8
<b>Net profit</b>	<b>36</b>	<b>38</b>

Distribution of the 2003 profit of CZK 95 million was not decided by the date of these financial statements.

In accordance with the Commercial Code the Bank allocates 5% of its profit for the period to the Statutory reserve until the balance reaches 20% of the share capital.



## 17 CONTINGENCIES AND COMMITMENTS

Commitments to extend loans, loan guarantees to third parties and letters of credit include exposure to credit loss in the event of a client's default. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit risk, interest rate risk and liquidity risk.

Contingent liabilities include:

76

CZK million	31 December 2003	31 December 2002	31 December 2001
<b>Guarantees granted</b>			
Total guarantees granted	617	531	214
Specific provision for guarantees granted (Note 11)	-	(2)	-
<b>Net after provisions</b>	<b>617</b>	<b>529</b>	<b>214</b>

Guarantees granted to related parties as at 31 December 2003 were in amount of CZK 69 million. There were no guarantees granted to related parties as at 31 December 2002 and 2001.

In addition to specific provisions for guarantees issued, the Bank held general provision for guaranties issued of CZK 2 million as at 31 December 2003 (at 31 December 2002: CZK 2 million, at 31 December 2001: CZK 3 million). The provision should be used or written-off to profit and loss by 31 December 2005.

CZK million	31 December 2003	31 December 2002	31 December 2001
<b>Assets placed in custody</b>			
Securitized	354	270	631
<b>Assets under custody</b>			
Securities	790	675	528

Assets placed in custody are valued at their nominal value and assets under custody at their fair value.

Management considers that no present obligations were associated with these fiduciary duties at 31 December 2003, 2002 and 2001.

## 18 INTEREST RECEIVABLE AND SIMILAR INCOME

CZK million	2003	2002	2001
Interest on inter-bank transactions	96	107	133
Interest on loans to customers and state	680	657	618
Interest on debt securities	10	8	1
	<b>786</b>	<b>772</b>	<b>752</b>

In 2003 the amount of interest on classified loans amounted to CZK 33 million (2002: CZK 73 million; 2001: CZK 113 million).

Interest income from related party transactions of CZK 316 million was included in the Bank's income in 2003 (2002: CZK 269 million; 2001: CZK 166 million).

## 19 INTEREST PAYABLE AND SIMILAR EXPENSE

CZK million	31 December 2003	31 December 2002	31 December 2001
Interest on inter-bank transactions	288	288	246
Interest on deposits from customers and state	110	121	151
	<b>398</b>	<b>409</b>	<b>397</b>

Interest expense from related party transactions of CZK 270 million was included in the Bank's expenses in 2003 (2002: CZK 251 million; 2001: CZK 157 million).

## 20 COMMISSION AND FEE INCOME

COMMISSION AND FEE INCOME				
CZK million	2003	2002	2001	
Commission from loans	27	23	16	
Brokerage income from purchase and sale of securities	2	2	-	
Commission for incoming and outgoing payments	95	68	53	
Others	16	8	9	
	<b>140</b>	<b>101</b>	<b>78</b>	

The commissions from loans include all commission for processing and prolongation of loans.

79

Commission and fee income in 2003 includes CZK 2 million of fees and commissions from related parties (2002: CZK 1 million; 2001: 1 million).

COMMISSION AND FEE EXPENSES				
CZK million	2003	2002	2001	
Fees for guarantees received	29	27	25	
Fee expense for credit line	10	-	-	
Other fee expenses	9	6	9	
	<b>48</b>	<b>33</b>	<b>34</b>	

In 2003, the Bank paid CZK 62 million of fees and commissions to related parties of which CZK 38 million was recognized as an expense for 2003 (2002: CZK 26 million; 2001: CZK 24 million).

## 21 GAINS FROM FINANCIAL TRANSACTIONS

CZK million	2003	2002	2001
Realized net gains from the sale of securities	1	2	6
Unrealized net gains / (losses) from securities trading	2	(6)	3
Net gains from foreign currency transaction	138	140	125
Others	(15)	(3)	(2)
	<b>126</b>	<b>133</b>	<b>132</b>

## 22 OTHER OPERATING INCOME

CZK million	2003	2002	2001
Income from fixed assets disposals	-	2	1
Insurance receipts	2	6	-
Other operating income	2	1	3
	4	9	4

Other operating income in 2003 includes CZK 2 million of income from related parties (2002: CZK 3 million; 2001: CZK 1 million).

## 23 ADMINISTRATIVE EXPENSES

82

CZK million	2003	2002	2001
Wages and salaries	150	120	75
Social security and other social costs	49	39	25
Rent and lease charges	52	40	34
Advisory services	59	93	96
Promotion	33	25	13
IT costs	44	31	32
Other administration expenses	50	48	41
	<b>437</b>	<b>396</b>	<b>316</b>

STAFF STATISTICS	2003	2002	2001
Average number of employees	364	317	256
Number of members of the Board of Directors	3	3	3
Number of members of the Supervisory Board	9	9	9

Analysis of remuneration of statutory representatives and the Supervisory Board members is treated as confidential information by the Bank. For this reason this information has not been disclosed.

Administrative expenses in 2003 include CZK 88 million of expenses paid to related parties (2002: CZK 92 million; 2001: CZK 79 million).

## 24 TAXATION

CZK million	2003	2002	2001	
<b>Profit before taxation</b>	<b>136</b>	<b>58</b>	<b>68</b>	
Permanent differences between profit and tax base:				
Non-taxable income	(17)	(36)	(8)	
Non-deductible expenses	16	45	12	
Others	(2)	(9)	(2)	
<b>Net taxable profit</b>	<b>133</b>	<b>58</b>	<b>70</b>	
Corporate tax charge at 31%	41	18	21	
Tax deduction	(3)	(2)	(2)	
<b>Current income tax expense</b>	<b>38</b>	<b>16</b>	<b>19</b>	83
<b>The tax charge is comprised of:</b>				
Deferred income tax expense	3	4	4	
Current income tax expense	38	16	19	
Adjustment of prior year income tax expense	-	2	7	
	<b>41</b>	<b>22</b>	<b>30</b>	
<b>NET DEFERRED INCOME TAX ASSET (NOTE 10)</b>				
Deferred tax liability - difference between net book value and net tax book value of fixed assets	(10)	(11)	(10)	
Deferred tax assets - non-deductible portion of bad debts provision	14	18	21	
	<b>4</b>	<b>7</b>	<b>11</b>	

A deferred tax asset of CZK 4 million at 31 December 2003 (at 31 December 2002: CZK 7 million) includes a temporary difference between net book value and net tax book value of provisions created for credit receivables as well as temporary difference between net book value and net tax book value of fixed assets.



## **25 FINANCIAL RISKS**

### **a) Strategy in using financial instruments**

The Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other similar liabilities.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts and in the level of risk undertaken.

### **b) Lending risk**

The Bank structures the levels of lending risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and business segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of lending risk by product, industry sector and by country are approved by the Board of Directors.

## 25 FINANCIAL RISKS (CONTINUED)

### b) Lending risk (continued)

#### Geographical segmentation

At 31 December 2003

	Domestic	European union	Other Europe	Others	Total	
CZK million						
Cash and balances with central bank	290	-	-	-	290	
Due from banks	1,131	787	4	16	1,938	
Due from customers	15,835	147	3	1	15,986	85
Trading Securities	312	-	-	-	312	
Securities available-for-sale	23	-	-	6	29	
Other assets	453	5	-	-	458	
	<b>18,044</b>	<b>939</b>	<b>7</b>	<b>23</b>	<b>19,013</b>	

At 31 December 2002

	Domestic	European union	Other Europe	Others	Total	
CZK million						
Cash and balances with central bank	325	40	8	12	385	
Due from banks	2,160	655	60	28	2,903	
Due from customers	12,299	8	1	-	12,308	
Trading Securities	227	-	-	-	227	
Securities available-for-sale	21	-	-	-	21	
Investments	1	-	-	-	1	
Other assets	372	5	-	-	377	
	<b>15,405</b>	<b>708</b>	<b>69</b>	<b>40</b>	<b>16,222</b>	

## 25 FINANCIAL RISKS (CONTINUED)

### b) Lending risk (continued)

#### Geographical segmentation (continued)

At 31 December 2001

86

	Domestic	European union	Other Europe	Others	Total
CZK million					
Cash and balances with central bank	279	70	7	20	376
Due from banks	2,050	465	50	7	2,572
Due from customers	8,537	7	-	-	8,544
Investments	1	-	-	-	1
Other assets	406	-	-	-	406
	<b>11,273</b>	<b>542</b>	<b>57</b>	<b>27</b>	<b>11,899</b>

#### Business segmentation

At 31 December 2003

ASSETS					
CZK million	Retail banking	Corporate banking	Municipalities	Others	Total
Cash and balances with central bank	-	-	-	290	290
Due from banks	-	-	-	1,938	1,938
Due from customers	747	13,782	1,433	24	15,986
Trading securities	-	-	-	312	312
Securities available-for-sale	-	-	-	29	29
Other assets	-	-	-	458	458
	<b>747</b>	<b>13,782</b>	<b>1,433</b>	<b>3,051</b>	<b>19,013</b>

## 25 FINANCIAL RISKS (CONTINUED)

### b) Lending risks (continued)

#### Business segmentation (continued)

At 31 December 2002

ASSETS						
CZK million	Retail banking	Corporate banking	Municipalities	Others	Total	
Cash and balances with central bank	-	-	-	385	385	
Due from banks	-	-	-	2,903	2,903	
Due from customers	230	10,547	1,519	12	12,308	87
Trading securities	-	-	-	227	227	
Securities available-for-sale	-	-	-	21	21	
Investments	-	-	-	1	1	
Other assets	-	-	-	377	377	
	230	10,547	1,519	3,926	16,222	

At 31 December 2001

ASSETS						
CZK million	Retail banking	Corporate banking	Municipalities	Others	Total	
Cash and balances with central bank	-	-	-	376	376	
Due from banks	-	-	-	2,572	2,572	
Due from customers	173	6,972	1,398	1	8,544	
Investments	-	-	-	1	1	
Other assets	-	-	-	406	406	
	173	6,972	1,398	3,356	11,899	

## 25 FINANCIAL RISKS (CONTINUED)

### c) Market risk

The Bank takes on exposure to market risks which arise from open positions in interest rate, currency and equity products.

The Bank applies a 'value at risk' ("VAR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.

### d) Derivative financial instruments

The Bank has outstanding derivative contracts, which can be analyzed as follows:

88

CZK million	31 December 2003	31 December 2002	31 December 2001
Financial derivatives with positive fair value	535	-	-
Financial derivatives with negative fair value	959	288	382

CZK million	31 December 2003		
	Nominal value	Fair value positive	Fair value negative
<b>TRADING AGREEMENTS</b>			
<b>Interest rate derivatives</b>			
Swaps	652	-	(4)
<b>Foreign exchange derivatives</b>			
Forwards	425	-	(1)
Swaps	417	1	(16)
	842	1	(17)
<b>Total</b>	<b>1 494</b>	<b>1</b>	<b>(21)</b>

## 25 FINANCIAL RISKS (CONTINUED)

### d) Derivative financial instruments (continued)

CZK million	31 December 2002			31 December 2001				
	Nominal value	Fair value positive	Fair value negative	Nominal value	Fair value positive	Fair value negative		
TRADING AGREEMENTS								
Interest rate derivatives								
Swaps	229	-	(3)	137	-	(2)	89	
Foreign exchange derivatives								
Forwards	20	1	-	-	-	-		
Swaps	39	-	-	245	-	-		
	59	1	-	245	-	-		
Total	288	1	(3)	382	-	(2)		

Fair value of trading derivatives is recognized in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific Czech accounting rules and are therefore presented above as trading derivatives with fair value gains and losses included in gains less losses from financial transactions.

## 25 FINANCIAL RISKS (CONTINUED)

### e) Currency risk

The Bank takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarizes the Bank's exposure to currency risk. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorized by currency. The item Other assets includes also pre-payments and accrued income. The item Other liabilities includes other liabilities, accruals and deferred income.

At 31 December 2003

90	<b>ASSETS</b>					
	<b>CZK million</b>	<b>CZK</b>	<b>EUR</b>	<b>USD</b>	<b>Others</b>	<b>Total</b>
	Cash and balances with central bank	234	37	8	11	290
	Due from banks	1,587	197	132	22	1,938
	Due from customers	11,201	4,257	314	214	15,986
	Other assets	758	40	1	-	799
		<b>13,780</b>	<b>4 531</b>	<b>455</b>	<b>247</b>	<b>19,013</b>
	<b>LIABILITIES AND EQUITY</b>					
	Due to banks	3,874	2,511	300	17	6,702
	Due to customers	6,786	1,728	473	45	9,032
	Liabilities from debt securities	1,695	99	16	-	1,810
	Other liabilities	413	93	1	-	507
	Equity	962	-	-	-	962
		<b>13,730</b>	<b>4,431</b>	<b>790</b>	<b>62</b>	<b>19,013</b>
	Net assets / (liabilities)	50	100	(335)	185	-
	Net off-balance sheet assets	(19,900)	(9,113)	51	(195)	(29,157)
	<b>Net open currency position</b>	<b>(19,850)</b>	<b>(9,013)</b>	<b>(284)</b>	<b>(10)</b>	<b>(29,157)</b>

## 25 FINANCIAL RISKS (CONTINUED)

### e) Currency risk

At 31 December 2002

ASSETS						
CZK million	CZK	EUR	USD	Others	Total	
Cash and balances with central bank	324	39	11	11	385	
Due from banks	2,241	71	568	23	2,903	
Due from customers	8,006	3,915	367	20	12,308	
Other assets	614	11	1	-	626	
	<b>11,185</b>	<b>4,036</b>	<b>947</b>	<b>54</b>	<b>16,222</b>	91
LIABILITIES AND EQUITY						
Due to banks	3,820	2,387	355	69	6,631	
Due to customers	5,439	1,332	526	33	7,330	
Liabilities from debt securities	627	104	27	-	758	
Other liabilities	355	184	30	12	581	
Equity	922	-	-	-	922	
	<b>11,163</b>	<b>4,007</b>	<b>938</b>	<b>114</b>	<b>16,222</b>	
Net assets / (liabilities)	22	29	9	(60)	-	
Net off-balance sheet assets	(15,432)	(5,355)	(336)	(11)	(21,134)	
<b>Net open currency position</b>	<b>(15,410)</b>	<b>(5,326)</b>	<b>(327)</b>	<b>(71)</b>	<b>(21,134)</b>	



## 25 FINANCIAL RISKS (CONTINUED)

### e) Currency risk (continued)

At 31 December 2001

92

ASSETS						
	CZK million	CZK	EUR	USD	Others	Total
Cash and balances with central bank	279	67	20	10	376	
Due from banks	2,225	5	332	10	2,572	
Due from customers	4,899	3,147	429	69	8,544	
Other assets	387	18	2	-	407	
	<b>7,790</b>	<b>3,237</b>	<b>783</b>	<b>89</b>	<b>11,899</b>	
LIABILITIES AND EQUITY						
Due to banks	2,212	1,500	430	62	4,204	
Due to customers	3,549	1,173	521	26	5,269	
Liabilities from debt securities	935	122	17	-	1,074	
Other liabilities	394	211	31	1	637	
Equity	715	-	-	-	715	
	<b>7,805</b>	<b>3,006</b>	<b>999</b>	<b>89</b>	<b>11,899</b>	
Net assets / (liabilities)	(15)	231	(216)	-	-	
Net off-balance sheet assets	(7,697)	(4,021)	(207)	(32)	(11,957)	
<b>Net open currency position</b>	<b>(7,712)</b>	<b>(3,790)</b>	<b>(423)</b>	<b>(32)</b>	<b>(11,957)</b>	

## 25 FINANCIAL RISKS (CONTINUED)

### f) Interest rate risk

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

At 31 December 2003

ASSETS							93
CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Unspe- cified	Total	
Cash and balances with central banks	290	-	-	-	-	290	
Due from banks	1,828	75	35	-	-	1,938	
Due from customers	9,439	3,274	3,320	284	(331)	15,986	
Debt securities	180	136	2	-	-	318	
Other assets	-	-	-	-	481	481	
<b>Total assets</b>	<b>11,737</b>	<b>3,485</b>	<b>3,357</b>	<b>284</b>	<b>150</b>	<b>19,013</b>	
LIABILITIES AND EQUITY							
Due to banks	1,947	1,817	2,503	435	-	6,702	
Due to customers	8,939	90	3	-	-	9,032	
Liabilities from debt securities	1,661	108	41	-	-	1,810	
Provisions	-	-	-	-	25	25	
Other liabilities	-	-	-	-	482	482	
Equity	-	-	-	-	962	962	
<b>Total liabilities and equity</b>	<b>12,547</b>	<b>2,015</b>	<b>2,547</b>	<b>435</b>	<b>1,469</b>	<b>19,013</b>	
<b>Net financial assets / (liabilities)</b>	<b>(810)</b>	<b>1,470</b>	<b>810</b>	<b>(151)</b>	<b>(1,319)</b>	<b>-</b>	

## 25 FINANCIAL RISKS (CONTINUED)

### f) Interest rate risk (continued)

At 31 December 2002

94

ASSETS							
	Within	3 - 12	1 - 5	Over	Unspe-	Total	
CZK million	3 months	months	years	5 years	cified		
Cash and balances with central banks	385	-	-	-	-	385	
Due from banks	2,767	100	35	-	-	2,902	
Due from customers	1,563	2,067	5,847	3,196	(364)	12,309	
Debt securities	-	-	227	-	-	227	
Other assets	-	-	-	-	399	399	
<b>Total assets</b>	<b>4,715</b>	<b>2,167</b>	<b>6,109</b>	<b>3,196</b>	<b>35</b>	<b>16,222</b>	
LIABILITIES AND EQUITY							
Due to banks	1,328	1,704	3,052	547	-	6,631	
Due to customers	7,085	213	31	-	-	7,329	
Liabilities from debt securities	481	240	37	-	-	758	
Provisions	-	-	-	-	38	38	
Other liabilities	-	-	-	-	543	543	
Equity	-	-	-	-	923	923	
<b>Total liabilities and equity</b>	<b>8,894</b>	<b>2,157</b>	<b>3,120</b>	<b>547</b>	<b>1,504</b>	<b>16,222</b>	
<b>Net financial assets / (liabilities)</b>	<b>(4,179)</b>	<b>10</b>	<b>2,989</b>	<b>2,649</b>	<b>(1,469)</b>	<b>-</b>	

## 25 FINANCIAL RISKS (CONTINUED)

### f) Interest rate risk (continued)

At 31 December 2001

ASSETS							
CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Unspe- cified	Total	
Cash and balances with central banks	376	-	-	-	-	376	95
Due from banks	2,372	200	-	-	-	2,572	
Due from customers	866	1,349	4,689	1,992	(352)	8,544	
Other assets	-	-	-	-	407	407	
<b>Total assets</b>	<b>3,613</b>	<b>1,549</b>	<b>4,689</b>	<b>1,992</b>	<b>55</b>	<b>11,899</b>	
LIABILITIES AND EQUITY							
Due to banks	1,165	824	2,214	1	-	4,204	
Due to customers	4,887	352	30	-	-	5,269	
Liabilities from debt securities	904	169	1	-	-	1,074	
Provisions	-	-	-	-	48	48	
Other liabilities	-	-	-	-	589	589	
Equity	-	-	-	-	715	715	
<b>Total liabilities and equity</b>	<b>6,956</b>	<b>1,345</b>	<b>2,245</b>	<b>1</b>	<b>1,352</b>	<b>11,899</b>	
<b>Net financial assets / (liabilities)</b>	<b>(3,342)</b>	<b>204</b>	<b>2,444</b>	<b>1,991</b>	<b>(1,297)</b>	<b>-</b>	

## 25 FINANCIAL RISKS (CONTINUED)

### g) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

At 31 December 2003

ASSETS						
CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Unspe- cified	Total
Cash and balances with central banks	290	-	-	-	-	290
Due from banks	1,827	76	35	-	-	1,938
Due from customers	2,085	4,378	7,584	2, 270	(331)	15,986
Debt securities	318	-	-	-	-	318
Other assets	23	-	-	-	458	481
<b>Total assets</b>	<b>4,543</b>	<b>4,454</b>	<b>7,619</b>	<b>2,270</b>	<b>127</b>	<b>19,013</b>
LIABILITIES AND EQUITY						
Due to banks	1,510	1,819	2,614	759	-	6,702
Due to customers	8,886	118	28	-	-	9,032
Liabilities from debt securities	1,661	84	65	-	-	1,810
Provisions	-	-	-	-	25	25
Other liabilities	-	-	-	-	482	482
Equity	-	-	-	-	962	962
<b>Total liabilities and equity</b>	<b>12,057</b>	<b>2,021</b>	<b>2,707</b>	<b>759</b>	<b>1,469</b>	<b>19,013</b>
<b>Net financial assets / (liabilities)</b>	<b>(7,514)</b>	<b>2,433</b>	<b>4,912</b>	<b>1,511</b>	<b>(1,342)</b>	<b>-</b>

## 25 FINANCIAL RISKS (CONTINUED)

### g) Liquidity risk (continued)

At 31 December 2002

ASSETS							
CZK million	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Unspe- cified	Total	
Cash and balances with central banks	385	-	-	-	-	385	97
Due from banks	2,768	100	35	-	-	2,903	
Due from customers	1,563	2,067	5,846	3,196	(364)	12,308	
Debt securities	-	-	227	-	-	227	
Other assets	-	-	-	-	399	399	
<b>Total assets</b>	<b>4,716</b>	<b>2,167</b>	<b>6,108</b>	<b>3,196</b>	<b>35</b>	<b>16,222</b>	
LIABILITIES AND EQUITY							
Due to banks	1,328	1,705	3,051	547	-	6,631	
Due to customers	7,086	213	31	-	-	7,330	
Liabilities from debt securities	481	240	37	-	-	758	
Provisions	-	-	-	-	38	38	
Other liabilities	-	-	-	-	543	543	
Equity	-	-	-	-	922	922	
<b>Total liabilities and equity</b>	<b>8,895</b>	<b>2,158</b>	<b>3,119</b>	<b>547</b>	<b>1,503</b>	<b>16,222</b>	
<b>Net financial assets / (liabilities)</b>	<b>(4,179)</b>	<b>9</b>	<b>2,989</b>	<b>2,649</b>	<b>(1,468)</b>	<b>-</b>	

## 25 FINANCIAL RISKS (CONTINUED)

### g) Liquidity risk (continued)

At 31 December 2001

98

ASSETS						
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Unspe- cified	Total
Cash and balances with central banks	376	-	-	-	-	376
Due from banks	2,372	200	-	-	-	2,572
Due from customers	866	1,349	4,689	1,992	(352)	8,544
Debt securities	-	-	-	-	-	-
Other assets	-	-	-	-	407	407
<b>Total assets</b>	<b>3,614</b>	<b>1,549</b>	<b>4,689</b>	<b>1,992</b>	<b>55</b>	<b>11,899</b>
LIABILITIES AND EQUITY						
Due to banks	1,164	824	2,215	1	-	4,204
Due to customers	4,887	352	30	-	-	5,269
Liabilities from debt securities	904	169	1	-	-	1,074
Provisions	-	-	-	-	48	48
Other liabilities	-	-	-	-	589	589
Equity	-	-	-	-	715	715
<b>Total liabilities and equity</b>	<b>6,955</b>	<b>1,345</b>	<b>2,246</b>	<b>1</b>	<b>1,352</b>	<b>11,899</b>
<b>Net financial assets / (liabilities)</b>	<b>(3,341)</b>	<b>204</b>	<b>2,443</b>	<b>1,991</b>	<b>(1,297)</b>	<b>-</b>

## 26 SUBSEQUENT EVENTS

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements of the Bank as at 31 December 2003.

These financial statements have been approved for submission to the general meeting of shareholders by the Board of Directors.

99

29 March 2004

Signature of the statutory representative

Person responsible  
for accounting

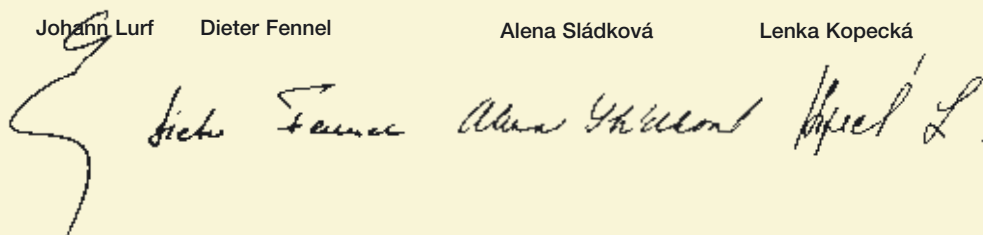
Person responsible for the financial  
statements preparation

Johann Lurf

Dieter Fennel

Alena Sládková

Lenka Kopecká

The image shows four handwritten signatures in black ink, arranged horizontally. From left to right, they correspond to the names listed above: Johann Lurf, Dieter Fennel, Alena Sládková, and Lenka Kopecká. The signatures are written in a cursive, flowing style.



QUANTITATIVE INDICES				
CZK '000	2003	2002	2001	
Return on average assets (ROAA)	0.52%	0.25%	0.34%	
Return on own average equity (ROAE)	10.83%	4.41%	5.71%	
Assets per employee	52,234	47,573	38,759	
Administrative costs per employee	1,201	1,160	1,029	
Net profit per employee	260	104	124	
<b>Capital structure</b>				
Tier 1	831,274	886,721	677,122	
Paid-up share capital	750,000	750,000	650,000	
Paid up share premium	100,000	100,000	-	
Legal reserve funds	12,155	10,377	8,472	
Retained earnings from previous years	4,702	26,344	18,650	
Tier 2	22,676	36,294	48,392	
Provisions for general risks	22,676	36,294	48,392	
Deductible items	35,583	23,130	17,047	
Intangible assets	35,583	23,130	17,047	
Capital	853,951	899,885	708,467	
<b>Capital requirements</b>				
Capital requirement A	658,134	637,911	450,881	
Capital requirement B	18,363	8,642	4,370	
Capital requirement relating to credit risk of trading portfolio	11,233	4,795	57	
<b>Capital adequacy</b>	<b>10.1%</b>	<b>11.13%</b>	<b>12.45%</b>	

# Report on Relationships

In accordance with § 66a(9), Commercial Code"

## The relationship between the controlled and controlling entity

The company Volksbank CZ, a.s. is a part of the international financial group Österreichische Volksbanken-Aktiengesellschaft ("ÖVAG"). Volksbank CZ, a.s. operates in the Czech market as a bank as defined by the Banking Act, Law no. 21/1992 Coll., while it is a controlled entity under the definition of the Commercial Code. The controlling entity is ÖVAG, a company controlling Volksbank CZ, a.s. indirectly through Volksbank International AG.

In April 1997, Volksbank CZ, a.s. entered into a co-operation agreement with ÖVAG. Pursuant to the agreement, Volksbank CZ, a.s. is allowed, amongst others, to use all know-how, as well as international representation including any advertising activities of the ÖVAG financial group. In return for the above, Volksbank CZ, a.s. has been paying charges at an appropriate amount.

ÖVAG provided bank guarantees in 2003 for the loans extended by Volksbank CZ, a.s. Volksbank CZ, a.s. has been paying charges for the above guarantees at the levels that are usual within the ÖVAG Group.

In 2003 Volksbank CZ, a.s. concluded the ISMA Global Master Repurchase Agreement with ÖVAG on the basis of which individual repo transactions are concluded with ÖVAG using standard terms and conditions. With respect to individual repo and reverse repo transactions, Volksbank CZ, a.s. paid or received interest at the customary rates in use within the ÖVAG group.

In addition Volksbank CZ, a.s. concluded the following agreements with ÖVAG: agreements concerning the granting / acceptance of interbank deposits, for which Volksbank CZ, a.s. paid or received interest at the customary rates in use within the ÖVAG group; current account agreements, concluded according to the standard terms and conditions in use for other correspondent banks, on the basis of which agreements Volksbank CZ, a.s. paid the customary fees and received the customary interest rates in use within the ÖVAG group, as well as agreements in respect of spot and derivatives trading which were concluded on the basis of standard terms and conditions. In February 2003 an appendix to a lending agreement was concluded between Volksbank CZ, a.s. and ÖVAG on the basis of which Volksbank CZ, a.s. paid an appropriate fee.

Volksbank CZ, a.s. also concluded deposit lien agreements in favour of Volksbank CZ, a.s. These agreements were concluded using standard terms and conditions.

No detriment or loss has resulted for Volksbank CZ, a.s. from the business relationships between Volksbank CZ, a.s. and its controlling entity.

## Relationships with the other controlled entities

Furthermore, Volksbank CZ, a.s. has business relationships with businesses or financial entities that are also controlled by ÖVAG. These predominantly include banks in Slovakia, Hungary, Croatia, Slovenia, Romania, Bosnia and Herzegovina which are members of the ÖVAG group. Volksbank CZ, a.s. maintains usual banking contacts and concludes usual banking deals with them. No detriment or loss has resulted for Volksbank CZ, a.s. from the business relationships with the above entities.

Volksbank CZ, a.s. has also business connections with VB Leasing CZ, spol. s r. o., VB Komunální poradenství a.s., Niederösterreichische Landesbank – Hypothekenbank AG, Volksbanken Kapitalanlagegesellschaft m.b.H., Immoconsult Leasinggesellschaft m.b.H. Group, VB ManagementBeratung GmbH., VB Pojišťovací servis, s.r.o. and DZ Bank AG.

These involve normal banking and credit services. Interest rates on the loans rendered to the above companies include the costs of financing such loans and a certain margin.

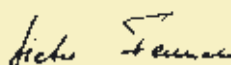
No detriment or loss has resulted for Volksbank CZ, a.s. from the business relationships with the above entities. ÖVAG required from Volksbank CZ, a.s. neither adoption of any measure nor entering into any contract that would be to the latter's detriment, as defined by § 66a(14), Commercial Code.

101

Brno, 29 March 2004

  
Václav Vitha

  
Johann Lurf

  
Dieter Fennel

# Report of Independent Auditors



ENGLISH TRANSLATION

PricewaterhouseCoopers Audit, s.r.o.  
Kalešinská 43/466  
120 00 Prague 2  
Czech Republic  
Telephone +420 251 151 111  
Facsimile +420 251 156 181

## REPORT OF INDEPENDENT AUDITORS

### TO THE SHAREHOLDERS OF VOLKSBANK CZ, A. S.

We have audited the accompanying balance sheet of Volksbank CZ, a. s. as at 31 December 2003, the related income statement, statement of changes in equity and notes for the year then ended presented in the annual report of the Company on pages 36 - 99 (hereinafter "the financial statements"). The financial statements and underlying accounting records are the responsibility of the Company'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 Auditing Standards of the Chamber of Auditors of the Czech Republic. 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, 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 Volksbank CZ, a. s. as at 31 December 2003, 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 Company on pages 8 - 35 and 100 which does not form part of the financial statements for the year ended 31 December 2003, is consistent with the audited financial statements of the Company. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.



Volksbank CZ, a.s.  
Report of Independent Auditors

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party Österreichische Volksbanken- Aktiengesellschaft and between the Company and the other parties controlled by Österreichische Volksbanken- Aktiengesellschaft on page 101 (hereinafter "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.

103

29 March 2004

PricewaterhouseCoopers Audit, s.r.o.  
represented by

Paul Cunningham  
Partner

Marek Richter  
Auditor, Licence No. 1800

# *Report of the Supervisory Board*

**In the business year 2003, the Supervisory Board reviewed in its two meetings held on 23 May and 1 December 2003 the correctness, appropriateness and economic efficiency of the management of business activities. Further, the Supervisory Board acknowledged the interim reports by the Board of Directors and issued resolutions as necessary for the business year 2003.**

**The financial statements for the year ended 31 December 2003 were examined by the auditing company PricewaterhouseCoopers Audit, s.r.o. The auditors issued an unqualified audit opinion.**

**The Supervisory Board acknowledged the Report presented to it by the Board of Directors and reviewed the Report on Relationships in accordance with § 66a(9) of the Commercial Code. Based on the Report by the Board of Directors, the Supervisory Board refers its affirmative appraisal to the General Meeting of Shareholders and recommends that relevant resolutions be adopted.**

**The Supervisory Board expresses thanks to the Board of Directors and all employees of the Bank for the efforts made in 2003.**

**Brno, May 2004**

**VDir. Manfred Kunert  
Chairman of the Supervisory Board**





**Jitka Gottfriedová (1982)**

„Levitaj“ - detail

- 40 x 40 cm, Oil painting on wood, 2003





**Jitka Gottfriedová (1982)**

„The Sun“

- 40 x 40 cm, Oil painting on wood, 2003



## S E R V I C E

Austria

Bosnia and Herzegovina

Croatia

## CZECH REPUBLIC

France

Hungary

Italy

Malta

Romania

Slovakia

Slovenia

Serbia - Montenegro



### **INTERNAZIONALIZZAZIONE DEL SETTORE EUROPEO DELLE BANCHE POPOLARI IN ESPANSIONE**

Così come la Volksbank Austria Spa (ÖVAG) ed insieme ad essa il settore austriaco delle banche popolari, ha costruito la base, con la costituzione di banche affiliate nel centro est europa, per poter offrire alle nuove aziende austriache che si sono localizzate negli stati nel sud, est e nord dell'Austria, tutti i servizi bancari, anche nell'anno scorso gli istituti di settore, tedeschi, francesi ed italiani, hanno saputo avvalorare nel modo giusto l'importanza della rete delle nostre banche affiliate, riguardo il servizio d'assistenza della clientela.

Anche nel 2003 è continuata la tendenza come negli ultimi anni, di usufruire dei grandi vantaggi derivanti dagli insediamenti di produzione nell'est europa. E pertanto sia le multinazionali così come le imprese di piccole e medie dimensioni hanno intensificato la loro penetrazione in questi mercati mediante nuove acquisizioni societarie oppure mediante ristrutturazioni d'azienda. Per finanziamenti di grandi dimensioni, per esempio per multinazionali francesi le singole banche affiliate hanno partecipato ai consorzi di finanziamento, sfruttando così la possibilità di avere un primo approccio per una relazione completa con il cliente, mediante ricorsi al credito. E da sottolineare, la buona collaborazione tra la Groupe Banques Populaires, il rappresentante a Parigi, la coordinazione del French Desk a Vienna ed il French Desk nel paese di sede.

Significativo è stato lo sviluppo del settore dei clienti italiani nelle banche affiliate. Su questo ha influito il tradizionale legame della Banca Popolare dell'Emilia Romagna e della Banca Popolare di Vicenza, con l'industria italiana settentrionale; questo Trend è stato rafforzato dalla positiva azione della nostra filiale di Verona che ha contribuito alla crescita generale del volume d'affari. Non vi è stato soltanto un risultato derivante dal trasferimento di clientela, ma anche dall'utilizzo di strumenti di garanzia, quali le garanzie bancarie, che hanno ridotto al minimo i fattori di rischio nei casi di assunzione d'impegno verso la clientela.

Il contatto diretto con la clientela ed una stretta collaborazione con tutti gli istituti del settore francese delle banche popolari, così come anche le presentazioni ad assemblee con clienti del settore bancario tedesco ed italiano hanno sottolineato un'altra volta l'idea di una cooperazione internazionale nel settore delle banche popolari, che ha avuto effetti anche durante le diverse riunioni della Confederation Internazionale des Banques Populaires (CIBP).

Se i collaboratori del desk tedesco, italiano e francese qualche anno fa erano ancora impegnati con richieste provenienti dai rispettivi paesi, per il 2003 si può dire che a parte la risposta ad una grande quantità di richieste provenienti sia dal campo imprenditoriale come anche dal settore internazionale delle banche popolari, è stato visitato un grande numero di clienti nei rispettivi stati del centro est europa. Inoltre sono state approvate una significativa quantità di richieste di credito, ed è stata assicurata l'esecuzione regolare delle stesse e lì dove si sono verificate problematiche legate ad operazioni di pagamento, queste sono state risolte con l'aiuto di un back office team altrettanto poliglotta, tenendo in massima considerazione il legame e il soddisfacimento della clientela.

Con l'adesione nel 2004 di alcuni stati importanti del centro est europa all'unità europea e da attendersi, che per le numerose novità diverse che si presenteranno, il trend della globalizzazione al continente europeo continuerà e che per questo verrà fatto ricorso, in dimensioni crescenti, anche all'offerta di servizi della ÖVAG, delle sue banche affiliate all'estero, dei desk internazionali, in collaborazione con le banche popolari tedesche, francesi e italiane.

Dott. Raimund Solonar  
SVP, International Business Development

### **INTERNALISATION CROISSANTE DES BANQUES POPULAIRES EUROPEENNES**

Par la création de filiales bancaires dans les états d'Europe centrale, la Österreichische Volksbanken AG (ÖVAG) et avec elle l'ensemble des Banques Populaires autrichiennes, ont donné accès aux entreprises autrichiennes s'implantant dans les pays au sud, à l'est et au nord de l'Autriche, à un ensemble homogène de services bancaires. A l'instar de leurs homologues autrichiennes, les Banques Populaires allemandes, françaises et italiennes ont parfaitement su au cours de l'année passée, tirer profit de ce réseau de filiales pour accompagner et servir leur clientèle en Europe centrale.

La tendance notable de ces dernières années, de profiter des avantages d'implantations industrielles en Europe de l'est, fut perpétrée en 2003. La pénétration de ces marchés s'est intensifiée de la part tant de grandes sociétés multinationales que de PME occidentales, à l'occasion soit de rachats d'entreprises, soit de créations nouvelles. Lors de grandes opérations de financement, par exemple au profit de multinationales françaises, nos filiales ont ainsi participé aux crédits syndiqués, ce qui leur permet de jeter les prémices de relations clientèle globales. A cet égard, nous pouvons souligner l'exemplarité de la coopération entre les différentes entités du Groupe Banques Populaires en France, notre représentant à Paris, notre coordination des desks à Vienne et les différents desks français dans les pays cibles.

Les croissances enregistrées provenant de la clientèle d'origine italienne de nos filiales furent très significatives. Le traditionnel profond ancrage de la Banca Popolare dell'Emilia Romagna et de la Banca Popolare di Vicenza auprès des PMI d'Italie du Nord y contribua positivement, non seulement par l'intermédiation d'un grand nombre de relations, mais également par l'implémentation d'outils de sécurisation tels que les garanties bancaires permettant de minimiser les risques inhérents aux engagements de la clientèle.

Le concept d'une coopération internationale des différentes organisations de Banques populaires

fut sans cesse souligné, tant en France lors de contacts directs avec la clientèle en collaboration avec les entités du Groupe Banques Populaires, que lors de présentations en Italie ou lors de manifestations clientèle avec les Volksbanken allemandes. De même trouvait-il sa résonance concrète lors des très diverses réunions de la Confédération internationale des Banques Populaires (CIBP).

Alors que ces dernières années, nos collaborateurs des desks allemands, italiens et français traitaient principalement un grand nombre de demandes d'informations émanant de ces différents pays, il apparaît qu'en 2003, parallèlement à un flot de demandes d'information toujours important, de nombreuses visites de clients ont été menées dans les pays d'Europe centrale, par démarche spontanée ou par intermédiation du réseau international des Banques populaires. Ceci engendrant la rédaction d'un grand nombre de demandes de crédit, la mise en place efficace de ces derniers et éventuellement le solutionnement des inévitables problèmes pouvant survenir, comme par exemple lors d'opérations de paiement. Pour le solutionnement de problèmes, nos collaborateurs pouvaient compter sur l'aide efficace de back-offices également multilingues et ainsi atteindre l'objectif majeur, à savoir la fidélisation de la clientèle par la satisfaction qui lui est apportée.

Avec l'entrée dans l'Union européenne en 2004 de plusieurs importants pays d'Europe centrale apparaîtront de nouveaux aspects de la globalisation sur le continent européen, ce qui entraînera un recours croissant, par la coopération avec les Banques populaires allemandes, françaises et italiennes, à l'ensemble des services bancaires proposés par la ÖVAG et par ses filiales bancaires et leurs desks internationaux.

Dr. Raimund Solonar  
Senior Vice President, Développement des Affaires Internationales

# Our Network

## HEAD OFFICE

### **Brno**

M-palác, Heršpická 5  
658 26 Brno  
Tel.: +420 543 525 111  
Fax: +420 543 525 555

## REGIONAL HEAD OFFICE

### **Praha**

Lazarská 8  
120 00 Praha 2  
Tel.: +420 221 969 911  
Fax: +420 221 969 951

## BRANCHES

### **Brno**

M-palác, Heršpická 5  
658 26 Brno  
Tel.: +420 543 525 222  
Fax: +420 543 525 553

### **Brno**

Palackého 38  
612 00 Brno  
Tel.: +420 549 122 611  
Fax: +420 549 122 619

### **Brno**

Panská 2/4  
602 00 Brno  
Tel.: +420 542 424 911  
Fax: +420 542 424 919

### **Brno**

Zvonařka, 658 33 Brno  
Tel.: +420 543 245 030  
Fax: +420 543 163 379

### **České Budějovice**

nám. Přemysla Otak. II. č. 27  
370 01 České Budějovice  
Tel.: +420 386 105 811  
Fax: +420 386 105 829

**BRANCHES****Hradec Králové**

Na Kropáčce 30  
(Velké náměstí)  
500 03 Hradec Králové  
Tel.: +420 495 000 361  
Fax: +420 495 000 351

**Jihlava**

Benešova 15  
586 01 Jihlava  
Tel.: +420 567 584 511  
Fax: +420 567 584 519

**Kaplice**

Linecká 218  
382 41 Kaplice  
Tel.: +420 380 309 011  
Fax: +420 380 309 019

**Liberec**

1. máje 59/5  
460 01 Liberec  
Tel.: +420 482 428 341  
Fax: +420 482 428 355

**Olomouc**

Křížkovského 5  
771 11 Olomouc  
Tel.: +420 585 208 311  
Fax: +420 585 208 355

**BRANCHES****Ostrava**

28. října 3138/41  
702 00 Ostrava  
Tel.: +420 595 133 411  
Fax: +420 595 133 419

**Plzeň**

Anglické nábřeží 12  
301 00 Plzeň  
Tel.: +420 377 350 211  
Fax: +420 377 350 219

**Praha**

Spálená 8  
110 00 Praha  
Tel.: +420 224 900 111  
Fax: +420 224 900 155

**Praha**

Strossmayerovo nám. 11/966  
170 00 Praha 7  
Tel.: +420 220 410 611  
Fax: +420 220 410 619

**Praha**

Valentinská 20/10  
(Kaprova ulice)  
110 00 Praha 1  
Tel.: +420 221 778 711  
Fax: +420 221 778 719

**BRANCHES****Praha**

Václavské náměstí 1  
110 00 Praha  
Tel.: +420 224 490 282  
Fax: +420 224 490 289

**Praha**

Vinohradská 40  
120 00 Praha  
Tel.: +420 222 922 811  
Fax: +420 222 922 819

**Zlín**

Štefánikova 5293  
760 01 Zlín  
Tel.: +420 577 002 111  
Fax: +420 577 002 155

**Znojmo**

Mariánské náměstí 6  
669 02 Znojmo  
Tel.: +420 515 282 511  
Fax: +420 515 282 519

# The VOLKSBANK - Group in Central and Eastern Europe

 **VOLKSBANK**

 **VB LEASING**

 **IMMOCONSULT**

## Czech Republic

Volksbank CZ, a. s.

M-palác, Heršpická 5

CZ-658 26 Brno

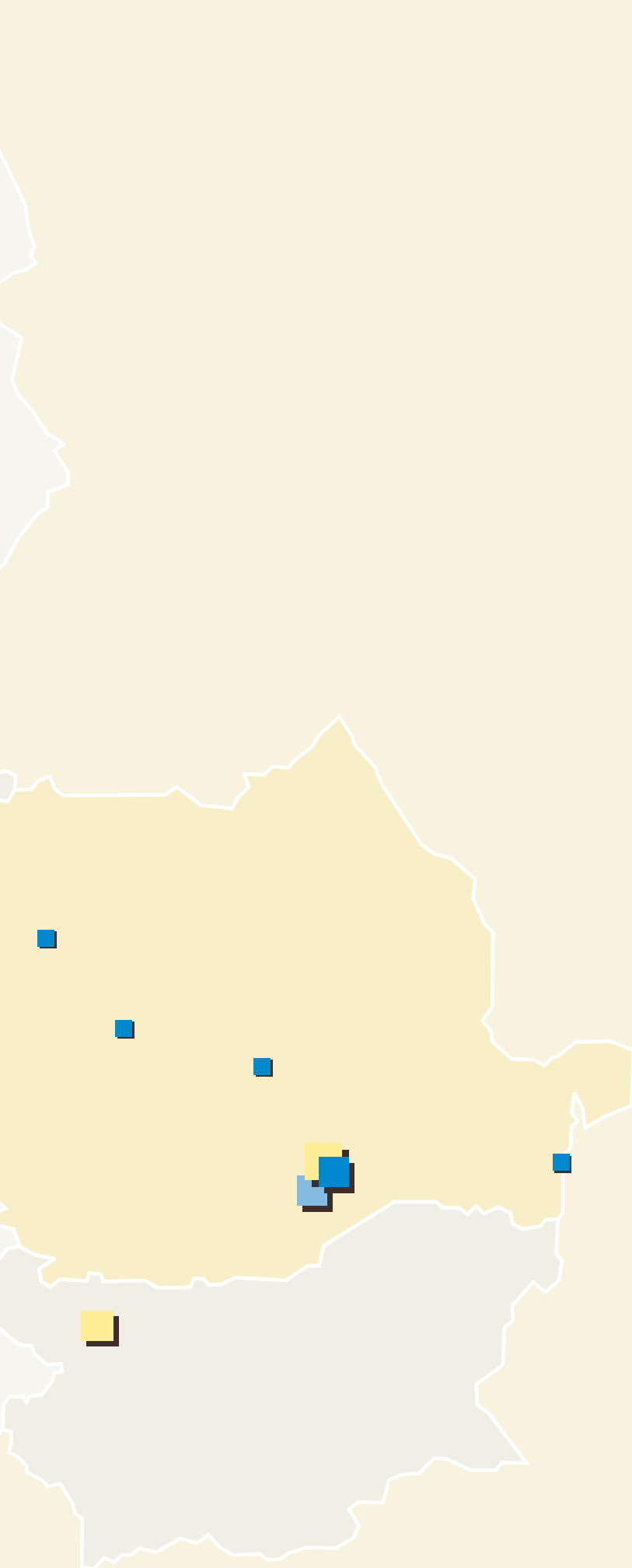
Tel.: +420 543 525 111

Fax: +420 543 525 555

mail@volksbank.cz

www.volksbank.cz





<b>Austria</b>	<b>Bosnia and Herzegovina</b>
Österreichische Volksbanken-AG Peregringasse 3 A-1090 Vienna Tel.: +43(0)50 4004-0 Fax: +43(0)50 4004-3682 www.oevag.com	Volksbank BH d.d. Fra Andela Zvizdovića 1 BH-71000 Sarajewo Tel.: +387/33 295 601 Fax: +387/33 295 603 www.volksbank.ba
<b>Croatia</b>	<b>France</b>
Volksbank d.d. Varsavska 9 HR-10000 Zagreb Tel.: +3851/4801 300 Fax: +3851/4801 365 www.volksbank.hr	Österreichische Volksbanken-AG Bureau de Liaison Paris 45, rue Saint-Dominique F-75007 Paris Tel.: +33/1/44 18 98 75 Fax: +33/1/45 51 40 76 didier.harand@oevag.volksbank.at
<b>Italy</b>	<b>Malta</b>
Österreichische Volksbanken-AG sede italiana Via Enrico Fermi 11 I-37135 Verona Tel.: +39/045/969 5851 Fax: +39/045/969 5899 www.oevag-volksbank.it	Volksbank Malta Ltd. 53 Dingli Street SLM-09 Sliema Tel.: +356/2349 4000 Fax: +356/2133 6090 www.volksbank.com.mt
<b>Hungary</b>	<b>Romania</b>
Magyarországi Volksbank Rt. Rákóczi út 7 H-1088 Budapest Tel.: +361/328 6666 Fax: +361/328 6660 www.volksbank.hu	Volksbank Romania S.A. Str. Coltei 8, Sector 3 RO-70446 Bukarest Tel.: +401/303 93 04 Fax: +401/303 93 93 www.volksbank.com.ro
<b>Slovakia</b>	<b>Slovenia</b>
Ludová Banka, a.s. Vysoká 9 SK-810 00 Bratislava Tel.: +421/2/5965 1111 Fax: +421/2/5441 2453 www.luba.sk	Volksbank-Ljudska Banka d.d. Dunajska 128a SLO-1000 Ljubljana Tel.: +3861/530 74 00 Fax: +3861/530 75 50 www.volksbank.si
	<b>Serbia - Montenegro</b>
	Volksbank a.d., Bulevar umetnosti 16a SCG-11070 Beograd Tel.: +381 11 311 4787 Fax: +381 11 130 159 www.volksbank.co.yu

**Publisher:**

Volksbank CZ, a. s.

M-Palác, Heršpická 5,

CZ-658 26 Brno

**IMPRESSUM**

**Production:**

BonnyPress

Graphic Studio

Heinrichova 16,

CZ-602 00 Brno





**Jitka Gottfriedová (1982)**

„Zátiší“

• 60 x 60 cm, olej na plátně, 2003





---

---

---

---

---