

# Annual Report

2003

ŽB-ASSET MANAGEMENT, A.S.

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# Company Bodies

## Board of Directors:

There were several changes to the Board of Directors last year. The sole shareholder dismissed Ing. Jiří Kepka, CSc., from his position as chairman and member of the board as of 29 December 2003. Furthermore, the sole shareholder took note of the end of the term of office of board member Ing. Martin Burjánek on 29 December 2003. Ing. Martin Burjánek resigned and the Board of Directors, in accordance with the company's Articles of Association, discussed his resignation. With effect from 30 December 2003, Mgr. Roman Pospíšil and Ing. Leoš Bartoň were appointed new members of the Board of Directors by the sole shareholder. The Board of Directors is now composed of Mgr. Roman Pospíšil (chairman), Ing. Leoš Bartoň and RNDr. František Vencel.

### **Mgr. Roman Pospíšil**

Mr. Pospíšil is a degree holder from the Pedagogical Faculty in České Budějovice, branch mathematics and physics; Graduate School of Banking Colorado; and has completed the Barclays Bank courses. He is the CEO of Pioneer česká investiční společnost, a.s. and Company Manager of ŽB - Asset Management, a.s. He is a Member of the Board of Union of Investment Companies of the Czech Republic (UNIS), Czech Republic.

### **Ing. Leoš Bartoň**

Mr. Bartoň is a degree holder from the Czech Technological Institute Prague, Engineering Faculty, branch economics and management. In 1994 and 1995, he worked as a bond market dealer in Česká spořitelna; from 1996 to 2001, he was a senior dealer and proprietary trader in Komerční banka; and from 2001 to November 2003, he worked for PPF. Currently, he is a portfolio manager of ŽB - Trust, investiční společnost, a.s.

### **RNDr. František Vencel**

Mr. Vencel is degree holder from the Faculty of Physics and Mathematics, Charles University Prague, where he specialised in mathematical analyses and graduated magnum cum laude. After a short engagement within the academic community, he joined the financial sector. He is the Risk Manager of ŽB - Trust, investiční společnost, a.s.

## Supervisory Board

The company's Supervisory Board was composed of Dr. Vít Horáček (chairman), Mgr. Andrea Cejnarová and Doc. Ing. Jaroslava Durčáková, CSc. On 4 March 2004 the chairman and two members resigned. In accordance with the Articles of Association, the Supervisory Board discussed the resignations and their office was terminated on 4 March 2004.

On 5 March 2004 the sole shareholder appointed the following new members of the company's Supervisory Board: Daniel Keith Kingsbury (chairman), Pdraig Kenny and Luigi Trombetta.

### **Daniel Keith Kingsbury**

Mr. Daniel K. Kingsbury graduated from the John Hopkins University (1980) and New York University (1988), majoring in the development of activities relating to the management of funds, especially in foreign markets (Spain, Ireland, Taiwan, the Philippines, Chile, Russia.)

In the Pioneer Investments Group Mr. Daniel K. Kingsbury holds a post of the President of the New Europe Division and is in charge of all activities of the Pioneer Investments Group in Central Europe.

### **Pdraig Kenny**

Mr. Pdraig Kenny holds in the company Pioneer Global Asset Management a post of the operations manager. He joined the Pioneer Investments Group in 1998, after working for investment companies Bankers Trust Company and Bank of Ireland Asset Management. Mr Kenny graduated from the University College Dublin where he was awarded the Bachelor's degree.

**Luigi Trombetta**

Luigi Trombetta graduated from the La Sapienza University in Rome, majoring in legal studies. Immediately after the completion of his studies he joined Banco di Santo Spirito in Rome (currently it operates under the name Banca di Roma S.p.A. and belongs to the Capitalia banking group.

Since 2001 he works for the company Pioneer Global Asset Management, S.p.A., where he holds a post of the head of legal and corporate management section. Mr Trombetta is a member of the Board of Directors of Pioneer Alternative Investments management SGR, p.A. Milan, Italian company engaged in alternative investments.

# Financial Section

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## RELATIONS REPORT

In compliance with Art 66a para 9 of Act no. 513/1991 Coll., Commercial Code, as amended, the Board of Directors of the company ŽB-Asset Management, a.s., with the registered office at Prague 1, Staré město, Na Příkopě 583/15, postal code: 110 00, IČ 25684558, recorded in the Commercial register maintained with the Municipal Court in Prague, section B, insert 5483 ("ŽB-Asset Management"), prepared a relations report for the accounting period of the year 2003.

Until 30. December 2003 ŽB-Asset Management was directly controlled by the Company Živnostenská banka, a.s., with the registered office at Prague 1, Na Příkopě 858/20, postal code: 11 380, IČ 00001368, recorded in the Commercial register maintained with the Municipal Court in Prague, section B, insert 1350 ("Živnostenská banka"). Živnostenská banka was until 11 February 2003 directly controlled by the Company Bankgesellschaft Berlin AG ("BGB"), with the registered office at Alexanderplatz 2, D-10178 Berlin, Germany, reg. no. 527, sort code BLZ 100 222 00. BGB is directly controlled by Land Berlin (federal country Berlin). As from 11. February 2003 Živnostenská banka has been fully controlled by the company UniCredito Italiano S.p.A, with the registered office at Via Dante 1, 16121 Genoa, Italy ("UniCredito"). Since 30.12.2003 ŽB-Asset Management has been directly controlled by Pioneer Global Asset Management S.p.A., of Galleria San Carlo, 6 – 20122 Milan, Italy, tax number 13250740159 ("PGAM"). PGAM is directly controlled by the company.

The Board of Directors of ŽB – Asset Management declares that between ŽB-Asset Management and related parties in the accounting period of the year 2003 there were only relations with the following related parties:

- Živnostenská banka,
- ŽB-Trust, investiční společnost, a.s., with the registered office at Prague 1, Old Town, Na Příkopě 583/15, postal code: 110 00, IČ 63080273, recorded in the Commercial register maintained with the Municipal Court in Prague, section B, insert 3277 ("ŽB-Trust, investiční společnost");
- Pioneer Investment Management Limited, with the registered office at 1 George's Quay Plaza, George's Quay, Dublin 2, Republic of Ireland ("Pioneer Investment Management Limited");
- UniBanka, a.s., with the registered office at Vajnorská 21, Bratislava 832 65, IČ 00681709, recorded in the Commercial register maintained with the District Court of Bratislava I, section Sa, insert number 34/B ("UniBanka");
- Pioneer česká investiční společnost, a.s., with the registered office at Prague 2, Na Rybníčku 5/1329, postal code: 120 00, IČ 63078295, recorded in the Commercial register maintained with the Municipal Court in Prague, section B, insert 3049 ("Pioneer česká investiční společnost");
- Pioneer česká finanční společnost, s.r.o., with the registered office at Prague 2, Na Rybníčku 5/1329, postal code: 120 00, IČ 25611216, recorded in the Commercial register maintained with the Municipal Court in Prague, section C, insert 54684 ("Pioneer česká finanční společnost").

### 1. Agreements concluded between the Company ŽB – Asset Management and related parties in the accounting period 2003

**1.1.** Between companies ŽB – Asset Management and Živnostenská banka, or between the companies ŽB – Asset Management, Živnostenská banka and another entity the following agreements were concluded in the accounting period of the year 2003:

Agreement name	Subject of agreement	Signature date
no name	the securing of contracts on administration and provision of related services and activities by Živnostenská banka	31 March 2003
on termination of the of licence agreement	terms and conditions governing the termination on the granting of rights to use a trade mark	15 December 2003

**1.2.** Between companies ŽB - Asset Management and ŽB - Trust, investiční společnost, or between the companies ŽB - Asset Management, ŽB - Trust, investiční společnost and another entity the following agreements were concluded in the accounting period of the year 2003

Agreement name	Subject of agreement	Signature date
on temporary allocation of an employee for the purposes of performance of work	terms and conditions governing the temporary allocation of an employee of ŽB-Trust investiční společnost for the purposes of temporary performance of work for ŽB-Asset Management consisting of the performance of middle office activities	26 February 2003
on temporary allocation of an employee for the purposes of performance of work	terms and conditions governing the temporary allocation of an employee of ŽB-Trust investiční společnost for the purposes of temporary performance of work for ŽB-Asset Management consisting of the performance of a position of the internal auditor of ŽB – Asset Management	26 March 2003
on temporary allocation of an employee for the purposes of performance of work	terms and conditions governing the temporary allocation of an employee of ŽB-Asset Management for the purposes of temporary performance of work for ŽB-Trust investiční společnost consisting of the performance of back-office and middle office activities	28 May 2003
on temporary allocation of an employee for the purposes of performance of work	terms and conditions governing the temporary allocation of an employee of ŽB-Asset Management for the purposes of temporary performance of work for ŽB-Trust investiční společnost consisting of the performance of activities of the finance and accounting department	1 December 2003
on termination of the agreement on temporary allocation of an employee for the purposes of performance of work for another employer	terms and conditions governing the termination of temporary allocation of an employee of ŽB-Trust investiční společnost for the purposes of performance of work for ŽB-Asset Management consisting of the performance of middle-office activities	30 September 2003
on the licence assignment	terms and conditions governing the assignment of a licence TOPAS OPF with extended functionality „Distribution of foreign funds" from ŽB-Trust investiční společnost to ŽB – Asset Management	27 January 2003
on the licence assignment	terms and conditions governing the assignment of a licence Arbes CRM from ŽB-Trust investiční společnost to ŽB – Asset Management	31 March 2003
on the licence assignment	terms and conditions governing the assignment of a licence TOPAS from ŽB-Trust investiční společnost to ŽB – Asset Management	8 April 2003
No MIP20PR/10400.02 on the preparation of an analytical study on the MIS system	terms and conditions governing the preparation of an analytical study on the MIS system	1 July 2003
Licence	terms and conditions governing the granting of licences for MIS	15 October 2003
On the provision of data	terms and conditions governing the provision of data from Peníze.cz	10 November 2003
On the provision of services	terms and conditions governing the selection of an internal auditor	11 December 2003

**1.3.** Between companies ŽB – Asset Management and Pioneer Investment Management Limited the following agreements were concluded in the accounting period of the year 2003:



Agreement name	Subject of agreement	Signature date
Agreement on Investment Advisory and Arrangement of Trade-Execution Services	conditions governing the provision of investment services for Pioneer New Europe Funds	16 September 2003

**1.4.** Between companies ŽB – Asset Management and UniBanka the following agreements were concluded in the accounting period of the year 2003:

Agreement name	Subject of agreement	Signature date
Agency Contract on procurement of purchase or sale of securities	procurement of purchase or sale of securities	20 August 2003
Agency Contract on procurement of purchase or sale of securities	procurement of purchase or sale of securities	24 October 2003

**1.5.** Between companies ŽB – Asset Management, Pioneer česká investiční společnost and another entity the following agreements were concluded in the accounting period of the year 2003:

Agreement name	Subject of agreement	Signature date
on the provision of services	terms and conditions governing the selection of an internal auditor	11 December 2003

**1.6.** Between companies ŽB – Asset Management, Pioneer česká finanční společnost and another entity the following agreements were concluded in the accounting period of the year 2003:

Agreement name	Subject of agreement	Signature date
on provision of services	terms and conditions governing the selection of an internal auditor	11 December 2003

The value of supplies for which equivalent consideration was provided is set forth under point 22 of the notes to the financial statements

**2. Supplies** provided in the year 2003 by the company ŽB – Asset Management to related parties and considerations for them are set forth under point 22 of the notes to the financial statements. Any supplies and considerations were provided within the usual business contact or under usual business terms and conditions (on an arms length basis).

**3. Other** legal acts which were made by the company ŽB – Asset Management in the interest of related parties

The Board of Directors of ŽB – Asset Management declares that the company ŽB – Asset Management did not perform in the accounting period of the year 2003, in the interest of related parties other legal acts outside the framework of usual legal acts within the framework of the usual business contact or usual legal acts performed by the company ŽB – Asset Management, within the usual execution of rights of the company Živnostenská banka, a.s. the sole shareholder of the company ŽB – Asset Management.

**4. Other measures** which were in the accounting period of the year 2003 in the interest or further to an initiative of the related parties taken or performed by the company ŽB – Asset Management, their benefits and drawbacks.

The Board of Directors of ŽB – Asset Management declares that the company ŽB – Asset Management did not take or perform, in the accounting period of the year 2003 in the interest or as initiated by related parties, any measures outside the framework of the usual business contact or outside the framework of the usual execution of rights of the company Živnostenská banka, a.s. the sole shareholder of the company ŽB – Asset Management.

**5. Detriment** of the company ŽB – Asset Management arising from the above agreements and measures.

The Board of Directors of ŽB – Asset Management declares that in its opinion, no detriment was sustained by the company ŽB – Asset Management arising from the above agreements and measures.

For the Board of Directors of ŽB – Asset Management, a.s.

Prague, 9 March 2004



Mgr. Roman Pospíšil  
Chairman of the Board of Directors



RNDr. František Vencel  
Member of the Board of Directors



Ing. Leoš Bartoň  
Member of the Board of Directors

# ŽB - Asset Management, a.s.

## BALANCE SHEET AS AT 31 DECEMBER 2003

ASSETS	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
<b>Cash</b>	<b>37</b>	<b>22</b>	<b>19</b>
<b>Due from banks</b>	<b>127,620</b>	<b>5,477</b>	<b>2,199</b>
of which: a) repayable on demand	127,620	5 477	699
b) other receivables	0	0	1,500
<b>Due from customers</b>	<b>0</b>	<b>0</b>	<b>534</b>
of which: other receivables	0	0	534
<b>Shares, units and other equity interests</b>	<b>0</b>	<b>12,306</b>	<b>253,576</b>
<b>Long-term intangible fixed assets</b>	<b>2,977</b>	<b>1,507</b>	<b>1,752</b>
<b>Long-term tangible fixed assets</b>	<b>2,421</b>	<b>2,575</b>	<b>4,822</b>
<b>Other assets</b>	<b>7,674</b>	<b>6,637</b>	<b>11,237</b>
<b>Receivables from shareholders</b>	<b>0</b>	<b>0</b>	<b>17,000</b>
<b>Prepayments and accrued income</b>	<b>1,781</b>	<b>9,105</b>	<b>1,998</b>
<b>Total assets</b>	<b>142,510</b>	<b>37,629</b>	<b>293,137</b>

LIABILITIES	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
<b>Due to banks</b>	<b>0</b>	<b>0</b>	<b>253,399</b>
of which: repayable on demand	0	0	253,399
<b>Due to customers</b>	<b>115,985</b>	<b>0</b>	<b>0</b>
of which: repayable on demand	115,985	0	0
<b>Other liabilities</b>	<b>5,702</b>	<b>6,262</b>	<b>6,109</b>
<b>Accruals and deferred income</b>	<b>1,303</b>	<b>6,750</b>	<b>1,538</b>
<b>Share capital</b>	<b>27,000</b>	<b>27,000</b>	<b>10,000</b>
of which: share capital paid up	27,000	27,000	10,000
<b>Reserve funds and revenue reserves</b>	<b>482</b>	<b>549</b>	<b>593</b>
of which: a) reserve funds	482	482	482
b) other revenue reserves	0	67	111
<b>Capital reserves</b>	<b>0</b>	<b>0</b>	<b>17,000</b>
<b>Retained earnings (accumulated losses) from previous periods</b>	<b>(2,932)</b>	<b>4,498</b>	<b>8,512</b>
<b>Loss for the accounting period</b>	<b>(5,030)</b>	<b>(7,430)</b>	<b>(4,014)</b>
<b>Total liabilities</b>	<b>142,510</b>	<b>37,629</b>	<b>293,137</b>

## OFF-BALANCE SHEET AS AT 31 DECEMBER 2003

LIABILITIES	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Assets under management	1,492,793	883,548	810,676
<b>Total off-balance sheet liabilities</b>	<b>1,492,793</b>	<b>883,548</b>	<b>810,676</b>

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003**

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>CZK'000</b>	<b>CZK'000</b>	<b>CZK'000</b>
<b>Interest receivable and similar income</b>	<b>49</b>	<b>210</b>	<b>186</b>
<b>Interest payable and similar expense</b>	<b>0</b>	<b>(5,721)</b>	<b>(9,034)</b>
<b>Income from shares and other interests</b>	<b>0</b>	<b>0</b>	<b>10,621</b>
of which: other income from shares and interests	0	0	10,621
<b>Fee and commission income</b>	<b>23,791</b>	<b>22,851</b>	<b>20,854</b>
<b>Fee and commission expense</b>	<b>(1,326)</b>	<b>(188)</b>	<b>(295)</b>
<b>Gains less losses from financial transactions</b>	<b>65</b>	<b>4,521</b>	<b>43</b>
<b>Other operating income</b>	<b>2,516</b>	<b>1,869</b>	<b>2,452</b>
<b>Other operating expense</b>	<b>(1,064)</b>	<b>(1,721)</b>	<b>(1,838)</b>
<b>Administrative expense</b>	<b>(26,052)</b>	<b>(25,443)</b>	<b>(23,578)</b>
of which: a) staff costs	(17,165)	(15,276)	(13,441)
of which: aa) wages and salaries	(12,828)	(11,438)	(10,019)
ab) social and health insurance	(4,337)	(3,838)	(3,422)
b) other administrative expenses	(8,887)	(10,167)	(10,137)
<b>Depreciation, additions and utilisation of provisions for long-term tangible and intangible fixed assets</b>	<b>(3,009)</b>	<b>(3,808)</b>	<b>(3,425)</b>
<b>Loss on ordinary activities before taxation</b>	<b>(5,030)</b>	<b>(7,430)</b>	<b>(4,014)</b>
<b>Income tax</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loss for the year after taxation</b>	<b>(5,030)</b>	<b>(7,430)</b>	<b>(4,014)</b>

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

	Share capital CZK'000	Reserve fund CZK'000	Capital reserves CZK'000	Social fund CZK'000	Retained earnings		Total CZK'000
					(accumulated losses) CZK'000	Loss CZK'000	
<b>Balance as at 1 January 2001</b>	<b>10,000</b>	<b>390</b>	<b>0</b>	<b>94</b>	<b>6,859</b>	<b>1,845</b>	<b>19,188</b>
Not-registered increase							
of share capital	0	0	17,000	0	0	0	17,000
Loss for the period	0	0	0	0	0	(4,014)	(4,014)
Transfers to funds	0	92	0	100	0	(192)	0
Utilisations of funds	0	0	0	(83)	0	0	(83)
Allocation to retained earnings	0	0	0	0	1,653	(1,653)	0
<b>Balance as at 31 December 2001</b>	<b>10,000</b>	<b>482</b>	<b>17,000</b>	<b>111</b>	<b>8,512</b>	<b>(4,014)</b>	<b>32,091</b>
Registered increase							
of share capital	17,000	0	(17,000)	0	0	0	0
Loss for the period	0	0	0	0	0	(7,430)	(7,430)
Utilisations of funds	0	0	0	(44)	0	0	(44)
Allocation to retained earnings	0	0	0	0	(4,014)	4,014	0
<b>Balance as at 31 December 2002</b>	<b>27,000</b>	<b>482</b>	<b>0</b>	<b>67</b>	<b>4,498</b>	<b>(7,430)</b>	<b>24,617</b>
Loss for the period	0	0	0	0	0	(5,030)	(5,030)
Transfer of accumulated losses	0	0	0	0	(2,932)	2,932	0
Utilisations of funds	0	0	0	(67)	0	0	(67)
Allocation to retained earnings	0	0	0	0	(4,498)	4,498	0
<b>Balance as at 31 December 2003</b>	<b>27,000</b>	<b>482</b>	<b>0</b>	<b>0</b>	<b>(2,932)</b>	<b>(5,030)</b>	<b>19,520</b>

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

### 1 GENERAL INFORMATION

ŽB - Asset Management, a.s. ("the Company") was established by Živnostenská Finance BV on 3 July 1998. The Company was incorporated on 31 July 1998. In 1998, Živnostenská banka, a.s. purchased the shares of the Company and became the sole shareholder.

Since 30 December 2003, the holding company of the Company is Pioneer Global Asset Management, S.p.A. ("PGAM"). PGAM bought 100% of the shares from Živnostenská banka, a.s. The ultimate holding company of the Company as at 31 December 2003 continues to be Unicredito Italiano S.p.A.

The Company acts as a securities broker, performing the following services:

**A.** Provision of primary investment services in compliance with the provisions of Art 8 Para 2 letters a), b), c), d) of the Act No 591/1991, on securities, as amended ("Securities Act"):

- accepting and providing instructions relating to investment instruments held in the clients' account, namely in connection with investment instruments as per Art 8a Para 1 letters a), b), c) of the Securities Act;

- execution of instructions relating to investment instruments held within the other party's account, namely in connection with investment instruments as per Art 8a Para 1 letters a), b), c) of the Securities Act;

- dealing with investment instruments on the Company's own account, namely in connection with investment instruments as per Art 8a Para 1 letters a), b), c) of the Securities Act;

- discretionary management of individual portfolios based on contractual arrangements with a client, particularly if this portfolio includes investment instruments, namely in connection with investment instruments as per Art 8a), Para 1 letters a), b), c) of the Securities Act.

**B.** Provision of supplementary investment services as per the provisions of Art 8 Para 3 letters a), d) and f) of the Securities Act within the following scope:

- custody and administration of one or several investment instruments, namely in connection with investment instruments as per Art 8a Para 1 letters a), b), c) of the Act on Securities;

- consulting activity with respect to capital structure, industrial strategy and related issues, such as the provision of consulting services and services relating to mergers and acquisitions of companies, namely in connection with investment instruments as per Art 8a Para 1 letters a), b), c), d), e), f), g) of the Securities Act;

- consulting services relating to investment instruments, namely in connection with investment instruments as per Art 8a Para 1 letters a), b), c) of the Securities Act.

By the decision of the Securities Commission No. 43/M/140/2003/1 of 31 October 2003, which came into legal force on 6 November 2003, the Company was granted an authorisation to provide investment services in compliance with Art 8, Para 2, Letters a) and d) of the Securities Act, in relation to investment instruments in compliance with Art 8a, Para 1, Letters d) through f) of the Securities Act. Also to provide supplementary investment services in compliance with the Provision of Art 8, Para 3, Letters a) and f) of the Securities Act in relation to the investment instruments in compliance with Art 8a, Para 1, Letters d) through f) of the Securities Act.

## 2 ACCOUNTING POLICIES

### (a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting, regulation No. 501/2002 issued by the Ministry of Finance of the Czech Republic ("MF CR") and the Chart of accounts and accounting rules for banks and other financial institutions. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments held for trading and available-for-sale to fair values.

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

### (b) Foreign currencies

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

### (c) Fair value of securities

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

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

### (d) Trading securities

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

### (e) Interest income, expense

Interest income and expense are recognised for all interest bearing instruments on an accrual basis using the effective yield method based on the acquisition cost. The linear method is used as an approximation of the effective yield method for securities measured at fair value.

### (f) Fee and commission income

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

### (g) Receivables and allowances

Receivables are stated at nominal value less provision for doubtful amounts. Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor.

### (h) Long-term tangible and intangible fixed assets

Long-term tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over their estimated useful lives:

	<b>Years</b>
Buildings and constructions	30
Hardware and equipment	max. 4
Furniture and fittings	6
Motor vehicles	4
Software	2 – 4

Repair and maintenance expenditures are charged to expense as incurred. Expenditures enhancing the value of the asset are capitalised and depreciated.

**(i) Value added tax**

The Company is registered for value added tax ("VAT").

**(j) Deferred taxation**

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

**(k) Staff costs, pensions and other social expenses**

Staff costs are included in Administrative expenses and they include also board and management emoluments. The Company provides to its employees contribution's to a defined pension plan. Contributions paid by the Company are accounted directly as an expense. Regular contributions are made to the state to fund the national pension plan.

Other social expenses are settled from the Social fund, disclosed as Other funds. The Social fund contributions are not charged to the income statement in accordance with Czech accounting rules and are presented within equity.

**(l) Related parties**

Related parties are defined as follows:

- Members of the boards, management of the Company and their relatives;
- Companies, in which members of the boards and management of the Company hold more than a 10% stake;
- Shareholders controlling the Company and corporates controlled by them.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 22.

**(m) 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.

**(n) Extraordinary items and changes in accounting policy**

Extraordinary items include one-off effects of events outside the scope of the Company's activities and effects of changes in accounting policies.

Since 1 January 2003, utilisation of provisions and allowances is accounted for by reducing expenses, not as income. Comparative financial information has been restated.

Since 1 January 2003 client's financial sources are held on individual clients' bank accounts divided into currency accounts included in assets and as a corresponding liability to clients. Comparatives have not been restated for this change in the recognition rules.

At 1 January 2002, significant changes in recognition, measurement and presentation of the financial position and results were made in accordance with the amendments to the Act on Accounting. These changes did not have any material impact on the equity of the Company at 1 January 2002 or its income for year ended 31 December 2002. Presentation of comparative amounts has been adjusted accordingly.



### 3 DUE FROM BANKS

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Current accounts with banks	11,635	5,477	699
Clients' current accounts* (Note 9)	115,985	0	0
Term deposits with banks	0	0	1,500
	<b>127,620</b>	<b>5,477</b>	<b>2,199</b>

\* Change in accounting policy (Note 2(n))

### 4 SHARES, UNITS AND OTHER EQUITY INTERESTS

#### Trading securities

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Investment fund quoted on the auxiliary market of the Prague stock exchanges	0	0	253,576
Unquoted shares	0	12,306	0
	<b>0</b>	<b>12,306</b>	<b>253,576</b>

The market value of securities at 31 December 2001 was CZK 242,780,000. These securities were carried at cost, as the fund was expected to be opened in 2002 and the discount then eliminated.

### 5 LONG TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

	31 December 2001 CZK'000	31 December 2002 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2003 CZK'000
Cost					
Software	2,483	3,288	6,280	3,848	5,720
Premises and equipment	11,895	11,976	1,951	625	13,302
	<b>14,378</b>	<b>15,264</b>	<b>8,231</b>	<b>4,473</b>	<b>19,022</b>
Accumulated amortisation					
Software	731	1,781	962	0	2,743
Premises and equipment	7,073	9,401	2,047	567	10,881
	<b>7,804</b>	<b>11,182</b>	<b>3,009</b>	<b>567</b>	<b>13,624</b>
<b>Net book amount</b>	<b>6,574</b>	<b>4,082</b>			<b>5,398</b>

The Company does not use any assets acquired under finance lease contracts.

## 6 OTHER ASSETS

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Operating advances granted	2,091	2,048	1,959
Due to and from state budget	6	12	1,858
Estimated receivables - consultancy	1,060	1,488	4,061
Trade receivables	4,515	3,054	3,210
Other receivables	2	35	149
	<b>7,674</b>	<b>6,637</b>	<b>11,237</b>

All receivables are current and are not secured.

## 7 ACCRUALS AND DEFFERALS

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
<b>Prepaid rent</b>	<b>1,781</b>	<b>9,105</b>	<b>1,998</b>

The increase in prepaid rent in 2002 was caused by taking a benefit of prepaid rent until March 2004.

## 8 DUE TO BANKS

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
<b>Due to other banks</b>	<b>0</b>	<b>0</b>	<b>253,399</b>

In 2001 due to banks represents an overdraft on the current account with Živnostenská banka, a.s., which was repaid during 2002. This overdraft was used for the purchase of shares of 1.IF Živnobanka, a.s.

## 9 DUE TO CLIENTS

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
<b>Clients' monies held by the Company (Note 3)</b>	<b>115,985</b>	<b>0</b>	<b>0</b>

In 2003 due to clients represents clients account with the Živnostenská banka, a.s. managed by the Company.

## 10 OTHER LIABILITIES

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Trade payables	706	381	940
Current income tax liability	560	389	656
Payables employees	935	578	1,074
Payables to social security institutions	712	406	785
Advances received	1,509	1,429	1,361
Estimated payables	1,280	3,079	1,293
	<b>5,702</b>	<b>6,262</b>	<b>6,109</b>

## 11 PROVISIONS AND ACCRUALS

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Advance received for rent from ŽB-Trust, investiční společnost, a.s.	1,302	6,658	1,460
Accrued expenses	1	92	78
	<b>1,303</b>	<b>6,750</b>	<b>1,538</b>

## 12 EQUITY AND PROFIT DISTRIBUTION

### Share capital

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
<b>Issued and fully paid</b>	<b>27,000</b>	<b>27,000</b>	<b>10,000</b>

Share capital consists of 54 shares at a nominal value of CZK 500,000.

The Company is required to allocate 5% of its annual profit to a non-distributable statutory reserve fund until the balance reaches 20% of share capital. The statutory reserve fund can only be used to reduce the accumulated deficit.

### Coverage of the loss

The Board of Directors has proposed to transfer the loss of CZK 5,030,000 for 2003 to accumulated losses.

Coverage of the loss for 2002 and 2001 is shown in the Statement of changes in equity.

Social fund contributions are not charged to the income statement in accordance with Czech accounting rules.

## 13 INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Interest on current account	5	130	36
Interest on long term accounts	44	80	150
	<b>49</b>	<b>210</b>	<b>186</b>

## 14 INTEREST PAYABLE AND SIMILAR EXPENSE

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Interest on current account overdrafts	0	5,721	9,034

## 15 COMMISSION AND FEE INCOME

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Advisory fee	13,304	12,681	17,208
Portfolio management	7,448	6,991	3,582
Distribution fee	2,943	2,943	0
Deposit commission	16	224	0
Dealers' commission	1	12	33
Others	79	0	31
	<b>23,791</b>	<b>22,851</b>	<b>20,854</b>

## 16 FEE AND COMMISSION EXPENSE

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Bank fees	59	123	194
Management expense	1,239	65	0
Others	28	0	101
	<b>1,326</b>	<b>188</b>	<b>295</b>

## 17 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Realised gains less losses from the sale of securities	102	4,529	43
Foreign exchange losses	(37)	(8)	(6)
Other financial income	0	0	6
	<b>65</b>	<b>4,521</b>	<b>43</b>

## 18 OTHER OPERATING INCOME

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Proceeds from the sale of tangible and intangible fixed assets	638	728	1,267
Rental income	1,209	998	1,084
Other operating income	669	143	101
	<b>2,516</b>	<b>1,869</b>	<b>2,452</b>

## 19 OTHER OPERATING EXPENSES

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Net book value of fixed assets sold	545	1,096	1,282
Others	519	625	556
	<b>1,064</b>	<b>1,721</b>	<b>1,838</b>

## 20 ADMINISTRATIVE EXPENSE

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Staff costs	17,165	15,276	13,441
Other administrative expense	8,887	10,167	10,137
	<b>26,052</b>	<b>25,443</b>	<b>23,578</b>

Average number of employees and wages and salaries can be analysed as follows:

	2003	2002	2001
Average number of members of the management	3	3	2
Average number of other employees	12	12	12
Number of Supervisory board members	3	3	3

### Wages and salaries

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Management	5,435	3,390	2,820
Other employees	7,213	7,613	6,659
Supervisory board remuneration	180	435	540
Total wages and salaries	12,828	11,438	10,019
Other staff cost	4,337	3,838	3,422
<b>Total staff cost</b>	<b>17,165</b>	<b>15,276</b>	<b>13,441</b>

Management include statutory representatives.

Other administrative expense can be analysed as follows:

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>CZK'000</b>	<b>CZK'000</b>	<b>CZK'000</b>
Travel expenses	315	64	237
Consumption of materials and energy	235	293	487
Representation costs	133	153	206
Marketing and public relation expenses	418	582	564
Rent and related expenses	2,490	2,714	2,381
Royalty fee for registered trademark	952	952	952
Telecommunication services	368	301	381
Audit, tax and legal advisory	428	667	849
IT services	2,369	2,329	2,274
Other services	1,179	2,112	1,806
	<b>8,887</b>	<b>10,167</b>	<b>10,137</b>

## 21 TAXATION

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>CZK'000</b>	<b>CZK'000</b>	<b>CZK'000</b>
Loss before taxation	(5,030)	(7,430)	(4,014)
Differences between profit and tax base:			
Non-taxable income	(3)	195	(10,622)
Items increasing the tax base	960	946	48
Non-deductible expenses	0	994	968
Net taxable loss	(4,073)	(5,295)	(13,620)
<b>Corporate tax charge at 31%</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred income tax liabilities			
Revaluation differences	0	22	0
Depreciation	168	0	0
	<b>168</b>	<b>22</b>	<b>0</b>
Deferred income tax liabilities assets			
Other temporary differences	91	178	0
Tax loss carry forwards	7,812	7,387	0
	<b>7,903</b>	<b>7,565</b>	<b>0</b>
<b>Contingent net deferred tax asset</b>	<b>7,735</b>	<b>7,543</b>	<b>0</b>

Contingent net deferred tax asset of CZK 7,735,000 (2002: CZK 7,543,000) has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised.

## 22 RELATED PARTY TRANSACTIONS

### Expenses due to Živnostenská banka, a.s.

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Lease of the Živnostenská banka group registered trademark	952	952	952
Custody, deposit and administration of securities, securities brokerage and related services	1,039	952	387
Interest charges on overdraft facility	0	5,721	9,034
Bank charges	59	123	186
Other services	1,713	1,565	1,569
	<b>3,763</b>	<b>9,313</b>	<b>12,128</b>

### Income due from Živnostenská banka, a.s.

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Investment consultancy	0	48	3,720
Interest on current accounts	6	130	36
Interest on term deposits	43	80	150
	<b>49</b>	<b>258</b>	<b>3,906</b>

### Expenses due to ŽB-Trust, investiční společnost, a.s.

	2003 CZK'000	2002 CZK'000	2001 CZK'000
<b>Other services</b>	<b>266</b>	<b>0</b>	<b>0</b>

### Income due from ŽB-Trust, investiční společnost, a.s.

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Investment consultancy	13,304	12,633	13,463
Other services	4,258	0	1,084
	<b>17,562</b>	<b>12,633</b>	<b>14,547</b>

Payables due to Živnostenská banka, a.s. of CZK 253,399,000 in 2001 represents an overdraft on the current account, that was used for the purchase of shares of 1.IF Živnobanka, a.s.(Note 8).

All related party transactions were carried out at market prices existing at the transaction date or on a cost plus reasonable profit basis for non-traded supplies.

## 23 FINANCIAL RISKS

### (a) Market risk

As at 31 December 2003, the Company owned only domestic assets.

### (b) Currency risk

All financial assets and liabilities which the Company owned at 31 December 2003, 2002 and 2001 were denominated in CZK.

### (c) Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The table below summarises the Company's exposure to interest rate risks. Included in the table are the Company's interest bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual, repricing or maturity dates.

#### At 31 December 2003

	Within 3 months CZK'000	3 - 12 months CZK'000	Non-interest bearing CZK'000	Total CZK'000
<b>Assets</b>				
Cash	0	0	37	37
Due from banks	11,635	0	115,985	127,620
Other assets	0	0	14,853	14,853
	<b>11,635</b>	<b>0</b>	<b>130,875</b>	<b>142,510</b>
<b>Liabilities</b>				
Due to customers	0	0	(115,985)	(115,985)
Other liabilities	0	0	(7,005)	(7,005)
<b>Net assets</b>	<b>11,635</b>	<b>0</b>	<b>7,885</b>	<b>19,520</b>

#### At 31 December 2002

	Within 3 months CZK'000	3 - 12 months CZK'000	Non-interest bearing CZK'000	Total CZK'000
<b>Assets</b>				
Due from banks	5,477	0	0	5,477
Shares, units and other equity interests	0	0	12,306	12,306
Other assets	0	0	19,846	19,846
	<b>5,477</b>	<b>0</b>	<b>32,152</b>	<b>37,629</b>
<b>Liabilities</b>				
Other liabilities	0	0	(13,012)	(13,012)
<b>Net assets</b>	<b>5,477</b>	<b>0</b>	<b>19,140</b>	<b>24,617</b>



**At 31 December 2001**

	Within 3 months CZK'000	3 - 12 months CZK'000	Non-interest bearing CZK'000	Total CZK'000
<b>Financial assets</b>				
Due from banks	2,199	0	0	2,199
Shares, units and other equity interests	0	0	253,576	253,576
Due from non-banking entities	0	0	534	534
Other assets	0	0	36,828	36,828
	<b>2,199</b>	<b>0</b>	<b>290,938</b>	<b>293,137</b>
<b>Liabilities</b>				
Due to banks	0	(253,399)	0	(253,399)
Other liabilities	0	0	(7,647)	(7,647)
<b>Net assets (liabilities)</b>	<b>2,199</b>	<b>(253,399)</b>	<b>283,291</b>	<b>32,091</b>

**(d) Liquidity risk**

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

**At 31 December 2003**

	Within 3 months CZK'000	Unspecified CZK'000	Total CZK'000
<b>Assets</b>			
Cash	37	0	37
Due from banks	127,620	0	127,620
Other assets	0	14,853	14,853
	<b>127,657</b>	<b>14,853</b>	<b>142,510</b>
<b>Liabilities</b>			
Due to customers	(115,985)	0	(115,985)
Other liabilities	0	(7,005)	(7,005)
<b>Net assets</b>	<b>11,672</b>	<b>7,848</b>	<b>19,520</b>

**At 31 December 2002**

	Within 3 months CZK'000	Unspecified CZK'000	Total CZK'000
<b>Assets</b>			
Due from banks	5,477	0	5,477
Shares, units and other equity interests	0	12,306	12,306
Other assets	22	19,824	19,846
	<b>5,499</b>	<b>32,130</b>	<b>37,629</b>
<b>Liabilities</b>			
Other liabilities	(6,262)	(6,750)	(13,012)
<b>Net assets (liabilities)</b>	<b>(763)</b>	<b>25,380</b>	<b>24,617</b>

At 31 December 2001

	Within 3 months CZK'000	Unspecified CZK'000	Total CZK'000
<b>Assets</b>			
Due from banks	2,199	0	2,199
Due from non-banking entities	0	534	534
Shares, units and other equity interests	0	253,576	253,576
Other assets	19	36,809	36,828
	<b>2,218</b>	<b>290,919</b>	<b>293,137</b>
<b>Liabilities</b>			
Other liabilities	(6,109)	(254,937)	(261,046)
<b>Net assets</b>	<b>(3,891)</b>	<b>35,982</b>	<b>32,091</b>

## 24 SUBSEQUENT EVENTS

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements of the Company.

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

Date of preparation 9 February 2004

Statutory representatives



Leoš Bartoň



František Venci



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## REPORT OF INDEPENDENT AUDITORS

### TO THE SHAREHOLDERS OF ŽB - ASSET MANAGEMENT, A.S.

We have audited the accompanying balance sheet of ŽB - Asset Management, a.s. as at 31 December 2003, the related income statement, statement of changes in equity and notes for the year then ended presented in the annual report of the Company on pages 11 to 27 ("the financial statements"). The financial statements and underlying accounting records are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of ŽB - Asset Management, a.s. as at 31 December 2003, and the results of its operations and its changes in equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Company on pages 3 to 5, which does not form part of the financial statements for the year ended 31 December 2003, is consistent with the audited financial statements of the Company. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party Unicredito Italiano, S.p.A. and between the Company and the other parties controlled by Unicredito Italiano, S.p.A. on pages 7 to 10 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the Report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

26 March 2004

PricewaterhouseCoopers Audit, s.r.o.  
represented by

Petr Kříž  
Partner and Auditor, Licence No. 1140

# Contacts

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The company has been registered in the commercial register maintained by the City Court in Prague, section B, inset No. 5483, IČO 25684558