



**ČESKOMORAVSKÁ
ZÁRUČNÍ A ROZVOJOVÁ
BANKA, a.s.**

Annual report 2002



**ČESKOMORAVSKÁ
ZÁRUČNÍ A ROZVOJOVÁ
BANKA, a.s.**

We are a Development Bank in the Czech Republic. We contribute to the implementation of the economic policy of the Government of the Czech Republic and its regions and to the progress and improvement of infrastructure and economic sectors, which have been approved for assistance.

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The Bank also publishes Annual Report in Czech language which contains the financial statements prepared according to the Czech Accounting Standards.

Chairman's Statement



Distinguished clients, business partners and shareholders,

In 2002, the Bank entered into the second decade of its existence. The successful commercial and economic development of the Bank continued throughout the year. There were also significant changes in internal processes, with the main emphasis placed on risk management.

The decisive factors for successful financial and economic results of the Bank were a positive development in requirements on reserves and provisions, especially in the area of guarantee business, and the overall business development. The Bank was able to generate an adequate profit to pay dividends to its shareholders and, at the same time, to cover fully requirements on reserves and provisions.

Thanks to the utilisation of a significant portion of a loan obtained from Kreditanstalt für Wiederaufbau, Germany, together with an EU grant, the Bank was able to ensure a smooth operation of guarantee and loan schemes and significantly expand its START Programme designed for start-ups. The experience of 1997 helped the Bank quickly respond to the floods in August last year and implement an assistance programme designed for businesses affected by the floods in 2002.

An important component of the Bank's lending business were loans provided under the programme for water sector projects, using funds from the European Investment Bank and implemented in close co-operation with the Ministry of Agriculture. The co-operation with the State Fund for Transport Infrastructure Development also continued in a very satisfying manner. In the course of the year the involvement of the Bank in the implementation of the Programme of Repairs of Pre-cast Concrete Residential Buildings, funded from the State Fund for Housing Development, increased significantly.

Over the past year the Bank intensified its communication with the regions and the first outcome of this effort was the establishment and successful operation of a regional office in České Budějovice.

The Bank's capability in the area of efficient and effective risk management and business development was underpinned by many organisational changes first at the Head Office and later at the branches. At the same time, Bank's internal regulations were extensively modified. Many significant improvements in IT implementation in business operations, completed at the end of last year, will play an important role in the future of the Bank.

In 2002, the Bank created many important prerequisites for its future development. These are first of all new negotiated contracts for management of funds targeted at infrastructure programmes, a successful launch of a new guarantee product and new activities currently developed in co-operation with some regions. The increasing financial strength of the Bank, together with confidence in the creativity and commitment of the Bank's staff shown in the previous years, are good reasons to be optimistic and have high expectations for next year.

A handwritten signature in blue ink, appearing to read 'Ladislav Macka'. The signature is fluid and cursive.

Ladislav Macka

Chairman of the Board of Directors
and Chief Executive Officer

General Information about the Bank

ESTABLISHED: on 28 January, 1992

BANK LICENCE: Full banking licence, foreign exchange licence (keeping FX accounts for individuals and corporate bodies and FX deposits with banks licensed in the Czech Republic and FX trading on the Bank's own account or client's accounts with the exception of trading in derivatives under Section 8a of the Securities Act No. 591/1992, Coll.)
Security Trader Licence under Section 45, Paragraph 1 of the Securities Act No. 591/1992, Coll.

SHAREHOLDERS: Ministry of Industry and Trade of the Czech Republic (24.25 %)
Ministry for Regional Development of the Czech Republic (24.25 %)
Ministry of Finance of the Czech Republic (23.83 %)
Česká spořitelna, a.s. (13.00 %)
Komerční banka, a.s. (13.00 %)
Československá obchodní banka, a.s. (1.67 %)

KEY INDICATORS ¹

	Unit	2002	2001	2000	1999	1998
Total assets	CZK million	89,756.9	71,918.1	45,023.9	18,093.2	11,482.5
Liabilities	CZK million	86,081.9	68,782.1	42,450.6	15,917.2	9,598.0
Equity ²	CZK million	3,674.7	3,136.0	2,573.3	2,176.0	1,884.5
Share Capital	CZK million	1,975.8	1,780.0	1,400.0	1,100.0	890.0
Net Profit after Tax	CZK million	534.9	568.0	401.6	296.4	231.0
Portfolio of Guarantees	CZK million	7,372.0	6,381.3	5,573.6	5,144.2	4,566.0
Capital Adequacy	%	21.7	17.2	13.1	16.8	21.0
Average Number of Employees	Persons	252	246	235	221	217
Branch Offices	Number	5	5	5	5	5

¹ In accordance with national accountancy standards

² Without hedge reserve in equity

Governing Bodies

BOARD OF DIRECTORS

Chairman:	Ladislav Macka
Vice-Chairman:	Pavel Weiss
Board members:	Jiří Jirásek Lubomír Rajdl Jan Ulip

SUPERVISORY BOARD

Chairman:	Václav Polák, for the Ministry of Industry and Trade, Chairman since 3 October 2000, Member of the Supervisory Board since 6 June 2000;
Vice-chairman:	Jiří Eigel, for Komerční banka, a.s., Vice-chairman from 25 September 2001 to 26 February 2002, member of the Supervisory Board from 29 September 1998 to 25 September 2001; Heinz Knotzer, for Česká spořitelna, a.s., Vice-chairman since 11 June 2002, member from 5 June 2001 to 11 June 2002;
Board members:	Jaroslav Gacka, for the Ministry for Regional Development, since 6 June 2000; Eduard Janota, for the Ministry of Finance, since 9 June 1998; Pavel Jiráček, for Komerční banka, a.s., since 11 June 2002; Václav Kupka, employees representative, since 26 September 2000; František Komrška, for the Ministry of Industry and Trade, since 11 June 2002; Jana Šindelářová, employees representative, since 11 July 2001; Josef Vaník, employees representative, since 11 July 2001.

Economic Environment and Its Impact on the Bank's Business

The end of the negotiations with the EU on accession and the good opinion the EU institutions have on the Czech attainment are a clear reflection of the positive external view of the Czech economy and its development. However, the potential dates for joining the monetary union under discussion indicate that it will be necessary to resolve the problems the Czech economy is currently struggling with prior to full integration into the European economic area. In 2002 some of them turned out to be even more serious thus pointing out the need to deal with them without any delay.

As a consequence of the slow rate of growth of the global economy, especially in Germany, the Czech rate of economic growth also slowed down in last year. Gross Domestic Product in fixed prices increased by 2 % against 2001. Unemployment climbed to 9.8% at the end of 2002. The inflation rate was down at 1.8 %.

The destructive impact of floods in summer 2002 not only made the situation in public funds worse, but it also adversely effected all economic sectors and required more funds for lending to be arranged abroad to ensure a rapid recovery of the damaged economic infrastructure.

The Czech National Bank responded to the slowing economic growth and the Czech currency exchange rate development by interventions in the financial market gradually reducing the basic interest rate down to 2.75 %. Short-term interest rates for less than a year went down from 4.40 % to 2.55 % p.a. at the end of 2002. Long-term interest rates marked a similar development when the yield profile started to be flatter and ten-year interest rate swaps went down from 5.60 % to 4.40 % p.a.

The total volume of loans in the economy reached CZK 1,735.2 billion that was an increase of 11.2 % against 2001. The average interest rate on new loans provided in 2002 decreased to 6.1 % p.a. for medium-term loans and to 6.2 % p.a. for long-term loans. For small and medium-sized enterprises these interest rates were by 1 – 2 percentage points higher on average.

The completed privatisation of the banking sector increased the interest of some banks in the SME sector. The required prudence in lending and slow global and domestic economic growth inhibited lending to SMEs.

The Bank's business was still significantly influenced by the availability of funds provided from the State Budget and other sources for the support of SME and housing improvement; the overall development in these two sectors had an impact on lending activities as well.

As of 31 December 2002 the number of small and medium-sized enterprises was 813,805, an annual increase of 9 % over the previous year. Of the total number of businesses in the Czech Republic, 99.8 % were SMEs.

The importance of the SME sector for the Czech economy can be demonstrated by the following statistics for 2002. SMEs with less than 250 employees employed 60.9 % of all employees, an increase of 1.2 % against 2001. The increase in employment was in manufacturing, retail and services. The SME share of the total output of the national economy went up by 0.6 % compared with 2001 and value added by 5.7 % (see Table 1). SMEs share of total exports reached 34.2 % and of imports it was 50.3 %.

**Table 1:
Output and Value Added Produced in SMEs in 2002**

Sector	Output		Value Added	
	CZK million	Share of SME %	CZK million	Share of SME %
Manufacturing	834,719	34.79	233,623	37.00
Building Industry	239,759	66.79	57,049	72.87
Retail	446,934	87.06	188,097	85.18
Restaurants, Accommodation	71,926	86.89	16,478	81.40
Transport	179,481	45.21	50,733	31.24
Financial Services	30,243	22.41	10,224	12.49
Services	431,693	86.41	169,494	82.00
Agriculture	123,000	84.25	35,500	82.56
Total	2,357,755	52.02	761,198	52.69

Source: Ministry of Industry and Trade

The disproportion between the funds available and the demand for funding of SMEs, adoption of a new law on SME support and concentration of the responsibility for this sector at the Ministry of Industry and Trade resulted, late in 2002, in a change in the terms and conditions of support schemes for SMEs and a reduction of financial assistance in the form of subsidised interest.

Housing development recovered slightly due to reduced interest rates and better conditions for funding housing by mortgage loans. In 2002 the construction of nearly 34 thousand flats started and about 27.4 thousand flats were completed. There were 35,097 building permits issued. Although a programme targeted at the repair of pre-cast concrete residential buildings was launched, the pace of its implementation was lagging behind the need for repairs of this significant portion of the housing stock.

An important change, the full impact of which will be more obvious in 2003, was the abolition of district authorities and the transfer of their responsibilities to municipalities. In these circumstances the importance of well functioning regions increased even more. In spite of limited financial sources the regions shaped their visions for future development focused, among other issues, on the creation of better conditions for business development.

Financial Statement for 2002³

Table 2:
Financial Highlights of the Bank for 1998 - 2002

	Unit	2002	2001	2000	1999	1998
Total Balance Sheet	CZK million	89,757	71,918	45,024	18,093	11,483
Assets: Deposits with/Loans to banks	CZK million	45,139	18,402	7,261	5,166	3,280
Treasury Bills	CZK million	4,416	9,576	3,652	830	640
Bonds	CZK million	8,201	15,092	4,304	5,055	4,909
Payments Pursuant to Guarantees						
Obligations and Other Classified Claims ⁴	CZK million	870	947	742	337	159
Liabilities: Equity ⁵	CZK million	3,675	3,136	2,573	2,176	1,885
Outer Resources	CZK million	86,896	68,782	42,451	15,917	9,598
of which: Provisions	CZK million	2,804	2,727	2,505	2,215	1,708
Off-balance						
Sheet: Guarantees Issued	CZK million	7,372	6,381	5,574	5,144	4,566
Subsidies Committed	CZK million	1,260	996	1,193	1,332	1,675
Total Income	CZK million	6,119	5,056	3,204	3,291	3,437
of which: from Securities and Interbank Operations	CZK million	1,448	1,756	1,359	1,539	1,859
from Operations with Clients ⁶	CZK million	2,246	676	613	549	484
Total expenses	CZK million	5,584	4,488	2,802	2,995	3,206
of which: Net Additions to Reserves						
Provisions for Risks ⁷	CZK million	254	332	517	747	741
Net Profit after Tax	CZK million	535	568	402	296	231
Capital Adequacy	%	21.7	17.2	13.1	16.8	21.0

In comparison with previous year, the profit after tax decreased by 6 % to CZK 535 million that is CZK 2.1 million per employee. Annual return on average equity and annual return on average assets was 16 % and 0.8 % respectively. Equity increased by 17.2 % and amounted to CZK 3.7 billion. The lower equity increase (in 2001 it was 21.9 %) is due to the dividend payment of CZK 341 million in 2002 whilst in the previous years nearly the entire profit was invested into the share capital and additions to the reserve fund. On the other hand, the accounting for deferred tax receivable in the amount of CZK 350 million had a positive impact on the equity increase.

Net additions to reserves for risk coverage totalled CZK 254 million that is CZK 78 million less than in 2001. The direct cost of the increased credit risk coverage was CZK 90 million that is CZK 69 million less than in the previous year.

At the end of 2002 all potential losses were fully covered by reserves and provisions in the amount complying with the relevant Czech and international standards and the total value of reserves and provisions to cover individually classified credit risk exposures amounted to CZK 3 billion. In addition to that, the Bank had a general reserve for credit risk exposures in the amount of CZK 1,090 million and a reserve fund of CZK 760 million.

The total assets increased by 25 % in 2002 and their net value reached CZK 90 billion at the year end. On the asset side the amount of receivables due from banks including Czech National Bank went up. This increase was financed by the increase of payables to clients.

On the asset side, the Bank maintained a portfolio of financial investments of CZK 58 million (65 % of assets), mainly placed as deposits with banks (51 % of assets), government bonds, bonds issued by selected banks and com-

³ In accordance with national accountancy standards

⁴ Net of provisions

⁵ Without hedge reserve in equity

⁶ Since 2002, income from transactions with the government is included

⁷ Additions to reserves and provisions for risks increased by the written-off debts in the current year

panies, treasury bills (14 % of assets). An important item in assets was the receivables due from the government (26 % of assets) and loans to clients (6 % of assets). The total ratio of non-earning assets to net assets went to 1 %.

On the liabilities side, financing was ensured in particular by borrowings from banks (31 % of liabilities) and payables to clients (53 % of liabilities), of which payables to the government represented 32 %, equity (3 % of liabilities), reserves (3 % of liabilities) and accrued and other liabilities.

The value of the off-balance sheet guarantee portfolio related mostly to medium and long-term loans, which are the main credit risk factor of the Bank, increased by 16 % and totalled CZK 7.4 billion. This sum is an off-balance sheet item and therefore it is not included in the total value of assets.

The capital adequacy to risk-weighted assets calculated according to the Czech National Bank methodology was 21.7 %.

Table 3:
Additional Indicators of the Bank's Performance in 2000 - 2002³

Indicator	Unit	Year ended 31 December		
		2002	2001	2000
Amount of Tier 1	CZK '000	2,873,759	2,183,022	1,657,253
Amount of Tier 2 and Tier 3	CZK '000	152,823	94,382	84,950
Deductible Items	CZK '000	45,895	58,268	12,294
Total Capital Amount	CZK '000	2,890,688	2 219,136	1,729,908
Capital Requirements	CZK '000	1,066,057	1 029,610	1,053,254
Specific Interest Rate Risk	CZK '000	54,587	237,995	307,985
Specific Share Risk	CZK '000	0	0	0
Settlement Risk	CZK '000	0	0	0
Reverse Repo and Repo, Lent and Borrowed Securities	CZK '000	0	3,981	217
Derivates	CZK '000	14,438	0	0
Other Instruments of Trading Portfolio	CZK '000	1,800	0	245
Bank Portfolio	CZK '000	963,630	604,047	543,682
General Interest Rate Risk	CZK '000	27,670	160,579	133,116
Trading Portfolio Involvement	CZK '000	0	20,974	62,148
Share Risk	CZK '000	0	0	0
General Share Risk	CZK '000	0	0	0
Currency Risk	CZK '000	3,932	2,035	5,861
Commodity Risk	CZK '000	0	0	0
Option	CZK '000	0	0	0
Ratio Indicators				
Return on Average Annual Assets (ROAA)	%	0.74	0.95	1.73
Return on Average Annual Equity (ROAE) ⁸	%	19.97	28.31	24.47
Assets per Employee	CZK '000	349,428	289,992	191,591
General Operational Expense per Employee	CZK '000	1,060	1,291	1,165
Net Profit per Employee	CZK '000	2,114	2,309	1,739

From the aspect of the trends in the Bank's performance, 2002 was a year of continuous business development marked by growing revenues from guarantees and loans and comparatively reduced credit risks exposure. A short-term gain from the change in the value of the bond portfolio, when the long-term interest rates went down, had a positive effect on the Bank's financial performance. However, it was not enough to set off the decline in the yields on the long-term financial investments due to the continuous decrease of interest rates and a significantly higher value of interest sensitive assets than liabilities (the difference of about CZK 8 billion). The profit from financial investments, in spite of a large increase in their portfolio went down by more than CZK 100 million against the previous year. Despite the fact of a higher tax burden (in 2001 25.4 %, in 2002 31.4 % of the profit before tax) the rate of return on equity was higher compared with the return achievable in the financial markets.

⁸ Calculation based on Tier 1

Business Activities of the Bank in 2002

1. Business Development Assistance

A. Programmes of Support to SME and Businesses Affected by Floods ⁹

The funds available for the SME support programmes totalled CZK1,996 million in 2002, of which CZK 1,015 million were allocated from the State Budget, CZK 50 million from the PHARE Revolving Fund, CZK 347 million from the credit line opened with Kreditanstalt für Wiederaufbau and the balance (CZK 584 million) were the repayments of preferential loans issued, means committed but not disbursed due to the clients' breach of conditions under contracts signed from 1992 to 2002 and interest earned on the funds committed to entrepreneurs.

In total 55 applications were received and CZK 60 million disbursed under the REKONSTRUKCE (Reconstruction) Programme aimed at entrepreneurs in the areas affected by floods in 2002. The funds were adequate to satisfy the applications submitted.

Entrepreneurs submitted in total 3,881 applications for financial assistance, of which 2,937 were processed, 174 rejected for not meeting the programme criteria or for unacceptable project economy (applications for guarantee and loan). 117 clients withdrew their applications during the process of evaluation. The remaining 653 applications were not processed in 2002 either due to the lack of funds in the relevant programmes or inadequate readiness of the project to be funded. These applications will be processed in 2003.

The financial assistance provided in the form of guarantees, preferential loans and subsidised interest was aimed at the implementation of 1,629 projects, the total costs of which were CZK 15.7 billion. Compared to 2001, the number of projects supported increased by 19.1 %. The applicants whose projects were supported represented the private sector with a prevalence of legal entities (57 %). The share of supported individuals (natural persons) running their business under the Trade License was 43 %.

Table 4:
Projects Supported by Guarantees, Loans and Subsidised Interests and Beneficiaries' Profile in 1998 - 2002

Indicator	1998	1999	2000	2001	2002
Number of Projects Supported	1,115	1,252	1,394	1,368	1,629
Total Project Costs (in CZK billion)	18	14	14	13	16
Share of Individuals (% of the Number of Projects)	37	38	35	37	43
Share of Legal Entities (% of the Number of Projects)	63	62	65	63	57

The majority of supported projects was submitted by small businesses. In 2002, businesses with less than 50 employees received 64 % of subsidised guarantees, 100 % of preferential loans (effect of the programme criteria) and 65 % of subsidised interests (businesses with up to 9 employees received 23 % of guarantees issued, 86 % of preferential loans and 29 % of subsidised interest).

Other types of supports were provided to 1,308 projects of which 89 % were implemented by legal entities and 11 % by individuals.

⁹ In 2000 the REKONSTRUKCE (Reconstruction) Programme was incorporated into SME Support Programmes and shared the financial sources with them. For the purpose of general comparison, the data for the REKONSTRUKCE Programme from 2000 onwards were included in the SME data for 1997 - 1999. The same structure of data has been kept also for 2002.

B. Guarantee Transactions

In 2002, the Bank issued 487 subsidised guarantees for loans and leasing amounting to CZK 2,232 million, and 211 guarantees for proposals to public tenders (vadium) in the total volume of CZK 231 million under the ZÁRUKA (Guarantee) Programme; under the REGIOZÁRUKA Programme (Regional Guarantee) the Bank issued 11 guarantees for bank loans totalling CZK 71 million, and under the REKONSTRUKCE (Reconstruction) Programme 22 guarantees amounting to CZK 103 million.

The total amount of all guarantees issued accounted for CZK 2,636 million, that is 7% more than in 2001. The total amount of guarantees for loans was CZK 2,388 million and they secured the loans in the total amount over CZK 4.2 billion.

In average, the guarantees secured about 57 % of the loan value. Under the ZÁRUKA (Guarantee) Programme the largest portion of guarantees was provided on loans to fund investment projects (65 %), 25 % on operation loans, 9 % for proposals to public tenders and the share of guarantees on leasing was close to 1 %.

Table 5:

Guarantees Issued and Loans Secured by Guarantees in 1998 - 2002 (vadium not included)

	1998	1999	2000	2001	2002
Number of Guarantees Issued	276	425	463	484	520
Amount of Guarantees Issued (CZK million)	1,571	1,715	1,972	2,260	2,406
Amount of Loans Secured (CZK million)	2,991	3,577	3,867	4,034	4,243
Average Guaranteed Portion of Loan (%)	53	48	51	56	57

In 2002, the highest total amount of guarantees issued was for projects implemented in the regions Moravskoslezský, Středočeský and Zlínský (see Table 6), the lowest amount in the regions Vysočina and Ústecký⁵.

Table 6:

Regional Profile of Guarantees in 1998 - 2002¹⁰ (in % of the contract value of new guarantees issued)

Region	1998	1999	2000	2001	2002
Capital City of Prague	2.1	2.3	2.3	3.0	7.6
Středočeský	2.7	7.1	4.8	9.8	12.2
Jihočeský	2.0	3.9	4.7	4.4	5.7
Plzeňský	3.2	6.7	7.7	9.5	6.8
Karlovarský	2.0	2.1	3.6	0.8	4.1
Ústecký	4.2	5.2	2.7	3.5	3.2
Liberecký	2.2	3.4	0.2	2.0	4.0
Královéhradecký	10.4	8.1	14.3	7.5	7.6
Pardubický	14.8	10.0	6.3	10.7	7.9
Vysočina	4.0	2.9	4.0	7.5	2.1
Jihomoravský	5.8	9.5	9.0	8.7	8.8
Olomoucký	15.4	12.4	10.1	10.9	4.9
Zlínský	14.9	7.5	12.9	11.3	10.9
Moravskoslezský	16.3	18.9	17.4	10.4	14.2
Total	100.0	100.0	100.0	100.0	100.0

Guarantees by industries show a long-term trend of a prevailing number of projects in manufacturing and retail sectors.

¹⁰ Data for 1998 to 2001 were recalculated according to the regional division valid before January 1, 2002

Table 7:
Guarantees by Industries in 1998 - 2002 (in % of the contract value of new guarantees issued)

Sector	1998	1999	2000	2001	2002
Manufacturing	73.9	61.0	68.4	58.4	59.1
of which: Food Processing	9.1	11.9	7.3	7.8	11.7
Building Industry	4.6	4.3	5.6	11.1	13.1
Transport	0.3	2.4	3.9	3.9	1.1
Retail	16.5	22.9	15.0	19.5	16.5
Accommodation Services	1.3	3.0	1.4	3.3	4.5
Services to the Public	0.5	1.7	0.4	1.7	2.0
Health Care	2.1	2.3	1.5	1.1	1.4
Others	0.8	2.4	3.8	1.0	2.3
Total	100.0	100.0	100.0	100.0	100.0

In 2002, the majority of guarantee transactions were made with the shareholding banks (app. 83 % of the total value of guarantees). As in previous years, Komerční banka, a.s., was the most important partner (48 %).

Table 8:
Structure of Guarantees Issued in 1998 - 2002 by Lending Banks
(in % of the contract value of the new guarantees issued)

Bank	1998		1999		2000		2001		2002	
	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value
Komerční banka, a.s.	49.8	38.7	40.8	41.1	44.3	41.4	53.5	61.7	49.5	48.1
ČSOB, a.s. ¹¹	9.9	26.8	40.0	27.3	30.7	25.3	13.8	8.3	13.3	11.0
Česká spořitelna, a.s.	14.2	11.6	12.5	10.6	13.2	13.6	16.7	15.5	25.7	23.8
Other Banks	26.1	22.9	16.7	21.0	11.8	19.7	16.0	14.5	11.5	17.1

C. Loans

In 2002, the Bank provided preferential loans targeted at capital expenditure projects and for a term of up to six years under the KREDIT (Credit) and PREFERENCE Programmes; loans for operations under the PROVOZ (Operation) Programme and interest free loans for start-ups under the START Programme.

The Bank provided 151 loans under the KREDIT Programme in the total amount of CZK 347 million, 37 loans under the PREFERENCE Programme totalling CZK 87 million, 6 loans under the PROVOZ Programme in the total amount of CZK 5 million and 377 loans under the START Programme totalling CZK 180 million. These loans were mainly targeted at manufacturing projects (38 % of the total value of loans) and retail (25 %). Most loans were provided for projects implemented in the Moravskoslezský region (161 loans, CZK 162 million).

D. Financial Contributions

In 2002, subsidised interests were provided under the TRH (Market), REGION, VESNICE (Community), REGENERACE (Regeneration), REGION 2 and REKONSTRUKCE (Reconstruction) Programmes. The development of the financial assistance programmes providing interest subsidies is in Table 9.

¹¹ Figures for 1998 - 2000 include transactions with Investiční a Poštovní banka, a.s., for comparison.

Table 9:
Subsidised Interests in 1998 - 2002

	1998	1999	2000	2001	2002
Number of Contracts Concluded	818	623	571	529	538
Total Amount of Contributions (CZK million)	1,020	539	578	463	478
Total Amount of Assisted Loans (CZK million)	8,337	4,440	4,229	3,837	4,558

In 2002, the largest proportion of subsidised interest was provided to SMEs in Středočeský (10.6 % of the total volume) and Moravskoslezský (10.5 %) regions. The biggest number of subsidised interests was in the area of manufacturing – 66 %; there was also a relatively high number of subsidised interests supporting projects in the retail sector (see Table 10).

Table 10:
Subsidised Interests in 1998 – 2002 by Industries (in % of the total amount of subsidies)

Sector	1998	1999	2000	2001	2002
Manufacturing	48.6	63.2	66.6	63.6	66.4
of which: Food Processing	23.1	11.4	3.6	4.9	10.4
Building Industry	4.6	4.1	3.2	5.1	5.6
Transport	0.3	1.3	2.6	4.2	5.3
Retail	29.1	20.8	16.6	13.3	11.0
Accommodation Services	8.7	6.3	6.2	7.7	6.2
Services to the Public	4.6	0.2	0.8	2.6	1.3
Health Care	0.9	0.7	0.6	2.1	1.5
Others	3.2	3.4	3.4	1.4	2.7

The projects supported in 2002 are expected to create more than 900 new jobs in the areas afflicted by economic restructuring and in economically weak regions specified in the REGION Programme and 174 jobs for people from less flexible groups of the population under the SPECIAL Programme.

Other financial contributions were provided to entrepreneurs under the TRH (Market) Programme (quality system certification and brand compliance with the Czech standard ČSN TEST), the SPECIAL Programme (to increase the employment of less flexible people) and the KOOPERACE (Co-operation) Programme (support of some activities of business associations). The financial contributions are not linked with a bank loan. The development of performance in this kind of assistance is shown in Table 11.

Table 11:
Other Financial Contributions Granted in 1998 - 2002

	1998	1999	2000	2001	2002
Number of Financial Contributions	12	239	881	656	1,097
Total Amount of Financial Contributions (CZK million)	3	43	171	188	258

2. Assistance to the Repair of Pre-cast Concrete Residential Buildings

In 2002, CZK 460 million were spent under the Repair of Pre-cast Concrete Residential Buildings Programme.

The support was provided in the form of subsidised guarantees and grants to subsidise interests on loans provided to municipalities, housing co-operatives and other individuals and corporate bodies - owners of the pre-cast concrete residential buildings to fund their repairs.

In 2002, the Bank issued 41 guarantees in the amount of CZK 340 million that would help the beneficiaries to obtain loans for repairs of pre-cast concrete residential buildings in the total amount of CZK 584 million. The beneficiaries include 36 housing co-operatives, 3 associations of flat owners, 2 guarantees were provided to legal entities of another legal status.

Under the resolution of the State Fund for Housing Development the Bank signed 69 contracts for grants to subsidise interests in the total amount of CZK 358 million relating to the loans totalling CZK 1,120 million. Housing co-operatives received 48 grants, municipalities 16, associations of flat owners 3 and other types of corporate bodies 2 grants.

In 2002, the repair of 8,935 flats was financially assisted in total.

The key lending banks for the repairs of pre-cast concrete residential buildings were Česká spořitelna, a.s. , and Československá obchodní banka, a.s.

Most of guarantees and interest subsidies were provided to entities in the Moravskoslezský region.

Table 12:

Grants and Guarantees Provided for the Repair of Pre-cast Concrete Residential Buildings by Regions in 2002

Region	Grants		Guarantees	
	CZK million	%	CZK million	%
Capital City of Prague	8.4	2.3	6.9	2.0
Středočeský	4.7	1.3	2.5	0.7
Jihočeský	4.4	1.2	0.0	0.0
Karlovarský	8.0	2.2	1.6	0.5
Ústecký	1.4	0.4	3.2	0.9
Královéhradecký	1.5	0.4	3.5	1.0
Pardubický	21.7	6.1	0.0	0.0
Vysočina	0.9	0.3	2.6	0.8
Jihomoravský	23.6	6.6	0.0	0.0
Olomoucký	5.3	1.5	8.3	2.4
Zlínský	2.0	0.6	6.3	1.9
Moravskoslezský	275.8	77.1	308.2	89.8
Total	357.7	100.0	341.5	100.0

3. Programme to Support Water Sector Investments in the Czech Republic

The objective of the Programme is to enhance the quality of drinking water and waste water treatment to meet the standards set in EU directives.

In 2002, the Bank continued in a new type of its participation in this Programme using the funds made available by the European Investment Bank as the source for long-term soft loans. These loans were complemented by the beneficiaries' own resources and by allocations from the National Budget designated to the projects included in the Programme.

Under the Programme the Bank provided 26 preferential loans totalling CZK 868.3 million to municipalities, associations of towns and villages and water companies, in which municipalities usually hold a majority share. 15 loans were provided to finance construction of sewage systems, water treatment plants and water distribution lines and 11 loans went for wastewater treatment plants. More than a half of projects are implemented in North Moravia and Eastern Bohemia, the rest in other regions.

In total, CZK 2,349.8 million were spent from the launch of the Programme to 31 December 2002 and 40 projects in this sector were funded.

4. Funding of Infrastructure Programmes

In 2002, the Bank, as a financial manager of infrastructure programmes, arranged in total CZK 8.6 billion for their financing. This amount included the funds from the European Investment Bank, resources from State Budget and the State Fund for Transport Infrastructure, and the beneficiaries' own resources.

From these sources the Bank funded 8 programmes aimed at transport and water management infrastructure. Under the transport infrastructure programmes, the network of motorways was built and the major portion of funds was targeted at Stage II of the expressway between Slavonín – Přáslavice and the construction of Plzeň by-pass and access roads to it. Other transport infrastructure programmes concentrated on the improvement and repair of roads. Under the programme aimed at the improvement of international roads the projects mainly included construction of by-passes and making roads wider. The largest amount was spent on the „Y“ crossing at Kamenný Dvůr and the road between municipalities of Hodkovice and Rádelský mlýn. Totally 16 projects were supported under this programme. The programme, aimed at repairs of class I and II roads and motorways, helped to finance more than 40 projects. The largest amount was spent on the repair of roads I/3 D1 - Benešov, I/56 Ostrava – Frýdek-Místek.

At the end of 2002 the Bank started earlier disbursement of funds earmarked to finance projects included in programmes of assistance to prevent floods and repair damages caused by the 2002 floods. Eligible projects were focused on construction and repair of protection dykes, flood plains (polders), flood walls (prevention programme), repair of water treatment plants, water pipelines, sources of drinking water etc. (programmes of restoration of consequences of floods).

The higher number of infrastructure programmes and more funds spent in comparison with 2001 is the result of the Bank's role as a financial manager for loans provided under the infrastructure programmes, for which the Czech Republic receives financial sources directly from the European Investment Bank. They include the construction of the by-pass of Plzeň and flood prevention programme.

5. Regional Programmes to Assist the Development of Industrial Businesses within the NUTS 2 Areas - North-West and Ostravsko

The Bank acted as the Payment Agency for the disbursement of grants approved by the Ministry for Regional Development. In total CZK137.5 million were disbursed, of which CZK 84.5 million to 15 companies located in Ostravsko regional area and CZK 53 million to 6 companies in the North-West area.

6. Trading in Financial Markets

The main goals of the Bank's trading in money and capital markets are liquidity management, investment in money and capital market instruments and hedging of credit risks to which the Bank is exposed due to its support of small and medium-sized businesses. Refinancing in the financial markets is becoming more and more important for the future development of the Bank's lending business.

In line with its strategy the Bank invests only in instruments with a fixed yield such as government, corporate and municipal bonds, mortgage bonds, eurobonds and treasury bonds. The total turnover from bond trading was CZK 117 billion in 2002.

In its investment policy the Bank pays maximum attention to credit risk management and therefore it invests only in instruments issued by foreign and local companies with a very good credit rating.

To hedge against interest and foreign exchange risks the Bank uses standard instruments such as interest rate swap, forward rate agreement and cross currency swap arranged with reputable local and foreign banks.

The Bank uses interbank transactions and deposits in the interbank money market as a tool for liquidity management. The turnover of money market transactions including interbank transactions was CZK 1,750 billion.

External Communication of the Bank



Implementation of the Bank's strategy and mission required intensive external communication related to the Bank's current business and presentation of its new business activities.

The organisation of 7 regional workshops for credit managers from co-operating banks had a positive impact on the Bank's activity in the area of SME support. There were 285 participants from 201 branches, of which 208 credit managers were from 145 branches of the shareholding banks. Numerous meetings and seminars organized by the Bank's regional branches for commercial banks and entrepreneurs followed these workshops.

The Bank was also actively involved in the preparation and organisation of the „round table of banks and entrepreneurs“ with the participation of EC representatives. This meeting took place in Prague in April 2002. The Czech Republic thus joined the support mechanism designed for the development of SME, which has been used in the EU for many years.

In 2002, the co-operation between the Bank and business sector further developed and intensified. The traditionally good co-operation with the Chamber of Commerce of the Czech Republic was extended to co-operation with the Association of SMEs and Traders. The result was many joint events for the business community, organised mainly by the regional chambers of commerce. The extended capacity of some chambers of commerce towards consultancy services for entrepreneurs further intensified their co-operation with the Bank.

The contacts with more than a hundred consultation firms continued to develop. Their total number increased by 11 in 2002.

Significant progress was made in establishing co-operation with the regions. The efforts mainly concentrated on the identification of needs and opportunities on the part of the regions and the Bank, and it has already brought the first tangible results as well. These were the establishment of the regional office at České Budějovice and development of several regional programmes for micro businesses.

In 2002, the Bank actively participated in the European Association of Guarantee Institutions (AECM). The Bank also became a member of the Club of Institutions Specializing in Long-Term Credits (ISLTC). In May 2002, the Bank organised the Annual Meeting of development banks and institutions, which took place in Prague.

An integral part of the external communication, less significant, was the Bank's sponsorship activity. The sponsorship was mainly aimed at the sector of environmental protection, education, health care and welfare and CZK 130,000 were donated.

Equity Holdings



The Bank holds a 49 % share in Municipal Finance Company, a.s. (hereinafter the Company). The registered capital of the Company remained unchanged in 2002 at CZK 1 million. Since 1994, the Company has been implementing the Programme for Financing Municipal Infrastructure Development in the Czech Republic under the Programme Agreement signed between the governments of the Czech Republic and the United States of America.

In 2002, the Company focused on the management of the portfolio of the existing loans and on the development of new targets to be supported from the funds made available by the repayment of the previous loans.

Strategies for Future Development



The activities of the Bank will continue to be aimed at the assistance to the development of infrastructure and those economic sectors that need support from public funds pursuant to the intentions of the economic policy of the Czech Government and individual regions.

In 2003, as part of strengthening its development function in the economy, the Bank will:

- according to the availability of funds, maintain the offer of the most important products in the area of SME support, in particular guarantees, small and start-up loans and will provide financial assistance to entrepreneurs affected by floods in 2002,
- continue to support repairs of pre-cast concrete residential buildings using the sources from the State Fund for Housing Development,
- act as the financial manager of the funds targeted at the repair of the infrastructure damaged by the floods in 2002 and further develop this function in other areas,
- be pro-active in identifying potential sources of co-financing of the development projects in the Czech Republic, particularly for the SME sector, environmental improvements and housing development including sources from reputable financial institutions in the EU,
- play an active role in the preparation and implementation of the regional development plans.

The co-operation with the Ministry of Agriculture that started late in 2001 will continue and will focus on the funding of the Programme for Water Sector Investments in a similar scope to 2002.

As part of the active communication with the regions, the implementation of regional support programmes will start in South Bohemia and the possibility of expanding these activities to other regions will be studied. To better publicise the Bank's products and business, an Information Centre will be launched as a joint pilot project of the Bank and the Chamber of Commerce at Zlín.

In 2003, the next stages of a more intensive use of IT for administration and management of the guarantee and loan portfolio will continue, as well as more efficient use of the Bank's website.

In 2003, a lot of effort will be put into evolution of internal processes and operations, the aim of which is to increase the flexibility and responsiveness to clients' needs and improve the Bank's performance. The outcome may not be so apparent from outside, however it will be extremely important because, together with a clear strategic vision, it will lay down the foundation for successful functioning of the Bank in the future for which the necessary prerequisites have already been created during the past development of the Bank.

Report of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.

In 2002, the Supervisory Board carried out the duties specified by law and the Company Articles of Association. The Board supervised the Bank's business and made necessary submissions and suggestions to the Board of Directors.

The Supervisory Board reviewed the regular financial statement for the period from 1 January to 31 December 2002 and, on the basis of the external auditor's report, the Supervisory Board stated that the accounting records and books were kept in a documented manner and in compliance with the statutory requirements for book keeping in banks as well as in line with the Company Articles of Association. Accounting records and books reflect the Bank's financial situation in all important respects.

The audit of the Financial Statement for 2002 was carried out by PricewaterhouseCoopers Audit, s.r.o., and the Auditor confirms that the Financial Statement provides true and accurate picture in all important aspects on assets, liabilities and equity of Českomoravská záruční a rozvojová banky, a.s., as of 31 December 2002, its financial results and changes in equity in 2002 in compliance with the Czech Accounting Act and other relevant Czech regulations. The Supervisory Board accepted the conclusions of the audit.

In line with the Company Articles of Association, the Supervisory Board recommends that the General Meeting approves the long-term development strategy of the Bank, the proposed profit distribution, the proposed increase of share capital and proposed changes to the Articles.

The Supervisory Board, having reviewed the Report on Relations between Controlling and Controlled Entities, states that all contracts between the controlling and controlled entities were duly developed and the Report does not contain any inaccuracies.

In Prague, on 29 April 2003

On behalf of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.,

Václav Polák
Chairman



REPORT OF INDEPENDENT AUDITORS

**TO THE SHAREHOLDERS OF ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ
BANKA, A.S.**

We have audited the accompanying balance sheet of Českomoravská záruční a rozvojová banka, a.s. ("the Bank") as at 31 December 2002, the related statements of income, changes in equity and cash flows for the year then ended ("the financial statements"). These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of Českomoravská záruční a rozvojová banka, a.s. as at 31 December 2002, the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

19 May 2003



PricewaterhouseCoopers Audit, s.r.o.

Income Statement

	Note	Year ended 31 December	
		2002 CZK'000	2001 CZK'000
Interest income	3	3,017,108	2,375,901
Interest expense	3	<u>(2,362,951)</u>	<u>(1,818,990)</u>
Net interest income		654,157	556,911
Fee and commission income	4	654,932	583,372
Fee and commission expense		<u>(46,201)</u>	<u>(29,009)</u>
Net fee and commission income		608,731	554,363
Net trading income	5	40,647	182,167
Other operating income		<u>7,976</u>	<u>49,322</u>
Operating income		1,311,511	1,342,763
Bad and doubtful debt credit/(expense)	21	54,145	(131,956)
Other operating expenses	6	<u>(506,885)</u>	<u>(348,060)</u>
Operating profit before tax		858,771	862,747
Income tax expense	7	<u>(432,336)</u>	<u>(183,589)</u>
Net profit for the period		<u>426,435</u>	<u>679,158</u>
Earnings per share	22	<u>47.91</u>	<u>76.31</u>

Balance Sheet

	Note	As at 31 December	
		2002 CZK'000	2001 CZK'000
ASSETS			
Cash and balances with central banks	8	285,358	428,947
Treasury bills and other eligible bills	9	4,415,781	1,469,427
Due from banks	10	45,139,096	18,044,610
Trading securities	11	554,986	7,151,236
Derivative financial instruments	12	174,837	31,420
Loans to customers	13	30,360,283	28,505,391
Investment securities	14	7,645,538	250,350
Investment in associated undertaking	15	19,941	19,258
Intangible assets	16	45,895	58,269
Property, plant and equipment	16	280,733	116,817
Deferred tax asset	7	405,639	444,551
Other assets	17	82,615	40,921
		89,410,702	56,561,197
LIABILITIES			
Due to banks	18	(27,703,949)	(32,439,407)
Other deposits		-	(74,775)
Derivative financial instruments	12	(1,704,376)	(795,164)
Due to customers	19	(49,832,641)	(12,402,222)
Other liabilities including current tax liability	20	(4,804,529)	(4,991,592)
Provisions	21	(1,845,448)	(1,931,861)
		(85,890,943)	(52,635,021)
CAPITAL AND RESERVES			
Share capital	22	(1,975,800)	(1,780,000)
Capital contributions	23	(800,000)	(800,000)
Hedging reserve	25	813,844	321,773
Retained earnings	24	(1,557,803)	(1,667,949)
		(3,519,759)	(3,926,176)
		(89,410,702)	(56,561,197)
Guarantees less provisions	31	5,526,387	4,449,488

Statement of Changes in Shareholders' Equity

	Share capital contributions	Capital contributions	Retained earnings	Hedging reserve	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Balance at 1 January 2001	1,400,000	800,000	1,368,336	-	3,568,336
Revaluation of associated undertakings to fair value	-	-	455	-	455
Balance at 1 January 2001 - restated	1,400,000	800,000	1,368,791	-	3,568,791
Bonus issue	380,000	-	(380,000)	-	-
Net profit	-	-	679,158	-	679,158
Cash flow hedges - net fair value loss, net of tax	-	-	-	(321,773)	(321,773)
Balance at 31 December 2001	1,780,000	800,000	1,667,949	(321,773)	3,926,176
Bonus issue	195,800	-	(195,800)	-	-
Approved dividends	-	-	(340,781)	-	(340,781)
Net profit	-	-	426,435	-	426,435
Cash flow hedges - net fair value loss, net of tax	-	-	-	(689,861)	(689,861)
Cash flow hedges - transfer to net profit, net of tax	-	-	-	197,790	197,790
Balance at 31 December 2002	<u>1,975,800</u>	<u>800,000</u>	<u>1,557,803</u>	<u>(813,844)</u>	<u>3,519,759</u>

Cash Flow Statement

	Year ended 31 December	
	2002	2001
	CZK'000	CZK'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before tax	858,771	862,747
Non-cash positions in net income before tax and adjustments to reconcile net income with net cash provided by operating activities:		
Provisions for losses on guarantees and loans	(86,413)	91,258
Depreciation expense	60,571	59,779
Payments made pursuant to guarantee obligations	155,085	(18,953)
Net (gains)/losses on sales of securities included in investing activities	(81,245)	12,834
(Increase)/decrease in fair value of derivatives	273,724	227,027
Net losses/(gains) on sale of fixed assets	4,266	(430)
Income tax paid	(237,223)	(118,270)
Adjustments for interest flows	(654,157)	(556,911)
Subtotal	293,379	559,081
Change in assets and liabilities from operating activities:		
Increase in loans	(1,902,332)	(2,332,209)
(Increase)/decrease in other assets	(157,867)	57,647
(Decrease)/increase in amounts due to customers	(107,904)	3,583,463
Decrease in other liabilities	(382,176)	(698,285)
Interest received	2,722,239	2,237,680
Interest paid	(2,299,462)	(1,765,667)
Net cash (used in)/provided by operating activities	(1,834,123)	1,641,710
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities	(393,263,122)	(92,110,550)
Sales and maturities of securities	392,776,030	92,231,363
Net decrease in securities purchased under agreement to resell	(26,315,833)	(12,575,958)
Net increase in other amounts due from banks	(667,459)	1,844,152
Purchases of premises and equipment	(212,113)	(39,158)
Proceeds from sale of premises and equipment	(4,266)	435
Net cash used in investing activities	(27,686,763)	(10,649,716)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase of securities sold under agreement to repurchase	29,546,451	8,757,139
Increase in other amounts due to banks and other deposits	3,118,150	869,039
Dividends paid	(340,781)	-
Net cash provided by financing activities	32,323,820	9,626,178
Net cash movement	2,802,934	618,172
Cash and cash equivalents at the beginning of the year	1,898,773	1,280,601
Cash and cash equivalents at the end of the year (Note 32)	4,701,707	1,898,773



Notes to the Financial Statement as at 31 December 2002

1 ORGANISATION

Českomoravská záruční a rozvojová banka, a.s. („Czech-Moravian Guarantee and Development Bank“; „ČMZRB“; the „Bank“), commenced operations as a joint stock company in 1992. ČMZRB is domiciled in the Czech Republic and was founded by the Ministry of Economy and five major domestic commercial banks to promote the development of private enterprise among small and medium sized businesses.

ČMZRB is headquartered in Prague 1, Jeruzalémská 964/4 and has branches in Prague, Brno, Ostrava, Hradec Králové and Plzeň, all in the Czech Republic.

ČMZRB's primary business activities are providing loans and guaranteeing a portion of the principal from loans made by commercial banks to small and medium sized businesses established in the Czech Republic, serving as a fiduciary charged with administering various governmental financial assistance and subsidy programmes targeted toward this sector and administering loans for housing development and for entities affected by floods. ČMZRB's activities were extended at 31 December 2000 to administering loans for infrastructure development projects (Notes 3 and 13).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the IASB. The financial statements are prepared under the historical cost convention, except as disclosed in the accounting policies below. The accounting records and statutory accounts of ČMZRB are, however, prepared in accordance with the Chart of Accounts of Banks prescribed by the Ministry of Finance of the Czech Republic.

Differences between these bases exist in presentation, recognition and measurement. Results of operations differ primarily as a result of general provisioning (IAS 37 does not allow general provisions for unidentifiable impairments and risks) including deferred tax implications and social fund contributions (which under Czech accounting standards are paid after the balance sheet date from retained earnings in contrast to being accrued in the year to which they relate and are included within the income statement under IFRS).

The financial statements including notes for both 2002 and 2001 are rounded to thousands of Czech Crowns (CZK'000) unless otherwise stated.

(b) Foreign currencies

Foreign currency transactions are accounted for at the exchange rates at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

The Bank's policy regarding foreign currencies is to reduce any significant open position.

(c) Derivative financial instruments

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

Certain derivatives embedded in other financial instruments, such as credit linked derivatives in securities, 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 with unrealised gains and losses reported in income statement.

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

On the date a derivative contract is entered into, the Bank designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); or, (2) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

- (a) Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- (b) The hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- (c) The hedge is effective on an ongoing basis.

Changes in fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the income statement, along with the corresponding change in the fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedge reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as income or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the income statement.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 12.

(d) Offsetting financial instruments

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

(e) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis.

Interest income includes coupons earned on fixed income investment and trading securities, accrued difference between purchase and nominal value by securities held to maturity and accrued discount and premium on treasury bills and other discounted instruments.

Penalty interest income is recognised in the income statement only in the case of standard and watch loans. In other cases penalty interest is suspended and is not recognised in the income statement unless collected.

(f) Guarantees and provisions for losses on guarantees

Disclosed guarantee fees are due from customers in accordance with the contractual terms of the underlying guarantee agreements. In the case of the deficiency guarantee product disclosed in Note 31, guarantee fees are receivable in most instances at the date of signature of a guarantee contract, and accrued to income over the period of the underlying loan in proportion to the amount guaranteed on an assumed standard repayment schedule. In the case of the remaining original guarantee contracts, this results in periodic fees, which decrease in relation to the discharging of ČMZRB's guarantee obligations. The periodic fee is deferred and accrued to income on a straightline basis over the period ending when the next fee amount is due or, in the case of the final payment, when the guarantee obligation is to be fully discharged. The same approach is applied for gradual guarantee product.

The provision for losses on guarantees is estimated from management appraisals of guarantees and considers anticipated collateral recoveries based on forced sale valuation of collateral. Payments made pursuant to guarantee obligations are charged against the provision for losses on guarantees.

(g) Securities

Securities are split into trading securities and investment securities.

Trading securities are securities 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. They are measured at fair value based on quoted market prices or discounted cash flow models. All related realised and unrealised gains and losses are included in net trading income. Interest earned including amortised discounts is reported as interest income.

Investment securities are classified into following categories: held to maturity and available for sale.

Investment securities where management has both the intent and ability to hold to maturity are classified as held to maturity. These securities are carried at amortised cost including any provision for impairment. Investment securities to be held for an indefinite period, which may be sold in response to needs for liquidity or changes in interest or exchange rates, are classified as available for sale. These securities and resulting gains and losses are measured and treated in the same way as trading securities.

All regular way purchases and sales of securities are recognised at settlement date. All other purchases and sales are recognised as derivative forward transactions until settlement.

(h) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements („repos“) are retained in the financial statements as trading or investment securities and the counterparty liability is included in amounts due to other banks or customers, as appropriate. Securities purchased under agreements to resell („reverse repos“) are recorded in the off balance sheet and the counterparty receivable is included in amounts due from other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements.

(i) Investments in associated undertaking

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 to control.

Investments in associated undertakings are measured at equity. The change in valuation policy was made retrospectively and the effects are quantified in the statement of changes in shareholders' equity.

(j) Originated loans and the provisions for loan impairment

Loans originated by the Bank by providing money to the borrowers are categorised as loans originated by the Bank and are carried at amortised cost.

All loans are recognised when cash is advanced to borrowers. A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral.

The loan loss provision covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the internal credit ratings allocated to the borrowers and adjusted to reflect the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the bad and doubtful debt expense in the income statement.

If the amount of the impairment subsequently decreases, the release of the provision is credited to the bad and doubtful debt expense.

(k) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The definition of related parties includes the following entities and individuals:

- a) Controlling shareholders (Note 22);
- b) Associated undertaking (Note 15);
- c) Management personnel covering members of Board of Directors, deputies of Chief Executive Officer and their direct subordinates.

(l) Intangible assets

Intangible assets comprise assets servicing rights and software acquired and are carried at cost less accumulated amortisation. Amortisation is provided on an accelerated basis over 4 - 5 years.

(m) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided on an accelerated basis. Useful lives range from 12 to 30 years for premises and improvements and from 4 to 6 years for furniture and equipment.

Repair and maintenance costs are charged to operating expenses when incurred. Major alterations or renovations are capitalised when the value of the property is enhanced.

(n) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes: cash and balances with central bank, treasury bills and amounts due on demand from other banks.

(o) Pension plans

The Bank provides regular contributions to the state to fund the national pension plan. Further regular contributions are made to a defined contribution private pension fund for the benefit of employees. These payments are included in staff costs.

(p) Deferred taxation

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements.

The temporary differences arise mainly due to provisions in excess of amounts currently deductible for tax purposes, depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities to fair value. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

(q) 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.

3 INTEREST INCOME AND EXPENSE

	2002 CZK'000	2001 CZK'000
Interest income		
Interest on term placements to banks	967,242	615,802
Interest on fixed income securities	475,342	339,853
Interest on loans to private customers	163,709	148,212
Interest on loans to state	1,405,984	1,270,694
Interest on hedging derivatives	419	-
Interest on overdrafts and current accounts	<u>4,412</u>	<u>1,340</u>
	<u>3,017,108</u>	<u>2,375,901</u>
Interest expense		
Interest on deposits from banks	1,300,959	1,405,824
Interest on deposits and loans received from customers	154,086	203,534
Interest on hedging derivatives	198,209	-
Interest on deposits from state	<u>709,697</u>	<u>209,632</u>
	<u>2,362,951</u>	<u>1,818,990</u>

The increase in interest on loans to state and deposits from state relates to the administration of loans for infrastructure development projects (Note 1, 13).

4 FEE AND COMMISSION INCOME

	2002 CZK'000	2001 CZK'000
Fees and commissions from transactions with customers	85,431	84,567
Management fee from infrastructure products	78,015	50,168
Fees and commissions from guarantees	491,349	448,441
Fees and commissions from securities transactions	<u>137</u>	<u>196</u>
	<u>654,932</u>	<u>583,372</u>

5 NET TRADING INCOME

	2002 CZK'000	2001 CZK'000
Gains less losses from fixed income trading securities	(29,163)	636,576
Realized gains less losses from fixed income available-for-sale securities	2,623	(3,380)
Unrealised gains less losses from fixed income available-for-sale securities	33,505	(2,349)
Gains less losses from foreign exchange	126,781	(418,203)
Losses on derivative operations	<u>(93,099)</u>	<u>(30,477)</u>
	<u>40,647</u>	<u>182,167</u>

6 OTHER OPERATING EXPENSES

	2002 CZK'000	2001 CZK'000
Staff costs	164,912	148,180
Depreciation of property, plant and equipment (Note 16)	29,777	23,175
Amortisation of intangible assets (Note 16)	30,794	36,604
Professional services	6,066	5,513
Rent and other administration expenses	103,892	109,389
Penalties paid	164,858	-
Other	6,586	25,199
	<u>506,885</u>	<u>348,060</u>

Penalties paid represent returned guarantee fees and corresponding penalties paid to the Financial Authority based on its inspection performed during 2002. The Bank does not agree with the conclusions of this inspection and filed a litigation asking for return of this amount. The Bank's management believes that it is highly probable that the court will decide in favour of the Bank. In such a case, the whole amount of the paid penalties would be returned to the Bank.

7 INCOME TAX

	2002 CZK'000	2001 CZK'000
Current	(172,349)	(193,225)
Deferred	(259,987)	9,636
	<u>(432,336)</u>	<u>(183,589)</u>

Income tax expense differs from the amount computed by applying the statutory tax rate of 31 % to the net income before taxes for the year ended 31 December 2002 and 2001 respectively as follows:

	2002 CZK'000	2001 CZK'000
Net income before tax	858,771	862,747
Prima facie tax calculated at a tax rate of 31 %	266,219	267,452
Permanent differences:		
Income subject to 25 % withholding tax, net of actual tax	(1,973)	(20,117)
Change in probability of deferred tax asset realisation	130,269	-
Tax exempt income	(91,826)	(111,026)
Tax non-deductible expenses	129,647	47,280
Income tax charge	<u>432,336</u>	<u>183,589</u>

Increase of tax non-deductible expenses was caused mainly by penalties paid (Note 6).

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

	2002	2001
	CZK'000	CZK'000
Cash flow hedging reserve recognised in retained earnings (Note 25)	365,640	144,565
Provisions in excess of amounts currently deductible for tax purposes	18,326	304,565
Fair valuation of securities	-	(17,664)
Accelerated tax depreciation	574	(267)
Other temporary differences	<u>21,099</u>	<u>13,352</u>
Net deferred tax asset	<u>405,639</u>	<u>444,551</u>

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

	2002	2001
	CZK'000	CZK'000
Change in provisions in excess of amounts deductible for tax purposes	(286,239)	(2,253)
Fair valuation of securities	17,664	13,443
Utilisation of tax loss carry forwards	-	(13,548)
Accelerated tax depreciation	841	254
Other temporary differences	<u>7,747</u>	<u>11,740</u>
Net deferred income tax (charge)/credit	<u>(259,987)</u>	<u>9,636</u>

Movements in the net deferred tax asset can be analysed as follows:

	2002	2001
	CZK'000	CZK'000
As at 1 January	444,551	321,457
(Release)/addition through income statement	(259,987)	9,636
Addition through equity	<u>221,075</u>	<u>113,458</u>
As at 31 December	<u>405,639</u>	<u>444,551</u>

The significant release of deferred tax asset through the Income statement in 2002 was caused by the amendment of the Act on tax provisions. Due to this amendment the Bank derecognised CZK 196,154,000 of tax non-deductible provisions for guarantees from temporary to permanent tax differences.

8 CASH AND BALANCES WITH CENTRAL BANKS

	31 December 2002 CZK'000	31 December 2001 CZK'000
Cash in hand	8,641	8,596
Obligatory reserves	<u>276,717</u>	<u>420,351</u>
	<u>285,358</u>	<u>428,947</u>

Obligatory reserves represent mandatory interest-bearing deposits with the Czech National Bank, which requires that the final bi-weekly moving average of obligatory reserves represents at least 2 % of the Bank's prior period's total balance of primary deposits.

9 TREASURY BILLS AND OTHER ELIGIBLE BILLS

As at 31 December 2002 and 2001 treasury bills and other eligible bills consist of treasury bills issued by the Ministry of Finance of the Czech Republic.

10 DUE FROM BANKS

	31 December 2002 CZK'000	31 December 2001 CZK'000
Current accounts (Note 32)	568	399
Loans provided within reverse repo transactions	42,082,386	15,723,629
Term deposits and loans to banks	<u>3,056,142</u>	<u>2,320,582</u>
	<u>45,139,096</u>	<u>18,044,610</u>

Due from banks at 31 December 2002 and 2001 were placed with the following remaining maturities:

	Weighted average percentage rate at 31 December 2002 %	2002 CZK'000	Weighted average percentage rate at 31 December 2001 %	2001 CZK'000
Less than 90 days	2.76	44,423,413	4.62	16,579,259
3 to 6 months	4.15	513,464	4.62	1,465,351
6 to 12 months	3.02	<u>202,219</u>	-	<u>-</u>
		<u>45,139,096</u>		<u>18,044,610</u>

The combined weighted-average interest rate was 2.78 % and 4.62 % as at 31 December 2002 and 2001, respectively.

11 TRADING SECURITIES

	31 December 2002 CZK'000	31 December 2001 CZK'000
Government bonds	143,033	3,096,994
Corporate bonds - liquid	23,153	3,517,621
- less liquid	104,640	174,351
Municipal bonds	-	64,160
Bills of exchange	284,160	298,110
	<u>554,986</u>	<u>7,151,236</u>

Corporate bonds less liquid comprise a Credit linked note at fair value of CZK 104,640,000 (as at 31 December 2001: CZK 174,351,000), which includes an embedded derivative linked to a potential default of investment grade rated foreign telecommunication companies. This derivative has not been separated, as the host note is a trading asset carried at fair value with unrealised losses included in the income statement.

12 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2002			31 December 2001		
	Notional value CZK'000	Positive fair value CZK'000	Negative fair value CZK'000	Notional value CZK'000	Positive fair value CZK'000	Negative fair value CZK'000
Trading derivatives						
Interest rate swaps	450,000	-	(48,580)	450,000	-	(61,880)
Cross currency swap - - trading portfolio hedging	196,000	74,430	-	196,000	31,420	-
Cross currency swaps - - foreign exchange hedging	10,622,527	5,933	(345,886)	4,345,273	-	(236,440)
Securities forwards	97,632	-	(553)	-	-	-
Currency forwards	<u>1,021,856</u>	<u>93,590</u>	<u>(90,050)</u>	-	-	-
	12,388,015	173,953	(485,069)	4,991,273	31,420	(298,320)
Derivatives designated as hedges						
Cross currency swaps - cash-flow hedging	<u>6,763,302</u>	<u>884</u>	<u>(1,219,307)</u>	<u>3,347,893</u>	-	<u>(496,844)</u>
Total derivatives	<u>19,151,317</u>	<u>174,837</u>	<u>(1,704,376)</u>	<u>8,339,166</u>	<u>31,420</u>	<u>(795,164)</u>

Trading derivatives represent non-qualifying hedge derivative contracts, which are used to reduce the interest rate and foreign exchange exposures.

Due to the relatively high equity and special purpose of some liabilities, the assets of ČMZRB are significantly more interest rate sensitive than liabilities. ČMZRB's policy is to reduce this exposure. In order to ma-

nage its total open interest rate positions, ČMZRB entered into interest rate swaps („IRS“) with reputable international and Czech banks.

Cross-currency swaps are hedging open positions from the transformation of part of infrastructure FX loans provided to the Ministry of Finance, loans provided by Kreditanstalt für Wiederaufbau and trading securities as follows:

Cross-currency swaps (natural hedging of trading securities and foreign exchange exposures) - the fair value of the hedging derivatives is included in the net profit for the period. This includes hedging of the Credit linked note (Note 11) and the principle of the infrastructure loans provided to the Ministry of Finance and by Kreditanstalt für Wiederaufbau and due to natural hedging effects, the Bank is not applying hedge accounting.

Cross-currency swaps (cash-flow hedging) - the fair value of the above mentioned derivatives hedging the interest cash flows are included in the hedging reserve until the hedged item affects the net profit, when these are also recycled into the net profit (Note 25).

13 LOANS TO CUSTOMERS

	31 December 2002 CZK'000	31 December 2001 CZK'000
Gross amount of loans provided	31,708,523	29,972,110
Provisions for impairment	<u>(1,348,240)</u>	<u>(1,466,719)</u>
Net amount of loans provided	<u>30,360,283</u>	<u>28,505,391</u>

The movements in the provision can be analysed as follows:

	2002 CZK'000	2001 CZK'000
As at 1 January	1,466,719	1,565,642
Additions to specific provisions (Note 21)	331,864	266,532
Release of specific provisions (Note 21)	<u>(450,343)</u>	<u>(365,455)</u>
As at 31 December	<u>1,348,240</u>	<u>1,466,719</u>

	31 December 2002 CZK'000	Interest range %	31 December 2001 CZK'000	Interest range %
Infrastructure loans	24,593,208	4.45 - 7.83	22,969,735	5.07 - 7.83
Programme „Kredit“	1,107,257	7.00 - 12.00	1,211,637	7.00 - 12.00
Programme „Preference“	191,783	5.00 - 10.00	202,037	5.00 - 10.00
Programme „Start“	204,822	-	33,597	-
Residential housing programme	2,492,085	-	2,560,718	-
Flood credits	310,164	4.00	352,338	4.00
Municipality credits	113,760	2.72 - 3.53	127,521	3.50 - 3.70
Water sector projects	761,635	-	201,677	-
Money market placement	500,997	2.76	700,726	4.75
Reverse repo transactions	-	-	47,440	5.40 - 5.50
Other credits and overdrafts	84,572	2.195 - 12.00	97,965	1.00 - 11.00
	<u>30,360,283</u>		<u>28,505,391</u>	

State funds of CZK 2,882.4 million at 31 December 2002 (31 December 2001: CZK 2,995.5 million) were provided to ČMZRB for the loans provided within housing and floods promotional programmes. These funds are included in other liabilities (Note 20). ČMZRB acts merely as an intermediary and bears no credit or interest rate risk associated with these products.

Infrastructure loans represent loans provided to the Czech Ministry of Finance to finance individual infrastructure programmes such as construction of railway corridors, highways, water supply constructions and similar projects. These loans are financed mainly using funds of the European Investment Bank (Luxembourg), and are fully guaranteed by the Czech Republic.

Infrastructure programmes were transferred to the Bank from Konsolidační banka, s.p.ú. („KoB“) at 31 December 2000. This transfer was carried out following a resolution of the Government of the Czech Republic.

The Bank took over these assets and liabilities at amortised cost and is going to hold them to maturity. Assets represent receivables due from the state. Liabilities represent payables to the European Investment Bank. The Bank acts as a finance manager of these programmes and receives management fees from the Czech Ministry of Finance. The price paid to KoB for these servicing rights was CZK 79.5 million, is presented as an intangible asset and is amortised over 5 years (Note 16).

State guarantees, provided originally to KoB in conjunction with loans received for financing the programmes, were wholly and unconditionally transferred to the Bank.

14 INVESTMENT SECURITIES

	31 December 2002		31 December 2001	
	Carrying value CZK'000	Fair value CZK'000	Carrying value CZK'000	Fair value CZK'000
Investment securities held to maturity				
Government bonds	-	-	23,440	20,546
Corporate bonds	345,516	363,264	137,609	139,041
	<u>345,516</u>	<u>363,264</u>	<u>161,049</u>	<u>159,587</u>
Investment securities available for sale				
Government bonds	1,597,988	1,597,988	-	-
Mortgage bonds	1,351,041	1,351,041	-	-
Corporate bonds	4,321,025	4,321,025	89,301	89,301
Municipal bonds	29,968	29,968	-	-
	<u>7,300,022</u>	<u>7,300,022</u>	<u>89,301</u>	<u>89,301</u>
Total investment securities	<u>7,645,538</u>	<u>7,663,286</u>	<u>250,350</u>	<u>248,888</u>

15 INVESTMENTS IN ASSOCIATED UNDERTAKING

During 1994, ČMZRB established a wholly owned subsidiary, *Municipální finanční společnost, a.s.*, (MUFIS), having share capital and reserves of CZK 1.2 million. Based on the Programme Agreement signed between the Governments of the USA and the Czech Republic and using guarantees from the two Governments involved, MUFIS acts as the official borrower and administrator of programme funds providing loans to participating commercial banks, which on-lend these funds to municipalities for eligible infrastructure projects. In 1995, ČMZRB sold 51 % of the shares and has retained a 49 % interest.

In 1995, MUFIS signed promissory note agreements with a private investor totalling USD 20 million (approximately CZK 603 million at 31 December 2002). The loan incurs fixed interest at 8.36 % p. a. Principal repayments begin in September 2005 with the final maturity payment due in March 2025.

In March 2002, an agreement was concluded between MUFIS, ČMZRB and the Ministry of Finance to redenominate debt service related to the first promissory note due between April 2002 and March 2005 from payments in USD to CZK at a fixed exchange rate, including the possibility to pre-pay the outstanding principal of the note as of 15 March 2005. MUFIS entered into currency forward derivative transactions with ČMZRB to hedge repayments of the promissory note (Note 28).

In 1997, MUFIS signed promissory note agreements with a private investor totalling USD 14 million (approximately CZK 422 million at 31 December 2002). The loan incurs fixed interest at 7.11 % p. a. Principal repayments begin in January 2007 with the final maturity payment due in January 2012.

In 1998, MUFIS signed promissory note agreements with a private investor totalling USD 10 million (approximately CZK 301 million at 31 December 2002). The loan incurs fixed interest at 6.654 % p.a. Principal repayments begin in July 2008 with the final maturity payment due in January 2028.

MUFIS is obligated to pay USAID a fixed one-time 100 basis point fee on these borrowings and a per annum 50 basis point fee on outstanding borrowings in consideration for guaranteeing the private investor's loan.

Summary financial information on associated undertakings

	Equity CZK'000	Total assets CZK'000	Total income CZK'000	Profit before tax CZK'000
At 31 December 2002 and for the year then ended	40,696	1,481,800	1,639,838	1,392
At 31 December 2001 and for the year then ended	39,304	1,684,128	299,593	40,820

The Bank's transactions with MUFIS are disclosed in Note 28.

16 PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	Land and buildings CZK'000	Equipment CZK'000	Total tangible assets CZK'000	Intangible assets CZK'000
Year ended 31 December 2001				
Opening net book amount	86,258	17,660	103,918	91,794
Additions	9,368	26,746	36,114	3,079
Disposals	(40)	-	(40)	-
Depreciation/amortisation charge	<u>(5,755)</u>	<u>(17,420)</u>	<u>(23,175)</u>	<u>(36,604)</u>
Closing net book amount	<u>89,831</u>	<u>26,986</u>	<u>116,817</u>	<u>58,269</u>
At 31 December 2001				
Cost	118,440	139,899	258,339	162,638
Accumulated depreciation/amortisation	<u>(28,609)</u>	<u>(112,913)</u>	<u>(141,522)</u>	<u>(104,369)</u>
Net book amount	<u>89,831</u>	<u>26,986</u>	<u>116,817</u>	<u>58,269</u>
Year ended 31 December 2002				
Opening net book amount	89,831	26,986	116,817	58,269
Additions	194,482	5,785	200,267	18,420
Disposals	(6,562)	(12)	(6,574)	-
Depreciation/amortisation charge	<u>(15,305)</u>	<u>(14,472)</u>	<u>(29,777)</u>	<u>(30,794)</u>
Closing net book amount	<u>262,446</u>	<u>18,287</u>	<u>280,733</u>	<u>45,895</u>
At 31 December 2002				
Cost	302,935	130,425	433,360	181,058
Accumulated depreciation/amortisation	<u>(40,489)</u>	<u>(112,138)</u>	<u>(152,627)</u>	<u>(135,163)</u>
Net book amount	<u>262,446</u>	<u>18,287</u>	<u>280,733</u>	<u>45,895</u>

There are no material differences between the carrying amount of property and equipment and its estimated fair value.

17 OTHER ASSETS

	31 December 2002 CZK'000	31 December 2001 CZK'000
Prepayments and advances paid	67,931	17,899
Other	<u>14,684</u>	<u>23,022</u>
	<u>82,615</u>	<u>40,921</u>

18 DUE TO BANKS

	31 December 2002		31 December 2001	
	Balance CZK'000	Interest rate %	Balance CZK'000	Interest rate %
Funding provided for infrastructure loans	24,191,245	4.25 - 4.60	22,678,690	4.45 - 6.27
Repo transactions	-	-	8,023,384	3.12 - 4.90
Deposits	3,335,429	2.56 - 4.45	1,737,333	4.63 - 6.03
Other received loans	177,275	4.25 - 4.60	-	-
	<u>27,703,949</u>		<u>32,439,407</u>	

Funding provided for infrastructure loans was transferred to the Bank from KoB at 31 December 2000 (Note 13).

The market value of term deposits from domestic and foreign banks approximates the carrying value.

19 DUE TO COSTUMERS

	31 December 2002	31 December 2001
	CZK'000	CZK'000
Current accounts	4,196,715	3,249,751
Term deposits	1,857,651	3,417,907
Client deposits with limited dispensability	9,671	11,151
Payables due to state institutions	2,480,087	1,970,143
Loans received within repo transactions	41,288,517	3,753,270
	<u>49,832,641</u>	<u>12,402,222</u>

At 31 December 2002 the current account balance contains CZK 2,480 million (31 December 2001: CZK 2,939 million) of non-interest bearing state current accounts.

They represent ministerial funds, which will be disbursed within the near term under ČMZRB's administered grant and subsidy programmes.

Term deposits, client deposits with limited dispensability and loans received within repo transactions at 31 December 2002 and 2001 are summarised as follows:

	2002		2001	
	Balance CZK'000	Interest rate %	Balance CZK'000	Interest rate %
State and international institutions	302,293	1.50 - 3.45	300,233	0.69 - 4.28
Corporate term deposits	1,438,692	2.40 - 5.30	3,004,670	1.80 - 3.10
Individual / employee term deposits	116,666	1.50 - 5.70	105,947	3.45 - 7.05
Client cash collateral for guarantees	9,671	1.00 - 6.30	11,151	3.00 - 6.30
Loans received within repo transactions	41,288,517	2.30 - 2.72	3,750,194	3.49 - 4.71
	<u>43,155,839</u>		<u>7,172,195</u>	

The term deposits from state and international institutions are provided for special purposes supporting ČMZRB's development mission and therefore their market value is not determinable. The carrying amounts of other deposits do not materially differ from their market value.

ČMZRB, acting as a fiduciary for various ministerial grant and subsidy programmes, places funds received from the state institutions related to these programmes into term deposits with maturities that generally correspond with projected disbursements to ultimate recipients.

Client cash collateral accounts represent funds received from guarantee clients, or from third parties on behalf of these clients, and directly collateralise ČMZRB in the case payment is made pursuant to a guarantee obligation. Maturities of client term deposits directly coincide with the termination of ČMZRB's commitment to the underlying loan and interest is payable annually.

Loans received within repo transactions from customers and banks (Note 18) are collateralised by government securities and liquid corporate bonds held by the Bank or required in reverse repo transactions as at 31 December 2002 and 2001 of CZK 40,457 million and CZK 11,885 million respectively.

20 OTHER LIABILITIES INCLUDING CURRENT TAX LIABILITY

	31 December 2002 CZK'000	31 December 2001 CZK'000
Liabilities to state budget	2,882,407	2,995,527
Special purpose state risk fund	562,412	625,691
Accrued expenses	44,967	31,660
Deferred income	1,217,109	1,066,613
Current tax liability net of advances paid	45,022	131,903
Other	<u>52,612</u>	<u>140,198</u>
	<u>4,804,529</u>	<u>4,991,592</u>

Liabilities to state budget represent funds, which were received from the state to provide loans (Note 13).

The special purpose state risk fund represents cash deposited by the state as a risk fund to cover credit losses that may arise from guarantees issued within a special government reconstruction programme (Note 31).

Deferred income primarily represents guarantee fees received in advance of recognition as income.

21 PROVISIONS

	31 December 2002 CZK'000	31 December 2001 CZK'000
Provisions for guarantees, beginning of the year	1,931,861	1,857,603
Net payments made pursuant to guarantee obligations	(155,085)	(18,953)
Net additions to provisions for guarantees	<u>68,672</u>	<u>93,211</u>
Provisions for guarantees, end of year	<u>1,845,448</u>	<u>1,931,861</u>

Total bad and doubtful debts (credit)/expense can be analysed as follows:

	<u>2002</u> CZK'000	<u>2001</u> CZK'000
Receivables written off	153,391	150,946
Loss (gain) on sold receivables	(2,644)	5,675
Additions to specific provisions for loans (Note 13)	331,864	266,532
Additions to specific provisions for guarantees	316,424	422,410
Additions to other provisions	164,858	-
Release of specific provisions for loans (Note 13)	(450,343)	(365,455)
Release of provisions for guarantees	(402,837)	(348,152)
Release of other provisions	(164,858)	-
Total bad and doubtful debts (credit)/expense	<u>(54,145)</u>	<u>131,956</u>

Additions to and release of other provisions relates to penalties paid during 2002 (Note 6).

22 SHARE CAPITAL

	31 December 2002 CZK'000	31 December 2001 CZK'000
Share capital - issued and fully paid	<u>1,975,800</u>	<u>1,780,000</u>

Share capital consists of 8,900 shares in nominal value of CZK 222,000 at 31 December 2002 (2001: 8,900 shares of CZK 200,000).

There was a bonus issue of CZK 196 million approved by the Annual General Meeting on 11 June 2002, following another bonus issue of CZK 380 million approved in 2001.

The shareholders at 31 December 2002 and 2001 were as follows:

	%	2002 CZK'000	%	2001 CZK'000
Ministry for Regional Development	24.3	479,076	20.0	356,000
Ministry of Industry and Trade	24.3	479,076	20.0	356,000
Ministry of Finance	23.8	470,862	19.7	349,948
Komerční banka, a.s.	13.0	256,854	13.0	231,400
Česká spořitelna, a.s.	13.0	256,854	13.0	231,400
Česká konsolidační agentura (formerly KoB)	-	-	12.7	225,348
ČSOB, a.s.	1.6	33,078	1.6	29,904
	<u>100.0</u>	<u>1,975,800</u>	<u>100.0</u>	<u>1,780,000</u>

In 2002, Česká konsolidační agentura, a.s., transferred its 12.7 % share in the Bank acquired from ČSOB in 2001 to three Ministries.

The Ministries are state organisations and they control the Bank.

Dividends

The Board is proposing a dividend of CZK 321 million from 2002 profit (2001: CZK 341 million including CZK 4 million paid out of retained earnings).

Earnings per share

Earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2002 CZK'000	2001 CZK'000
Net profit attributable to shareholders	426,435	679,158
Number of ordinary shares	8,900	8,900
	<u>47.91</u>	<u>76.31</u>

23 CAPITAL CONTRIBUTION

In accordance with the 1992 Act on the State Budget of the Czech Republic, the Ministry of Economy provided ČMZRB with a CZK 800 million special capital contribution to permanently strengthen the Bank's capital position. This capital contribution carries no voting rights.

24 RETAINED EARNINGS

At 31 December 2002 within retained earnings of CZK 1,557,803,000 (31 December 2001: within retained earnings of CZK 1,667,949,000) there was CZK 890 million (31 December 2001: CZK 749 million) allocated as a reserve for general banking risk. The reserve for general banking risk consists of following:

	31 December 2002 CZK'000	31 December 2001 CZK'000
Reserve for potential future losses on loans and guarantees	420,000	279,000
Reserve for potential future losses arising from fluctuations on Czech capital market	<u>470,000</u>	<u>470,000</u>
	<u>890,000</u>	<u>749,000</u>

25 HEDGING RESERVE

	31 December 2002 CZK'000	31 December 2001 CZK'000
Gross hedging reserve for cash flow hedges	(1,179,484)	(466,338)
Deferred income tax on hedging reserve (Note 7)	<u>365,640</u>	<u>144,565</u>
	<u>(813,844)</u>	<u>(321,773)</u>

The hedging reserve results from derivatives designated as cash flow hedges (Note 12). The fair value changes of cash flow hedges are recorded in the hedging reserve in equity. Cash flow hedges hedge infrastructure loans and the loan provided by Kreditanstalt für Wiederaufbau (Note 13).

26 CAPITAL ADEQUACY

ČMZRB is subject to Section 12 of the Act on Banks, which requires the maintenance of minimum amounts of capital to total risk-weighted assets (as defined in existing regulations in a manner which generally parallels the Basel Accord) of 8 %. At 31 December 2002 and 2001, ČMZRB's capital to risk weighted asset ratio was 24.32 % and 17.24 % respectively, when calculated using the Bank's financial position as reported under Czech Accounting Standards.

27 EMPLOYEE ANALYSIS

	2002	2001
Number of employees		
Average number of management	27	26
Average number of other staff	<u>231</u>	<u>222</u>
	<u>258</u>	<u>248</u>

28 RELATED PARTY TRANSACTIONS

The outstanding balances with related parties at the year-end are disclosed in the table below. These transactions were carried out on commercial terms and conditions and at market rates.

Assets	31 December 2002 CZK'000	31 December 2001 CZK'000
Shareholders		
Komerční banka, a.s.	564,356	150,288
Česká spořitelna, a.s.	202,686	-
Česká spořitelna, a.s. (collateralised by securities)	-	7,151,821
Ministry of Finance	-	22,969,735
Česká konsolidační agentura	-	204,944
Associated undertaking		
MUFIS a.s. - currency forwards	<u>93,590</u>	-
	<u>860,632</u>	<u>30,476,788</u>

Liabilities	31 December 2002	31 December 2001
	CZK'000	CZK'000
Shareholders		
Česká spořitelna, a.s.	379,490	779,910
Česká spořitelna, a.s. (collateralised by securities)	-	6,204,198
Česká konsolidační agentura (collateralised by securities)	*	2,100,981
Ministry for Regional Development	3,685,111	146,741
Ministry of Industry and Trade	1,399,076	172,852
Joint account of Ministry for Regional Development and Ministry of Industry and Trade	1,033,645	3,095,934
Ministry of Finance	1,799,943	995,477
Associated undertaking		
MUFIS a.s. - current account	51,050	19 573
MUFIS a.s. - term deposits	<u>198,000</u>	<u>602 650</u>
	<u>8,546,315</u>	<u>14,118,316</u>

* In 2002, Česká konsolidační agentura was not a related party (Note 22).

Management's salaries amounted CZK 79.6 million in 2002 (2001: CZK 73.1 million). Management as defined in Note 2 (k) included 27 managers in 2002 (2001: 26). Board of Directors emoluments were CZK 4.9 million in 2002 (2001: CZK 4.7 million) and Supervisory Board emoluments were CZK 0.5 million in 2002 (2001: CZK 0.6 million). Additional bonuses for these boards of CZK 0.6 million in 2002 and 2001 were approved by shareholders. The Bank did not grant any loans to the members of its Board of Directors or of its Supervisory Board in 2002 or 2001.

Members of the Board of Directors and the Supervisory Board placed term deposits with the Bank under the same conditions as employees of the Bank. The interest rates at which the employees' term deposits are placed are determined by the Internal direction of the Bank and are the same for all employees of the Bank and members of the Board of Directors and of Supervisory Board.

29 CONTINGENCIES

On 21 February 2002 a Czech securities firm took a legal action against ČMZRB asking for CZK 237,883,000. In 2000, this company bought from ČMZRB bonds of ZPS, a.s. Zlín, which was under bankruptcy proceedings. After the sale ČMZRB withdrew its receivable from bankruptcy proceedings of ZPS, whereas the securities firm did not register their acquired claim with the court. During 2002 the case has not been solved yet, however it is not probable that it would lead to an unfavourable result for the Bank.

30 COMMITMENTS

As the administrator of various governmental grant and subsidy programmes, ČMZRB is contractually committed as at 31 December 2002 to disburse CZK 1,261 million (at 31 December 2001: CZK 996 million) through the execution of signed agreements with programme recipients. These agreements specify that the funds will be disbursed from 31 December 2002 and 2001 as follows:

	31 December 2002 CZK'000	31 December 2001 CZK'000
Less than 90 days	179,540	205,254
3 to 6 months	163,144	159,208
6 to 12 months	237,593	239,055
1 to 2 years	280,490	278,068
More than 2 years	<u>399,939</u>	<u>114,056</u>
	<u>1,260,706</u>	<u>995,641</u>

31 GUARANTEES

Guarantee contracts at 31 December 2002 and 2001 can be analysed as follows:

	2002 CZK'000	2001 CZK'000
Original guarantee scheme	40,976	48,526
Deficiency guarantee product	4,700,065	5,435,295
Gradual guarantee product	1,725,189	-
Intensive and regional guarantees	768,015	822,078
Other guarantees	<u>137,590</u>	<u>75,450</u>
Total gross guarantees	7,371,835	6,381,349
Provision for credit risk	<u>(1,845,448)</u>	<u>(1,931,861)</u>
	<u>5,526,387</u>	<u>4,449,488</u>

The average guarantee is issued for a five-year period.

The total of guarantees represents ČMZRB's commitment to reimburse commercial banks in the case of client defaults. Since many of the commitments are expected to expire without being drawn upon, the total contingency balance does not necessarily represent future cash requirements.

An allowance for losses on guarantees is provided to absorb probable losses, net of collateral recoveries, arising as a result of making payments pursuant to guarantee obligations. At 31 December 2002 the gross pay-

ments made pursuant to guarantee obligations (Note 2(f)) relating to the overall guarantee portfolio are CZK 835 million (at 31 December 2001: CZK 991 million). At 31 December 2002 the commercial banks had formal requests for the next obligatory payments made by ČMZRB of CZK 714.9 million (at 31 December 2001: CZK 537.4 million).

ČMZRB routinely guarantees the loans of its shareholding commercial banks. Such transactions are made in the ordinary course of business on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other non-shareholding banks, and do not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

Original guarantee scheme

Under the guarantee contracts issued up to 1995 ČMZRB guarantees up to 85 % of the principal from qualifying commercial bank loans, for which it charges a risk rated market based exposure fee ranging from 7 % to 9 %. This fee may be subsidised by the government through the programme administered by ČMZRB. The fee is receivable directly from clients taking out the underlying loans. Guarantee operations are strictly limited to small and medium sized enterprises.

To offset possible losses associated with these guarantee products, ČMZRB seeks to obtain directly pledged collateral from the ultimate borrower. At 31 December 2002 and 2001 ČMZRB holds pledged collateral with a net realisable value of CZK 9 million and CZK 17 million, respectively, as estimated by management, to offset possible losses associated with these guarantees.

Guarantees with advance payment

In 1994, ČMZRB established a new type of guarantee contract whereby 15 - 20 % payments pursuant to guarantee obligations is paid to commercial bank in advance and the rest only after all recovery procedures are executed by the commercial bank.

At 31 December 2002, ČMZRB controls pledged collateral with a net realisable value of CZK 3,188 million (31 December 2001: CZK 3,640 million) as estimated by management, to offset possible losses associated with these guarantees.

Gradual guarantee scheme

Gradual guarantee scheme represents guarantee product where the guaranteed portion of a loan depends on the time difference between the default date and the date a call for the guarantee payment is submitted. The following table discloses time difference ranges and corresponding percentage guarantee payments.

Time difference from the default day	Payment of outstanding loan principal
9 - 24 months	35 %
25 - 48 months	50 %
49 - 60 months	70 %

The percentage of guarantee payment can be proportionally diminished for individual deals. Gradual guarantee product is not collateralised.

Intensive and regional guarantees

Included in the total balance of intensive and regional guarantees are guarantees issued within a government reconstruction programme of CZK 417.4 million (31 December 2001: CZK 466.5 million) and regional guarantees of CZK 350.6 million (2001: CZK 355.5 million).

The state deposited CZK 341.1 million (31 December 2001: CZK 434.3 million) and CZK 221.3 million (31 December 2001: 191.4 million) with ČMZRB included in Other liabilities (Note 20) as risk funds covering credit losses that may arise from reconstruction and regional guarantees respectively. At 31 December 2002 ČMZRB holds pledged collateral with a net realisable value of CZK 200 million (31 December 2001: CZK 250 million) and CZK 37 million (2001: CZK 72 million) as estimated by management, to offset possible losses associated with reconstruction and regional guarantee contingencies respectively. Management is convinced that the funds and collateral provided are sufficient to cover potential losses from these guarantee contingencies.

32 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statements, cash and cash equivalents comprise the following balances:

	31 December 2002 CZK'000	31 December 2001 CZK'000
Cash and balances with central banks (Note 8)	285,358	428,947
Treasury bills (Note 9)	4,415,781	1,469,427
Due from other banks - current accounts (Note 10)	<u>568</u>	<u>399</u>
	<u>4,701,707</u>	<u>1,898,773</u>

33 ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

	31 December 2002			31 December 2001		
	Assets CZK'000	Liabilities CZK'000	Net assets/ (liabilities) CZK'000	Assets CZK'000	Liabilities CZK'000	Net assets/ (liabilities) CZK'000
USD	184,405	80,125	104,280	299,324	117,677	181,647
EUR	7,242,474	18,082,747	(10,840,273)	6,655,418	8,510,024	(1,854,606)
DEM	-	-	-	6,926,778	9,640,496	(2,713,718)
Others	<u>36</u>	<u>40</u>	<u>(4)</u>	<u>3</u>	<u>-</u>	<u>3</u>
	<u>7,426,915</u>	<u>18,162,912</u>	<u>(10,735,997)</u>	<u>13,881,523</u>	<u>18,268,197</u>	<u>(4,386,674)</u>

The majority of open foreign currency positions is hedged by a long position in cross currency swaps (Note 12).

34 LIQUIDITY RISK

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

As at 31 December 2002

	Up to 3 months CZK'000	3 - 12 months CZK'000	1 - 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central bank	8,641	-	-	-	276,717	285,358
Treasury bills and other eligible bills	1,950,437	2,465,344	-	-	-	4,415,781
Due from banks	44,439,096	700,000	-	-	-	45,139,096
Trading securities	206,301	108,208	104,492	135,985	-	554,986
Derivative financial instruments	-	-	174,837	-	-	174,837
Loans to customers	1,812,621	1,579,269	7,522,018	19,446,375	-	30,360,283
Investment securities	56,938	239,850	6,763,400	585,350	-	7,645,538
Investments in associates	-	-	-	-	19,941	19,941
Intangible assets	-	-	-	-	45,895	45,895
Property, plant and equipment	-	-	-	-	280,733	280,733
Deferred tax asset	-	-	-	-	405,639	405,639
Other assets	-	-	-	-	82,615	82,615
Total assets	48,474,034	5,092,671	14,564,747	20,167,710	1,111,540	89,410,702
Liabilities						
Due to banks	2,765,038	1,825,411	6,435,405	16,678,095	-	27,703,949
Other deposits	-	-	-	-	-	-
Derivative financial instruments	-	-	990,441	713,935	-	1,704,376
Due to customers	43,432,292	191,034	227,300	2,281,104	3,700,911	49,832,641
Other liabilities incl. tax liability	174,488	348,561	677,306	648,027	2,956,147	4,804,529
Provisions	-	-	-	-	1,845,448	1,845,448
Equity	-	-	-	-	3,519,759	3,519,759
Total liabilities and equity	46,371,818	2,365,006	8,330,452	20,321,161	12,022,265	89,410,702
Net liquidity gap	2,102,216	2,727,665	6,234,295	(153,451)	(10,910,725)	-

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

As at 31 December 2001

	Up to 3 months CZK'000	3 - 12 months CZK'000	1 - 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central bank	8,596	-	-	-	420,351	428,947
Treasury bills and other eligible bills	635,732	833,695	-	-	-	1,469,427
Due from banks	16,579,259	1,465,351	-	-	-	18,044,610
Trading securities	201,588	318,919	5,087,001	1,543,728	-	7,151,236
Derivative financial instruments	-	-	31,420	-	-	31,420
Loans to customers	1,240,977	1,154,747	6,466,701	18,653,173	989,793	28,505,391
Investment securities	-	22,243	138,806	89,301	-	250,350
Investments in associates	-	-	-	-	19,258	19,258
Intangible assets	-	-	-	-	58,269	58,269
Property, plant and equipment	-	-	-	-	116,817	116,817
Deferred tax asset	-	-	-	-	444,551	444,551
Other assets	-	40,921	-	-	-	40,921
Total assets	18,666,152	3,835,876	11,723,928	20,286,202	2,049,039	56,561,197
Liabilities						
Due to banks	8,266,612	2,758,707	5,548,881	15,865,207	-	32,439,407
Other deposits	-	74,775	-	-	-	74,775
Derivative financial instruments	-	-	795,164	-	-	795,164
Due to customers	10,610,472	90,024	171,613	2,121	1,527,992	12,402,222
Other liabilities incl. tax liability	1,006,292	-	-	-	3,985,300	4,991,592
Provisions	-	-	-	-	1,931,861	1,931,861
Equity	-	-	-	-	3,926,176	3,926,176
Total liabilities and equity	19,883,376	2,923,506	6,515,658	15,867,328	11,371,329	56,561,197
Net liquidity gap	(1,217,224)	912,370	5,208,270	4,418,874	(9,322,290)	-

35 INTEREST RATE RISK

Interest sensitivity of assets and liabilities - repricing analysis

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amount, categorised by the earlier of contractual repricing or maturity date. The carrying amounts of derivative financial instruments which are principally used to reduce the Bank's exposure to interest rate movements are included in „Other assets“ and „Other liabilities“ under the heading „Non-interest bearing“.

As at 31 December 2002

	Up to 3 months CZK'000	3 - 12 months CZK'000	1 - 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central bank	8,641	-	-	-	276,717	285,358
Treasury bills and other eligible bills	1,950,437	2,465,344	-	-	-	4,415,781
Due from banks	44,439,096	700,000	-	-	-	45,139,096
Trading securities	310,793	108,208	-	135,985	-	554,986
Derivative financial instruments	-	-	174,837	-	-	174,837
Loans to customers	1,812,621	1,579,269	7,522,018	19,446,375	-	30,360,283
Investment securities	1,303,961	1,014,071	5,263,488	64,018	-	7,645,538
Investments in associates	-	-	-	-	19,941	19,941
Intangible assets	-	-	-	-	45,895	45,895
Property, plant and equipment	-	-	-	-	280,733	280,733
Deferred tax asset	-	-	-	-	405,639	405,639
Other assets	-	-	-	-	82,615	82,615
Total assets	49,825,549	5,866,892	12,960,343	19,646,378	1,111,540	89,410,702
Liabilities						
Due to banks	2,765,038	1,825,411	6,435,405	16,678,095	-	27,703,949
Other deposits	-	-	-	-	-	-
Derivative financial instruments	-	-	941,308	713,935	49,133	1,704,376
Due to customers	43,432,292	191,034	227,300	2,281,104	3,700,911	49,832,641
Other liabilities including current tax liability	174,488	348,561	677,306	648,027	2,956,147	4,804,529
Provisions	-	-	-	-	1,845,448	1,845,448
Equity	-	-	-	-	3,519,759	3,519,759
Total liabilities and equity	46,371,818	2,365,006	8,281,319	20,321,161	12,071,398	89,410,702
Interest sensitivity gap	3,453,731	3,501,886	4,679,024	(674,783)	(10,959,858)	-

As at 31 December 2001

	Up to 3 months CZK'000	3 - 12 months CZK'000	1 - 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets						
Cash and balances with central bank	8,596	-	-	-	420,351	428,947
Treasury bills and other eligible bills	635,732	833,695	-	-	-	1,469,427
Due from banks	16,579,259	1,465,351	-	-	-	18,044,610
Trading securities	1,346,572	558,103	4,360,894	885,667	-	7,151,236
Derivative financial instruments	-	-	31,420	-	-	31,420
Loans to customers	1,240,977	1,154,747	6,466,701	18,653,173	989,793	28,505,391
Investment securities	-	22,243	138,806	89,301	-	250,350
Investment in associates	-	-	-	-	19,258	19,258
Intangible assets	-	-	-	-	58,269	58,269
Property, plant and equipment	-	-	-	-	116,817	116,817
Deferred tax asset	-	-	-	-	444,551	444,551
Other assets	-	40,921	-	-	-	40,921
Total assets	19,811,136	4,075,060	10,997,821	19,628,141	2,049,039	56,561,197
Liabilities						
Due to banks	8,266,612	2,758,707	5,548,881	15,865,207	-	32,439,407
Other deposits	-	74,775	-	-	-	74,775
Derivative financial instruments	-	-	733,284	-	61,880	795,164
Due to customers	10,610,472	90,024	171,613	2,121	1,527,992	12,402,222
Other liabilities including current tax liability	1,006,292	-	-	-	3,985,300	4,991,592
Provisions	-	-	-	-	1,931,861	1,931,861
Equity	-	-	-	-	3,926,176	3,926,176
Total liabilities and equity	19,883,376	2,923,506	6,453,778	15,867,328	11,433,209	56,561,197
Interest sensitivity gap	(72,240)	1,151,554	4,544,043	3,760,813	(9,384,170)	-

36 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Carrying value		Fair value	
	2002 CZK'000	2001 CZK'000	2002 CZK'000	2001 CZK'000
Financial assets				
Due from banks	45,139,096	18,044,610	45,139,096	18,044,610
Loans to customers	30,360,283	28,505,391	31,918,659	29,033,145
Investment securities	7,645,538	250,350	7,663,286	259,445
Financial liabilities				
Due to banks	27,703,949	32,439,407	27,703,949	32,439,407
Other deposits	-	74,775	-	74,775
Due to customers	49,832,641	12,402,222	49,832,641	12,402,222

Loans to customers

Loans and advances are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities

In 2001, investment securities include only interest-bearing assets held to maturity, as assets available for sale are now measured at fair value. Fair value for held to maturity assets are based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, risk-adjusted discounted cash flow models or in some cases by reference to the fair value of collateral backing the exposure.

Other items

Amounts due from banks and all financial liabilities are generally short-term and their market value does not materially differ from their carrying amounts (Notes 10, 18 and 19).

37 POST BALANCE SHEET EVENTS

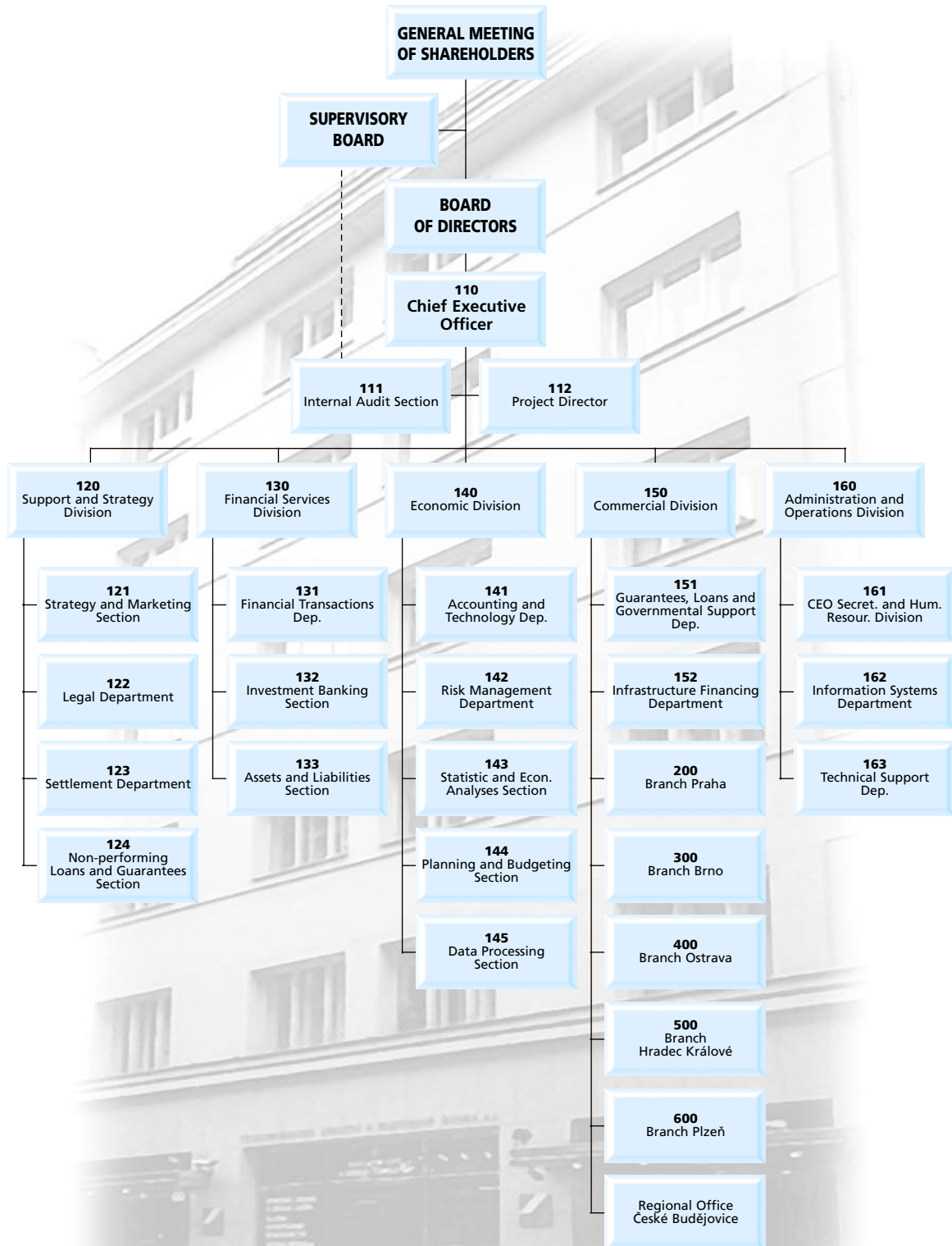
There were no significant post balance sheet events.

RECONCILIATION OF NET ASSETS AND NET INCOME

	Net assets CZK'000	2002 Net income CZK'000	Net assets CZK'000	2001 Net income CZK'000
Per financial statements prepared under Czech accounting principles	2,860,865	534,899	3,136,041	567,974
Bonuses and social costs considered as distribution of profit after tax under Czech accounting principles	(12,282)	(6,541)	(11,501)	(7,099)
Adjustment of Buy/Sell and Sell/Buy operations (interest accrual, provision for the change in average price)	-	-	-	11,025
Adjustment of general provisions (IAS 37)	890,000	141,000	749,000	124,000
Adjustment of hedging reserve	-	-	(466,338)	-
Remeasurement of securities to fair value (IAS 39)	-	(55,165)	55,165	(45,181)
Revaluation of investment in associated undertakings using equity method	19,402	144	19,258	18,803
Deferred income tax (Notes 2(p), 7)	<u>(238,226)</u>	<u>(187,902)</u>	<u>444,551</u>	<u>9,636</u>
Per financial statements prepared under International Financial Reporting Standards	<u>3,519,759</u>	<u>426,435</u>	<u>3,926,176</u>	<u>679,158</u>



Organisational Chart of the Bank (as of January 1, 2003)



Bank's Managers

Name and Surname	Section No. - Title	In charge since
Ladislav Macka	110 - Chief Executive Officer	1. 2. 1992
Ljuba Procházková	111 - Section Head	15. 3. 2001
Lubomír Rajdl	120 - Division Head	1. 5. 1992
Jiří Jirásek	130 - Division Head	1. 3. 1995
Jan Ulip	140 - Division Head	1. 4. 1993
Pavel Weiss	150 - Deputy of the CEO	1. 5. 1994
Milan David	160 - Deputy of the CEO	1. 10. 1993
Pavel Mráček	200 - Praha Branch Director	1. 6. 1997
Mojmír Res	300 - Brno Branch Director	1. 1. 1993
Jiří Keler	400 - Ostrava Branch Director	1. 5. 1994
Zdeněk Mareš	500 - Hradec Králové Branch Director	1. 1. 1997
Miroslav Regner	600 - Plzeň Branch Director	1. 6. 1997

Addresses

Head Office

110 00 Praha 1, Jeruzalémská 964/4
tel.: +420 255 721 111, fax: +420 255 721 110

Praha Branch

110 00 Praha 1, Jeruzalémská 964/4
tel.: +420 255 721 111, fax: +420 255 721 584

Hradec Králové Branch

500 03 Hradec Králové, Eliščíno nábřeží 777/3
tel.: +420 498 774 111, fax: +420 498 774 110

Brno Branch

603 00 Brno, Hlinky 120/47
tel.: +420 538 702 111, fax: +420 538 702 110

Ostrava Branch

702 00 Ostrava, Přívozká 133/4
tel.: +420 597 583 111, fax: +420 597 583 110

Plzeň Branch

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tel.: +420 378 775 111, fax: +420 378 775 110

Regional Office at České Budějovice

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tel./fax: +420 387 31 84 28

ČMZRB Information Centre at Zlín (since February 25, 2003)

760 30 Zlín, Štefánikova 167
tel: +420 576 011 503, fax: +420 576 011 505

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e - mail: info@cmzrb.cz

**REPORT OF INDEPENDENT AUDITORS
ACCORDING TO SECTION 66a (11) OF THE COMMERCIAL CODE**

**TO THE SHAREHOLDERS OF ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ
BANKA, A.S.**

We have reviewed the accompanying report on relations between Českomoravská záruční a rozvojová banka, a.s. ("the Bank") and its controlling party and between the Bank and the other parties controlled by the same controlling party ("the Report") for the year ended 31 December 2002. The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Bank. 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. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited mainly to enquiries of the Bank's employees and analytical procedures. Therefore a review provides lower assurance than an audit. We have not performed an audit of the Report, therefore we cannot express any audit opinion.

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 in accordance with the requirements of section 66a (9) of the Commercial Code.

17 April 2003



PricewaterhouseCoopers Audit, s.r.o.



Ing. Petr Kříž
Auditor, Licence No. 1140

Report on the Relations between the Controlling and Controlled Entities and on the Relations between the Controlled Entity and Other Persons Controlled by the Same Controlling Entity for 2002

Controlled Entity: Českomoravská záruční a rozvojová banka, a.s.

Controlling Entity as of 31 December 2002:

Czech Republic represented by: Ministry of Industry and Trade (24.25 %)
 Ministry for Regional Development (24.25 %)
 Ministry of Finance (23.83 %)

I. Relations between the Controlling and Controlled Entities

In 2002, the contract relations between Českomoravská záruční a rozvojová banka, a.s., (hereinafter as the Bank, or Development Bank) and the Czech Republic represented by one or several government bodies concentrated on the provision of banking services aimed at the implementation of the SME support programmes and administration of funds received by the Czech Republic from the European Investment Bank for the infrastructure development programmes. In 2002, no loss was incurred by the transactions carried out under the contracts stated below.

A. Provision of banking services for the implementation of SME support programmes

In 2002, the following contracts were signed:

1. Annex 3 of 19 September 2002 and Annex 4 of 20 December 2002 to the Agreement of 2 March 2001 on the implementation of the nation-wide support programmes for SME in the Czech Republic for 2001 – 2004, Ref. No. 2182/2001-41

The Agreement and its Annexes were concluded between the Bank and the Ministry of Industry and Trade. The Agreement defines the terms, conditions and procedures for the implementation of the following support programmes for SMEs: ZÁRUKA (Guarantee), KREDIT (Credit), TRH (Market), KOOPERACE (Co-operation), START and SPECIAL approved by the Czech Government Resolution No. 1257/2000 of 11 December 2000 (hereinafter as „Programmes“), and terms, conditions and procedures for the use, reporting and settlement of funds allocated to finance the relevant programmes in the current year.

Under the Annex 3, the Programmes TRH and KOOPERACE were closed down before the schedule, and the financial assistance to entrepreneurs affected by the floods in August 2002 was specified; the Annex 4 stipulates the close down of nation-wide support programmes for SMEs in 2002.

Under the Agreement, the Bank is authorized to collect applications for financial subsidies, grants, soft loans and subsidised guarantees, evaluate them, make decisions on granting the support, conclude individual contracts and to disburse respective funds.

Under the Agreement, the Bank provided the following support in 2002:

- 698 guarantees totalling CZK 2,462.9 million,
- 424 loans totalling CZK 479.8 million,
- 1,335 financial subsidies totalling CZK 536.8 million.

The operating costs and risk related costs incurred by the provision of the above services are fully covered by the price of guarantees, interests on loans and fees paid by the clients. With respect to the financial results from similar transactions in the previous years, the management of the Bank does not expect any loss to be incurred by these transactions.

2. Annex 3 of 14 January 2002 and Annex 4 of 19 December 2002 to the Agreement on the Implementation of the Regional Support Programmes for SMEs in the Czech Republic for 2001 – 2004, Ref. No. 2182/2001- 41

The Agreement was entered into by the Bank and the Ministry for Regional Development. The Agreement stipulates the terms, conditions and procedures for the implementation of the following support programmes for SMEs: PREFERENCE, PROVOZ (Operation), REGION, VESNICE (Community), REGENERACE (Regeneration), HRANICE (Border) and REGIOZÁRUKA (Regional Guarantee) approved by the Czech Government Resolution No. 1257/2000 of 11 December, 2000 (hereinafter as “the Programmes”), and terms, conditions and procedures for the use, reporting and settlement of funds allocated to finance the relevant programmes.

Annex 3 specified in more details the amount of funds available for the Programmes in 2002 and terms and conditions for their use; Annex 4 closed down the regional support programmes for SME in 2002.

Under the Agreement, the Bank collected applications for grants, soft loans and guarantees, evaluated them, made decisions on grants, soft loans and guarantees and arranged their disbursement.

Under the Agreement in 2002 the Bank provided:

- 11 guarantees totalling CZK 71.1 million,
- 43 loans totalling CZK 91.4 million,
- 247 financial subsidies totalling CZK 174.8 million.

Operating costs and risk related costs of the Bank incurred by the provision of the services were covered by the price of guarantees, interests on loans, risk coverage account to which the funds of the Ministry for Regional Development were deposited, and by fees paid by clients. With respect to the financial results from similar transactions in the previous years the management of the Bank does not expect any loss to be incurred by these transactions.

3. Agreement of 18 September 2002 on the Implementation of the REKONSTRUKCE (Reconstruction) Support Programme for Entrepreneurs in the Areas Affected by Floods in 2002 and Annex 1 of 20 December 2002 to the Agreement.

The Agreement was entered into by the Bank and the Ministry of Industry and Trade. The Agreement defines the terms, conditions and procedures for the implementation of the REKONSTRUKCE Programme for the support of entrepreneurs in the areas affected by floods in 2002, as approved by the Czech Government Resolution No. 797/2002 of 21

August 2002, and terms, conditions and procedures for the use, reporting and settlement of funds allocated to finance this Programme.

Under the Agreement the Bank collected applications for subsidised interests and guarantees, evaluated them and made decisions on granting the respective support, concluded individual agreements and arranged the disbursement of related financial funds.

Under the Agreement, in 2002 the Bank provided the following:

- 22 guarantees totalling CZK 102.6 million,
- 33 subsidised interests totalling CZK 9.1 million.

Operating costs and risk related costs of the Bank incurred by the provision of the services are covered by the price of guarantees, risk coverage account to which the funds of the Ministry of Industry and Trade are deposited, and fees paid by clients. With respect to the financial results from similar transactions in the previous years the management of the Bank does not expect any loss to be incurred by these transactions.

The Parties signed Annex 1 to the Agreement to ensure further implementation of the REKONSTRUKCE Programme in 2003.

4. Agreement on Provision of Banking Services Ref. No. 7229/2002-12 of 26 April 2002

The Agreement, was signed between the Bank Ministry of Finance and Ministry for Regional Development. The Agreement defines the terms, conditions and procedures for the implementation of the Regional Support Programme for the industrial business development in NUTS 2 – the areas of North-West and Ostravsko in 2002, and terms, conditions and procedures for use, reporting and settlement of the funds allocated to finance the Programme.

Under the Agreement, the Bank opened current accounts for the beneficiaries and paid the invoices submitted by them.

Under the Programme, in 2002 the Bank disbursed grants to 21 beneficiaries in the total amount of CZK 137,585 thousand upon the approval of the Ministry for Regional Development.

Operating costs resulting from the provision of these services were covered by the fee paid for the services by the Ministry for Regional Development. The transaction did not incur any loss to the Bank.

5. Financing Agreement for the Establishment and Management of the SME Grant Scheme for Cross-Border Regions close to Austria of 13 May 2002, and Financing Agreement for the Establishment and Management of the SME Grant Scheme for Cross-Border Regions close to Germany of 13 May 2002

The Agreements were signed by the Bank and the Ministry for Regional Development and reviewed and co-signed by the EU Delegation in Prague. They cover the cross-border areas close to Austria and Germany.

Under these Agreements the Bank receives the applications for grants from Phare

sources, evaluates them and develops the recommendations on the grant award for the EU Delegation in Prague, enters into grant contracts with beneficiaries and disburses the moneys.

The operating costs related to the services provided are covered by the fee paid by the Ministry for Regional Development.

In 2002, 4 grants were awarded in the total amount of CZK 0.5 million from the Phare sources of funding. No loss was incurred to the Bank from this transaction.

6. Agreement on the Implementation of the „Pohraničí“ (Borderland) Grant Programme for SMEs in Cross-border Areas (Ref. No. 12 644/02-13) of 20 May 2002

The Agreement was concluded between the Bank and the Ministry for Regional Development. The Agreement defines the terms, conditions and procedures for the implementation of the „POHRANIČÍ“ Grant Programme funded from the National Budget and designed for SMEs operating in cross-border areas.

Under the Agreement, the Bank collects the applications for grants, evaluates them, develops the recommendations on grant award for the Ministry for Regional Development, signs contracts with beneficiaries on grant provision and disburses the respective moneys.

In 2002, grants in the total amount of CZK 0.2 million were awarded to 4 beneficiaries (see above par. 5).

The operating costs related to the services provided are covered by the fee paid by the Ministry for Regional Development.

7. Agreement on the Assistance in the Implementation of the Regional Support Programme for SMEs in NUTS 2- the areas of Ostravsko and North-West in 2002 – REGION 2, Ref. No. 25148/2002-52 of 28 November 2002

The Agreement was signed between the Bank and Ministry for Regional Development. The Agreement defines terms, conditions and procedures for the implementation of the REGION 2 Support Programme for SMEs operating in Ostravsko and North-West NUTS 2 areas.

Under the Agreement, the Bank received the applications for grants, evaluated them and made decisions on granting, signed the grant contracts and disbursed the moneys.

In 2002, the Bank awarded 20 grants in the amount of CZK 15.2 million under the Agreement.

The operating costs related to the services provided are covered by the fees paid by the beneficiaries. With respect to the financial results from similar transactions in the previous years and a long-term nature of the transactions the management of the Bank does not expect any loss to be incurred by these transactions.

8. Agreement Ref. No. 02/3220/051 of 27 September 200, on the use of sources from the Phare Revolving Fund managed by the Agency for Business Development for funding of the START Programme providing soft loans to start-ups

The Agreement was signed between the Bank, Ministry of Industry and Trade and the Agency for Business Development. The Agreement defines the terms, conditions and procedures for provision, reporting and settlement of moneys provided from the Phare Revolving Fund under the Memorandum of Understanding of 12 August 1997 signed by the European Commission and Ministry of Industry and Trade on the use of money returned to Phare Programme funds for further financing of the START Programme from 2002 onwards.

Under the Agreement, the Bank received the applications for soft loans, evaluated them, decided on soft loans, executed soft loans contracts and contracts for subsidised interests.

Under the Agreement, in 2002 the Bank provided 104 interest-free loans totalling CZK 47 million.

The loans were provided at the full risk of the Phare Revolving Fund. The operating costs related to the provision of these services are paid by the Agency for Business Development.

B. Administration of Funds

In 2002 the following contracts for the administration of funds were signed in connection with the loans received by the Czech Republic from the European Investment Bank for the infrastructure development projects:

1. Contract for Administration of Funds for the Plzeň By-pass and Relevant Access Roads Project (hereinafter as the Project) of 23 August 2002

The Contract was signed by the Bank, the Ministry of Finance (hereinafter as MF) and the State Fund for the Transport Infrastructure (SFDI). The Contract defines the relations between the parties during the performance of the Contract for Loan to finance the Project signed between the Czech Republic and the European Investment Bank (EIB) on 27 June 2002. The Bank as the Financial Manager ensures the administration of funds (disbursement of the loan and its specific use together with the moneys from the SFDI), supervises the use of the funds in line with the ISPROFIN information database and SFDI budget, reporting to EIB, MF and SFDI, and provides advice and consultations to the contract parties.

The Project consists of 13 sub-projects and in 2002 CZK 1.85 billion were disbursed.

The costs incurred to the Bank by the activities stated above are covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

2. Agreement on Co-operation in the Implementation of the Plzeň By-pass and Relevant Access Roads Project of 20 September 2002

The Agreement was signed by the Bank and the Ministry of Transport and Telecommunications (hereinafter as MDS). The Agreement defines the co-operation between the MDS and the Bank in the role of the Project Financial Manager in connection with the Contract referred to in par. 1.

The costs incurred to the Bank by the co-operation with MDS are fully covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

3. Contract for Financial Management of Czech Motorways Project B (hereinafter as the Motorways Project) of 4 July 2002

The Contract was signed between the FM, the Bank and SFDI. The Contract defines the relations between the parties in the performance of the Loan Contract signed between the Czech Republic and the EIB on 26 November 2002 for the Motorways Project B. The Contract defines the scope of activities and responsibilities of the contract parties in the disbursement, use and supervision of financial means for the Motorways Project financing. The Bank, as the Financial Manager, will administer the funds (disbursement of the loan and its specific use together with the financial means of SFDI), supervise the use of funds in line with ISPROFIN information database and SFDI budget, report to EIB, MF and SFDI, provide advice and consultations to the contract parties.

The Project consists of 18 sub-projects and in 2002 its financing did not start yet.

The costs incurred to the Bank by the activities stated above will be fully covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

4. Agreement on Co-operation during the Implementation of Czech Motorways Project B of 20 September 2002

The Agreement was signed by the Bank and the Ministry of Transport. The Agreement defines the co-operation between the Ministry and the Bank as the Financial Manager for the Motorways Project in connection with the Contract referred to in par. 3.

The costs incurred to the Bank by the activities stated above will be covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

5. Contract on the Financial Management for the Project of the Masaryk University in Brno of 17 December 2002

The Contract was signed between the Ministry of Finance and the Bank. The Contract empowers the Bank to act as the Project Financial Manager in line with the Loan Agreement signed between the Czech Republic and EIB on 27 May 2002 for the Masaryk University Project. The Contract also defines the scope of activities and responsibilities of the contract parties in the disbursement, use and supervision of the financial sources aimed at the funding of the Masaryk University Project. The Bank as the Financial Manager will administer the financial sources (disbursement and eligible use of the loan sources

together with financial funds from the State Budget and Masaryk University's own moneys), supervise their use in line with ISPROFIN information database, report to EIB, MF and Masaryk University, provide advice and consultations to the parties.

The costs incurred to the Bank by the activities stated above will be fully covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

6. Agreement on Co-operation in financing the Masaryk University Project of 12 December 2002

The Agreement was signed between the Bank and the Ministry of Education, Youth and Sport and Masaryk University, Brno. The Agreement defines the co-operation in the financing of the University Project in connection with the Contract stated under the par. 5.

The costs incurred to the Bank by the activities stated above will be covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

7. Contract for the Administration of Funds for the Flood Prevention Programme (hereinafter the Programme) of 20 November 2002

The Contract was entered into by the Ministry of Finance and the Bank. The Contract empowers the Bank to act as the Programme Financial Manager in line with the Loan Agreement signed between the Czech Republic and the EIB on 28 May 2002. The Contract defines the scope of activities and responsibilities of the parties in disbursement, use and supervision of the Programme financing. The Bank as the Financial Manager will ensure the administration of funds (disbursement and eligible use of loan sources together with the funds from the State Budget and Programme participants own moneys), supervise their use in line with ISPROFIN information database, report to EIB, MF, Ministry of Agriculture and Programme participants, provide advice and consultations to contract parties.

In 2002, the Bank disbursed CZK 71.8 million allocated from the State Budget under the Ministry of Agriculture items.

The costs incurred to the Bank by the activities stated above will be covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

8. Agreement on Co-operation in the Implementation of the Flood Prevention Programme of 29 November 2002

The Agreement was signed between the Ministry of Agriculture and the Bank. The Agreement defines the co-operation between the Ministry of Agriculture and the Bank as the Financial Manager of the Flood Prevention Programme in connection with the Contract referred to in par. 7. The Bank provides the disbursement of the loan, State Budget funds and the financial means of the Programme participants and monitors their specific use for the projects included in the Programme, supervises the billing documents for work and deliveries and provides the information about the purpose for which the funds can be used.

In 2002, the activities under this Agreement were not carried out.

The costs incurred to the Bank by the activities stated above will be covered by the Ministry of Finance in the form of a remuneration for acting as the Financial Manager.

9. Agreement on the ahead-of-the-schedule funding of the projects included in 229 810 Programme: State Aid for the Recovery of Areas Affected by the Floods in 2002 provided by the Ministry of Agriculture (hereinafter as 229 810 Programme) of 18 November 2002 with duration to 31 December 2002

The Agreement was signed between the Ministry of Finance, Ministry of Agriculture and the Bank. The Agreement deals with the ahead-of-the-schedule funding of the 229 810 Programme from the State Budget and other sources prior to the execution of the Loan Agreement between the Czech Republic and EIB for the Project dealing with the damage caused by the floods in the Czech Republic in 2002 (the Contract was signed on 20 December, 2002). The Agreement on 229 810 Programme defined the scope of activities and responsibilities of the parties in financing the approved projects implemented by municipalities, associations of towns and communities and water management companies late in 2002. The Bank provided the financial management and monitored the specific use of the funds for the payment of invoices in line with the ISPROFIN information database.

In 2002, CZK 76.8 million were used for project financing ahead of the schedule.

The costs incurred to the Bank by the activities stated above are covered by the Ministry of Finance in the form of a remuneration for activities related to financing of the 229 810 Programme.

10. Agreement on the payment of fees for the assessment of several options for different amounts of soft loans to be provided to the projects included in the Support Programme for Water Sector Projects of 14 June 2002

The Agreement was signed between the Ministry of Agriculture and the Bank. The Agreement deals with the requirement of the Ministry of Agriculture to assess several project financing options under the Programme for Water Sector Projects and the fee to be paid for this service.

The costs of the Bank for this service are paid by the Ministry of Agriculture.

II. Relations between the Controlled Entity and Other Persons Controlled by the Same Controlling Entity

The centre point of contractual relations between the Bank and other persons controlled by the Czech State Administration in 2002 was the provision of banking services for the implementation of programmes for repairs of pre-cast concrete residential buildings and other housing development support, deposit and lending transactions and transactions with securities. The counterparts were the State Fund for Housing Development, Road and Motorway Directorate, Export and Guarantee Insurance Company, the State Fund for Agricultural Interventions, the Ministry of Finance, Czech Consolidation Agency, the State Environmental Fund and the Czech Export Bank. In 2002 no loss was incurred from the transactions performed under the contracts stated below.

1. Annex 1 of 13 September 2002 to the Agreement of 30 October 2001 on the implementation of the Support Programme for repairs of pre-cast concrete residential buildings in the part concerning bank guarantees

The Agreement was signed between the Bank and the State Fund for Housing Development. The Agreement defines the relations between the State Fund for Housing Development and the Bank during the implementation of the Support Programme for repairs of pre-cast concrete residential buildings in the part concerning bank guarantees.

Under the Agreement the Bank collected applications for bank guarantees, evaluated them, made decisions on the issuance of guarantees and executed guarantee contracts.

Annex 1 updates the Agreement with respect to the floods occurred in August 2002.

Under the Agreement, the Bank issued 41 guarantees totalling CZK 340 million in 2002.

The operating costs and risk related costs incurred to the Bank in relation with these services are covered by the price of guarantees, fee paid by the State Fund for Housing Development and the risk coverage account, to which the financial means from the State Fund were transferred. With respect to the financial results from similar transactions in the previous years the management of the Bank does not expect any loss to be incurred by these transactions.

2. Annex 1 of 13 September 2002 to the Agreement of 30 October 2001 on the implementation of the Government Decree 299/2001 on the use of moneys from the State Fund for the Housing Development for subsidised interests on loans provided by banks to legal entities and individuals for repairs, refurbishment and modernisation of pre-cast concrete residential buildings and for the Support Programme for repairs of pre-cast concrete residential buildings (the PANEL Programme) in the part concerning subsidies

The Agreement was signed between the Bank and the State Fund for Housing Development. The Agreement defines the relations between the State Fund for Housing Development and the Bank during the implementation of the PANEL Programme in the part dealing with subsidised interests.

Annex 1 updates the Agreement with respect to the floods occurred in August 2002 (Government Decree No. 398/2002).

Under the Agreement the Bank collected applications for subsidised interests, evaluated them, processed them, made recommendations on subsidies for the State Fund for Housing Development, executed contracts and disbursed the subsidies.

Under the Agreement the Bank provided 69 subsidies for interest payments totalling CZK 358 million in 2002.

The costs incurred to the Bank by provision of these services are covered by the State Fund for Housing Development. With respect to the performance of similar transactions in the previous years the management of the Bank does not expect any loss to be incurred by these transactions.

3. Contracts for financial market transactions executed with the entities controlled by the State in 2002:

The contracts stated bellow were entered into under standard commercial conditions.

3.1. The State Fund for Housing Development (hereinafter as SFRB)

In 2002, the Bank entered into the following contracts with the SFRB:

3.1.1. Contract for opening and administration of special current accounts Ref. No. 4/2002/UB of 14 June 2002 and Annex 1 of 26 September 2002

Under the Contract, the Bank disburses low interest loans of CZK 200 thousand to young families for their housing. Annex 1 to the Contract amends the interest rates at special current accounts. The costs of the Bank incurred by these services are covered by the SFRB in line with the Contract terms and conditions. In 2002, the Bank disbursed in total CZK 56.65 million for these loans.

3.1.2. Agreement on the implementation of the Government Decree 396/2002 on the use of the SFRB funds in the form of loans to cover a part of costs related to the construction of a flat by individuals affected by floods in 2002 executed between the Bank and the SFRB on 11 November 2002

Under the Agreement the Bank administers the „flood loans“. The costs incurred to the Bank by the loans administration are compensated by the SFRB in line with the Contract terms and conditions. Under the Agreement the Bank paid invoices of 14 beneficiaries in the total amount of CZK 2.86 million in 2002.

3.1.3. Contract for opening and administration of special current accounts Ref. No. 9/2002/UB of 31 October 2002

The contract was executed with the objective to open and administer the special current account for loans referred to in par. 3.1.2. The costs incurred to the Bank by administration of the special current accounts are covered by the SFRB. The accounts were opened under the standard terms and conditions and the fees and charges stated in the Price List of Transactions and Banking Services applied.

In 2002, the SFRB made term deposits with the maturity up to 1 year.

3.2. The State Fund for Transport Infrastructure

On 26 September 2002, the Bank signed Annex 5 with the State Fund for Transport Infrastructure to the Contract for opening and administration of a special current account Ref. No. 8/2000/UB. This Annex amends the interest rate paid on the special current account.

In 2002, the State Fund for Transport Infrastructure made term deposits with the maturity up to 1 year.

3.3. Road and Motorway Directorate (hereinafter as „ŘSD“)

On 30 April 2002 the bank signed Annex 2 with the ŘSD to the Contract on the opening and administration of special current account Ref. No. 20/2001/UB. Under this Annex, a new account was opened for other sources of funding for ŘSD projects. The account was opened under standard terms and conditions.

3.4. Deposit and lending transactions and transactions with securities between the Bank and other entities controlled by the State

In 2002, the Export and Guarantee Insurance Company (EGAP) made deposits with the maturity up to 1 year.

In 2002, the State Fund for Agricultural Interventions (SZIF) made deposits with maturity up to 1 year. The Bank made the settlements of transactions with treasury bills in the Short-term Bond Market.

As part of the infrastructure project, financing deposits were made to the accounts of the Ministry of Finance with maturity up to 1 year.

In 2002, Czech Consolidation Agency (ČKA) made deposits in the form of inter-bank transactions. It also made deposits with maturity up to 1 year and the Bank provided loans to the ČKA with maturity up to 1 year.

The State Environmental Fund made deposits with maturity up to 1 year.

Czech Export Bank (ČEB) made deposits with maturity up to 1 year and the Bank provided ČEB with loans with maturity up to 1 year. The Bank also made indirect transactions with ČEB with government bonds.

Bank Products (in 2003)

SME Assistance

It is aimed at businesses with less than 250 employees and net revenues/income not exceeding CZK 1,450 million, total assets not exceeding CZK 980 million and satisfying the criteria of independence. The following products are offered:

Bank Guarantees

- Guarantees for loans for capital expenditure projects,
- Guarantees for operational loans, including revolving loans,
- Guarantees for venture capital,
- Guarantees for proposals submitted in public tenders.

Loans

- Interest free loans for start-ups

Other loans are only for businesses with less than 50 employees. These are:

- Loans for capital expenditure projects with maturity up to 6 years and fixed interest rate of 5 % p.a. in the amount up to CZK 4 million; for projects implemented in the areas specified with discounted rate of 4 % p.a. and maximum amount of CZK 7 million.
- „Small Loans“ up to CZK 1 million with interest rate of 3 % p.a. and maturity of 4 years for projects recommended by the Regional Consultation and Information Centre (RPIC) or by the Business Innovative Centre (BIC).

Subsidised Interests

The subsidy can be up to 5 % p.a., according to the conditions of individual programmes. Subsidies provided under several programmes can be combined.

Grants

- For certification under ISO 14000 and ISO 9000 or to cover the costs of EMAS implementation,
- For the compliance mark with the ČSN TEST standard,
- For the investment cost of projects aimed at establishment and development of co-operating associations,
- To cover the costs incurred by the employment of people from less flexible groups of population.

Housing Development Support

Under the Support Programme for Repairs of Pre-cast Concrete Residential Buildings the following assistance is provided:

- Guarantees of up to 70 % of the loan principal,
- Subsidised interests in the range of 3 - 5 % p.a. for 15 years.

The REKONSTRUKCE (Reconstruction) Programme

This Programme provides to SMEs in the areas affected by the floods in 2002 subsidised interests of 2 - 7 percent points on the bank loans for the project implementation based on the documented damage, guarantees of up to 90 % of the principle and outstanding interest payments not exceeding 30% of the outstanding loan principal or guarantees for leasing and soft loans from CZK 1 million to 10 million with fixed interest rate of 2 % p.a. and a maximum maturity of 6 years.

Regional Support for SMEs

Regional supports are provided from the regional funds in the form of soft loans or grants. For 2003 the programmes of soft loans and grants for small entrepreneurs were launched for micro-enterprises operating in South Bohemian region.

Financing of the Transport Infrastructure Development

The Bank acting as the Financial Manager for the loans provided by the European Investment Bank administers the sources for the development of motorway network, repairs and improvement of main roads and motorways.

Financing of the Water Sector Projects in ČR

Under the programmes soft loans for the construction and modernisation of water pipelines, water treatment plants, sewage systems and waste water treatment plants are provided.

Investment Banking Services

Financing is arranged through the issue of debt securities – bonds and bills, under standard commercial terms and conditions.

Term Deposits

Term deposits are opened and administered for individuals and legal entities with a fixed annual interest rate and their automatic renewal is possible.

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