

2004

Annual Report



To live and grow



Citibank's wide interest in social and public issues form an integral part of its business activities. We are persuaded that it is the responsibility to those who were not so lucky, that lend our efforts human dimensions.

Citibank therefore pays a systematic attention to major social and longterm projects focused at the development of education and assists the socially handicapped. We have the honour to introduce six of these projects on pages of Citibank's annual report for 2004.

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**CEP** Experienced and critical personalities with a broad perspective form the pillars of democracy. We participate in the forming such individuals through our support of Citizen Educational Program (CEP), an international non-profit organization whose goal it is to promote the reform of the university education in Central and Eastern Europe and Eurasia. More than 40,000 students participated in CEP seminars in 2001 and 2002. Citibank supported the development of CEP activities with more than USD 50,000.

## Report of the Board of Directors

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The Board of Directors of Citibank a.s. presents the Bank's Annual Report for 2004. In accordance with Act No. 158/1989 on banks and savings banks, Citibank a.s. (the "Bank") on January 15, 1991 received a universal banking license enabling the Bank to carry out activities in all areas of banking and financial services from the then Státní banka československá. Furthermore, Citibank a.s. holds a universal foreign-exchange license awarded by Státní banka československá on August 23, 1991, enabling the Bank to conduct foreign-exchange operations in accordance with Act No. 219/1995, the Foreign Exchange Act, as amended.

The Bank was entered in the Companies Register with its registered office in Prague in June 1991. The bank is a 100% subsidiary of Citibank Overseas Investment Corporation (COIC), which is fully owned by Citibank, N.A. in New York. The main holding company is Citigroup, a group with its registered office in the United States of America, providing financial services through its representation in more than 100 countries around the world. The total equity capital of Citigroup as of December 31, 2004 amounted to USD 109 billion (USD 98 billion as of December 31, 2003).

The annual financial statements of the Bank were prepared in accordance with the laws of the Czech Republic and the Bank's statutes. The Bank's accounting books and the annual financial statements are presented in Czech crowns (CZK).

In the period starting January 1 and ending December 31, 2004, the bank showed after-tax profit in the amount of CZK 403,478,951 (2003: CZK 946,919,998). The Board of Directors suggests transferring CZK 20,174,000 (2003: CZK 47,346,000) from the profit to the statutory reserve fund.

The capital adequacy as of December 31, 2004, was 14.68% (2003: 14.28%), which is very positive compared to the 8.00% minimum requirement for capital adequacy. In 2004, the Board of Directors regularly informed the Supervisory Board and consulted all business activities and financial results with it.

KPMG Česká republika Audit, s.r.o., is the Bank's statutory auditor and issued an auditor's report on the validation of annual financial accounts as of and for the year ending December 31, 2004.



**CERGE-EI** Education of top individuals, their broad development into leading personalities of political, economic, cultural and academic life, cooperation among the universities and research - these values form the foundation for the present and future wealth of society. Together with the Centre of Economic Research and Graduate Education of Charles University (CERGE) and the Economic Institute (EI) of the Academy of Sciences of the Czech Republic, we have been developing professional growth opportunities for prospective experts in our economy. Since 1999, when we started working together, Citibank has supported the activities of both institutions by granting a total sum of USD 2,900,000.

## Statutory Bodies

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### Board of Directors

**Atif Bajwa**

Chairman of the Board of Directors since January 22, 2002.

Atif Bajwa has been employed with Citigroup since June 1982.

**Krister Holm**

Member of the Board of Directors since June 27, 2002.

Krister Holm has been employed with Citigroup since July 1989.

**František Máslo**

Member of the Board of Directors since June 25, 1997 (confirmed on July 27, 1998).

František Máslo has been employed with Citibank a.s. since June 1991.

**Michal Nebeský**

Member of the Board of Directors since July 25, 2003.

Michal Nebeský has been employed with Citigroup since May 1992. (Not yet entered in the Companies Register).

## Supervisory Board

**Kantic Dasgupta**

Chairman of the Supervisory Board since May 9, 2003.

Kantic Dasgupta has been employed with Citigroup since May 1967.

(Not yet entered in the Companies Register).

**Mark Whitehorn**

Member of the Supervisory Board since May 9, 2003.

Mark Whitehorn has been employed with Citigroup since 1985.

(Not yet entered in the Companies Register).

**Naděžda Padevětová**

Member of the Supervisory Board since June 7, 2002.

Naděžda Padevětová has been employed with Citibank a.s. since March 1993.

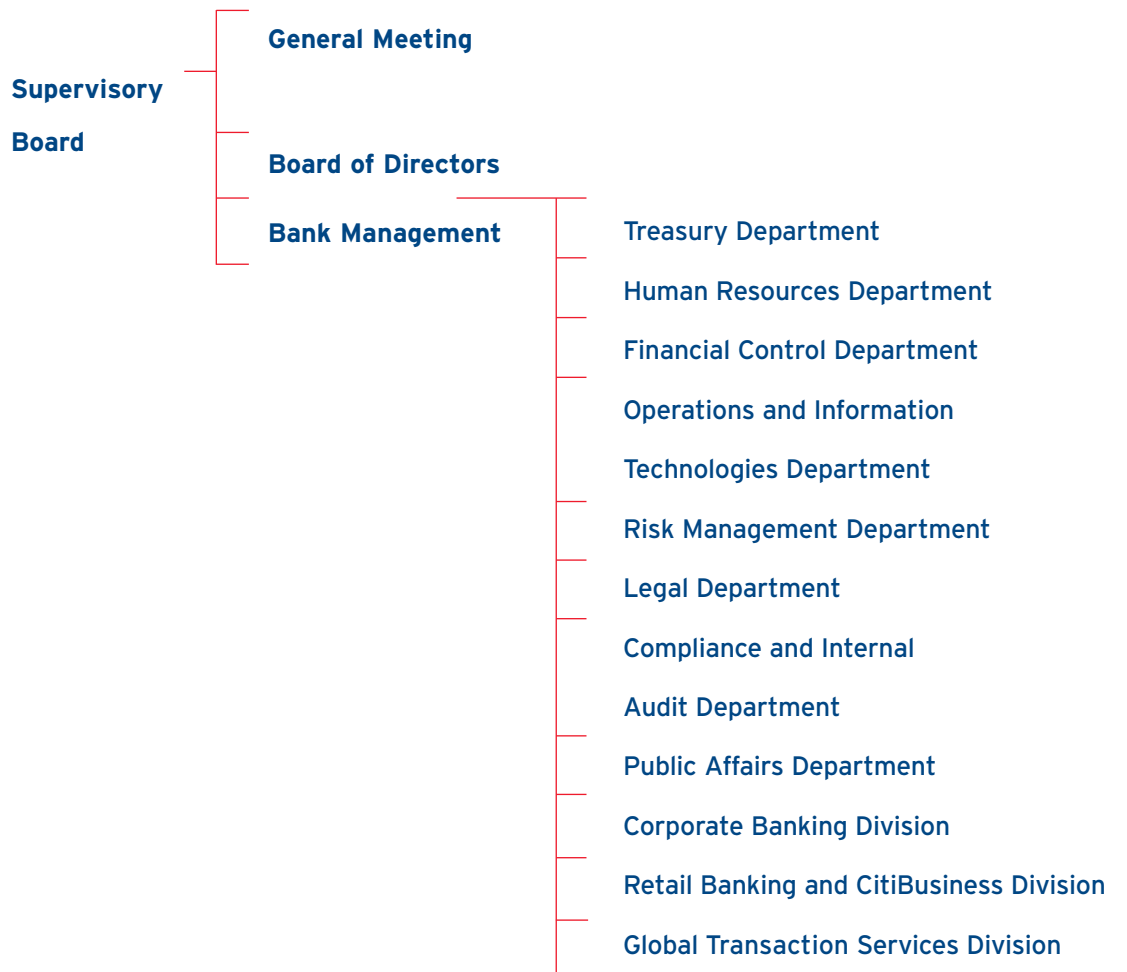
None of the members of the Supervisory Board and the Board of Directors is a member of the supervisory board or the board of directors of another company in the Czech Republic.

Note:

Marc Andre Desaedelleer and Tshibaka-Kadita Wa Ngandu, who resigned from their positions as members of the Supervisory Board as of May 9, 2003, are still entered in the Companies Register and have not been deleted. Farhan Furuqui was elected member of the Board of Directors in January 2005.

## Company Organizational Structure

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**Liberal institute** Our interest in deepening civil liberties, private ownership, and the market economy and in strengthening the rule of law is expressed in our long-term support for the Summer School of Modern Economics - Economy for the Future Managers, organized by the Liberal Institute. More than 370 secondary-school students and teachers from the whole Czech Republic participated in the project, which Citibank supported with total donations of USD 71,000 in the years 1997–2004.

## Letter from the Chairman of the Board of Directors

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Dear stakeholders,

The year 2004 was a successful year for Citibank a.s., a year in which we continued to develop and improve our company's values. These values include a high degree of professionalism on the part of our employees, constant deployment of new, modern banking services, and ongoing improvement of our existing offer of highly competitive products aimed at satisfying the needs and requirements of our clients - individuals, small and medium-sized businesses, state administrative bodies, and large corporations.

Thanks to our employees' professional approach and the top quality of the services offered, we have successfully continued to grow our revenues, to maintain our edge in terms of quality of key products, and to fulfil an important role in the field of social activities in 2004. We feel that the Best Image Bank award, which we received as part of the prestigious Rhodos competition, is a great success. We greatly appreciate this award, as it proves that Citibank enjoys the highest level of trust among its clients and that our name stands for stability and guarantees a high level of service.

In 2004 Citibank a.s. maintained its dominant position on the Czech corporate finance and investment banking markets. The key factor differentiating our bank and offering our clients maximum advantage is our extensive

experience and in-depth knowledge of the local market, complemented with our global reach and global product platform. Thanks to this factor and thanks to our professional approach, we succeeded in increasing revenues in the Global Corporate Investment Bank (GCIB) division by 30% in 2004. We also succeeded in strengthening our leading position in syndicated loans. Over the course of the year we concluded five syndicated transactions through which we provided our clients with funds amounting to more than 500 million dollars. The market accepted all those transactions well and they brought Citibank a.s. a 60% market share in the number of transactions concluded. We also achieved record-breaking results in the Treasury field. We succeeded in fulfilling all strategic objectives and in strengthening Citibank a.s.

position as one of the most important providers of financial products and services on the Czech market. In cash management, our long-term objective is to constantly monitor and follow the latest market trends, and to know and understand developments in our clients' businesses to the maximum possible extent. This is why we introduced a number of new cash management products on the Czech market, including WordLink - a modern foreign currency payment system enabling payments in over one hundred currencies. In addition, we improved the current file delivery system - a most welcome improvement for customers who process large quantities of transactions aimed at multiple countries from a single hub. We also enhanced the capabilities of the Cross Border Pooling system by getting the Czech Republic involved as one of the possible centres, which is of the greatest benefit to domestic companies breaking through to other European countries. The small and medium-sized

enterprise segment also plays a key role in our strategic plans. We were the first bank in the Czech market to introduce an individual approach to this segment. Thanks to this and thanks to the quality of the services offered, we are now one of the leading players on the market. Companies use a wide range of our credit, deposit, and investment products as well as direct banking and other services. We doubled revenues on FX operations between January and December 2004 and the volume of credits to this segment grew 57% year-on-year. In 2004 we extended our credit product offering for this segment with loyalty overdraft credit and operating capital credit. We worked on improving the online banking application and in the first half of 2005 we plan to offer our clients an entirely new form of Internet banking that will provide them access to the bank 24 hours a day. We also support the small and medium-sized enterprise segment in ways other than banking services. We organise free training seminars for interested parties, and this time we focused

on the possibilities of drawing subsidies from the European Union's structural funds.

Citibank a.s. has continued to grow dynamically in the Czech retail banking market since its arrival in the field. In 2004, we succeeded in increasing revenues by 25% over the previous year. We also posted significant growth in client deposits by individuals, which grew 18% year-on-year. In deposit products the news of the year 2004 was the CitiOne personal account. It combines the benefits of a current and a savings account, offers above-standard interest, and under certain conditions allows clients to use it free of charge. In the eight months of its existence, the volume of deposits in this account has more than doubled in comparison to other account types. Demand in our investment product offering also grew markedly. The number of investment accounts grew more than 60% year-on-year. In personal investment, Citibank a.s. is well above the country average. Twenty percent of our clients have their savings deposited in unit trusts,

whereas the country average for such investments is just nine percent. Citibank a.s. also has a strong position on the credit card market. Thanks to ongoing expansion, the number of credit cards issued grew 36 percent year-on-year. Citibank a.s. credit cards are among the most sophisticated on the Czech market. They offer the highest security parameters, the longest interest-free period of up to 55 days, and the widest range of additional services. Popular additional services include Credit Shield travel insurance, which almost one half of our new clients have recently taken out. In 2004, we extended the existing offering of additional services with the unique Individual Payment Programme and the Cash Payment Programme combining the benefits of credit cards and standard loans.

At the end of 2004 Citibank a.s. proudly announced its plans in retail banking for the next five years. Our objective for the upcoming period is to become the market leader in credit cards and to substantially increase our share of the investment and banking services market for the affluent client segment offered under the prestigious product name of CitiGold Wealth Management. We also want to expand in consumer credits and become a key player on that market. Last but not least, we want to solidify and expand our strong position in the small and medium-sized enterprise segment.

Citibank a.s., however, pursues more than just pure business results. It is also a responsible "corporate citizen". It is actively involved in extensive philanthropic, social, and sponsoring projects. Through the Citigroup Foundation we contributed 175,000 US dollars to publicly beneficial projects in 2004. We also support dozens of organisations through the local Staff Charitable Fund. We actively participate in the development of culture. We were the general sponsor for the concert of Dmitri

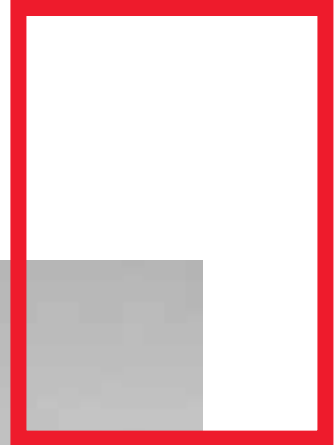
Hvorostovsky and one of the partners of the international Philips Jazz Festival.

We are proud of the success we achieved in 2004. But none of these aforementioned activities could ever succeed without our partners and above all our clients, and I would like to use this opportunity to thank them for their trust. We have set ambitious goals for 2005 to satisfy the needs of our clients, shareholders, and the entire society in which we operate. I believe that we will succeed in fulfilling these goals thanks to the commitment and professionalism of our employees and partners.

**Atif Bajwa**

Chairman of the Board of Directors and Chief Executive Officer, Citibank a.s.

**VIA Bona Award** We consider charity work to be a natural part of our business activities and strong partnership between companies and non-profit organizations to be a key value of a healthy society. For seven years, Citibank has been a partner of the VIA Foundations, sponsoring the VIA Bona prize, awarded to donors who sponsor the activities of non-profit organizations in the Czech Republic in a qualified and systematic way. Since the existence of the project, Citibank has supported it with financial gifts amounting to USD 175,000.



## Selected Highlights

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### Financial Highlights

<b>(CZK '000)</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Total Assets	75,890,414	69,942,943	80,296,894	73,552,917
Total Equity	7,335,451	6,931,972	6,770,721	5,329,455
Net Interest Income	1,527,326	1,373,855	1,418,104	1,365,490
Net Profit from Financial Operations	933,748	833,714	1,051,891	1,068,010
Net Fees & Commissions	493,008	481,836	428,386	416,357
Net Extraordinary Income	-	-	3,886	888,454
Profit before Tax and Credit Reserve	422,993	700,059	1 083,634	1,738,218
Profit before Tax	651,117	1,326,816	1 178,326	1,681,592
Net Profit	403,479	946,920	773,568	1,117,399
Commercial Locations	7	7	7	7
Capital Adequacy Ratio	15%	14%	15%	13%

**Quantitative Ratios**

<b>(CZK '000)</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Capital adequacy	14.68%	14.28%	14.64%	12.87%
Tier 1	6,771,960	5,882,821	5,946,374	4,186,775
Tier 2	1,305,301	1,680,230	1,275,787	1,701,644
Tier 3	-	-	-	-
Total deducted amount from Tier 1 and Tier 2	-	-	-	-
<b>Total capital</b>	<b>8,077,261</b>	<b>7,563,051</b>	<b>7,185,616</b>	<b>5,861,483</b>
Capital requirements by special regulations				
Capital requirement A	3,076,884	3,342,763	2,934,855	2,536,448
Capital requirement B	1,324,674	894,327	991,555	1,105,640
Capital requirement for credit risk of trading portfolio	319,115	243,653	378,868	281,619
Capital requirement for lending risk of trading portfolio	52,394	41,880	88,701	167,333
Capital requirements for general interest risk	850,567	533,519	447,412	481,849
Capital requirement for general shares' risk	58	-	-	-
Capital requirement for currency risk	101,905	75,276	76,575	90,011
Capital requirement for commodity risk	634	-	-	84,828
Return on average assets	0.58%	1.32%	1.01%	1.52%
Return on average capital	6.15%	14.76%	14.25%	22.55%
Assets per employee	114,638	107,770	126,851	118,443
Administrative expense per employee	3,185	2,665	2,471	2,522
Net profit per employee	609	1,459	1,222	1,799

## Financial Results

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In 2004, Citibank a.s. successfully increased its revenues from major banking activities. The net interest revenue amounted to CZK 1.527 billion, which is an increase by 11% compared to 2003. Net profit from financial operations was 12% higher at CZK 934 million and net fees and commissions increased by 2% to CZK 493 million.

The concurrence of legislative changes related to VAT and investment into technologies did, however, have a negative impact on the results of Citibank a.s.

Operational costs amounted to a total of CZK 2,108 million, which is more than in the previous years.

As a result of the steadily high quality of assets, we released adjustments and general reserves in a net amount of CZK 228 million in 2004, as compared to CZK 627 million (net value) released in 2003.

The Bank's balance as of December 31, 2004 amounted to CZK 75.9 billion and client deposits were up at CZK 33.9 billion.

The capital adequacy as of the same date amounted to 14.68%, which is a positive result given the 8% minimum requirement.

The total liabilities of Citibank were CZK 75.9 billion as of December 31, 2004, which is nearly 9% higher than at the end of 2003. Compared to the previous year, client deposits increased by 10% to CZK 33.9 billion.



**Junior Achievement ČR projects** “I now understand economic reports much better than the weather forecast. And I understand that knowing something about the causes of the rise and fall of rates can be as useful as knowing whether to expect a low or high pressure system.” - Citigroup Foundation helps us to implement projects focused on the education of secondary-school students in the area of modern financial literacy. Citibank supported these projects, which were attended by nearly 20,000 secondary school students, with USD 100,000.

## Management Report

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### **Global Corporate and Investment Banking at Citibank a.s.**

The Global Corporate and Investment Banking (GCIB) business at Citibank a.s. enjoyed a year of extraordinary achievement in 2004. No other financial institution in the Czech Republic is more committed to advancing client goals - our talented relationship managers and product specialists advise the leading companies, public sector organisations and financial institutions in the country. In return, we are entrusted repeatedly with the management of our client's strategic banking and finance needs and thereby

continue to grow our business successfully in this exciting and important market for our bank. During the 13th year of our operations, we are proud that the Czech GCIB franchise met, and even exceeded, its key objectives and realised a year of record performance. We view this strong result as validation of the reorganisation plan that was executed at the beginning of 2004. Our business is now divided by product lines into three groups: Emerging Markets Corporate Banking (EMCB), Global Sales & Trading (S&T), and Global Transaction Services (GTS). This new structure created a more adaptable, client-focused organisation - one that is better able to leverage our product and geographic scope and also more disciplined in aligning resources with our clients' needs. Our expertise and knowledge was

enhanced in 2004 with the addition of innovative new products and services in Cash Management, Treasury and Structured Trade Financing. Thanks to our acknowledged leadership in Syndicated Loans we were able to boost our market share as Lead Arranger and Bookrunner to 60%, thereby assuming the No.1 league table position in this prestigious area of capital markets fund-raising.

We achieved success in 2004 not only as the result of the dedicated efforts and professionalism of all our employees, but also because of our clients' trust. We would like to thank all our corporate and investment banking customers - multinational corporations, top-tier domestic companies, SMEs, public sector organisations and financial institutions - for the opportunity to serve them in the Czech Republic and their choice in Citigroup GCIB.

## Corporate Finance / Investment Banking

In 2004, Citibank a.s. maintained its leadership rank on the domestic corporate finance / investment banking market. During the year we closed five syndicated loan transactions, successfully arranging over USD 500 million in financing for our customers.

The transactions closed in 2004 included:

- Mandated Lead Arranger and Bookrunner of CZK 3.6 billion Term and Revolving Credit Facilities for CGS Group.
- Mandated Lead Arranger and Bookrunner of CZK 832 million and EUR 68.9 million Term Credit Facilities for CHEMOPETROL, a.s.
- Mandated Lead Arranger and Bookrunner of a CZK 1.75 billion Term Credit Facility for Severomoravské vodovody a kanalizace, a.s.
- Mandated Lead Arranger and Bookrunner of a EUR 97.5 million Term Credit Facility for Agrofert Group.

- Mandated Lead Arranger of a CZK 200 million Revolving Credit Facility for MORA MORAVIA, a.s.

These transactions were successfully received in the market and brought us a 60% market share if measured by the number of closed transactions (Source: Loanware).

We also maintained a focus in the specialized area of long-term export finance in 2004. Citibank a.s. acted as Co-Arranger and sole Lender of a USD 25 million multi-tranche buyer credit facility for MGTS, Russia, for financing the purchase of telecommunications equipment of Czech origin, with cross-border credit insurance provided by EGAP.

## Treasury

The Treasury Department manages the delivery of an ever-growing selection of foreign exchange, money market and derivative products to the customers of Citibank a.s. Extensive product knowledge, combined with the supportive environment of a continuing global economic recovery and a reputation as the leading Czech player in the professional currency markets, drove the business in 2004 to its best results ever over a 13-year history.

Similarly to the other countries of Central and Eastern Europe, the key economic and market influence for the Czech Republic last year turned out to be the accession to the European Union. Thanks to unrestricted access to the EU's markets, the performance of Czech exporters improved dramatically, despite lackluster growth in the key export markets of Western Europe. Export performance was a major factor driving the acceleration of economic growth and resumption

of Czech crown strengthening against the major currencies.

Our experienced Treasury Trading Unit skilfully anticipated the evolving market conditions and managed to benefit from most major market trends during the year. A key factor supporting the success of our traders is the access to information and the market expertise that is part of Citigroup's global financial markets network.

Our Sales and Derivative Unit provides our clients with vital assistance in financial planning and management using a broad offer of both traditional and innovative products and services. In particular, many leading Czech export companies benefited from the hedging techniques and structured financial products developed to match their individual needs and enhance their competitive edge when faced with the challenges of a rapidly strengthening currency.

The eCommerce product package again played an important role in our sales efforts and contributed significantly to our strong 2004 results. We broadened the scope of eCommerce, offering online confirmations of foreign exchange and money market transactions, e-mail alerts and other value-added features. Our customer base trading via the Online Trading platform more than doubled over the course of the year. This unique financial tool contributed to the acquisition of new customers and the improvement of services for the existing client base. We also launched a newly designed version of the CitiTreasury website, providing the knowledge, expertise and information of Citigroup worldwide to our customers and allowing them to customize its content to suit their specific needs.

Another focus during the year was the expansion Treasury products offered to the SME sector. Our efforts to provide our SME customers with the same range of products and services that is available to our global customers resulted in great client satisfaction and increased sales volume. We plan to further develop our coverage of this customer segment.

The Treasury Department demonstrated again that our commitment, product superiority, as well as the proactive approach and professionalism of our team members can bring both strong financial results and high levels of customer satisfaction. Building on these strengths, the team has set out to repeat our achievements also in 2005.

### Global Transaction Services

The Global Transaction Services (GTS) business is composed of **Cash Management, Trade Services and Global Security Services (GSS)**. Cash Management and Trade Services provide comprehensive cash management and trade finance for corporations and financial institutions worldwide. GSS provides custody services to investors such as insurance companies and pension funds, clearing services to intermediaries such as brokers/dealers and depository and agency/trust services to multinational corporations and governments globally.

### Cash Management

It is a long-term goal to align our Cash Management business proactively with the latest market trends and to understand in-depth the development of our customer's businesses. For example the increasing consolidation of our customer's payment and collection processes into shared service centres outside of the Czech Republic accelerated demand for our value-added products and services.

To support our customers with sophisticated cash management needs we developed and introduced to the Czech market new products such as WorldLink, a foreign currency payment system that allows customers to initiate payments in more than 100 currencies. We have also upgraded our File Delivery System to process large volumes of transactions to more than one country from single centralized location. For local corporations expanding their business to other European countries, Citibank a.s. enhanced its existing Cross Border

Pooling capabilities by establishing Czech Republic as one of the possible concentration centres.

To ensure that our customers are able to execute transactions within an efficient and reliable system, we are constantly upgrading our primary Internet banking platform, CitiDirect.

### Trade Services

In 2004, the Trade Services organisation focused its regional product support teams on the trade and payment flows between the European Union and the new member countries of Central and Eastern Europe. We consequently developed a number of key initiatives to expand our trade finance offering and position our business effectively when the Czech Republic joined the EU in May 2004. In addition, we continuously seek to take advantage of Citigroup's presence in more than 100 countries worldwide and to make our franchise a truly valuable partner for Czech exporters to distant territories.

### Global Security Services

The custody services of the GSS organisation are highly appreciated by both local and international clients. Their satisfaction with our commitment to their business was expressed yet again in 2004, when we received the "Top Rated" award from Global Custodian Magazine. Citibank a.s. is the only Czech bank that has been "Top Rated" consecutively since 2002.

### Business Banking Group

The Business Banking Group (BBG) at Citibank a.s. provides state-of-the-art banking services to a wide spectrum of small and medium-sized enterprises, a priority market segment with the potential for the fastest growth in the Czech Republic. Citibank a.s. now enjoys an established presence in the SME market and the recognition as the leading provider of foreign exchange, FX and interest-rate derivative and cash management solutions among this priority customer group.

The focus on individual customer solutions resulted in significant double-digit increases in revenue and asset growth in 2004. These results reflect the strength of our business model used by teams of salesmen in Prague, Teplice, Pardubice, Brno and Ostrava.

BBG implemented number of initiatives during 2004:

- A new Electronic Banking system
- Many innovative and sophisticated solutions, such as MBOs and syndicated loans
- Wider offering of Treasury products, such as derivatives and commodity hedges
- Focus on opportunities to intermediate EU-sponsored development projects

During the year we confirmed our commitment to provide our clients with insightful, strategic and value added ideas. Indeed, much has been accomplished but our focus is on future opportunities. Growing our market share, offering a broad value added product set as well as enhancing our regional presence count among our key priorities. We are pleased to say that BBG is well positioned to meet these challenges.

## Retail Banking

The Retail Banking Division continued its dynamic growth in 2004. We introduced almost twenty new products and services, which in their structure are unique on the Czech market. In expanding our offering, we focused on four principal areas: private clients, credit cards and personal loans, and small and medium-sized enterprises.

We offered private clients an extension of our Wealth Management services, the CitiGold Wealth Planner, which analyses the client's needs and proposes the most efficient distribution of the client's financial portfolio. In order to preserve the characteristics of the client's investment, it must be regularly evaluated and the ratio of fund distribution must be modified as required. In April 2004, we therefore added the Portfolio Tracker application to the CitiGold Wealth Planner to enable the creation of a summary of the current state of the

client's investment and to compare the investment's main parameters with the original proposal every three months. In addition to banking services, we also prepared an entirely unique form of non-financial benefits for our private clients – one of the most extensive offers of benefits for travel and accommodation, legal services, culture, entertainment, dining, fashion, jewellery, sports, health, and cosmetics. This offer for our CitiGold Wealth Management customers is based on Citibank's worldwide strategy and it is adapted to the clients' lifestyle and needs.

A new product in the deposit field is the CitiOne personal account, which combines the advantages of a savings account with those of a current account, offering one of the highest interest rates on the Czech banking market. In addition, under certain conditions clients can use it free of charge. In the eight months since this product's launch, the volume of deposits in the account more than doubled in

comparison with other account types. Besides the aforementioned CitiOne, two other new products continued to grow popular among our clients: the index and premium deposits. Citibank a.s. was the first bank in the Czech Republic to introduce these products to its private clients.

With its diverse needs and the requirement for a personal approach, the small and medium-sized enterprise segment posed an exceptional business challenge, one which we were able to turn into an opportunity. Thanks to our professional approach and a range of cutting-edge services, we successfully increased the number of credits provided to this segment by 57% and were able to double revenues from Foreign Exchange operations in 2004. We expanded our credit product offering for this segment by adding loyalty overdraft and credits for operating capital. We worked on improving Internet banking and in the first half of 2005, we plan to offer clients an entirely new form of Internet banking, one which will allow them

access to the bank 24 hours a day. In connection to the country's accession to the EU, we continued our co-operation with CzechInvest and the Association of Small and Medium-Sized Enterprises and Crafts in organising free seminars for interested members of this segment.

We continued to expand our credit card business in 2004. Thanks not only to new products launched during the year, the number of cards issued grew by 36%, securing Citibank a.s. one of the leading market positions. We extended the interest-free period from 51 to 55 days in 2004, making it the longest interest-free period on the Czech market. In addition, we offered cardholders unique complementary services – the Cash Payment Programme and the Individual Payment Programme, which combine the benefits of credit cards with those of regular loans.

The last field on which Citibank a.s. concentrates much effort is personal loans. In 2004, we joined the Banking Register of Client

Information, which means faster and more efficient processing of credit applications for both the bank and the client. The bank can more easily evaluate credit risks, so the client does not need to prove his ability to repay the credit in a complicated manner. Also in 2004, we focused our attention on the needs of various professional groups and we launched the special Medical Loan for interested doctors.

In late 2004, Citibank a.s. announced its growth strategy for the Czech Republic. This means a great commitment to our clients. In the years to come we will focus all our efforts on developing the four previously mentioned areas. Our objective is to gain a leading position on the credit card market, a dominant position in the affluent client segment, a leading position in the small and medium-sized enterprise segment, and last but not least, in personal loans. We want to offer our clients world-class services – services that fully meet their demands and needs while being above standard and unique on the Czech market.

### **CitiLeasing, s.r.o.**

Citibank a.s. offers leasing services to clients through CitiLeasing, s.r.o., a separate legal entity in the Czech Republic. CitiLeasing, s.r.o. is an affiliated company of Citibank a.s. and, same as Citibank a.s., it is controlled by the parent Citibank Overseas Investment Corporation ("COIC").

Our services span all market segments including multinational corporations, large local companies and emerging local SMEs.

In 2004, CitiLeasing, s.r.o. financed equipment lease contracts worth more than CZK 500 million. Our intention is to concentrate more closely on tailor-made financing solutions for international and large Czech corporations and to assist SMEs in growing their businesses by financing their capital expenditure needs through lease finance solutions.

### **Human Resources**

Citibank a.s. capitalizes on its strong market reputation in the Czech Republic when attracting and developing top local talent. During 2004 the growth of our employee base, now exceeding over 650 staff, was driven primarily by the development of our retail operations.

In 2004, Human Resources worked to meet - and even exceed - the challenging ambitions we have established for ourselves at Citibank a.s. by implementing a pay-for-performance policy, achieving and maintaining a high level of employee satisfaction, providing top quality training and a vast array of personal development possibilities.

We continue to invest in our people through training and professional development provided locally and internationally. Furthermore, we search for career opportunities within our international organisation for top performers to participate in Citigroup exchange programmes, where they gain invaluable experience in working in an international and diverse environment. 2004 was yet another year of talent export, which highlights our commitment to provide international development opportunities for the benefit of our highly talented employees.

### Good-citizenship programmes

Citibank's main aim is to be a good corporate citizen. This fact has been proven through a wide range of sponsorship, philanthropic, and socially responsible initiatives that are in keeping with Citibank's moral obligation towards Czech community. The principles of good corporate citizenship constitute an integral part of decision-making processes within Citibank a.s. We do our best to create and maintain good relationships with communities and institutions. In our everyday decisions, we meet expectations the public has of a responsible and successful company operating in the Czech Republic.

### The Citigroup Foundation

Citibank a.s. contributes to publicly beneficial projects from the fund of the Citigroup Foundation, which finances non-profit projects in all countries in which Citigroup operates. In addition, Citibank a.s. supplements these contributions with its own funds generated from its activities.

Through the Citigroup Foundation, in 2004, we contributed financial means amounting to CZK 4,509,000. Thanks to this money, it was possible to realise for example a project entitled Get to Know Your Money, run by non-governmental organisation Junior Achievement. The programme is determined for students and teachers of secondary schools. The aim of the programme is to help young people learn how to handle their financial means and to develop the life skills of young people that are necessary for their

orientation in the world of finance. Another significant project, to which the Citigroup Foundation contributed CZK 2,025,000 in 2004, is an educational project for children from children's homes entitled Money for Living; this project was initiated by Citibank a.s. The Centre for Adoption and Foster Care is the co-author of the project, and it participated in the project's realisation. The main purpose of the project is to help resolve the dismal situation of children from children's homes who leave the homes when they are eighteen years old without any practical knowledge and without the ability to cope with basic life situations such as looking for a job, dealing with the authorities, or handling their own money. Through a spontaneous form of a creative game, the project teaches adolescents in children's homes to find their bearings in the "outside world".

Furthermore, in 2004, Citigroup Foundation financially supported project of the Via Foundation - Via Bona Award which is presented every year to donors from companies and individuals for their charitable activities and activities to benefit a community, and a programme entitled "Economics for Future Managers and Their Teachers", which is organised by the Liberal Institute with the authorisation of the Foundation for Teaching Economics.

Financial means from the local budget of Citibank a.s. are used to support other, smaller, projects, in particular of a cultural or charity nature. Examples include cooperation with the Civil Society Development Foundation (Nadace rozvoje občanské společnosti) and non-profit organisation International Women's Association of Prague.

### **Staff Charitable Fund**

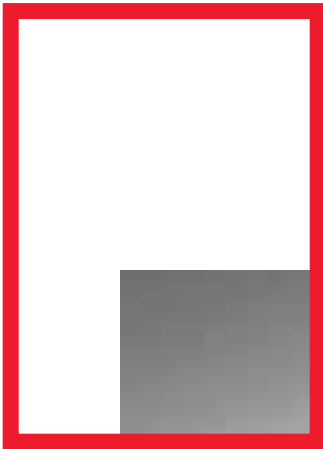
In 1996, Citibank a.s. founded the Staff Charitable Fund, to which employees can contribute regularly through deductions from wage or through single payments. The contribution of Citibank a.s. to the Fund always equals the financial donation of each employee. Our Staff Charitable Fund is unique in the fact that it brings Citibank a.s. and the individual donors, our employees, who have the right to decide to where their charitable activities are to be directed, closer. In 2004, almost CZK 515,600 was divided between 20 recipients from non-profit organisations such as the Naděje civic association (Občanské sdružení naděje), Diakonie Broumov, the Fund for Endangered Children (Fond ohrožených dětí), and the Neratov Association (Sdružení Neratov).

### **The Donors Forum**

Citibank a.s. became one of the founding members of the Donors Forum, an organisation aiming at the support of philanthropy in the Czech Republic. Its activities create favourable conditions for donation on individual, institutional, community, and corporate levels, and it is convinced that well-thought-out and transparent donation creates a culture of philanthropy. The Donors Forum established the Donator Club of Corporate Donators. Its aim is to persuade companies to include donation in their business strategies in the most effective way. It increases the quality of communication between corporate donors and non-profit organisations. It opens a new platform for the promotion and support of corporate donation in the Czech Republic and contributes to companies' awareness of philanthropy.

## **Citibank + Center for Adoption and Foster Care**

"Mom and dad were never very interested in me. Not at all, in fact. And my home? Foster home was my home. But you probably asked about home... a real home, didn't you?" - In 2003, Citibank, in cooperation with the Center for Adoption and Foster Care, initiated the project "Money for Living - Will I stand on my head or my own two feet?" Applying the play-and-learn approach, the project teaches adolescents living in foster homes how to orientate themselves in the world "out there." Nearly 200 adolescents participated in this project, which so far Citibank has supported with USD 200,000.



## Auditor's report to the shareholders of Citibank a.s.

On the basis of our audit, on 27 April 2005 we issued an auditor's report on the Bank's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of Citibank a.s. for the year ended 31 December 2004. 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 the Act on Auditors and the auditing standards of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Citibank a.s. as of 31 December 2004 and the results of its operations for the year then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic."

We have reviewed other financial information in the annual report for consistency with the audited financial statements. In our opinion, the information is consistent in all material respects with the audited financial statements.

The management of the Bank is responsible for the completeness and accuracy of the report on relations between related parties. Our responsibility is to review the accuracy of the information included in the report. During our review nothing came to our attention that would cause us to believe that the information contained in the report is materially inaccurate.

Prague, 28 April 2005



**KPMG Česká republika Audit, s.r.o.**  
Licence number 71



**Pavel Závítkovský**  
Licence number 69

## Financial statements

### Profit and loss account for the year 2004

CZK '000	Note	2004	2003
Interest income and similar income	1	2 245 924	2 130 000
of which: interest income from debt securities		184 528	145 842
Interest expense and similar expense	1	(718 598)	(756 145)
of which: interest expense from debt securities		(129 293)	(69 642)
Income from shares and participation interests:		-	14 094
of which: a) income from participation interests with substantial influence		-	-
b) income from participation interests with controlling influence		-	14 094
c) income from other shares and participation interests		-	-
Commission and fee income	2	605 154	549 265
Commission and fee expense	2	(112 146)	(67 429)
Gain or loss from financial operations	3	933 748	833 714
Other operating income	4	121 252	52 956
Other operating expenses	4	(192 779)	(126 551)
Administrative expenses	5	(2 108 205)	(1 729 852)
of which: a) employee expenses		(995 594)	(775 580)
of which : aa) wages and salaries		(778 992)	(587 177)
ab) social and health insurance		(216 602)	(188 403)
b) other administrative expenses		(1 112 611)	(954 272)
Release of reserves and adjustments to tangible and intangible fixed assets		-	-
Depreciation, creation and use of reserves and adjustments to tangible and intangible FA	14	(145 995)	(116 930)
Release of adjustments and provisions for receivables and guarantees, income from written-off receivables		1 154 128	1 490 244
Write-offs, creation and use of adjustments and provisions for receivables and guarantees		(1 131 366)	(944 257)
Release of adjustments to participation interests with controlling and substantial influence		-	-
Losses from transfer of participation interests with controlling and substantial influence, creation and use of adjustments to participation interests with controlling and substantial influence		-	-
Release of other provisions		-	257 529
Creation and use of other provisions		-	(259 822)
Share of profits or losses from participation interests with controlling and substantial influence		-	-
<b>Current year profit (loss) from ordinary activities before tax</b>		<b>651 117</b>	<b>1 326 816</b>
Extraordinary income	6	-	-
Extraordinary expenses	6	-	-
Current year profit (loss) from extraordinary activities before tax		-	-
Income tax	24	(247 638)	(379 896)
<b>Net profit (loss) for the accounting period</b>		<b>403 479</b>	<b>946 920</b>

The notes set out on pages 35 to 63 form part of these financial statements.

**Balance sheet as at 31 December 2004**

CZK '000	Note	2004 Gross amount	2004 Adjustment	2004 Net amount	2003 Net amount
<b>ASSETS</b>					
Cash in hand and balances with central banks		2 213 628	-	2 213 628	1 372 067
State zero coupon bonds and other securities eligible for refinancing with central bank	10	8 656 130	-	8 656 130	3 630 951
of which: a) securities issued by the government institutions		8 656 130	-	8 656 130	3 630 951
b) others		-	-	-	-
Receivables from banks and cooperative savings associations	8	26 447 056	33	26 447 023	24 497 159
of which: a) repayable on demand		7 268 773	-	7 268 773	8 728 650
b) other receivables		19 178 283	33	19 178 250	15 768 509
Receivables from customers - cooperative savings association's members	9	28 068 759	792 635	27 276 124	30 257 002
of which: a) repayable on demand		1 896 422	-	1 896 422	4 040 482
b) other receivables		26 172 337	792 635	25 379 702	26 216 520
Debt securities	11	186 359	-	186 359	343 589
of which: a) issued by government institutions		-	-	-	49 804
b) issued by other entities		186 359	-	186 359	293 785
Shares, mutual fund certificates and other investments	12	904	-	904	1 000
Participation interests with substantial influence	13	-	-	-	-
of which: in banks		-	-	-	-
Participation interests with controlling influence	13	-	-	-	-
of which: in banks		-	-	-	-
Intangible fixed assets	14	259 252	99 240	160 012	102 231
of which: a) establishment costs		-	-	-	-
b) goodwill		-	-	-	-
Tangible fixed assets	14	709 448	525 351	184 097	236 035
of which: land and buildings for operating activities		253 894	145 175	108 719	137 195
Other assets	15	10 696 727	-	10 696 727	9 449 695
Receivables from subscribed registered capital		-	-	-	-
Prepaid expenses and accrued income	15	69 410	-	69 410	53 214
<b>Total assets</b>		<b>77 307 673</b>	<b>1 417 259</b>	<b>75 890 414</b>	<b>69 942 943</b>

The notes set out on pages 35 to 63 form part of these financial statements.

CZK '000	Note	2004	2003
<b>LIABILITIES</b>			
Due to banks and cooperative savings associations	16	4 727 117	2 314 992
of which: a) repayable on demand		3 533 617	1 111 054
b) other payables		1 193 500	1 203 938
Due to customers - cooperative savings association's members	17	33 863 468	30 718 400
of which: a) repayable on demand		24 439 250	21 941 588
b) other payables		9 424 218	8 776 812
Payables from debt securities	18	14 047 810	16 242 331
of which: a) debt securities issued		14 047 810	15 759 386
b) other payables from debt securities		-	482 945
Other liabilities	20	13 899 924	11 369 885
Deferred income and accrued expenses	20	603 690	401 993
Provisions	22	402 193	805 447
of which: a) provision for pensions and similar obligations		-	-
b) provision for taxes		-	-
c) other		402 193	805 447
Subordinated liabilities	19	1 010 761	1 157 923
Registered capital	21	2 925 000	2 925 000
of which: a) registered paid up capital		2 925 000	2 925 000
b) own shares		-	-
Share premium		865 565	865 565
Reserve funds and other funds from profit	23	366 886	319 540
of which: a) statutory reserve funds and risk funds		366 886	319 540
b) other reserve funds		-	-
c) other funds from profit		-	-
New valuation reserve fund		-	-
Capital funds		-	-
Gains (losses) from revaluation		-	-
of which: a) assets and liabilities		-	-
b) hedging derivatives		-	-
c) participation interests		-	-
Retained earnings (or accumulated losses) from previous years	23	2 774 521	1 874 947
Profit (loss) for the accounting period	23	403 479	946 920
<b>Total liabilities</b>		<b>75 890 414</b>	<b>69 942 943</b>

The notes set out on pages 35 to 63 form part of these financial statements.

**OFF-BALANCE SHEET**

<b>CZK '000</b>	<b>Note</b>	<b>2004</b>	<b>2003</b>
<b>Off-balance sheet assets</b>			
Commitments and guarantees granted	25	44 806 974	41 579 605
Collaterals granted		-	-
Receivables from spot transactions	25	2 367 838	10 570 186
Receivables from fixed term transactions	25	530 936 341	450 935 974
Receivables from options	25	36 758 972	15 670 347
Receivables written-off		492 996	272 801
Values placed into custody, administration and deposit	27	-	-
Values placed under management	27	-	-
<b>Off-balance sheet liabilities</b>			
Commitments and guarantees received	25	2 678 479	2 859 673
Collaterals and pledges received	25	27 347 288	28 691 615
Payables from spot transactions	25	2 363 281	10 536 762
Payables from fixed term transactions	25	531 106 947	450 248 157
Payables from options	25	36 758 972	15 670 347
Values taken into custody, administration and deposit	26	37 031 868	37 305 486
Values taken under management	26	-	-

The notes set out on pages 35 to 63 form part of these financial statements.

## Summary of changes in equity in 2004

	Registered capital shares	Own premium	Share premium	Reserve funds	Capital funds	Revalua- tion gains (losses)	Profit (loss)	Total
<b>CZK '000</b>								
<b>Balance as</b>								
<b>at 1 January 2003</b>	<b>2 925 000</b>	<b>-</b>	<b>865 565</b>	<b>280 862</b>	<b>-</b>	<b>50 779</b>	<b>2 648 515</b>	<b>6 770 721</b>
Change in accounting methods	-	-	-	-	-	-	-	-
Corrections of fundamental errors	-	-	-	-	-	-	-	-
FX gains (losses) and gains (losses) not included in the profit and loss statement	-	-	-	-	-	(50 779)	-	(50 779)
Net profit (loss) for accounting period	-	-	-	-	-	-	946 920	946 920
Dividends	-	-	-	-	-	-	(734 890)	(734 890)
Transfers to funds	-	-	-	38 678	-	-	(38 678)	-
Use of funds	-	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	-
Reduction in registered capital	-	-	-	-	-	-	-	-
Own shares purchased	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
<b>Balance as</b>								
<b>at 31 December 2003</b>	<b>2 925 000</b>	<b>-</b>	<b>865 565</b>	<b>319 540</b>	<b>-</b>	<b>-</b>	<b>2 821 867</b>	<b>6 931 972</b>
<b>Balance as</b>								
<b>at 1 January 2004</b>	<b>2 925 000</b>	<b>-</b>	<b>865 565</b>	<b>319 540</b>	<b>-</b>	<b>-</b>	<b>2 821 867</b>	<b>6 931 972</b>
Change in accounting methods	-	-	-	-	-	-	-	-
Corrections of fundamental errors	-	-	-	-	-	-	-	-
FX gains (losses) and gains (losses) not included in the profit and loss statement	-	-	-	-	-	-	-	-
Net profit (loss) for accounting period	-	-	-	-	-	-	403 479	403 479
Dividends	-	-	-	-	-	-	-	-
Transfers to funds	-	-	-	47 346	-	-	(47 346)	-
Use of funds	-	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	-
Reduction in registered capital	-	-	-	-	-	-	-	-
Own shares purchased	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
<b>Balance as</b>								
<b>at 31 December 2004</b>	<b>2 925 000</b>	<b>-</b>	<b>865 565</b>	<b>366 886</b>	<b>-</b>	<b>-</b>	<b>3 178 000</b>	<b>7 335 451</b>

The notes set out on pages 35 to 63 form part of these financial statements.

# Notes to the statutory financial statements

## Year ended 31 December 2004

### **BASIS OF PREPARATION**

The financial statements have been prepared on the basis of accounting maintained in accordance with the Act on Accounting and relevant regulations and decrees of the Czech Republic. They have been prepared under the historic cost convention on the basis of full accrual accounting, with the exception of selected financial instruments that are stated at fair value.

The financial statements have been prepared in accordance with the Czech Ministry of Finance decree regulating the layout and definition of financial statements and the disclosure requirements of banks and other financial institutions dated 6 November 2002 (No. 501), as amended.

During 2004 and 2003 the Bank carried out business activities in the Czech Republic.

Numbers in brackets represent negative amounts.

These financial statements are non-consolidated financial statements.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the financial statements of Citibank a.s. ("the Bank") are set out below:

#### **Transaction date**

Depending on the type of transaction, the transaction date is defined as the date of payment or collection of cash; the date of purchase or sale of foreign currency or securities; date of payment or collection from a customer's account; date of an order to a correspondent to make a payment, settlement date of the bank's payment orders with the ČNB clearing centre, the value date according to a statement received from a bank's correspondent (statement means SWIFT statement, bank's notice, received media, bank statement or other documents); the trade date and settlement date of transactions with securities, foreign currency, options or other derivatives; the date of issue or receipt of a guarantee or opening credit commitment; the date of acceptance of values into custody.

Accounting transactions involving the purchase or sale of financial assets with a usual term of delivery (spot transactions), as well as fixed term and option contracts, shall be recorded in off-balance sheet accounts from the trade date until the settlement date.

A financial asset or a part thereof is derecognised from the balance sheet if the Bank loses control over the contractual rights to this financial asset in whole or in part. The Bank loses this control if it exercises the rights to the benefits defined in the contract, if these rights expire, or if they are waived by the Bank.

#### **Debt securities, shares, units and other investments**

Treasury bills, bonds and other debt securities and shares including units and other investments are classified into a portfolio which is held to maturity, held for trading or available for sale, based on the Bank's intention. Only debt securities can be classified into a portfolio held to maturity.

Treasury bills, bonds and other debt securities are carried at amortised/accreted cost. Accrued interest income is part of the carrying amount of these securities. Shares, units and other investments are stated at acquisition cost. Premiums and discounts on debt securities are amortised/accreted through the profit and loss account over the period from the date of purchase to the date of maturity. In the case of securities classified into the portfolios held for trading and available for sale and securities included in the portfolio held to maturity which have a residual maturity of less than 1 year, the premium and the discount are amortized/accreted equally

through the profit and loss account over the period from the date of purchase to the date of maturity. Debt securities and shares, units and other investments held for trading or available for sale are measured at fair value and gains/losses from this revaluation are charged to the profit and loss account in "Gain or loss from financial operations".

The fair value used for the revaluation of securities is determined based on the market price published as at the date of the fair value measurement, if the Bank can prove that the securities can be sold for that market price. For debt and equity securities traded on the public market, the fair values are equal to the prices reached on the public market of OECD countries, provided, at the same time, the liquidity condition in respect of securities is fulfilled.

If it is not possible to determine the fair value as the market value (i.e. the Bank cannot prove that it is possible to sell the securities for such a market price), the fair value is estimated as the adjusted value of the securities.

The adjusted value of securities is equal to the share proportion in equity (for shares), the share proportion of a fund's net asset value (for units), or the present value of the security (for debt securities).

Adjustments are established for debt securities held to maturity. The adjustments for these securities are created in an amount that reflects only the change in the risk of the issuer and not the change in risk-free interest rates, calculated on an individual basis.

Transactions where securities are sold under a commitment to repurchase at a predetermined price (repurchase commitment) or purchased under a commitment to resell (resale commitment) are treated as collateralised borrowing and lending transactions. The legal title of securities subject to resale or repurchase commitments is transferred to the lender. Securities transferred under a repurchase commitment are included in the relevant items of securities in the Bank's balance sheet, while the borrowing is recorded in "Due to banks and cooperative savings associations" or "Due to customers - cooperative savings association's members". Securities received under a resale commitment are recorded in off-balance sheet accounts in "Collaterals and pledges received". The lending granted under a resale commitment is recorded in 'Receivables from banks and cooperative savings associations' or 'Receivables from customers - cooperative savings association's members.' Interest on debt securities transferred under a repurchase commitment is accrued while interest on debt securities received under a resale commitment is not accrued.

Income and expenses arising from repurchase and resale commitments due to the difference between the selling and purchase price are accrued over the period of the transaction and charged to the profit and loss account as "Interest income and similar income" or "Interest expense and similar expenses".

### **Transactions with securities for customers**

Securities taken by the Bank into custody, administration or deposit are accounted for in their nominal values and recorded in the off-balance sheet account "Values taken into custody, administration and deposit". Securities taken by the Bank under management are accounted for at their market values and recorded in the off-balance sheet account "Values taken under management". The Bank's payables to customers resulting from cash received for the purchase of securities or cash to be refunded to customers, etc., are accounted for in the balance sheet liability accounts.

### Receivables from banks and customers

Receivables are carried net of adjustments. Accrued interest income is part of the carrying amount of receivables. General provisions for receivables are included in provisions on the liability side of the balance sheet.

Receivables are reviewed for recoverability. Adjustments are created for specific receivables as considered appropriate. The methodology for creating adjustments in the appropriate accounting period is included in Note 29 (a), (b) and (c). Adjustments created by debiting expenses are reported in "Write-offs, creation and use of adjustments and provisions for receivables and guarantees".

The tax deductible portion of the period charge for the creation of adjustments for credit losses is calculated in accordance with the requirements of section 5 ("Banking reserves and adjustments") and section 8 ("Adjustments to receivables from debtors subject to bankruptcy or composition proceedings") of the Act on Reserves No. 593/1992 Coll.

Receivables are written off based on the procedures laid down in the internal guidelines of the Bank.

The write off of unrecoverable receivables is accounted for in "Write-offs, creation and use of adjustments and provisions for receivables and guarantees" in the profit and loss account. Adjustments and provisions are reduced in an amount equal to the amount written off in the same account in the profit and loss account. Recoveries of loans previously written off are included in the profit and loss account in "Release of adjustments and provisions for receivables and guarantees, income from written-off receivables".

### Creation of provisions

A provision represents a probable cash outflow of uncertain timing and amount. Provisions are established if the following criteria are met:

- a duty (legal or factual) to perform exists, resulting from past events
- it is probable that the event will occur and that it will require a cash outflow representing economic benefits; "probable" means the probability exceeds 50%
- the amount of the potential liability can be reliably estimated.

In accordance with the Act on Reserves No. 593/1992 Coll. as amended by later regulations, provisions for standard credits should be transferred to adjustments to classified receivables, used to cover the expenses associated with the write-off of receivables, used to cover losses from the assignment of receivables or released by 31 December 2005 at the latest.

General provisions for guarantees should be transferred to specific provisions for guarantees or adjustments to classified receivables from the fulfilment of guarantees, to be used to cover the expenses associated with the write-off of these receivables or losses arising from their assignment or else they should be released by 31 December 2005 at the latest.

In accordance with the Act on Reserves No. 593/1992 Coll. the Bank ceased to create provisions for standard receivables from credits and guarantees with effect from 1 January 2002 and started to release them according to the provisions of the above mentioned Act (or to use them to cover losses arising from write-offs and cession of receivables which were not covered by adjustments or to cover losses from provided guarantees).

Effective from 1 January 2002, the Bank has released 25% of the balances of reserves mentioned above each year into income. The remaining balance is used to cover losses from write-offs and cession of receivables from credits that were not covered by the created provisions, in order to achieve the total release of the provisions for standard credits and provisions for guarantees granted by the Bank by the end of 2005.

### Intangible and tangible fixed assets

Tangible and intangible fixed assets are stated at historical cost and are depreciated using the straight-line method over their estimated useful lives.

The annual depreciable lives for each category of intangible and tangible fixed asset are as follows:

Software	3 to 4 years
Buildings	5 to 10 years
Other	2 to 4 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of 10 years or the remaining part of the lease term. Intangible fixed assets costing less than CZK 60,000 and tangible fixed assets costing less than CZK 40,000 and whose useful life is shorter than one year are charged to the profit and loss account in the period in which they are acquired. Value added tax related to the purchased assets is included in the purchase price and depreciated according to the asset classification category.

### Foreign currency translation

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates on the date of the transaction. Assets and liabilities denominated in foreign currencies, together with unsettled foreign exchange spot transactions, are translated into the local currency at the ČNB foreign exchange rate prevailing on the balance sheet date. Foreign exchange gains or losses arising from the translation of foreign currency assets and liabilities, except for net investments in foreign entities and items that hedge currency risk resulting from agreements not yet recorded in the Bank's balance sheet, or as a result of expected future transactions, are recognised in the profit and loss account in "Gain or loss from financial operations".

### Financial derivatives

#### *Embedded derivatives*

In certain cases a derivative may be a component of a hybrid (combined) financial instrument that includes both a host contract (instrument) and the derivative (referred to as "an embedded derivative") that influences the cash flows or otherwise modifies the characteristics of the host instrument. An embedded derivative should be separated from the host instrument and accounted for separately, if all of the following criteria are met at the same time:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- the host instrument is not re-measured at fair value or is measured at fair value but the changes arising from revaluation are reported in the balance sheet.

#### *Trading derivatives*

Financial derivatives held for trading are carried at fair value and gains (losses) from the changes in fair value are recorded in the profit and loss account in "Gain or loss from financial operations".

#### *Hedging derivatives*

Hedging derivatives are carried at fair value. The method of recognition of fair value depends on the model of hedge accounting applied.

Hedge accounting can be applied if:

- the hedge is in line with the Bank's risk management strategy,
- the hedge relationship is formally documented at the inception of the hedge,
- it is expected that the hedge relationship will be highly effective throughout its lifetime,
- the effectiveness of the hedge relationship can be objectively measured,
- the hedge relationship is highly effective throughout the accounting period,
- in the case of hedging expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of assets and liabilities, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) from revaluation of the interest bearing hedged item and hedging derivative are recorded in the profit and loss account in "Interest income and similar income" and "Interest expense and similar expense".

If the derivative hedges the exposure to changes in cash flows related to recorded assets and liabilities, commitments or expected transactions, the effective part of the hedge (fair values of the hedging derivative) is reported in equity in "Gains (losses) from revaluation of hedging derivatives". The ineffective part of the hedge is recognized in the profit and loss account in "Gain or loss from financial operations".

If the hedging of commitments or expected transactions results in the recording of an asset or liability, the cumulative gains or losses from the revaluation of the hedging derivative reported in equity are included in the carrying amount of such an asset or liability. Otherwise the gains or losses are charged to the profit and loss account at the same moment as the gains or losses from the revaluation of a hedged item.

The fair value of financial derivatives is determined as the present value of the expected cash flows from these transactions, using valuation models generally accepted on the market, such as the Black-Scholes model used for certain types of options. The parameters used in these models, such as foreign exchange rates, yield curves, volatility of financial instruments, etc., are set by the market.

### **Taxation**

Tax non-deductible expenses are added to and non-taxable income is deducted from the profit for the period to arrive at the taxable income, which is further adjusted by tax allowances and relevant credits.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes multiplied by the income tax rate prescribed for the next period. A deferred tax asset is recognized only to the extent that there are no doubts that there will be future taxable profits available against which this asset can be utilized.

### **Prior period items and changes in accounting policies**

Prior period items and the effects of changes in the accounting policies are reported as income or expense in the current period profit and loss account, with the exception of corrections of significant errors in the recording of income and expenses in prior periods, which are reported in "Retained earnings (or accumulated losses) from previous years" in the Bank's balance sheet.

**1. NET INTEREST INCOME**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
<b>Interest income</b>		
from deposits	476,346	381,913
from loans	1,585,050	1,602,245
other	184,528	145,842
<b>Interest expense</b>		
from deposits	(558,554)	(641,807)
from loans	(21,006)	(28,374)
other	(139,038)	(85,964)
<b>Net interest income</b>	<b>1,527,326</b>	<b>1,373,855</b>

**2. COMMISSIONS AND FEES**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
<b>Commission and fee income from</b>		
securities transactions	620	391
derivative transactions	-	-
management, administration, deposit and custody	60,958	38,096
other	543,576	510,778
<b>Total</b>	<b>605,154</b>	<b>549,265</b>
<b>Commission and fee expense from</b>		
securities transactions	(9,003)	(1,273)
derivative transactions	-	-
management, administration, deposit and custody	-	-
other	(103,143)	(66,156)
<b>Total</b>	<b>(112,146)</b>	<b>(67,429)</b>

The most significant items in "Commission and fee income" are transaction fees from internet banking, banking cards and payment orders. The most significant items in "Commission and fee expense" are fees for banking services provided by other banks.

**3. GAIN OR LOSS FROM FINANCIAL OPERATIONS**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Gains/losses from securities transactions	72,250	(38,540)
Gains/losses from derivative transactions	451,396	922,953
Gains/losses from foreign exchange transactions	(12,313)	356,625
Foreign exchange gains / losses	399,283	(407,324)
Other	23,132	-
<b>Total</b>	<b>933,748</b>	<b>833,714</b>

#### 4. OTHER OPERATING INCOME AND EXPENSES

Other operating income in 2004 totalling TCZK 121,252 (2003: 52,956) includes income from services provided to CitiLeasing, s.r.o. totalling TCZK 11,360 and income relating to the transfer of tangible and intangible assets totalling of TCZK 31,934, of which the most significant item is income from the sale of tangible assets - cars in the amount of TCZK 29,030.

Other operating expenses in 2004 totalling TCZK 192,779 (2003: TCZK 126,551) include the contribution to the Deposit insurance fund amounting to TCZK 58,477, the contribution to the Guarantee fund amounting to TCZK 542 and costs related to the counting and distribution of cash totalling TCZK 31,112.

#### 5. ADMINISTRATIVE EXPENSES

CZK '000	2004	2003
Personnel expenses		
Wages and salaries paid to employees	778,992	587,177
social and health insurance	216,602	188,403
	<b>995,594</b>	<b>775,580</b>
Other administrative expenses	1,112,611	954,272
of which expenses for audit, legal and tax advisory	13,616	10,086
	<b>2,108,205</b>	<b>1,729,852</b>

Wages and bonuses paid to members of the Board of Directors and the Supervisory board amounted to TCZK 11,088 in 2004 (2003: TCZK 7,075).

#### The average number of the Bank's employees was as follows:

	2004	2003
Employees	662	651
Members of the Board of Directors	4	4
Members of the Supervisory board	3	3
Other members of management	14	17

#### 6. EXTRAORDINARY INCOME AND EXPENSES

The Bank did not have any extraordinary income in 2004 or in 2003.

The Bank did not have any extraordinary expenses in 2004 or in 2003.

#### 7. INCOME AND EXPENSES ACCORDING TO BUSINESS SEGMENT

%	Retail banking	Corporate banking	Investment banking
<b>2004</b>			
Net interest income	12%	88%	-
Fee and commission income	19%	73%	8%
Fee and commission expenses	6%	90%	4%
Net gains (losses) from financial operations	-	100%	-

%	Retail banking	Corporate banking	Investment banking
<b>2003</b>			
Net interest income	10%	90%	-
Fee and commission income	16%	77%	7%
Fee and commission expenses	2%	89%	9%
Net gains (losses) from financial operations	2%	98%	-

## 8. RECEIVABLES FROM BANKS

### (a) Classification of receivables from banks

CZK '000	2004	2003
Standard	26,443,724	24,497,159
Special mentioned	3,332	-
Adjustments to potential losses from receivables	(33)	-
<b>Net receivables from banks</b>	<b>26,447,023</b>	<b>24,497,159</b>

### (b) Analysis of receivables from banks by type of security received

CZK '000	2004	2003
Secured	-	-
Unsecured	26,447,023	24,497,159
	<b>26,447,023</b>	<b>24,497,159</b>

## 9. RECEIVABLES FROM CUSTOMERS

### (a) Classification of receivables from customers

CZK '000	2004	2003
Standard	19,813,793	24,632,147
Special mentioned	3,633,518	2,610,639
Sub-standard	3,179,284	2,143,475
Doubtful	98,732	228,824
Loss	2,396	2,643
Receivables assessed on a portfolio basis	1,341,036	1,268,923
Adjustment to potential losses from individually assessed receivables	(730,279)	(575,036)
Adjustment to potential losses from portfolio assessed receivables	(62,356)	(54,613)
<b>Net receivables from customers</b>	<b>27,276,124</b>	<b>30,257,002</b>

In compliance with CNB regulation No. 9/2002 dated 6 November 2002 regarding the rules for assessing receivables from financial activities and the creation of adjustments and provisions and the rules for acquiring certain types of assets, effective from 1 January 2003, the Bank recognised receivables assessed on the portfolio basis.

In 2004 the Bank created an adjustment of TCZK 62,356 to the portfolio of consumer loans totalling TCZK 1,341,036 on the portfolio basis. In 2003 the Bank created an adjustment of TCZK 54,613 to the portfolio of consumer loans totalling TCZK 1,268,923 on the portfolio basis.

**(b) Analysis of receivables from customers by sector**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Financial institutions	1,623	4,167
Non-financial institutions	24,673,825	27,574,065
Insurance institutions	-	-
Government sector	-	-
Self-employed	422,073	660,212
Resident individuals	1,277,511	1,234,794
Non-residents	901,092	783,764
	<b>27,276,124</b>	<b>30,257,002</b>

**(c) Analysis of receivables from customers by sector and type of security received**

<b>CZK '000</b>	<b>Bank guarantee</b>	<b>Mortgage guarantee</b>	<b>Corporate guarantee</b>	<b>Deposits</b>	<b>Unsecured</b>	<b>Total</b>
<b>As at 31 December 2004</b>						
Financial institutions	-	-	-	-	1,623	1,623
Non-financial institutions	1,442,792	5,326,854	356,713	283,593	17,263,873	24,673,825
Insurance institutions	-	-	-	-	-	-
Government sector	-	-	-	-	-	-
Self-employed	-	-	-	-	422,073	422,073
Resident individuals	-	6,088	-	-	1,271,423	1,277,511
Non-residents	-	-	-	-	901,092	901,092
	<b>1,442,792</b>	<b>5,332,942</b>	<b>356,713</b>	<b>283,593</b>	<b>19,860,084</b>	<b>27,276,124</b>
<b>As at 31 December 2003</b>						
Financial institutions	-	-	-	-	4,167	4,167
Non-financial institutions	1,392,993	6,722,059	234,781	391,268	18,832,964	27,574,065
Insurance institutions	-	-	-	-	-	-
Government sector	-	-	-	-	-	-
Self-employed	-	-	-	-	660,212	660,212
Resident individuals	-	34,025	-	-	1,200,769	1,234,794
Non-residents	-	-	-	-	783,764	783,764
	<b>1,392,993</b>	<b>6,756,084</b>	<b>234,781</b>	<b>391,268</b>	<b>21,481,876</b>	<b>30,257,002</b>

**(d) Net receivables from customers written-off and recovered**

The summary of net receivables from customers written-off and recovered by sector:

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
<b>Write-offs</b>		
Non-financial institutions	204,179	68,930
Resident individuals	54,608	42,547
	<b>258,787</b>	<b>111,477</b>
<b>Recoveries</b>		
Non-financial institutions	34,137	21,685
Resident individuals	19,288	9,022
	<b>53,425</b>	<b>30,707</b>

## 10. STATE ZERO COUPON BONDS AND OTHER SECURITIES ELIGIBLE FOR RE-FINANCING WITH THE CENTRAL BANK

### (a) Net book value of state zero coupon bonds and other securities eligible for refinancing with the central bank

CZK '000	2004	2003
State treasury bills	4,577,135	2,746,006
State debt securities	4,078,995	884,945
<b>Net book value</b>	<b>8,656,130</b>	<b>3,630,951</b>

### (b) Classification of state zero coupon bonds and other securities eligible for refinancing with the central bank into individual portfolios based on the Bank's intention

CZK '000	2004	2003
State zero coupon bonds and other trading securities	311,643	754,147
State zero coupon bonds and other available for sale securities	8,344,487	2,876,804
<b>Net book value</b>	<b>8,656,130</b>	<b>3,630,951</b>

### (c) Repurchase and resale commitments

As at 31 December 2004, the Bank had acquired state zero coupon bonds and other securities under resale commitments in the market value of TCZK 9,844,782 (2003: TCZK 8,368,152), which are reported in the off balance sheet in "Collaterals and pledges received".

As at 31 December 2004 the Bank does not present any state zero coupon bonds or other securities that were transferred under repurchase commitments (2003: TCZK 0).

## 11. DEBT SECURITIES

### a) Repurchase and resale commitments

The Bank had not accepted any debt securities under resale commitments as at 31 December 2004 (2003: TCZK 0). The Bank does not present any debt securities as at 31 December 2004 that were transferred under repurchase commitments (2003: TCZK 0).

### (b) Book value of debt securities

The book value of debt securities amounts to TCZK 186,359 as at 31 December 2004 (2003: TCZK 343,589). The book value of debt securities includes accrued interest of TCZK 2,185 as at 31 December 2004 (2003: TCZK 3,394).

**(c) Classification of debt securities into individual portfolios based on the Bank's intention**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Debt securities held for trading	186,359	167,287
Available for sale debt securities	-	176,302
Held to maturity debt securities	-	-
	<b>186,359</b>	<b>343,589</b>

**(d) Analysis of debt securities held for trading**

<b>CZK '000</b>	<b>2004 Market value</b>	<b>2003 Market value</b>
<b>Issued by non-financial institutions</b>		
- Listed on a recognised Czech Stock Exchange	-	117,483
- Listed elsewhere	186,359	-
- Unlisted	-	-
	<b>186,359</b>	<b>117,483</b>
<b>Issued by government sector</b>		
- Listed on a recognised Czech Stock Exchange	-	49,804
	-	<b>49,804</b>
	<b>186,359</b>	<b>167,287</b>

Securities listed elsewhere are mainly securities traded on the Luxemburg Stock Exchange.

**(e) Analysis of available for sale debt securities**

<b>CZK '000</b>	<b>2004 Market value</b>	<b>2003 Market value</b>
<b>Issued by non-financial institutions</b>		
- Listed on a recognised Czech Stock Exchange	-	176,302
	-	<b>176,302</b>

**(f) Analysis of debt securities held to maturity**

There was no securities portfolio held to maturity as at 31 December 2004 or as at 31 December 2003.

The proportion of the debt securities portfolio held to maturity with residual maturity up to 1 year to the total balance of the debt securities portfolio held to maturity is 0% (2003: 0%).

**12. SHARES, MUTUAL FUND CERTIFICATES AND OTHER INVESTMENTS**

As at 31 December 2004 the Bank has recorded in the balance sheet in "Shares, mutual fund certificates and other investments" the share of Burza cenných papírů Praha, a.s. in the value of TCZK 904 (2003: TCZK 1,000). The collective share of Burza cenných papírů Praha a.s. was transferred to the Bank following the sale of the share at nominal value on 4 December 2003 within the liquidation process of CITICORP SECURITIES (CR), s.r.o. v likvidaci.

As at the date of preparation of the financial statements as of 31 December 2004 the adjusted value of securities was maintained in the accounting records (i.e. in the value corresponding to the share of equity).

As at 31 December 2003 they were maintained in nominal value due to the immateriality of the difference between the nominal and the adjusted value.

### 13. PARTICIPATION INTERESTS WITH CONTROLLING AND SUBSTANTIAL INFLUENCE

#### (a) Participation interests with controlling influence

As at 31 December 2004 and 2003 the Bank had no interests with controlling influence.

CITICORP SECURITIES (CR), s.r.o. was a subsidiary of Citibank a.s. On 1 November 2002 CITICORP SECURITIES (CR), s.r.o. entered into liquidation based on the decision of the sole owner executing the powers of the general meeting. The liquidation of CITICORP SECURITIES (CR), s.r.o. v likvidaci was completed in 2004 following its deletion from the Commercial Register on 4 August 2004. The liquidation balance of TCZK 14,094 was paid to Citibank a.s. on 18 December 2003.

#### (b) Participation interests with substantial influence

As at 31 December 2004 the Bank held no interests with a substantial influence (2003: TCZK 0).

### 14. TANGIBLE AND INTANGIBLE FIXED ASSETS

	Technical appreciation of leased assets	Other tangible assets	Tangible assets total	Intangible assets total	Tangible & intangible assets total
<b>CZK '000</b>					
<b>Cost</b>					
At 1 January 2004	273,351	487,527	760,878	173,981	934,859
Additions	10,507	55,584	66,091	85,747	151,838
Disposals	(6,578)	(110,943)	(117,521)	(476)	(117,997)
Transfers	(23,386)	23,386	-	-	-
<b>At 31 December 2004</b>	<b>253,894</b>	<b>455,554</b>	<b>709,448</b>	<b>259,252</b>	<b>968,700</b>
<b>Depreciation and adjustments</b>					
At 1 January 2004	136,156	388,687	524,843	71,750	596,593
Charge for the year	26,508	91,521	118,029	27,966	145,995
Disposals	(6,578)	(110,943)	(117,521)	(476)	(117,997)
Transfers	(10,911)	10,911	-	-	-
<b>At 31 December 2004</b>	<b>145,175</b>	<b>380,176</b>	<b>525,351</b>	<b>99,240</b>	<b>624,591</b>
<b>Net book value</b>					
<b>At 31 December 2003</b>	<b>137,195</b>	<b>98,840</b>	<b>236,035</b>	<b>102,231</b>	<b>338,266</b>
<b>At 31 December 2004</b>	<b>108,719</b>	<b>75,378</b>	<b>184,097</b>	<b>160,012</b>	<b>344,109</b>

**15. OTHER ASSETS AND ACCRUALS**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Other debtors	75,729	73,617
Positive fair value of derivatives	10,387,023	8,920,466
Deferred tax asset (Note 24 (b))	79,552	48,778
Other	154,423	406,834
<b>Other assets total</b>	<b>10,696,727</b>	<b>9,449,695</b>
<b>Prepaid expenses and accrued income</b>	<b>69,410</b>	<b>53,214</b>

**16. DUE TO BANKS****Analysis of due to banks by residual maturity**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Repayable on demand	3,533,618	1,111,054
Up to 3 months	1,091,508	975,234
From 3 months to 1 year	101,991	204,378
From 1 year to 5 years	-	-
Over 5 years	-	24,326
	<b>4,727,117</b>	<b>2,314,992</b>

**17. DUE TO CUSTOMERS****Analysis of due to customers by sector**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
<b>Due to customers with fixed maturity</b>		
Financial institutions	241,580	51,431
Non-financial institutions	2,563,283	2,530,516
Non-profit organizations	39,630	-
Insurance institutions	2,314,440	2,043,868
Government sector	100,281	100,106
Self-employed	37,602	72,402
Resident individuals	3,672,762	3,179,204
Non-residents	225,385	270,757
	<b>9,194,963</b>	<b>8,248,284</b>
<b>Due to customers with a notice period</b>		
Financial institutions	-	-
Non-financial institutions	1,044	4,404
	<b>1,044</b>	<b>4,404</b>
<b>Other due to customers with fixed maturity</b>	<b>228,211</b>	<b>524,124</b>
<b>Total due to customers</b>	<b>9,424,218</b>	<b>8,776,812</b>

The Bank didn't have any payables related to investment services as at 31 December 2004 or as at 31 December 2003.

**18. PAYABLES FROM DEBT SECURITIES****Analysis of certificates of deposit and similar bonds by sector**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Financial institutions	12,011	-
Non-financial institutions	11,417,853	15,090,383
Insurance institutions	5,000	-
Government sector	18,012	541,970
Non-profit organizations	-	-
Non-residents	2 549,169	-
Resident individuals	45,765	127,033
	<b>14,047,810</b>	<b>15,759,386</b>

The figures in the above table represent payables from depository notes.

The proportion of issued debt securities with residual maturity up to 1 year to the total balance of issued debt securities is 98% (2003: 98%).

Other payables from debt securities represent payables from short sales of Ministry of Finance bonds. As at 31 December 2004 payables from short sales amounted to TCZK 0 (2003: TCZK 482,945).

**19. SUBORDINATED LIABILITIES**

The amount of TCZK 1,010,761 in 2004 (2003: TCZK 1,157,923) represents a subordinated loan amounting to TUSD 45,000 (interest rate: 3-month LIBOR + 0.24%) granted by the parent company COIC (Citibank Overseas Investment Corporation). This loan is due on 29 December 2009.

**20. OTHER LIABILITIES AND ACCRUALS**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Other liabilities	32,134	74,592
Negative fair values of derivatives	10,461,907	8,583,234
Other	3,405,883	2,712,059
<b>Other liabilities total</b>	<b>13,899,924</b>	<b>11,369,885</b>
<b>Deferred income and accrued expenses</b>	<b>603,690</b>	<b>401,993</b>

**21. REGISTERED CAPITAL****The shareholders of the Bank at 31 December 2004:**

<b>Name</b>	<b>Registered office</b>	<b>Number of shares in thousands</b>	<b>Share in registered capital %</b>
COIC (Citibank Overseas Investment Corporation)	USA	2,925	100

**22. PROVISIONS AND ADJUSTMENTS FOR POSSIBLE CREDIT LOSSES****(a) Provisions for possible credit and guarantee losses****CZK '000**

Balance at 1 January 2003	1,202,080
Created during the current year	-
Standard loans	-
Guarantees	-
Used during the current year	-
Release of provisions no longer considered necessary	(400,694)
<b>Balance of tax deductible provisions at 31 December 2003</b>	<b>801,386</b>
Balance at 1 January 2004	801,386
Created during the current year	-
Standard loans	-
Guarantees	-
Used during the current year	-
Release of provisions no longer considered necessary	(400,693)
<b>Balance of tax deductible provisions at 31 December 2004</b>	<b>400,693</b>

In addition to the above tax deductible provisions the Bank's total provisions of TCZK 402,193 (2003: TCZK 805,447) include tax non-deductible provisions of TCZK 1,500 as at 31 December 2004 (2003: TCZK 4,061).

**(b) Adjustments to classified receivables****CZK '000**

Balance at 1 January 2003	692,816
Created during the current year	742,854
Used during the current year	-
Release of adjustments no longer considered necessary	(876,556)
Foreign exchange gains/losses	9,945
<b>Balance of tax deductible adjustments at 31 December 2003</b>	<b>569,059</b>
Balance at 1 January 2004	569,059
Created during the current year	584,673
Used during the current year	-
Release of adjustments no longer considered necessary	(625,406)
Foreign exchange gains/losses	-
<b>Balance of tax deductible adjustments at 31 December 2004</b>	<b>528,326</b>
Balance at 1 January 2003	162,896
Created during the current year	89,926
Used during the current year	-
Release of adjustments no longer considered necessary	(192,232)
<b>Balance of tax non-deductible provisions at 31 December 2003</b>	<b>60,590</b>
Balance at 1 January 2004	60,590
Created during the current year	278,356
Used during the current year	-
Release of adjustments no longer considered necessary	(74,604)
<b>Balance of tax non-deductible provisions at 31 December 2004</b>	<b>264,342</b>
<b>Total adjustments to credit losses at 31 December 2004</b>	<b>792,668</b>

**23. RETAINED EARNINGS, RESERVE FUNDS AND OTHER FUNDS FROM PROFIT**

The Bank has allocated the 2003 profit and proposes to allocate the 2004 profit as follows:

<b>CZK '000</b>	<b>Retained earnings</b>	<b>Current year profit</b>	<b>Retained earnings total</b>	<b>Statutory reserve fund</b>	<b>Total</b>
Balance at 1 January 2004	1,874,947	946,920	2,821,867	319,540	3,141,407
Transfer to Legal reserve fund	-	(47,346)	(47,346)	47,346	-
Allocation of the 2003 profit	899,574	(899,574)	-	-	-
Current year profit	-	403,479	403,479	-	403,479
Dividends	-	-	-	-	-
<b>Balance at 31 December 2004 before allocation of the 2004 profit</b>	<b>2,774,521</b>	<b>403,479</b>	<b>3,178,000</b>	<b>366,886</b>	<b>3,544,886</b>

**Proposed allocation of the 2004 profit:**

Balance at 31 December 2004, before the proposed profit allocation	403,479
Transfer to reserve funds	(20,174)
<b>Transfer to retained earnings</b>	<b>383,305</b>

**24. INCOME TAX AND DEFERRED TAX ASSET / LIABILITY****(a) Current income tax**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Current year profit (loss) before tax	651,117	1,326,816
Items reducing the tax base	125,769	303,934
Items increasing the tax base	475,156	243,251
Tax base	1,000,502	1,266,133
Tax due	280,141	392,501
Tax allowances and credits	18	18,372
Tax after tax allowances and credits	280,123	374,129
Adjustment	(1,711)	(27,318)
Deferred tax - created/released (2004: 26%, 2003: 28%)	(30,774)	33,085
<b>Tax liability</b>	<b>247,638</b>	<b>379,896</b>

The adjustment comprises the difference between the tax calculated during the preparation of the financial statements and the tax calculated in the preparation of the tax return.

**(b) Deferred tax liability / asset**

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

CZK '000	2004	2003
<b>Deferred tax assets</b>		
Provisions and reserves	68,730	16,965
Tangible and intangible fixed assets	8,784	24,327
Other provisions	2,038	7,486
<b>Deferred tax asset / liability</b>	<b>79,552</b>	<b>48,778</b>

Based on the Bank's current and expected future level of taxable profits the Bank's management believes that it is highly probable that the Bank will fully utilize its deferred tax asset recorded as at 31 December 2004.

**25. OFF-BALANCE SHEET ITEMS****(a) Irrevocable contingent liabilities arising from acceptances and endorsements, other written contingent liabilities and assets pledged as collateral - assets**

CZK '000	2004	2003
<b>Banks</b>		
Guarantees and commitments	309,495	20,726
Letters of credit and financial guarantees	-	-
Assets pledged as collateral	-	-
Other contingent liabilities	-	-
	<b>309,495</b>	<b>20,726</b>
<b>Customers</b>		
Guarantees and commitments	44,497,479	41,558,879
Letters of credit and financial guarantees	-	-
Assets pledged as collateral	-	-
Other contingent liabilities	-	-
	<b>44,497,479</b>	<b>41,558,879</b>

**(b) Irrevocable contingent liabilities arising from acceptances and endorsements, other written contingent liabilities and assets pledged as collateral - liabilities**

CZK '000	2004	2003
<b>Banks</b>		
Guarantees and commitments	2,236,500	2,565,400
Letters of credit and financial guarantees	-	-
Assets pledged as collateral	9,844,782	8,368,152
Other contingent liabilities	-	-
	<b>12,081,282</b>	<b>10,933,552</b>

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
<b>Customers</b>		
Guarantees and commitments	441,979	294,273
Letters of credit and financial guarantees	-	-
Assets pledged as collateral	17,502,506	20,323,463
Other contingent liabilities	-	-
	<b>17,944,485</b>	<b>20,617,736</b>

**(c) Off-balance sheet financial instruments**

<b>CZK '000</b>	<b>Contractual amounts</b>		<b>Fair value</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Trading instruments</b>				
Spot FX contracts (purchase)	2,362,089	10,570,186		
Spot FX contracts (sale)	2,363,281	10,536,762		
Spot FX contracts			-	-
Spot interest rate swaps (purchase)	5,749	-		
Spot interest rate swaps (sale)	-	-		
Spot interest rate swaps			-	-
Forward FX contracts (purchase)	89,012,481	106,614,841		
Forward FX contracts (sale)	89,256,003	106,163,492		
Forward FX contracts			(164,147)	440,876
Interest rate swap contracts (purchase)	280,166,731	187,971,153		
Interest rate swap contracts (sale)	280,167,584	187,971,995		
Interest rate swap contracts			(62,723)	(91,781)
Interest rate forward contracts (purchase)	120,374,700	145,447,175		
Interest rate forward contracts (sale)	120,374,700	145,215,175		
Interest rate forward contracts			(7,242)	11,954
Cross currency swap contracts (purchase)	41,362,502	10,902,806		
Cross currency swap contracts (sale)	41,288,734	10,897,495		
Cross currency swap contracts			159,226	(1,142)
Interest and other option contracts (purchase)	8,010,269	828,000		
Interest and other option contracts (sale)	8,010,269	828,000		
Interest and other option contracts			-	-
Currency option contracts (purchase)	28,529,248	14,842,347		
Currency option contracts (sale)	28,529,248	14,842,347		
Currency option contracts			-	-
Commodity swaps (purchase)	19,927	-		
Commodity swaps (sale)	19,927	-		
Commodity swaps			-	-
Commodity option contracts (purchase)	211,685	-		
Commodity option contracts (sale)	211,685	-		
Commodity option contracts			-	-
Equity option contracts (purchase)	7,770	-		
Equity option contracts (sale)	7,770	-		
Equity option contracts			-	-

**(d) Residual maturity of financial derivatives**

The allocation of the nominal values of the individual types of financial derivatives according to their residual maturity is as follows:

CZK '000	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>At 31 December 2004</b>					
<b>Trading instruments</b>					
Spot FX contracts (purchase)	2,362,089	-	-	-	2,362,089
Spot FX contracts (sale)	2,363,281	-	-	-	2,363,281
Spot interest rate contracts (purchase)	5,749	-	-	-	5,749
Spot interest rate contracts (sale)	-	-	-	-	-
Forward FX contracts (purchase)	57,923,279	26,517,078	4,572,124	-	89,012,481
Forward FX contracts (sale)	57,855,245	26,643,370	4,757,388	-	89,256,003
Interest rate swap contracts (purchase)	7,501,388	36,637,913	159,188,088	76,839,342	280,166,731
Interest rate swap contracts (sale)	7,501,388	36,637,913	159,188,941	76,839,342	280,167,584
Interest rate forward contracts (purchase)	-	103,724,700	16,650,000	-	120,374,700
Interest rate forward contracts (sale)	-	103,724,700	16,650,000	-	120,374,700
Cross currency swap contracts (purchase)	-	3,086,429	36,586,037	1,690,036	41,362,502
Cross currency swap contracts (sale)	-	3,157,781	36,425,053	1,705,900	41,288,734
Interest and other option contracts (purchase)	396,472	332,000	7,281,797	-	8,010,269
Interest and other option contracts (sale)	396,472	332,000	7,281,797	-	8,010,269
Currency option contracts (purchase)	4,485,412	9,607,538	14,436,298	-	28,529,248
Currency option contracts (sale)	4,485,412	9,607,538	14,436,298	-	28,529,248
Commodity swaps (purchase)	19,927	-	-	-	19,927
Commodity swaps (sale)	19,927	-	-	-	19,927
Commodity option contracts (purchase)	165,837	45,848	-	-	211,685
Commodity option contracts (sale)	165,837	45,848	-	-	211,685
Equity option contracts (purchase)	-	-	7,770	-	7,770
Equity option contracts (sale)	-	-	7,770	-	7,770
<b>At 31 December 2003</b>					
<b>Trading instruments</b>					
Spot FX contracts (purchase)	10,570,186	-	-	-	10,570,186
Spot FX contracts (sale)	10,536,762	-	-	-	10,536,762
Forward FX contracts (purchase)	62,974,902	37,895,626	5,634,136	110,177	106,614,841
Forward FX contracts (sale)	62,487,300	37,938,016	5,629,359	108,817	106,163,492
Interest rate swap contracts (purchase)	16,288,380	23,080,020	103,365,306	45,237,447	187,971,153
Interest rate swap contracts (sale)	16,288,380	23,080,020	103,366,148	45,237,447	187,971,995
Interest rate forward contracts (purchase)	232,000	89,590,500	55,624,675	-	145,447,175
Interest rate forward contracts (sale)	-	89,590,500	55,624,675	-	145,215,175
Cross currency swap contracts (purchase)	-	170,065	9,510,804	1,221,937	10,902,806
Cross currency swap contracts (sale)	-	141,336	9,531,278	1,224,881	10,897,495
Interest and other option contracts (purchase)	-	400,000	428,000	-	828,000
Interest and other option contracts (sale)	-	400,000	428,000	-	828,000
Currency option contracts (purchase)	3,027,498	7,648,601	3,915,446	250,802	14,842,347
Currency option contracts (sale)	3,027,498	7,648,601	3,915,446	250,802	14,842,347

**26. VALUES TAKEN INTO CUSTODY, ADMINISTRATION AND DEPOSIT**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Values taken into administration		
Bonds	19,342,590	17,545,020
Shares	16,449,577	16,484,446
Investment units	1,033,623	665,210
Values taken into custody and deposits received	206,078	2,610,810
<b>Total</b>	<b>37,031,868</b>	<b>37,305,486</b>

As at 31 December 2004 and 2003 values taken into administration and management are recorded at their nominal value.

**27. VALUES PLACED INTO CUSTODY, ADMINISTRATION AND DEPOSIT**

The Bank did not place any values into administration or management as at 31 December 2004 (2003: TCZK 0).

**28. FINANCIAL INSTRUMENTS - MARKET RISK**

The Bank is exposed to market risks arising from open positions of transactions with interest rate, equity and currency instruments, which are sensitive to changes in financial market conditions.

**(a) Trading**

The Bank holds trading positions in various financial instruments including financial derivatives. The majority of the Bank's business activities are conducted based on the requirements of its customers. According to the estimated demand of its customers the Bank holds a certain supply of financial instruments and maintains access to the financial markets through the quoting of bid and offer prices and by trading with other market makers. These positions are also held for the purpose of speculation on the expected future development of financial markets. The Bank's business strategy is thus affected by speculative expectation and market creation and its goal is to maximize net income from trading.

The Bank manages the risks associated with its trading activities according to the level of individual risks and individual types of financial instruments. The basic instruments used for risk management are volume limits for individual transactions, stop loss limits and Value at Risk (VaR) limits. The quantitative methods applied to risk management are described in "Risk management" in Note 28 (b).

The majority of derivatives are contracted on the OTC market as a result of the non-existence of a public market for financial derivatives in the Czech Republic.

**Other non-trading activities**

The selected risks to which the Bank is exposed as a result of its non-trading activities, the management of the positions arising from these activities and the Bank's approach to the management of these risks is described below. More details about the procedures used by the Bank to measure and manage these risks are included in "Risk management" in Note 28 (b).

**Liquidity risk**

Liquidity risk arises from the type of financing of the Bank's activities and management of its positions. It includes both the risk that the Bank's will be unable to finance its assets using instruments with appropriate maturity and the risk that the Bank will be unable to dispose of its assets for the required price within an appropriate time period.

The Bank has access to diversified sources of funds, which comprise deposits and other savings, issued securities, loans accepted including subordinated loans and equity. This diversification makes the Bank flexible and limits its dependency on one financing source. The Bank regularly evaluates the liquidity risk, in particular by monitoring changes in the structure of financing and comparing these changes with the Bank's liquidity risk management strategy, which is approved by the Bank's board of directors. As part of its liquidity risk management strategy, the Bank also holds a proportion of its assets in highly liquid form, such as state treasury bills and similar bonds.

**Residual maturity of the Bank's assets and liabilities**

<b>CZK '000</b>	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Without specification</b>	<b>Total</b>
<b>At 31 December 2004</b>						
Cash in hand	2,213,628	-	-	-	-	2,213,628
State zero coupon bonds*	2,890,283	1,787,061	3,617,014	361,772	-	8,656,130
Receivables from banks	26,243,904	203,120	-	-	-	26,447,024
Receivables from customers	14,730,013	4,818,225	6,432,415	1,295,471	-	27,276,124
Debt securities	-	2,185	-	184,174	-	186,359
Shares, units and other investments	-	-	-	-	904	904
Participation interests	-	-	-	-	-	-
Tangible and intangible fixed assets	-	-	-	-	344,108	344,108
Other assets	108,557	98,415	-	-	10,489,755	10,696,727
Prepaid expenses and accrued income	69,410	-	-	-	-	69,410
<b>Total</b>	<b>46,255,795</b>	<b>6,909,006</b>	<b>10,049,429</b>	<b>1,841,417</b>	<b>10,834,767</b>	<b>75,890,414</b>
Payables to banks	4,625,126	101,991	-	-	-	4,727,117
Payables to customers	33,507,624	289,723	63,349	2,772	-	33,863,468
Payables from debt securities	13,769,209	5,018	140,791	132,792	-	14,047,810
Other liabilities	3,414,486	-	2,376	-	10,483,062	13,899,924
Accrued expenses and deferred income	574,345	27,081	2,264	-	-	603,690
Reserves	-	400,693	-	-	1,500	402,193
Subordinated debt	-	-	1,010,761	-	-	1,010,761
Capital	-	-	-	-	2,925,000	2,925,000
Share premium	-	-	-	-	865,565	865,565
Statutory reserve fund	-	-	-	-	366,886	366,886
Gains (losses) from revaluation	-	-	-	-	-	-
Retained earnings	-	-	-	-	2,774,521	2,774,521
Profit for the year	-	-	-	-	403,479	403,479
<b>Total</b>	<b>55,890,790</b>	<b>824,506</b>	<b>1,219,541</b>	<b>135,564</b>	<b>17,820,013</b>	<b>75,890,414</b>
<b>Gap</b>	<b>(9,634,995)</b>	<b>6,084,500</b>	<b>8,829,888</b>	<b>1,705,853</b>	<b>(6 985,246)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(9,634,995)</b>	<b>(3,550,495)</b>	<b>5,279,393</b>	<b>6,985,246</b>	<b>-</b>	<b>-</b>

\* These balances include other securities eligible for refinancing with the ČNB.

<b>CZK '000</b>	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Without specification</b>	<b>Total</b>
<b>At 31 December 2003</b>						
Cash in hand	1,372,067	-	-	-	-	1,372,067
State zero coupon bonds*	1,256,542	1,511,170	772,552	90,687	-	3,630,951
Receivables from banks	24,489,098	8,061	-	-	-	24,497,159
Receivables from customers	17,551,091	5,902,005	6,125,516	678,390	-	30,257,002
Debt securities	-	3,393	202,950	137,246	-	343,589
Shares, units and other investments	-	-	-	-	1,000	1,000
Participation interests	-	-	-	-	-	-
Tangible and intangible fixed assets	-	-	-	-	338,266	338,266
Other assets	329,802	12,475	-	-	9,107,418	9,449,695
Prepaid expenses and accrued income	53,214	-	-	-	-	53,214
<b>Total</b>	<b>45,051,814</b>	<b>7,437,104</b>	<b>7,101,018</b>	<b>906,323</b>	<b>9,446,684</b>	<b>69,942,943</b>
Due to banks	2,086,288	204,378	-	24,326	-	2,314,992
Due to customers	28,003,615	2,656,730	57,554	501	-	30,718,400
Payables from debt securities	15,986,770	-	-	255,561	-	16,242,331
Other liabilities	2,752,862	-	-	-	8,617,023	11,369,885
Accrued expenses and deferred income	345,103	-	-	-	56,890	401,993
Reserves	-	-	-	-	805,447	805,447
Subordinated debt	-	-	-	1,157,923	-	1,157,923
Capital	-	-	-	-	2,925,000	2,925,000
Share premium	-	-	-	-	865,565	865,565
Statutory reserve fund	-	-	-	-	319,540	319,540
Gains (losses) from revaluation	-	-	-	-	-	-
Retained earnings	-	-	-	-	1,874,947	1,874,947
Profit for the year	-	-	-	-	946,920	946,920
<b>Total</b>	<b>49,174,638</b>	<b>2,861,108</b>	<b>57,554</b>	<b>1,438,311</b>	<b>16,411,332</b>	<b>69,942,943</b>
<b>Gap</b>	<b>(4,122,824)</b>	<b>4,575,996</b>	<b>7,043,464</b>	<b>(531,988)</b>	<b>(6,964,648)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(4,122,824)</b>	<b>453,172</b>	<b>7,496,636</b>	<b>6,964,648</b>	<b>-</b>	<b>-</b>

\* These balances include other securities eligible for refinancing with the ČNB.

#### b) Risk management

Market risk is the risk of a change in a product portfolio value arising from changes in market conditions (i.e. changes in interest rates, exchange rates, changes in the prices of commodities and equity instruments and changes in volatility of market factors) that influence the value of the portfolio.

The Bank monitors market risk by modelling the result of a fixed change in the monitored market factor while keeping other factors constant. The potential change in the portfolio value is then defined depending on the current sensitivity of the opened position to the changes in the market factors.

The fixed changes in the market factors used by the Bank to monitor the market risk are:

- FX rate - 1% relative change in exchange rate,
- Interest rates - a simultaneous change at all points of the yield curve by 1 basis point (0.01%) for the trading portfolio and 100 basis points for the banking portfolio,
- Commodity price - 1% relative change in the commodity price,

- Equity instrument price - 1% relative change in the share price,
- Volatility of market factors - change in volatility of 10 basis points.

The Bank sets limits for the sensitivity of the individual portfolio value to the fixed changes in market factors. These limits are regularly reassessed.

### Interest rate risk

The interest rate risk is measured separately for the banking portfolio and the trading portfolio.

The interest rate risk of the banking portfolio is measured using a gap analysis. From the results of this analysis the value of the Interest Rate Exposure (IRE) is calculated. IRE shows the potential change in net interest income before taxation if interest rates for the monitored currency change by 100 basis points during the fixed period.

The measurement of the banking portfolio risk also uses the calculation of Total Return (TRT), which shows the change in value of a hypothetically immunified banking portfolio at current levels of interest rates. The Bank also carries out stress testing of the banking portfolio. This testing is performed using the same methodology as the IRE calculation, but using the change in interest rates defined for the purpose of the stress testing instead of a change of 100 basis points used to calculate the IRE.

The interest rate risk of the trading portfolio is measured by analysing the change in the value of the portfolio for a given modification of the yield curve. The Bank simulates changes to the yield curve of 1 basis point at particular points of the curve (1M, 2M, 3M, 6M, 9M, 12M, 18M, 2Y, 3Y, 4Y, 5Y, 7Y, 10Y, 15Y, 20Y, 30Y) with unchanged values of the yield curve at non-tested periods. Finally, the sensitivity of the portfolio present value as a result of an increase to the whole yield curve of 1 basis point is performed. A more complex view is obtained by calculating the Value at Risk (VaR). The Bank also carries out stress testing of the interest rate risk of the trading portfolio. These tests are based on the same methodology as VaR, but using the changes in interest rates defined for the purpose of stress testing instead of the changes in the market factors resulting from historical developments and mutual dependencies between them at a significance level determined by the Bank.

### Equity risk

The equity risk is the risk of a movement in the prices of equity instruments held in the Bank's portfolio and financial derivatives derived from these instruments. The main source of this risk is trading with equity instruments, although a certain amount of equity risk also arises from the non-trading activities of the Bank.

### Currency risk

The measurement of currency risk is based on the currency exposure in the individual currencies, defined as an aggregate of the net present value of balance sheet items including cash realised and the net present value of off-balance sheet items in the particular currency. The currency exposure calculated for individual currencies is subject to the simulation of a standardised change in the currency rate in comparison with the functional currency (appreciation of the currency monitored) and the value of the currency exposure at the new level of the currency rate is calculated. The difference between the calculated values represents the potential change in the value of the portfolio in a particular currency and is compared with the limit. The limits are usually symmetrical, i.e. limiting the maximum long and short position to the same extent. A more comprehensive approach is provided by the calculation of VaR. The Bank also carries out stress testing of the currency risk while adhering to the same methodology as in the calculation of VaR, but the movement in market factors based on the historical developments and mutual dependencies between them at a determined significance level is replaced with the movement in currency rates defined for stress testing purposes.

The Bank has set currency risk limits based on its net currency exposure in individual currencies and with respect to the total currency exposure. The limits for various currencies may differ from currencies within the same convertibility rate.

### Value at Risk

Value at Risk represents a statistical estimate of the potential loss from an unfavourable market development within a certain time period and at a certain significance level. The Bank determines Value at Risk using the stochastic simulation of a large number of potential developments in the financial markets. The Value at Risk is measured based on a one-day holding period and a confidence level of 99%.

The Value at Risk related to the individual types of risks and currencies was as follows:

CZK '000	31 December	Average 31 December		Average
	2004	2004	2003	2003
VaR of interest instruments	16,461	11,425	9,543	10,488
VaR of currency instruments	13,598	7,876	8,876	6,465

At 31 December 2004 the total VaR for all market risks amounted to TCZK 21,180 (2003: TCZK 13,468), which is lower than the aggregate of the VaR values for the individual risks due to the correlation between individual risks.

### Stress testing

The Bank carries out regular stress testing of interest rate, currency and liquidity risks by applying internally defined scenarios and simulates their impact on the Bank's results of operations and liquidity situation. The Bank has set the limits for these stress scenarios, which constitute a part of the Bank's risk management process.

#### 1. Liquidity stress scenarios

- One-week malfunction of the CNB clearing center
- Citigroup rating decrease
- Local market depression

#### 2. Stress scenarios for market factors

- Scenarios "Yellow light", "Orange light" and "Red light" are prepared in accordance with the document for crisis management "The Czech Republic Scenario Plan" and describe different levels of economic deterioration.

## 29. FINANCIAL INSTRUMENTS - CREDIT RISK

The Bank is exposed to credit risk as a result of its trading activities, providing loans, hedging transactions, investment and mediation activities.

The credit risks associated with trading and investment activities are managed using the methods and instruments used to manage the Bank's market risks.

**(a) Classification of receivables**

The Bank has approved special procedures for all aspects of the receivables classification process. All account managers and credit department employees are obliged to suggest classification of any credit that demonstrates a worsening of the client's situation. These indicators may appear long before real problems with the loan settlement. The most frequent typical indicators are:

- Lower profitability or loss
- Decrease in sales or loss of market share
- Higher indebtedness

The Bank classifies receivables into individual categories in accordance with the ČNB decree No. 9 on assessment of financial receivables and creation of provisions and reserves and the rules for acquiring certain types of assets issued on 6 November 2002, as amended by ČNB decree No. 5/2003 bulletin ČNB.

The classification in compliance with ČNB decree is as follows:

*Standard receivables*

Complete repayment of the receivables is certain. Receivables are repaid within their due dates or are not overdue for more than 30 days from the contractual date of maturity. No receivable has been restructured in the last 2 years due to a worsening of the financial position of the client.

*Special mentioned receivables*

Complete repayment of the receivables is probable based on the financial and economic situation of the client. Receivables are overdue for more than 30 days but less than 90 days from the contractual date of maturity. No receivable has been restructured in the last 6 months due to a worsening of the financial position of the client.

*Substandard receivables*

Complete repayment of the receivables is uncertain, but partial repayment is probable, based on the financial and economic situation of the client. Receivables are overdue for more than 90 days but less than 181 days from the contractual date of maturity.

*Doubtful receivables*

Complete repayment of the receivables is highly unlikely, but partial repayment is possible. Receivables are not paid within their due dates and are overdue more than 180 days but less than 361 days from the contractual date of maturity.

*Loss receivables*

Complete repayment of the receivables is impossible due to the financial and economic situation of the client. Receivables are overdue for more than 361 days from the contractual date of maturity.

The Bank assigns a higher risk rating to a receivable where it assumes, based on any circumstances, a higher loss than allowable according to its classification under the criteria stipulated in the Czech National Bank decree. In assessing receivables the Bank also takes into account whether the notification duty is fulfilled on the part of the debtor, the internal rating system of receivables set by the parent company and other external economic and political factors and conditions that can influence the quality of the receivable.

In respect of retail clients the Bank evaluates the possible decrease in the balance sheet value of receivables on the portfolio basis.

The Bank always recognises classified receivables in the relevant accounts in their total amount that has not yet been repaid. It can also classify all other receivables from the same client into the same rating category even if they are not yet due if the instalments appear to be jeopardised based on the current assessment of the debtor and/or they are not secured by adequate collateral and/or guarantee.

In addition, the Bank uses the internal rating system for receivables set by the parent company. This system evaluates the quality of the management, market position of the debtor, economic environment, structure of collaterals and financial indicators (e.g. the balance sheet structure, operational cash flow, productivity, etc.). The internal classification is applied if it is more prudent than the classification according to the ČNB decree.

#### **(b) Evaluation of collateral**

Before signing a credit contract the Bank generally assesses the quality and adequacy of the collateral. In some cases the Bank cooperates on the appraisal of collateral with external experts.

The type and amount of the collateral is set during the approval process of the transaction. For collateral the Bank accepts cash, traded securities, movable assets and equipment, guarantees, trade receivables and real estate located in geographical areas acceptable to the Bank.

All collateral must be available in the amount and state specified in the approved credit application and before the money is transferred to the client.

The collateral is re-appraised regularly in accordance with the Bank's internal policies, usually once a year or once every two years.

The solvency of retail banking clients is assessed but the Bank does not require any type of collateral for this area of banking activities.

#### **(c) Calculation of adjustments**

In compliance with ČNB decree No. 9/2002 Coll., as amended by ČNB decree No. 5 issued on 18 December 2003, the Bank calculates adjustments to receivables by multiplying the difference between the principal increased by accrued interest and the net realizable value of the collateral by a coefficient of:

Special mentioned	0.01
Sub-standard	0.20
Doubtful	0.50
Loss	1.00

If the accrual principal is applied to a sub-standard, doubtful or loss receivable, the Bank calculates the adjustment based on the principal without accrued interest and the calculated adjustment is then increased by the amount of the accrued interest.

If it is expected that the expected loss from the special mentioned, sub-standard or doubtful receivables will be higher than the adjustment as calculated above, the Bank increases the coefficient to 0,20 for special mentioned receivables, 0,50 for sub-standard receivables and 1,00 for doubtful receivables.

Adjustments are calculated for individual receivables with the exception of receivables from retail clients. These have been considered on a portfolio basis since 2003 and adjustments are not allocated to individual receivables.

**(d) Credit risk measurement models***Corporate portfolio*

The Bank has a prepared credit risk management strategy. This strategy is mandatory and is included in the regulations of the Bank. Apart from the document that sets the general principles of credit policy, authorization and approval responsibilities, rules for increases in credit lines, rules for management of classified receivables, risk ratings, qualification requirements for responsible credit department employees, standards for credit documentation, portfolio management and information provided to the management of the Bank, the Bank also prepares a specific plan for credit risk management for the Czech Republic once a year.

There are specific target segments set for the biggest companies in the local market to ensure an acceptable risk profile for the Bank. Credit products are offered and approved with different amounts of credit lines and with different maturities to reflect the differences in the clients' profiles. In addition the Bank decreases the credit risk of these clients by defining target industrial sectors and by setting limits for credits granted to individual industrial sectors. The Bank also sets limits for the credit exposure of various categories of products in respect of the maturity. For global clients, i.e. multinational companies, the assessment of credit risk must also be considered by the Citigroup branch in the parent company's country. All clients and all credit lines are subject to a risk rating (rating of client's risk and risk rating of the credit line).

For small and medium-size companies strict rules for identification of target segments and choice of acceptable clients are set and maximum limits for credit lines are approved depending on the creditworthiness of the clients. Just as for the big companies, the Bank sets limits for the exposure to individual industrial sectors and carries out risk rating of small and medium-size companies.

Credit risk from the geographical point of view is managed through cross-border risk limits. To ensure compliance with the regulation governing credit exposure included in the provision on capital adequacy the Bank also monitors its credit exposure to economically connected entities.

All limits are regularly reassessed by the management of the Bank (at least once a year). Stress testing is used to test the limits for the credit portfolio as well as for the individual credits.

Approval of limits, systems and methods used for the valuation of collateral, measurement and monitoring of credit risk, use of funds and creation of management information in respect of credit risk are carried out independently in the sales departments of the Bank.

*Retail portfolio*

Within the retail banking the Bank has set a limit for retail bank risk by defining a target market. The limits are based on criteria such as age, income, duration of employment of the client etc. Due to the short history of retail banking in Czech Republic the Bank does not risk rate its clients. Management of the retail portfolio risk is therefore the result of summary performance statistics rather than individual transactions analysis. Many management information systems have been developed to ensure sufficient data for an effective analysis of the quality of the consumer credits portfolio.

Citibank grants only unsecured loans to its small clients. These include credit cards and consumer loans (no defined purpose) loans.

The receivables are classified based on when they fall due or based on the number of instalments due. The structure of receivables with different due dates, as well as transfers of receivables to different classification categories are monitored in the portfolio on a monthly basis. If there are any changes to the classification of the portfolio resulting in a higher number of receivables with longer due dates or an increased transfer of receivables on a monthly basis, the causes are analysed in detail. The analyses usually result in changes in the approval criteria or changes to the documentation requested from clients.

**(e) Concentration of credit risk**

The concentration of credit risks arises from the existence of loans with similar economic characteristics influencing the debtor's ability to meet its obligations. The Bank has created a system of internal limits for individual countries, industries and debtors in order to prevent a significant concentration of credit risks. At the balance sheet date the Bank did not have any significant concentration of credit risks with respect to any individual debtor.

**(f) Recovery of debtors' receivables***Corporate portfolio*

The Bank has established a special department (Recovery management unit) that manages certain receivables, the recovery of which is at risk. This department carries out the restructuring of receivables and undertakes the necessary legal steps, in order to ensure maximum recovery of the receivable including, if necessary, realization of the debt collateral. The department also represents the Bank on creditors' committees, in the event of bankruptcy being imposed on a debtor.

*Retail portfolio*

All receivables overdue are managed by the receivable administration department. The standard tools include:

- Contact by telephone
- Reminder letters
- Personal visits
- Seizures of property or court enforcement

If a client fails to pay five successive instalments in respect of a consumer loan or seven successive instalments in respect of a credit card, the resulting receivable is written off. The receivable administration department continues the recovery process and the respective instalments are charged to revenues.

As at 31 December 2004, a receivable overdue was recorded in respect of less than 5% of clients, even if this concerned one instalment.

**(g) Quality of credit portfolio**

As at 31 December 2004 the classified receivables amounted to 26% of all receivables from clients (Note 9 (a)).

*Sector analysis*

The analysis of concentration of credit risks according to individual industries / sectors is included in Note 9 (b).

**Analysis by geographical areas**

<b>CZK '000</b>	<b>2004</b>	<b>2003</b>
Czech Republic	69,971,555	70,631,770
Germany	120,294	101,618
Other	2,474,388	1,712,142
<b>Total</b>	<b>72,566,237</b>	<b>72,445,530</b>

The balances are in gross amounts (balance sheet and off-balance sheet) and concern non-bank clients.

### **30. OPERATIONAL, LEGAL AND OTHER RISKS**

Operational risk is the risk of a loss resulting from incorrectly or insufficiently set up internal processes, or from errors caused by systems, persons or external factors.

The Bank has already defined its operational risks in order to assess the testing of internal controls ("self assessment"). A process of regular evaluation of the controlling mechanisms has been implemented to limit these risks. Local and regional management is informed about operational risks through quarterly reports, which also include an assessment of losses. Tests of the internal controls within a department include an evaluation and a reappraisal of key risk indicators. Supervision of risks, trends and adopted precautions is ensured by the Board for Operational Risks. Some relevant provisions are at the same time recorded in emergency plans.

Legal risks related to financial services provided by the Bank consist in particular of the need to ensure complete and proper documentation of individual transactions and contingent hedging instruments. Furthermore, it is necessary to ensure the full conformity of all the Banks' activities with mandatory legal provisions and recovery of the Bank's rights in the event that debtors do not follow them.

The legal risks related to the Bank's activities are evaluated by the legal department, which employs qualified lawyers experienced in particular banking areas. For some more extensive and especially more serious legal issues, renowned law firms are hired. The legal department approves all documentation used by the Bank. All relevant changes in legal regulations are monitored by the legal department and if necessary applied to contractual documentation used by the Bank and reflected in the Bank's activities. All litigations are managed and monitored either by the legal department or by the department responsible for debt recovery depending on the kind of the debtor.

### **31. MATERIAL SUBSEQUENT EVENTS**

No material events occurred after the balance sheet date.

## Report by the Board of Directors of the company Citibank a.s. on Relations Between Related Persons for 2004 per provision of §66a of Act No. 513/1991, Coll., as amended

The Board of Directors as a statutory body of the company Citibank a.s., having its registered office at Evropská 178, 166 40 Praha 6, Reg. No.: 16190891, registered in the commercial register kept with the Municipal Court in Prague, Section B, Insert 786 ("Company") hereby presents the following Report on relations between the controlling person and the controlled person and, on relations between the controlled person and other persons controlled by the same controlling person ("Related Persons").

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Controlling Person: Citibank Overseas Investment Corporation, having its registered place of business at New Castle Corporate Commons, One Penn's Way, New Castle, Delaware, U.S.A.

Related Persons: CitiLeasing, s.r.o., having its registered office at Evropská 178, 166 60 Praha 6, Reg. No.: 25073117;  
Citicorp investiční společnost, a.s. in liquidation, having its registered office at Evropská 178, 166 70 Praha 6, Reg. No.: 25601415

### 1. LIST OF AGREEMENTS ENTERED INTO BETWEEN THE RELATED PERSONS

- Cost Sharing Agreement (Smlouva o sdílení nákladů) dated April 22, 2004 entered into between the Company and CitiLeasing, s.r.o., the subject matter of which Agreement is sharing of costs between the Parties thereto under the shared function referred to therein;
- Subordinated Credit Facility Agreement (Smlouva o podřízeném dluhu) entered into on December 22, 1995 between the Company and Citibank Overseas Investment Corporation, the subject matter of which Agreement is the extension of a loan to the Company;
- FX and derivatives trading concluded between the Company and CitiLeasing, s.r.o.;
- Composite Facility Agreement (Smlouva o úvěrových produktech) dated December 1, 2003 entered into between the Company and CitiLeasing, s.r.o., under which agreement the company CitiLeasing, s.r.o. may drawdown a credit extended to it by the Company in the form of money market short term loans with a tenor of up to 48 months and, also, in the form of a current account overdraft payable to the Company on demand;
- Current Account Agreements entered into between CitiLeasing, s.r.o. and the Company and, related to current accounts A/C Nos.: 2015000205 (CZK), 2015000803 (EUR), 2015000408 (USD), 2015001400 (CZK);
- Current Account Agreements entered into between Citicorp investiční společnost, a.s. in liquidation and the Company and, related to current accounts A/C Nos.: 4010140101 (CZK) and 4010140603 (CZK).

## **2. OTHER LEGAL ACTS/THINGS CARRIED OUT BY THE COMPANY IN THE RELATED PERSONS' INTERESTS**

- payment of costs incurred in connection with training of employees of the Related Persons at the Istanbul-based training facility; the payable amount was re-invoiced to the Related Persons who paid it in full

## **3. OTHER MEASURES CARRIED OUT BY THE COMPANY IN THE RELATED PERSONS' INTERESTS OR, ADOPTED BY THE COMPANY AT THE SUGGESTION OF THE RELATED PERSONS**

- none

It is hereby confirmed by the Company's statutory body that no damage has been incurred by the Company under the above mentioned agreements, other legal acts/things and measures.

A view is held by the Company's statutory body that pecuniary supplies (payments) provided under the above relationships existing between the Related Persons were made at customary amount.

It is further acknowledged by the Company's statutory body that (i) no harm/damage has been incurred by the Company in any manner through acting by the controlling person or the related person, (ii) no detriment to or property-related benefit for came into existence for the Company under contractual or other relationships held with the Related Persons and, (iii) mutual transactions effected between the Related Persons were made under customary market conditions.

Given in Prague, on March 31, 2005



**Farhan Faruqui**

Member of the Board, Citibank a.s.

## Regional Representations

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### **Praha**

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**Affiliates**

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*CitiLeasing, s.r.o.*

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166 60 Praha 6

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Section B, Insert 4893

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