



Investiční kapitálová společnost KB, a.s.  
[Annual Report 2004](#)



**KB**

**Investiční kapitálová  
společnost**



**My Capital.**

**My Investment.**



> The main mission of the Company is the management and running of mutual, investment and pension funds. In view of the managed property of CZK 36.7 billion at year-end 2004, IKS KB ranks among the traditionally largest and most significant investment companies in the Czech Republic.



Investiční kapitálová společnost KB, a.s. was in 2004 given international rating A/czAa-level.





Operation within the framework of the strong group of Société Générale has contributed to reinforcing the standing of Komerční banka and its subsidiaries in the market place. This has also boosted efforts for sustained increase in the quality of the products and services offered alongside with the gradual expansion of their range.



# Bank of the Year 2004

We are the subsidiary of Komerční banka, a.s., which has in the third year of prestigious contest MasterCard Bank of the year, won the highest prize – Bank of the year 2004.





Our clients know  
that we really stand behind them.



The purchase and redemption of participation certificates is being ensured for IKS KB by over 335 branch offices of Komerční banka within the framework of its distribution network in the Czech Republic.



Two toll-free information lines are available for consultation and advice on investing, as well as KB branch office employees or a network of external agents.



Company Profile	[006 — 007]	Financial Highlights	[008 — 009]
Foreword of the Chairman of the Board	[010 — 011]	Report of the Board of Directors	[012 — 017]
Statutory Bodies and Organisation Structure of the Company	[018 — 022]	Strategy	12
		Major Events in 2004	13
		Market Development in 2004	14
		Company Product Range	16
		Communication Strategy and Cooperation within the KB Financial Group in 2004	17
		Comments on the Financial Results of the Company	17
Board of Directors	19		
Supervisory Board	21		
Organisational Chart	22		



Last year, IKS fund shareholders, who at the same time use the direct banking channels of Komerční banka, were enabled to start manage their investments via PC or by phone thanks to the services of Mojebanka internet banking and the phone banking of Expresní linka plus.

Ownership Structure	[023 — 023]	Funds under Management	[024 — 041]
Report of the Supervisory Board	[042 — 042]	Auditor’s Report for Shareholders of Investiční kapitálová společnost KB, a.s.	[043 — 043]
Sworn Statement	[044 — 044]	Financial Section	[045 — 252]
Report on Relations Among Related Entities	[253 — 256]	Investiční kapitálová společnost KB, a.s.	47
		IKS Peněžní trh	69
		IKS Dluhopisový	91
		IKS Plus bondový	113
		IKS Global konzervativní	137
		IKS Balancovaný	161
		IKS Fond fondů	181
		IKS Fond světových indexů	199
		MAX – světový garantovaný fond	217
		MAX – světový zajištěný fond 2	235

# Company Profile

Investiční kapitálová společnost KB, a.s., (hereinafter referred to as “Investiční kapitálová společnost KB” or “IKS KB”) was established on May 1, 1994 as a 100% subsidiary of Komerční banka, a.s. (hereinafter referred to as “Komerční banka” or “KB”) with registered capital of CZK 50 million. The main mission of the Company is the management and running of mutual, investment and pension funds. In view of the managed property of CZK 36.7 billion at year-end 2004, IKS KB ranks among the traditionally largest and most significant investment companies in the Czech Republic.

Following the incorporation of Komerční banka in the Société Générale (SG) group in October 2001, IKS KB became part of a financial group ranking among the largest and also the most profitable in Europe. The SG group offers over 15 million clients in its 3,100 branches all over the world services of topmost quality and comprehensive financial services including small-scale banking, administration of assets, personal banking, and company and investment banking. Operation within the framework of the strong group of Société Générale has contributed to reinforcing the standing of Komerční banka and its subsidiaries in the market place. This has also boosted efforts for sustained increase in the quality of the products and services offered alongside with the gradual expansion of their range.

In 2004, IKS KB managed property through ten open-end funds. The basic product range comprises of the following funds: IKS Peněžní trh, IKS Dluhopisový, IKS Plus bondový, IKS Global konzervativní, IKS Balancovaný, IKS Fond fondů and IKS Fond světových indexů. In February 2004, the termination of the IKS Dividendový fund came into force. The fund was established in 2002 and was primarily company-oriented. In the second half of 2004, IKS KB launched a new line of structured MAX funds: MAX – světový garantovaný fond and MAX – světový zajištěný fond 2. Investiční kapitálová společnost KB also manages the portfolio of the Pension fund of Komerční banka (hereinafter referred to as “PF KB a.s.”).





IKS KB is a founding member of the Union of Investment Companies in the Czech Republic where it shares in the leadership of the Union.



The purchase and redemption of participation certificates is being ensured for IKS KB by over 335 branch offices of Komerční banka within the framework of its distribution network in the Czech Republic. One may also invest in the open-end funds managed by IKS KB the channel of direct banking – the Mojebanka Internet product and the Expresní linka plus phone line, provided clients use the services of the call center of Komerční banka. Two toll-free information lines are available for consultation and advice on investing, as well as KB branch office employees or a network of external agents.

IKS KB is a founding member of the Union of Investment Companies in the Czech Republic where it shares in the leadership of the Union. It is the goal of IKS KB to continue holding the position of one of the largest investment companies in the Czech Republic in the future too. Part and parcel of that endeavor is the emphasis, which Investiční kapitálová společnost KB, a.s. places on the policy of open information and the transparent orientation towards the standards applied by investment companies of developed market economies.

# Financial Highlights

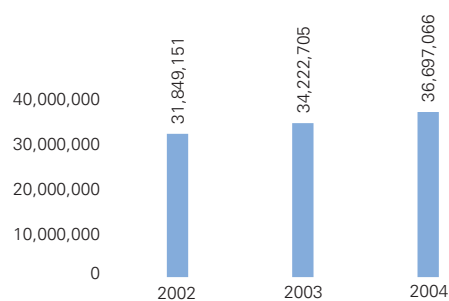
	Unit	2004	2003	2002
Total Assets – Company	CZK thousand	327,364	376,606	336,273
Registered Capital	CZK thousand	50,000	50,000	50,000
Owners' Equity (for IKS KB, a.s.)	CZK thousand	228,621	319,232	246,623
Assets Under Management				
(including PF KB a.s.)	CZK thousand	36,697,066	34,222,705	31,849,151
Profit/Loss before tax	CZK thousand	134,516	107,941	119,111
Profit after tax	CZK thousand	97,683	74,046	78,706
Market Share within UNIS				
(excluding PF KB a.s.)	%	25.6	23.3	22.3
Volume of Transactions				
(excluding PF KB a.s.)	CZK thousand	15,884,808	32,542,939	19,181,764
Number of Clients	Persons	172,248	176,452	180,859
Number of Funds Under Management	Pieces	9	8	8
Number of Employees				
(average payroll number)	Persons	42	41	41
Rating (CRA Rating Agency)		A/czAa	A/czAa	Baa+/czAa



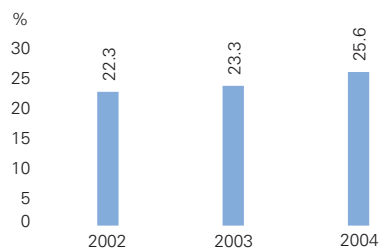
At the end of 2004, IKS KB was managing CZK 36.7 billion within the framework of nine open-end funds and the portfolio of the Pension fund of Komerční banka. In 2004, the sales of shares of the funds managed by IKS KB reached CZK 7.5 billion.



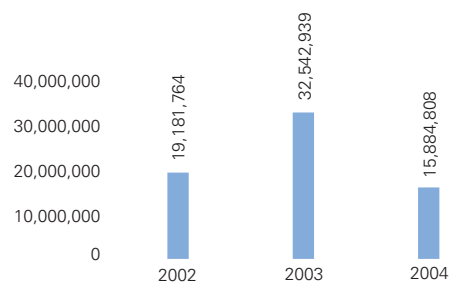
Assets Under Management  
including PF KB a.s. (CZK thousand)



Market Share within UNIS  
excluding PF KB a.s. (%)



Volume of Transactions  
excluding PF KB a.s. (CZK thousand)



# Foreword of the Chairman of the Board



Last year, while American and West European stock markets were facing difficulties attaining a growth trend, the Central European region – the Czech Republic included – experienced point-blank growth and accomplished salient stock exchange performance.

Ladies and gentlemen,

On behalf of the Board of Directors of Investiční kapitálová společnost KB, a.s., I hereby submit to you the Annual Report for the year 2004.

Last year was in many respects significant for the Czech Republic, but above all in view of this country's accession to the European Union in May of 2004, thus adding a symbolic star to the flag of the European Union through our membership in it. This fact has had a distinct impact on the collective investment market in the Czech Republic with this country's closest approximation to the legislative standards applied in the member states of the European Union.

Although the new Act on Collective Investment was endorsed at the last moment as it were, and though it could have been yet more progressive, one may state that both investors and investment companies welcomed the Act itself. A fundamental legislative change, which came into being last year, was the reduction of the tax rate, which investment funds had had to pay for their profit, i.e. from 15% down to 5%.



The introduction of the so-called European passport, which will undoubtedly contribute to the development of Czech collective investment, may also be earmarked among the changes, which will simplify putting foreign funds on the Czech market as well as expanding investment possibilities for funds and setting up special types of funds. Within the framework of this context I would like to emphasize that Investiční kapitálová společnost KB, a.s. fully utilized the newly arisen possibilities and launched two secured, respectively guaranteed funds in the course of the second half of 2004.

Both world guaranteed funds attracted investments amounting to some CZK 1.4 billion in the course of the Offer Period. This is supposed to be the fastest growing part of the Czech collective investment market. This Company has thus continued targeting the investment needs of retail clients and Czech investors favoring conservative tools and has been offering them an alternative option of safe valuation of their excess financial means through those funds.

Last year, while American and West European stock markets were facing difficulties attaining a growth trend, the Central European region – the Czech Republic included – experienced point-blank growth and accomplished salient stock exchange performance. The Czech collective investment market, however, was coming off a loser in the first half of the year.

Consequently, in the course of last year, a marked outflow of financial means from bond funds took place on the Czech market. Taking into consideration, however, that last year saw the winding up of institutional client redemptions, the overall influx of around CZK 25 billion into Czech and foreign funds offered in the Czech Republic is not a bad accomplishment.

The year-on-year investment volume in the Czech fund industry grew by around CZK 15 billion.

At the end of 2004, the overall value of assets under management in Czech and foreign funds reached some CZK 170 billion. In 2004, Investiční kapitálová společnost KB, a.s. affirmed its leading position on the market as the third largest investment company with a total of CZK 36.7 billion worth of assets under management in nine open-end funds and the portfolio of the PF KB a.s.

I would also like to mention that last year we promoted investor interest in equity funds as an alternative and safe means of money valuation, and as a further pillar of old age provision. As I have already indicated, Investiční kapitálová společnost KB, a.s. has been managing the portfolio of the PF KB a.s. whose efficiency traditionally ranks among the best.

In the course of 2004 Investiční kapitálová společnost KB, a.s. continued to step up its efforts in further bettering the services provided to the Company's clients – be it more favorable valuation of investors' property, share booking or the possibility to manage client investments through the direct banking channels of KB – Mojebanka and Expresní linka plus.

In conclusion, please allow me to express our thanks to the Company's entire staff for the work done with utmost responsibility and professionalism.

Our every effort, however, would not have gone over big without the partnership, assistance and support provided by the parent Komerční banka, which runs a widespread and quality distribution network, or without our traditional partner, i.e. the SGAM investment company, which ranks among the largest asset managers in the world.

The very fact that Investiční kapitálová společnost KB, a.s. belongs to the Société Générale financial group, which has long-standing experience in collective investment worldwide, is, in my view, more than a vow for the further success of our activities.

**Pavel Pršala**  
Chairman of the Board of Directors  
and CEO

# Report of the Board of Directors

## Strategy

One of the primary goals and aims is the sphere of products. IKS KB set itself the target of launching several new products in 2005, above all the followup to the successful line of secured, respectively guaranteed MAX funds enriched by these products denominated in foreign currency, i.e. USD and EUR. Secured, respectively guaranteed funds have become pretty popular with Czech investors for their conservative character providing the possibility to reach the potential of equity market yield and have been sought after quite much by clients of the KB financial group.

In 2005 as well we assume that retail investors will show an affirmative approach to open-end funds thus bringing along an influx of new investments. Therefore, the new products to be brought out of the IKS KB workshop in 2005 represent the completely new Fenix funds of funds, which are meant for retail clients.

Further close cooperation with Komerční banka and the entire SG financial group, above all with Société Générale Asset Management, will proceed exactly in the development of new products.

IKS KB has been putting maximum effort in maintaining and improving its position on the Czech collective investment market both in the fields of fund management and provision of quality services to its clients. IKS KB has been doing its best to approximate the field of collective investment to the public at large so that even citizens with minimal knowledge of financial markets could value their financial means in the best possible way.

In 2005 the grace period, within which investment companies must bring the funds under management set up prior to EU accession in line with legislation. Thus, the strategic goal for IKS KB is to carry out adjustments in all its funds in order to attain harmonization with the new Act on Collective Investment.

On 11 May 2005 Komerční banka, a.s. and Société Générale Asset Management S.A. announced the sale of IKS KB, 100% subsidiary of KB, to SGAM.





The second half of 2004 was characterized by the very successful subscription for the new IKS line of MAX funds.



## Major Events in 2004

In 2004 as well, Investiční kapitálová společnost KB received evaluation from the independent CRA Rating Agency. Investiční kapitálová společnost KB, a.s. was given – just like in 2003 – international A-level rating with the local rating being confirmed at czAa-level.

The most significant change in 2004 was lowering fund taxation from 15% down to 5% with the change having a positive impact on fund performance.

Another substantial change was brought in by the new statutes, which the Czech Securities Commission endorsed at the beginning of 2004 for the IKS Plus bondový and the IKS Balancovaný funds.

The most profound change among IKS funds came into being as regards the IKS Globální fund, where not only the name changed to IKS Global konzervativní, but the investment strategy of that fund also changed. Presently, the Fund is meant for conservative investors who would like to invest to a lesser extent in equity markets too.

The biggest change took place in the field of redemption fees. The IKS Plus bondový, IKS Balancovaný and the IKS Global konzervativní funds lowered their redemption fees down to zero.

The second half of 2004 was characterized by the very successful subscription for the new IKS line of MAX funds – secured, respectively guaranteed investment products, which enable investors to include in their portfolios equities of various world markets without risking nominal loss. Both MAX funds, which were launched last year, attracted investments amounting to CZK 1.4 billion.

The Company's Board of Directors has decided to extend the deadline for exchange of shares in the form of document for booked shares to the end of June 2005. Starting the fall of 2003, all newly issued shares, which have at the same time been kept track of on the individual accounts of shareholders at the Securities Center, have been issued in the form of booked shares. This has profoundly increased the convenience of providing services to IKS KB shareholders and the possibilities for disposing of investments.

Last year, IKS fund shareholders, who at the same time use the direct banking channels of Komerční banka, were enabled to start manage their investments via PC or by phone thanks to the services of Mojebanka internet banking and the phone banking of Expresní linka plus.

## Market Development in 2004

Last year saw the continuation of world economy revival, which was creating a favorable framework for Czech economy too. US economy grew by 4.4% as against a 3% growth in 2003. EU economy growth was half that figure on average. In 2004 the Czech Republic stepped up its growth rate and reached its best result over the past four years of growth. Real GDP (that is GDP reduced by the inflation growth and the exchange rate fluctuations in foreign trade) increased by 4%. Economic growth was boosted most of all by investments, particularly foreign investment and export growth. The Czech Republic's accession to EU cleared away the last administrative obstacles and significantly helped foreign trade. Consumer demand, which was the decisive growth factor in 2003, was, on the contrary, stifled. Consumer prices increased on average by 2.8%. The rate of their growth was the fastest since 2001. That was caused by tax increase and growth in costs, above all that of fuels. Nonetheless, accession to the EU did not mean a substantial price level increase unlike some pessimistic forecasts.

There was profound growth in industrial output, which increased from 5.8% in 2003 to 9.9% in 2004. Most industrial branches did well and growth was influenced both by the 9.8% increase in sales, particularly direct import sales, which rose by the incredible 17%, and also by growth in labor productivity, which increased by 10.4% as against the year 2003. A significant share in the growth of industrial output had the opening of a number of new industrial capacities by foreign investors. The boom in the world steel and iron markets helped the industrial branch of raw materials production and mining.

Direct foreign investment in the Czech Republic rose from CZK 59 billion in 2003 to CZK 114.7 billion in 2004, which represented a 3.7% share in GDP. More than half of that amount, however, represented reinvested profit. The current account deficit of the balance of payments dropped over a year by CZK 17.4 billion to CZK 143 billion and its GDP share expressed in current prices according to Czech National Bank figures dropped year-on-year by 1% to 5.2% toward the end of the 2004. The year-on-year trade balance deficit went from CZK 69.4 billion down to CZK 20.6 billion.

In spite of the overall economic growth, unemployment failed to be reduced with the rate of unemployment at year-end staying at the level of 2003, i.e. 10.3%.

The overall growth of world economy made possible the continuing growth of stock markets. US stock market prices grew over a year by some 9%, measured by the S&P 500 index whereas prices of technological titles rose by 10.5% within the Nasdaq index. European stocks followed the lead in the growth of American markets though at a lower overall rate, e.g. the Eurotop index grew year-on-year by 6.46% and the German DAX-30 index by 7.4%. The favorable development of stock prices, however, did not show in the investments of Czech investors, equity funds included, as the strengthening Czech crown significantly depreciated their yields. The mentioned stock price increase was roughly one-half to one-third of the growth for the year 2003. The oil price increase and the end of the period of extremely low interest rates mostly influenced this slowdown when the year-end US prime rate reached 2.25% after the last increase.



In 2004 the Czech Republic stepped up its growth rate and reached its best result over the past four years of growth. Real GDP increased by 4%.





On the contrary, as compared to the year 2003, the stock price increase stepped up on Central European markets, which significantly surpassed the advancement of developed markets. Aggregated stock indexes rose by tens of percent with Czech and Hungarian indexes increasing by over 55%. Thus, the Prague Stock exchange ended the year at its history high. The high growth of Czech stock prices was influenced by several different components, among others by the good performance of leading companies, by the impact of the ongoing privatization or its preparations with selected companies such as Unipetrol and Český Telecom, but also by the overall low supply of stock exchange titles. It is generally assumed that the achieved rate of growth is not permanently sustainable.

The general decline in bond prices on developed markets in 2003 was replaced in 2004 by their wary and interrupted growth, on average by 1%. Czech bonds surpassed the progress of developed markets and strengthened year-on-year by approximately 8%. The CZK – EUR spreads went down in line with that thus being backed by low inflation and the permanent reinforcement of the Czech currency ensuing from domestic stimuli. The price increase of European and Czech bonds, particularly in the second half of the year, not only managed to compensate for the losses incurred by bonds in the second quarter of the year, but also secured a solid valuation of most bond funds for 2004. The remaining European bonds, i.e. Hungarian and Polish ones, substantially braced up in 2004, thus representing the best bond investment of the year. They were boosted by the overall favorable inflation in both countries and also by the decline in Hungarian interest rates.

Last year, the situation on financial markets was characterized by weakening of the exchange rate of the US dollar against the EURO (approx. by 9 %) and also against the other significant currencies. Regardless of the overall growth in US economy, the dollar was losing ground as a result of the increasing deficit of US foreign trade and the high deficit of US federal budget. On the contrary, the Czech currency significantly strengthened against the dollar by approximately 13% per year. Apart from the dollar's own weakening, the Czech currency was helped by the declining outside imbalance of Czech economy given the relatively low inflation. The Czech crown strengthened against the EURO roughly by half range. The prime rate of the Czech National Bank, i.e. the 2W repo-rate amounted to 2.50% toward the end of the period, i.e. by 0.5% more than at the end of 2003. However, already toward the end of the year there existed considerations about a possible lowering of this rate in order to slow down the growth in the exchange rate of the Czech crown. In the course of the year, money market rates were slightly volatile beside a stable trend being retained. For instance, the 3M Pribor rate was at the same level of 2.3% at year-end 2003 and 2004.

The favorable development of macroeconomic indexes was creating an advantageous framework for further growth of investments in equity funds. It was slowed down namely by the massive withdrawal of means from bond, predominantly Czech, funds at the time of their adjustment in the first half of the year, though, a year later, a further growth in the volume of owners' equity in all equity funds took place, namely by CZK 16.9 billion to CZK 170.6 billion as of December 31, 2004. Of that CZK 109.16 billion belonged to funds of UNIS members, which represents a year-on-year growth of approximately CZK 4 billion. The increase of foreign funds distributing shares in the Czech Republic, as endorsed by the Czech Securities Commission, was thus almost three times higher.

Last year saw a comprehensive change in the legislation regulating the field of share funds. Act No. 189/2004 on Collective Investment of April 1, 2004 replaced Act No. 248/92 Coll. on Investment Companies and Investment Funds, as amended by later regulations and related laws. Its significance lies above all in the harmonization of the terms and conditions for establishing and managing funds in the Czech Republic with European Union Law. In the future, it will further enable the establishment of new types of funds such as real estate funds, special risk capital funds or derivative funds. The new Act will raise the need to upgrade the prospectuses of the existing share funds in the first half of 2005.



The favorable development of macroeconomic indexes was creating an advantageous framework for further growth of investments in equity funds.





## Company Product Range

IKS KB manages assets in seven open-end funds:

**IKS Peněžní trh**, Open-End Fund of Investiční kapitálová společnost KB, a.s.

**IKS Dluhopisový**, Open-End Fund of Investiční kapitálová společnost KB, a.s.

**IKS Plus bondový**, Open-End Fund of Investiční kapitálová společnost KB, a.s.

**IKS Global konzervativní**, Open-End Fund of Investiční kapitálová společnost KB, a.s.

**IKS Balancovaný**, Open-End Fund of Investiční kapitálová společnost KB, a.s.

**IKS Fond světových indexů**, Open-End Fund of Investiční kapitálová společnost KB, a.s.

**IKS Fond fondů**, Open-End Fund of Investiční kapitálová společnost KB, a.s.

In July, IKS KB launched a new line of assured respect. guaranteed MAX funds:

**Max – světový garantovaný fond**, Investiční kapitálová společnost KB, a.s.

**Max – světový zajištěný fond 2**, Investiční kapitálová společnost KB, a.s.

IKS KB created the FELIX marketing package for retail clients. It is offered to clients in three basic options where it is the primary investment horizon of clients – FELIX regular investment, FELIX long-term investment and FELIX short-term investment.

According to their approach to risk, clients may further choose from among the following options:

### FELIX – regular investment

Very conservative solution – IKS Peněžní trh

Conservative solution – IKS Dluhopisový

### FELIX – long-term investment

Conservative solution – IKS Dluhopisový

Dynamic solution – 75% investment – IKS Dluhopisový + 25% IKS Světových indexů

### FELIX – short-term investment

Very conservative solution – IKS Peněžní trh

Conservative solution – IKS Dluhopisový



## Communication Strategy and Cooperation within the KB Financial Group in 2004

The communication strategy of the Company in 2004 proceeded in line with the strategy of the entire KB Financial Group with individual activities being thoroughly coordinated and consulted. In 2004 clients were informed of their investments and of the major events of the year through regular semi-annual statements of account – of changes in the fee structures of the IKS Plus bondový, IKS Global konzervativní and IKS Balancovaný funds and, further on, of extending the possibility of share booking.

Most of the other marketing and communication activities realized in 2004 targeted the sales support of individual funds – press efficiency campaigns. IKS KB also continued to deepen the positive image of the Company through its representatives doing presentations in the press mostly.

In 2004, IKS KB followed up on the successful system of training from previous years and continued staging road shows in individual regions. Apart from that plan, classical product training was being held according to the needs of distribution channels, for example training related to new products, legislative changes, booking, etc. IKS KB also took active part in meetings with KB clients, the so-called meeting days.

## Comments on the Financial Results of the Company

The conservative approach of investors persisted on the Czech market. Regardless of that, in the second half of the year, part of the clients “discovered” funds of potentially high yield, which is naturally connected with larger volatility and higher risk rate. The growth trend of the chiefly Czech stock market had by then attracted some time even too conservative a public, which showed in investors’ increased interest in IKS KB balanced funds above all. As regards the overall volume of investments, however, we are still talking a significantly smaller amount of money flowing into the open-end funds managed by IKS KB.

The Company retained its market share on the highly competitive domestic market. The share of assets managed by investment companies amounted to 25.6%.

At the end of 2004, IKS KB was managing CZK 36.7 billion within the framework of nine open-end funds and the portfolio of the Pension fund of Komerční banka.

In 2004, the sales of shares of the funds managed by IKS KB reached CZK 7.5 billion with net sales constituting CZK 0.88 billion.

The after tax profit of the Company was CZK 97,683 thousand in 2004.



The conservative approach of investors persisted on the Czech market.

Regardless of that, in the second half of the year, part of the clients “discovered” funds of potentially high yield, which is naturally connected with larger volatility and higher risk rate.



# Statutory Bodies and Organisation Structure of the Company



Pavel Pršala, CSc.



Pavel Hoffman



Jan Drápal

## Board of Directors

Chairman of the Board of Directors  
Vice-Chairman of the Board of Directors  
Member of the Board of Directors

Pavel Pršala  
Pavel Hoffman  
Jan Drápal

### Pavel Pršala

#### **Chairman of the Board of Directors and Chief Executive Officer (CEO)**

Born in 1952, residing in Prague. He graduated from the Prague University of Economics, National Economy Faculty, and majored in economic-mathematical calculations with a specialization in economic statistics. He is a postgraduate research student of the Chair of Statistics at the University of Economics (VSE). In the years 1973–1975 he worked as an information system methodologist with CSUP. From 1975 to 1977 he was a research postgraduate of the Chair of Statistics at VŠE in Prague. Later, in the years 1977–1982, he held the post of lecturer with that Chair. In the years 1982–1985 he worked as an expert at the Department of statistics of the population and standard of living with the Czech Statistical Office. In the years 1985–1992 he held the post of advisor in the national economy department of the Office of the Federal Government. In the years 1992–2000 he was head of the analytical unit and director of the group for management of SIS investment funds. In the course of his practical experience he attended a number of training courses, e.g. a study program of the Chicago Mercantile Exchange and DePaul University, London, International Financial Markets, a study program of the Euromoney Institutional Investor Plc., New York, Risk Management Models. He was elected Chairman of the Board of Directors of Investiční kapitálová společnost KB, a.s., on December 18, 2000 and at the same time became Chief Executive Officer of the company. Pavel Pršala is also Vice-Chairman of the Board of the Union of Investment Companies in the Czech Republic (UNIS CR).



### Pavel Hoffman

#### **Vice-Chairman of the Board of Directors and Deputy CEO**

Born in 1971, residing in Prague. After completing his studies at the Prague University of Economics he successfully took examinations as a stockbroker. In 1995 he held the position of chief stockbroker in the Efekta Finance joint-stock company. A year later he first took up the post of financial analyst in the EB Brokers firm and then worked as an analyst in the analysis department of První Investiční společnost. In 1996–1998 he worked as an investment manager in the department of strategy and portfolio management of RIF. He headed the development department in that company up to the year 2000. During his years of practical experience he attended a number of specialized courses including, for instance, a course in the assessment of enterprises and fundamental analysis, fund marketing and new funds in the Nomura Asset Management Company. Effective December 18, 2000 he has been Vice-Chairman of the Board of Directors of Investiční kapitálová společnost KB, a.s. Pavel Hoffman is a member of the Ethics Committee with the Union of Investment Companies in the Czech Republic.

### Jan Drápal

#### **Member of the Board of Directors and Deputy CEO**

Born in 1971, residing in Prague. He graduated from the Prague University of Economics, majoring in information technology and banking. In 1994 he worked for the Ano Kapitál Company. In the years 1995–2000 he worked for the SIS company as an analyst, then manager of the Back-Office group and member of the Board and Deputy General Director responsible for managing the information section and was also manager of the informatics department. He has been a member of the Board of Directors of Investiční kapitálová společnost KB, a.s., since December 18, 2000. Jan Drápal is a member of the Finance and Taxation Committee of the Union of Investment Companies in the Czech Republic and Chairman of the Working Group dealing with issues of daily fund property assessment.



## Supervisory Board

Chairman of the Supervisory Board

Member of the Supervisory Board

Member of the Supervisory Board

Šárka Turoňová

Marie Netíková

Jana Kesslerová

### Šárka Turoňová

#### Chairman of the Supervisory Board

Šárka Turoňová was born in 1973 and has had 7 years of practical experience. She graduated from the Silesian University in Karvina, School of Business. Her first job was with Komerční banka, a.s. Later on, she joined the Audit Department of Deloitte & Touche Prague. ING Czech Republic and ING Management Services also employed her. Since 2002 she has been working for Komerční pojišťovna, a.s.

### Marie Netíková

#### Member of the Supervisory Board

Marie Netíková was born in 1952 and has had 24 years of practical experience. She is a graduate of the Prague University of Economics, School of Production Economics, and majored in Industrial Economics. She also did postgraduate studies in Law specializing in Law of Economics at the J.E. Purkyně University in Brno.

### Jana Kesslerová

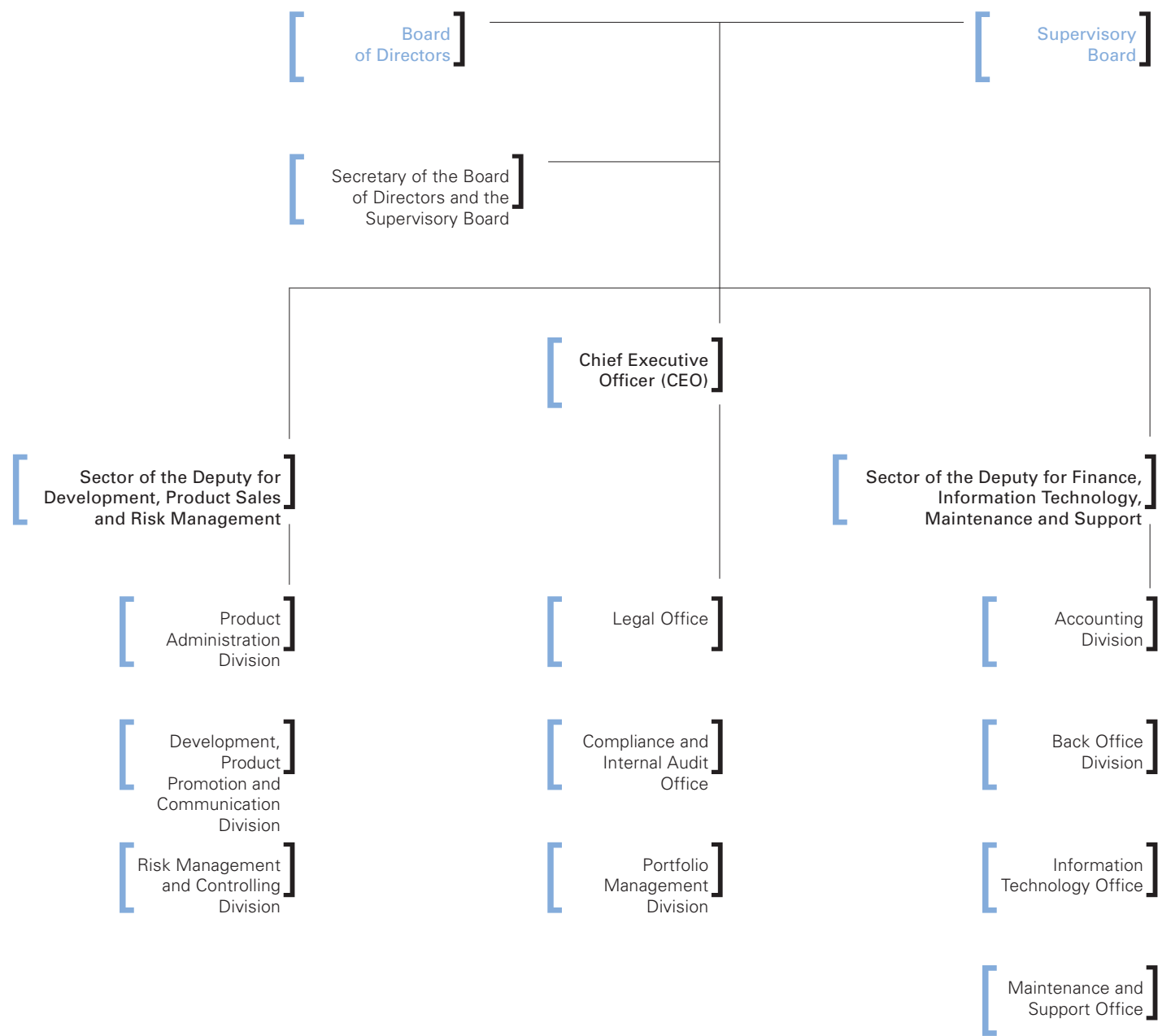
#### Member of the Supervisory Board

Jana Kesslerová was born in 1940 and has had 35 years of practical experience. She is a graduate of the Prague University of Chemical Technology. Her practical experience covers several economic fields. Starting 1991, she worked in the field of finance – privatization and management of bank equity and subsidiary management. She also did a two-year course in Labor Psychology.



Organisational Chart

As of August 1, 2004





# Ownership Structure



Following the incorporation of Komerční banka in the Société Générale (SG) group in October 2001, IKS KB became part of a financial group ranking among the largest and also the most profitable in Europe.



Shareholder	Registered Capital Share (%)
Komerční banka, a.s.	100.00
Total	100.00

Investiční kapitálová společnost KB, a.s. was established on March 27, 1991 as a 100% subsidiary of Komerční banka, a.s.  
As of December 31, 2004 Komerční banka, a.s., was a 100% shareholder.

By means of a decision of the sole shareholder performing the activity of a Shareholders' Meeting, pursuant to Article 190, Section 1 of the Commercial Code, the members of the Board of Directors of Investiční kapitálová společnost KB, a.s., were elected effective December 19, 2004.

The Board of Directors of Investiční kapitálová společnost KB, a.s, consists of the following members:  
Pavel Pršala, born on August 16, 1952,  
Pavel Hoffman, born on January 14, 1971,  
Jan Drápal, born on March 3, 1971.

# Funds under Management

## IKS Peněžní trh, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The IKS peněžní trh fund is suitable for conservative investors with common experience in collective investment funds, who have high aversion to investment risk, for beginner investors, who use the fund as an alternative to deposit products and for short-term investment. The fund offers the possibility of both regular and irregular investment of financial funds in excess providing low risk and fast access to the means invested in case of need. The investment aim is increasing the value of the assets in the fund through yield reinvestment and with a short-term horizon of up to one year. It is possible to buy into the fund securities for both domestic and foreign currency. The fund only invests in fixed-interest instruments with the obligation to maintain the average maturity of the portfolio to one year.

### The Fund in 2004

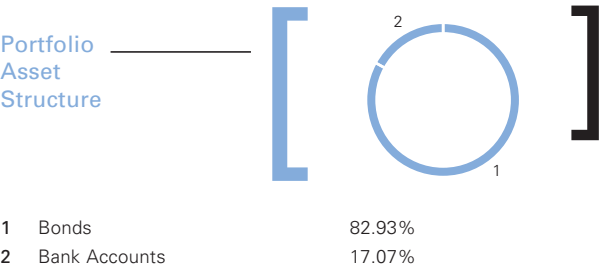
Last year the range of investments primarily targeted the least risky investments at the level of government bonds and bonds of Central Banks aiming at minimizing credit risk. In order to increase performance, the Fund also invests in selected corporate bonds issued by the most solvent companies. At the end of the year, a significant part of the portfolio, approximately 35% of the value of the Fund's registered capital, comprised bonds with a variable coupon whose price was less sensitive to interest rate fluctuations. Money market instruments and deposits reached on average 36% of the portfolio at the end of the year. In the field of financial markets, the year 2004 was characterized by low-level interest rates, minimal inflation and continuously growing exchange rate of the Czech currency. In this economic environment, the Fund reached annual valuation of 2.42%, i.e. by 0.36% more than in 2003. This valuation fully corresponds to the potential of the Czech and money market and the Fund permanently ranks among the best performing Czech money market funds.

### Strategy in 2005

In 2005 as well, the Fund will apply a highly secure and conservative strategy aimed at minimizing the rate fluctuations of shares. Most of the assets will be invested in bonds with a variable coupon whose sensitivity to interest rate changes will be minimal in comparison with that of bonds with a fixed coupon. Along with the significant share of treasury bonds, which comprise around 25% of the portfolio, the Fund will also invest in the bonds of quality foreign issuers with fixed and variable coupons whose end yield will be formed with the help of derivatives in the form of semi-annual payments fixed to the specific amount of the PRIBOR rate.

Basic Fund Information

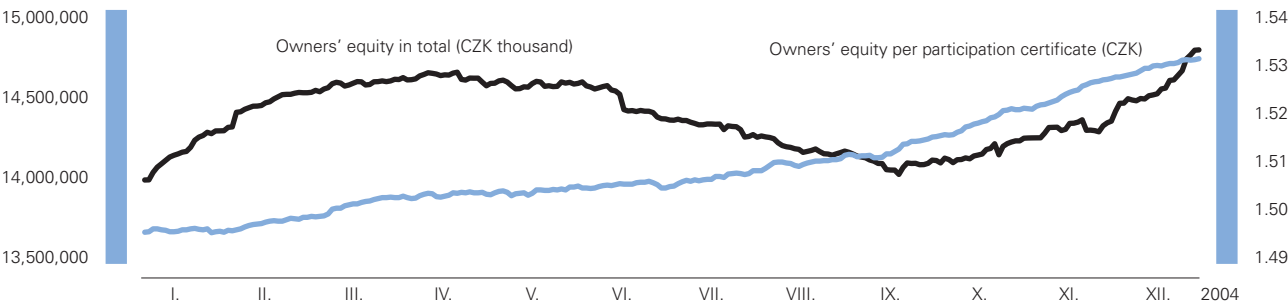
Name of Fund:	IKS Peněžní trh, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	May 26, 1997
Portfolio Managers:	Tomáš Lipový, Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 1% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depositary:	Komerční banka, a.s.



Fund Performance as of 31 December 2004	%
3 months	1.06
6 months	1.71
12 months	2.42
Since establishment of Fund	5.76

Selected Indexes as of 31 December	2004	2003	2002
Profit/loss after tax (CZK thousand)	304, 641	301,914	271,030
Total assets (CZK thousand)	14,906,403	14,106,965	11,622,548
Total owners' equity (CZK thousand)	14,777,827	13,931,483	11,444,159
Owners' equity per share (CZK)	1.5308	1.4919	1.4638

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## IKS Dluhopisový, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The IKS Dluhopisový fund is suitable for conservative mid-term investors, who are not willing to take the risks of equity markets and the related significant fluctuation of their investments. The Fund's investment goal is the highest possible valuation of its assets ensuing from interest rates and capital valuation of bonds while keeping the portfolio's market risk low. The Fund may purchase equities denominated in Czech and foreign currency. Bond funds generally offer higher valuation than money market funds. However, they also bring about a certain fluctuation in share prices because the prices of bonds on the capital market change mostly depending on the development of the interest rate. The recommended investment horizon of the Fund is at least 2 years.

### The Fund in 2004

The Fund invested mostly in government bonds, which at the end of 2004 comprised on average 30% of the assets, further in foreign bonds with a variable coupon denominated in Czech and foreign currency and additionally also in money market tools and deposits. In an effort to secure interest yields from long-term bonds, the Fund's modified duration was extended to a final value of 4.89 years. The period of bond price increase on developed markets, which lasted from the beginning of the year, was interrupted in April and May by a period of their decline when investors' means were being transferred over to equity in anticipation of their fast growth. Czech bonds emulated the development on the European market.

Roughly, starting mid-September 2004, a new revival of European bond prices took place. Czech bonds yet again followed the development of advanced European markets and were supported by the drop in inflation and the appreciation of the Czech currency, which were caused by domestic stimuli. Thus, Czech bonds significantly exceeded in growth European bonds and subsequently the CZK – EUR spreads also went down. Not only did the price increase of bonds manage to compensate for the losses incurred by the Fund in the second quarter of the year, but it also secured a solid valuation of individual shares of the Fund in 2004, which came up to 4.20%.

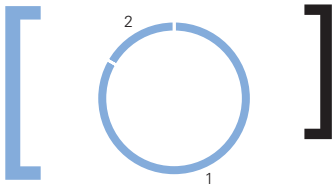
### Strategy in 2005

In the first half of 2005 we further expect low inflation pressure, which may, along with the strengthening of Czech currency, contribute to the willingness of the Czech National Bank to further ease currency specifications. This situation, along with the relatively low issue activity of the Finance Ministry and other issues of government bonds denominated in EUR, may stir a relatively profound interest in the Czech bond market on part of investors. The Fund will respond to this situation through a strategy of higher duration, i.e. higher sensitivity to changes in long-term interest rates. During the rest of the year it will thus be important to what extent the domestic bond-generated yields will approximate the yields attainable on the market of EU member states. Should that difference be a minimal one, a significant correlation between the domestic market and the EU bond market may be expected.

Basic Fund Information

Name of Fund:	IKS Dluhopisový, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	September 22, 1997
Portfolio Managers:	Tomáš Lipový, Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 1.3% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depository:	Komerční banka, a.s.

Portfolio  
Asset  
Structure

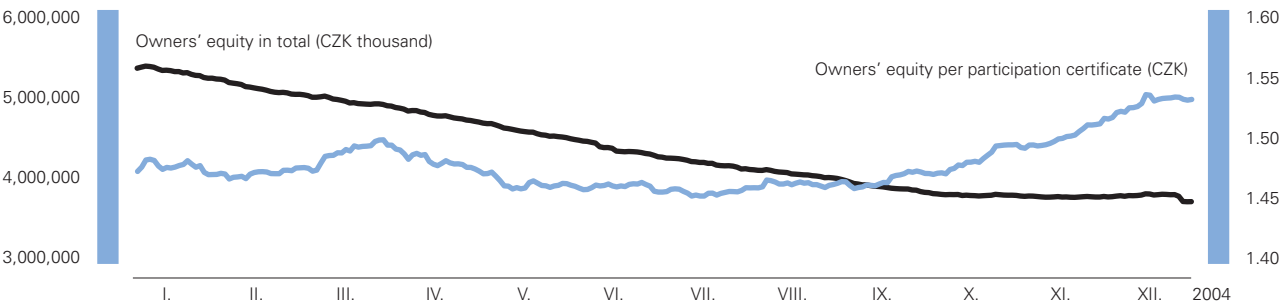


1	Bonds	83.38%
2	Bank Accounts	16.62%

Fund Performance as of 31 December 2004		%
3 months		4.16
6 months		5.10
12 months		4.20
2 years		1.80
Since establishment of Fund		6.01

Selected Indexes as of 31 December	2004	2003	2002
Profit/loss after tax (CZK thousand)	-43,781	197,872	117,544
Total assets (CZK thousand)	3,679,871	5,358,592	4,480,030
Total owners' equity (CZK thousand)	3,660,924	5,321,542	4,406,764
Owners' equity per share (CZK)	1.5297	1.4676	1.4768

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## IKS Plus bondový, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The Fund is intended for investors seeking a more profitable alternative to investing in conservative bond funds and willing to accept higher swings in the rate of a share than is usually the case of these conservative funds. The long-term investment goal of the Fund is to surmount the yield attainable on the Czech bond market. From the date of its establishment till December 3, 2001, the Fund was balanced. Since then it has been a bond fund investing in a diversified portfolio of Czech and foreign bonds and similar securities. In order to achieve its investment goal, the Fund primarily targets investments in bonds denominated in Central and Eastern European currencies and also aims at structured bonds. The Fund's investment horizon is 2 and more years.

### The Fund in 2004

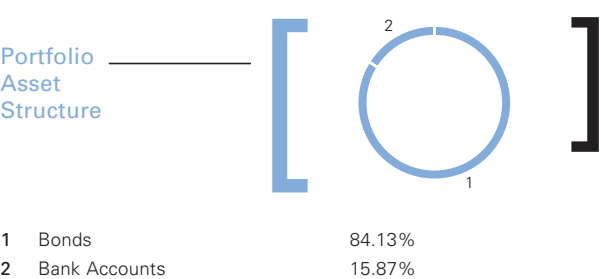
In the course of the year, the Fund targeted chiefly investments in foreign bonds whose share amounted to approximately 75% of the owners' equity in the Fund. The dynamic component of the Fund is represented particularly by Polish and Hungarian bonds, which significantly strengthened last year. Their growth in both countries was significantly boosted by the favorable development of inflation and in Hungary by the gradual lowering of prime rates too. At the same time, at the end of the year, the Czech crown appreciated against the Polish zloty and the Hungarian forint, which, in turn, partially depreciated for Czech investors the price increase of bonds denominated in those two currencies. Yet, the rate of a share reached a solid valuation of 7.36% in 2004, which made possible meeting the investment target of the Fund thus ranking it among the most profitable Czech bond funds. The potential of the so-called convergence effect with Polish and Hungarian bonds, which leads to a provisional bond price increase, has not been exhausted yet, not even for the year 2005, as a result of approximating interest rates toward the rates in the EMU countries.

### Strategy in 2005

Following the point-blank strengthening of the currencies of the 10 new member states of the EU in 2004, a somewhat moderate development may be anticipated in 2005, which may be characterized with its stability or the decline in the exchange rates of the currencies in response to the lower profitability of capital, namely in the form of lower interest rates in Poland, Hungary and Slovakia too. The strategy of the Fund will thus be moderately more conservative as regards allocation in foreign currencies with a view of a possible adjustment after the period of growth in 2004. The main component of the portfolio will comprise of domestic bonds. On the contrary, there will be a moderate reduction in allocation in bonds denominated in PLN and HUF. In the course of the year, SKK- and Turkish lira-denominated bonds may alternatively be inserted in the portfolio.

Basic Fund Information

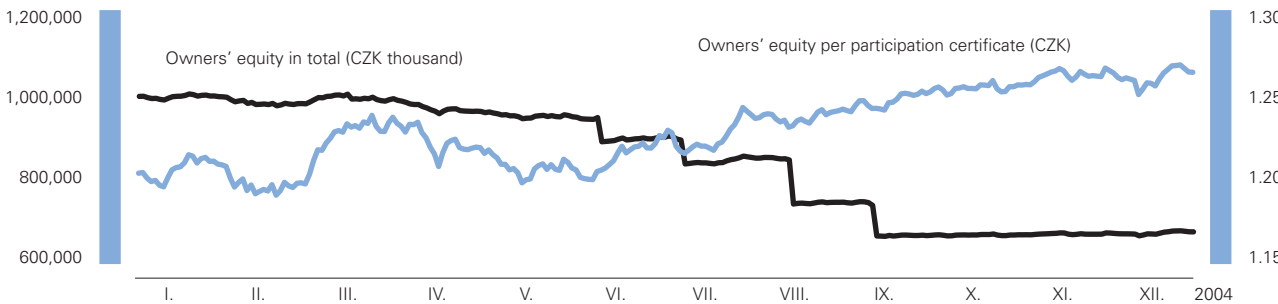
Name of Fund:	IKS Plus bondový, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	March 14, 2000
Portfolio Managers:	Tomáš Lipový, Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 2% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depositary:	Komerční banka, a.s.



Fund Performance as of 31 December 2004	%
3 months	0.99
6 months	3.10
12 months	7.36
Since establishment of Fund	3.34

Selected Indexes as of 31 December	2004	2003	2002
Profit/loss after tax (CZK thousand)	-47,824	108,630	55,498
Total assets (CZK thousand)	659,292	994,550	1,173,785
Total owners' equity (CZK thousand)	657,560	992,290	1,054,157
Owners' equity per share (CZK)	1.2638	1.1965	1.2112

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## IKS Global konzervativní, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The fund is intended for investors with common experience in collective investment funds, who, apart from conservative investing in the bond portfolio, would like to achieve a possible yield increase through the minority stock component. Ever since it was established, the Fund has been a balanced one. Starting March 21, 2004, the share of equities and similar securities has been restricted to a maximum of 15% of Fund assets. Prior to that, the share of equities and bonds in Fund assets had been unlimited. Within the framework of the range established, the share of bond and equity components may be changed in view of the estimated future development of capital markets. The selection of investments is targeted in favor of Czech bonds and equities of leading companies in the Czech Republic and abroad. The Fund is chiefly meant for investors with a mid-term investment horizon of at least 3 years.

### The Fund in 2004

In the course of last year, the decisive part of the Fund's portfolio was invested in bonds, which comprised 74.08% of the overall Fund assets at the end of the year. The bond component contained mainly Czech bonds with a significant share of Czech government bonds in it. Foreign bonds with a variable coupon comprised on average 20% of the Fund's portfolio. The equity part of the portfolio, which is meant to secure its valuation over the level attained by bonds in the long run, was dominated by stocks of major Czech companies traded within the SPAD system such as ČEZ, Philip Morris, Český Telecom, Zentiva and Unipetrol. The Fund's attained a remarkable valuation of 9.88% for the year 2004 thanks to the synchronism in the price growth of Czech bonds in the second half of the year and thanks to the exceptionally favorable performance of the growth components of Czech equities. The Fund surpassed, in line with its investment strategy, the results of most bond funds and thus became the second most profitable fund of this Company. The volatility of the rate of individual shares was lower than that of equity funds.

### Strategy in 2005

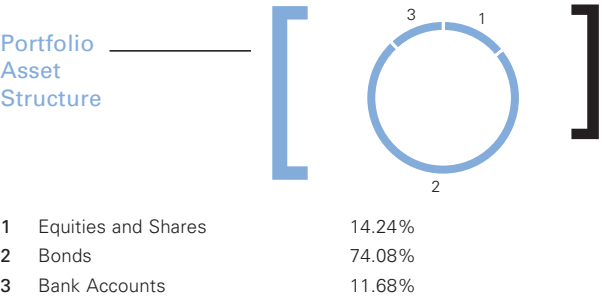
From the viewpoint of the 2005 strategy, parameters similar to those of 2004 will apply to the Fund. This means that the share component of the portfolio will be limited to 15% with its predominant part being formed by domestic equity. The foreign equity component will be represented most of all by equity funds. The bond part of the portfolio should show lower sensitivity to changes in long-term interest rates and will predominantly be invested in the domestic market of bonds. The prerequisite for the treatment of a significant part of the portfolio in order to avoid currency risk shall also remain.



Basic Fund Information

Name of Fund:	IKS Global konzervativní, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	August 16, 2000
Portfolio Managers:	Tomáš Lipový, Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 2% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depository:	Komerční banka, a.s.

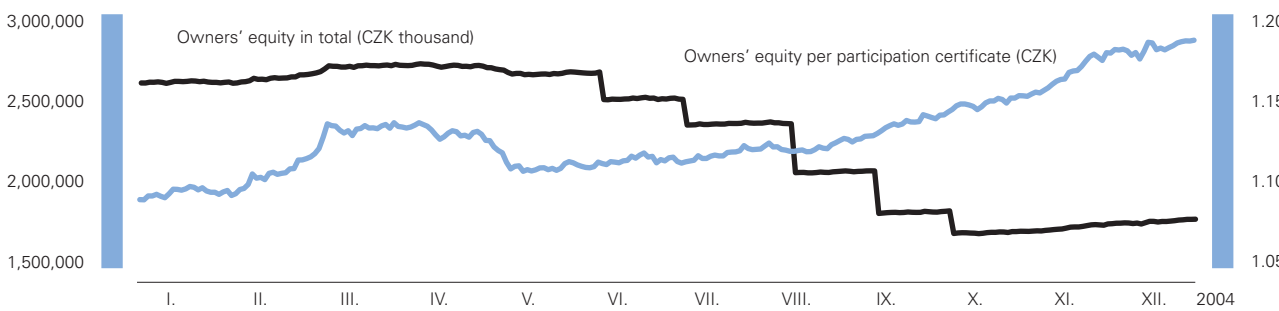
Portfolio Asset Structure



Fund Performance as of 31 December 2004	%
3 months	4.19
6 months	6.51
12 months	9.88
Since establishment of Fund	3.00

Selected Indexes as of 31 December	2004	2003	2002
Profit/loss after tax (CZK thousand)	-55,125	189,635	-221,599
Total assets (CZK thousand)	1,769,757	2,602,996	5,374,535
Total owners' equity (CZK thousand)	1,748,925	2,585,085	4,616,770
Owners' equity per share (CZK)	1.1865	1.0809	1.0274

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## IKS Balancovaný, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The Fund is suitable for investors with common experience in collective investment funds, who are interested in investing in a balanced portfolio of securities with a significant share of equities and with the possibility of predominant investment in bonds at times, which are unfavorable to stock markets. The selection of investments in equities and similar securities primarily targets the developing markets of Central Europe. The composition of the individual components of the portfolio may be changed in view of the current situation on capital markets as well as inside the Fund in order to attain the maximal valuation of Fund assets. The investment horizon of the fund is mid-term to long-term, which means 3 and more years.

### The Fund in 2004

The Fund emulated a dynamic investment strategy aimed at sharing in the growth of Central European stock markets. The share of equities in the overall assets of the Fund reached 61.2% at the end of the year. Domestic stocks represented approximately 1/4th of the owners' equity in the Fund. We are talking the most traded titles such as ČEZ, Unipetrol, České radiokomunikace and Philip Morris. As regards foreign equities, the Fund targeted Hungarian and Polish stocks after calculating the growth potential of those markets. Mainly Czech bonds represented the bond component of the portfolio with their range reduced to some 10% of the assets towards the end of the year. The share of bank accounts neared 29% and secured both a reserve for favorable investment opportunities and the Fund's liquidity. In 2004, Central European equities surpassed the performance of developed stock markets. The Polish equity index rose by around 28% while Czech and Hungarian stock indexes by over 55%. Thanks to that the fund achieved an exceptional valuation of 30.56% for the year 2004 and thus became the most profitable Czech balanced fund.

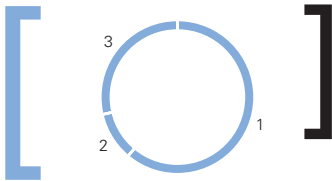
### Strategy in 2005

The Fund will start the year 2005 with the usual overweight of the equity portfolio component at the expense of the bond component. The main component of the equity portfolio should further comprise domestic equity whose valuation remains lucrative particularly in comparison with West European competition and in which the Fund does not take currency risk. The weight of Hungarian and Polish equities will almost be balanced in the first half of the year. The key moment for the entire Central European region will thus be the capability of investment managers to attract enough new investors in compensation for capital outflow, which might be triggered by the continuous growth in US interest rates. The bond component of the portfolio will further target the domestic market predominantly.

Basic Fund Information

Name of Fund:	IKS Balancovaný, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	September 22, 1997
Portfolio Managers:	Tomáš Lipový, Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 2% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depository:	Komerční banka, a.s.

Portfolio  
Asset  
Structure

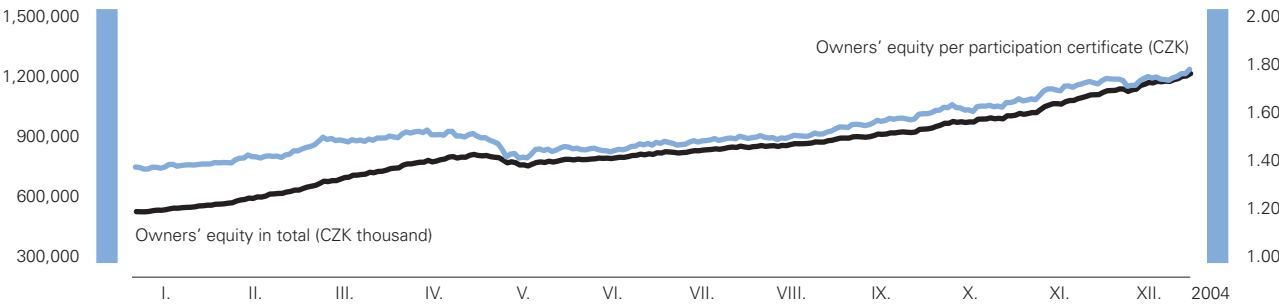


1	Equities	61.20%
2	Bonds	10.38%
3	Bank Accounts	28.42%

Fund Performance as of 31 December 2004		%
33 months		10.53
6 months		19.56
12 months		30.56
3 years		14.32
Since establishment of Fund		7.51

Selected Indexes as of 31 December	2004	2003	2002
Profit/loss after tax (CZK thousand)	53,221	18,648	-52,106
Total assets (CZK thousand)	1,218,128	507,929	295,992
Total owners' equity (CZK thousand)	1,200,422	504,384	294,516
Owners' equity per share (CZK)	1.7678	1.3363	1.1078

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## IKS Fond fondů, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The Fund is intended for investors with common experience in collective investment funds, who request high valuation of investments, have long-term investment goals and are prepared to take risk related to investing in global stock markets, but at the same time require the highest possible level of risk distribution. The Fund invests mainly in securities of renowned collective investment funds, if need be, also in Czech investment companies targeting global stock markets. Thus the Fund enables indirect investment in a large set of stocks. Additionally, the Fund may also invest in bonds defined by the prospectus with the aim of making possible a partial alleviation of the risk of eventual unfavorable development of stock market prices. The Fund is chiefly meant for investors with a long-term horizon of at least five years.

### The Fund in 2004

In 2004, the prices of world market stocks continued to grow on average by 6% to 10% over a year, thus substantially more slowly than in 2003. The reason for that slowdown were mostly the rising prices of oil as well as the end of the period of extremely low interest rates when the FED prime rate amounted to 2.25% at the end of the year. The overall valuation of European equities over a year was only slightly lower than that of American stocks, although economic growth in the EU countries was substantially lower than in the US. At the end of the year, with regard to their territorial distribution, around 45% of the equities comprised funds of European origin, 30% of them were US stocks, some 16% of the equities were issued in Asia and 9% of the equities belonged to funds with a global orientation. The currency structure of the fund was different: 57% of the equities were denominated in USD, 35% in EUR and 8% in Japanese yen. The strong Czech currency, as against both main currencies, particularly as against the dollar, was the source of substantial drop and even elimination of the attained yield last year. In spite of the price increase on world market, the Fund's performance was negative over the 12 months of the year -3.14%.

### Strategy in 2005

The Fund's major allocation will further be kept in the funds of renowned managers preferring European equity markets. The share of Asian equities remains slightly overweight in the next period as against the comparable benchmark. The currency structure of the Fund shall not change. Over half of the assets in the Fund remain invested in US dollars where no continuation of the declining trend in exchange rate of previous years is expected. In its strategy, the fund shall utilize the findings of Société Générale Asset Management. The level of Fund investment shall further be maintained slightly under the 100% mark.

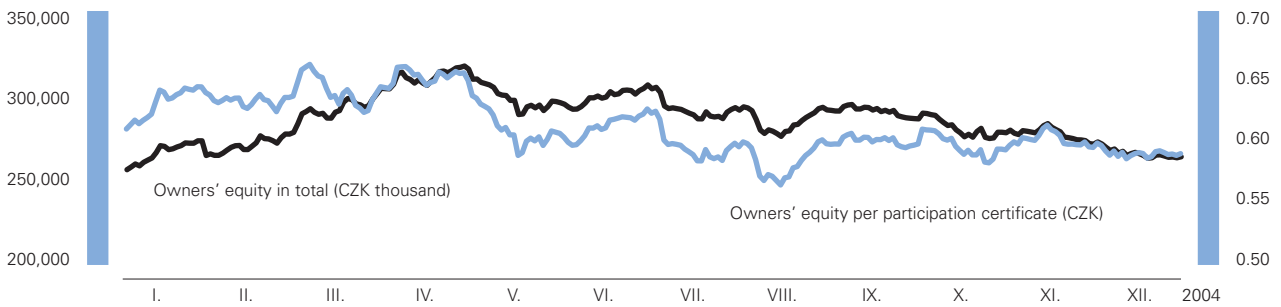
Basic Fund Information

Name of Fund:	IKS Fond fondů, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	October 20, 2000
Portfolio Managers:	Tomáš Lipový, Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 1.65% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depository:	Komerční banka, a.s.



Selected Indexes as of 31 December	2004	2003	2002
Profit/loss after tax (CZK thousand)	-7,348	-8,727	-57,893
Total assets (CZK thousand)	263,181	250,705	156,601
Total owners' equity (CZK thousand)	262,061	249,916	155,844
Owners' equity per share (CZK)	0.5852	0.5961	0.5419

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## IKS Fond světových indexů, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The Fund is intended for investors with common experience in collective investment funds, who require high-level valuation of investments, have long-term investment goals and are ready to take risk related to investing in global stock markets where the Company invests through passive index investments. The Fund invests mainly in equity instruments, which truly reflect the development of the respective stock exchange index of world stock markets such as investment certificates, indexes and other securities pegged to stock markets. Thus the fund makes possible indirect investment in the large set of different stocks. Additionally, the fund may also invest in bonds defined by the prospectus in order to enable a partial alleviation of the risk of eventual unfavorable development of stock market prices. The Fund is most of all meant for investors with a long-term investment horizon of at least five years.

### The Fund in 2004

In 2004, the prices of world market stocks continued to grow on average by 6% to 10% over a year, thus substantially more slowly than in 2003. The reason for that slowdown were mostly the rising prices of oil as well as the end of the period of extremely low interest rates when the FED prime rate amounted to 2.25% at the end of the year. The overall valuation of European equities over a year was only slightly lower than that of American stocks, although economic growth in the EU countries was substantially lower than in the US. At the end of the year, the territorial orientation of the Fund comprised of US instruments (some 45%), 15% of Japanese origin, 29% originating in Europe and 4% of British origin. The globally oriented indexes represented approximately 7% of the assets. From the point of view of currency structure, 60% of the instruments were USD-denominated, 32% were in EUR and 4% in GBP. This currency structure comes to show that the final yield of the fund may differ from the price development of investment instruments as a result of the impact currency risk entails. The strong Czech currency as against both major currencies was the source of a substantial decline to the extent of elimination of the growth in equity indexes. Regardless of the growth in world market prices, the fund showed negative performance over the 12 months of the year -4.58%.

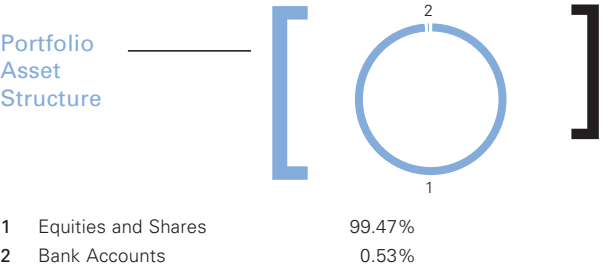
### Strategy in 2005

In 2005 the Fund shall further observe the existing strategy. We will further give preference to the American market with the share of Japanese shares being reduced to the 10% mark. The USD exchange rate is expected to stabilize in 2005 after it had a negative impact on the Fund's performance in 2004. A key role in that is attributed to the continuous, relatively fast economic growth in the US, and the relatively weak growth and consumer demand in EMU. This trend should also be backed by low inflation and thus low interest rates in EMU and at the same time continuing growth in interest rates in the US, which increases the interest rate difference. In view of the optimistic outlook on the development of equity markets, in the second half of the year, we will further maintain the level of investment in the Fund between 95% and 100%.

Basic Fund Information

Name of Fund:	IKS Fond světových indexů, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	August 29, 2000
Portfolio Managers:	Tomáš Lipový, Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 1.5% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depository:	Komerční banka, a.s.

Portfolio  
Asset  
Structure

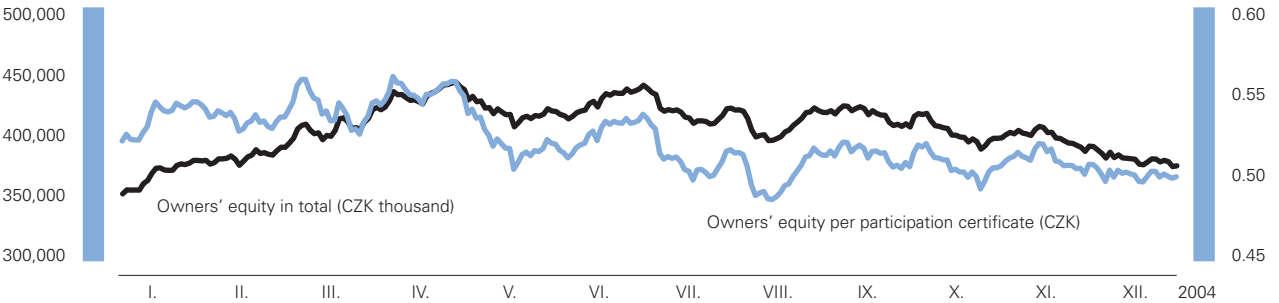


Fund Performance as of 31 December 2004		%
3 months		-3.10
6 months		-5.83
12 months		-4.58
Since establishment of Fund		-14.90

Selected Indexes as of 31 December

	2004	2003	2002
Profit/loss after tax (CZK thousand)	-77,644	-6,219	-44,608
Total assets (CZK thousand)	377,776	346,956	192,235
Total owners' equity (CZK thousand)	371,985	345,510	191,618
Owners' equity per share (CZK)	0.4971	0.5147	0.4658

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## MAX – světový garantovaný fond, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

The Fund is meant for conservatively minded investors, who would like to share in the yields of stock markets, but are not ready to take risk in investing in equities and securities pegged to stock markets. The Fund's goal is to secure shareholder participation in the growth of global stock markets by guaranteeing to pay them out on Maturity Day at least an amount matching the minimal net asset value per share as reached on the day the Offer Period ends (the de facto invested amount). The fund is a genuine guaranteed fund with the payment out of the so-called Guaranteed Value being guaranteed by the Société Générale S.A. bank. At the same time, the Fund is actively managed. In order to express participation in market growth, the Fund applies the method of "locking the yield generated". The Fund has been established to cover a definite period of time, i.e. 4 years and 3 months, including the Offer (subscription) Period. The latter ended October 26, 2004.

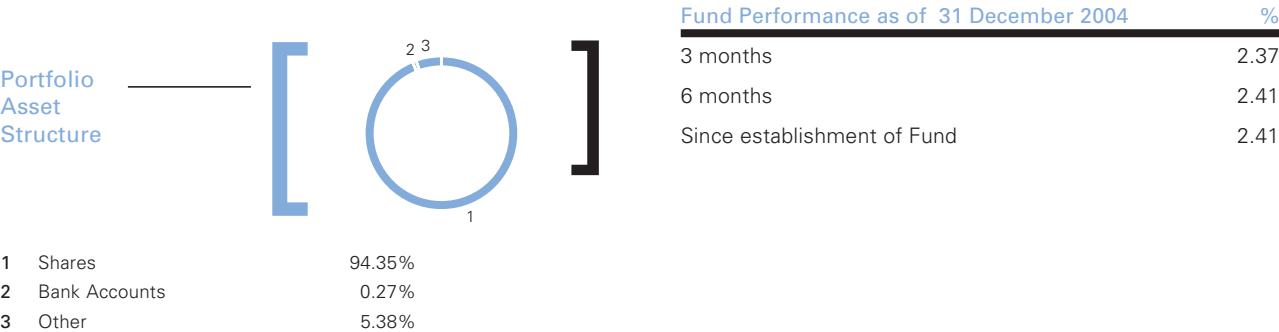
### The Fund in 2004

The Fund's manager, i.e. the Société Générale Asset Management Alternative Investments S.A. company, carried out primary investment of financial means in such a way so that approximately 94% of Fund assets comprise securities of foreign collective investment funds whose assets have been invested mainly in equities. The proportion of equities and the remaining so-called risk-free assets shall be regularly evaluated and adjusted in order to attain their optimal proportion. Pursuant to the Prospectus, the rule for participation in the growth of stock markets is set forth in such a way that every time the net asset value of a Fund share grows by 15% over the initial or last guaranteed value, it shall be increased by 50% of the growth. Should the net asset value per share be higher than the last increased Guaranteed Value on the Maturity day of the Fund following the end of its lifecycle, shareholders shall be paid out that net asset value.



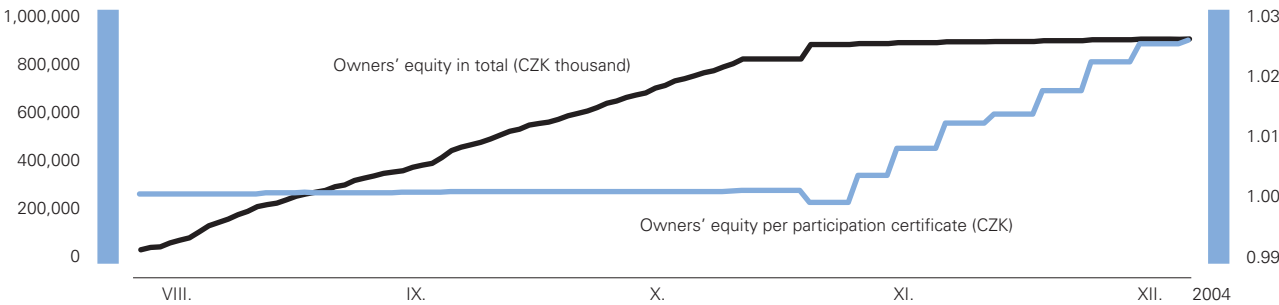
Basic Fund Information

Name of Fund:	Max – světový garantovaný fond, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	July 14, 2004
Portfolio Manager:	Société Générale Asset Management
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 1.5% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depository:	Komerční banka, a.s.



Selected Indexes as of 31 December	2004
Profit/loss after tax (CZK thousand)	-985
Total assets (CZK thousand)	895,492
Total owners' equity (CZK thousand)	892,837
Owners' equity per share (CZK)	1.0260

Development of owners' equity in the fund in total and of owners' equity per share in 2004



## MAX – světový zajištěný fond 2, Open-End Fund of Investiční kapitálová společnost KB, a.s.

### Characterization

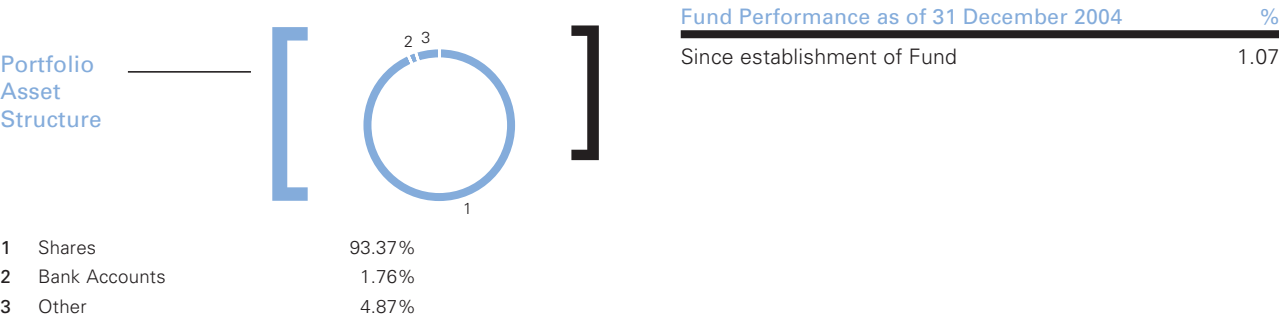
The Fund is meant for conservatively minded investors, who would like to share in the yields of stock markets, but are not ready to take risk in investing in equities and securities pegged to stock markets. The Fund's goal is to secure shareholder share in the eventual growth of global equity and European bond markets with a minimal rate of return amounting to 105% of the net asset value per share of the Fund at the end of the Offer Period (the so-called Guaranteed Value). The paying out of the Guaranteed Value and share in the eventual growth of capital markets is secured through investments in selected bonds and through contracts on derivative transactions. The Fund has been established for a definite period of time covering 5 years and 2 months, including the Offer (subscription) Period. The latter ended December 21, 2004.

### The Fund in 2004

Immediately after the end of the Offer Period, a primary investment of the financial means in selected foreign bonds, which are represented by the Euro MTS 5-7 Years index (mid-term government bonds of the Euro zone countries), was launched as well as preparations for concluding contracts on financial derivatives through which the Fund assets will be valued as of Maturity Date. This shall be pegged to the average performance of the best "Profiles" as defined by the prospectus, i.e. three different theoretical balanced portfolios, which represent a diverse rate of investment risk. The performance of individual Profiles will be calculated as an average of their quarterly values to be calculated in line with the procedure stated in the Fund's prospectus. The amount of share in the development of capital markets, which will be paid out to shareholders after termination of the Fund, will substantially depend on the average closing value of the best Profile calculated as of the Fund's Maturity Date.

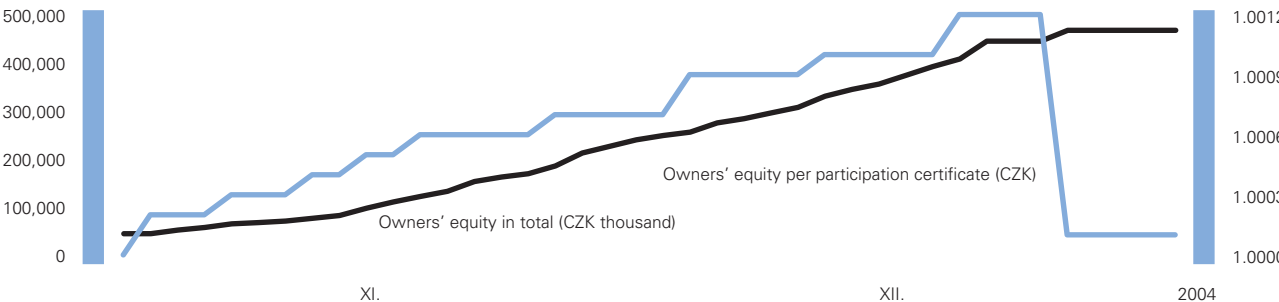
Basic Fund Information

Name of Fund:	Max – světový zajištěný fond 2, Open-End Fund of Investiční kapitálová společnost KB, a.s.
Type:	Open-End Fund
Founder and Manager:	Investiční kapitálová společnost KB, a.s.
Registered Head Office:	Dlouhá 34, land-registry No. 713, 110 15 Prague 1
Established:	October 15, 2004
Portfolio Manager:	Ondřej Král
Basic Strategy:	Growth Fund
Annual Fund Management Fee:	max. 1.5% of the average annual value of owners' equity
Face Value of a Share:	CZK 1
Form and Type of Share:	Booked, name-registered
Auditor:	Deloitte s.r.o.
Depository:	Komerční banka, a.s.



Selected Indexes as of 31 December		2004
Profit/loss after tax (CZK thousand)		-1,490
Total assets (CZK thousand)		469,898
Total owners' equity (CZK thousand)		464,560
Owners' equity per share (CZK)		0.9987

Development of owners' equity in the fund in total and of owners' equity per share in 2004



# Report of the Supervisory Board

The Supervisory Board of Investiční kapitálová společnost KB, a.s., checked up the Financial Statements of the Company for 2004, which were prepared for the year ended December 31, 2004.

The Company's Accounting Statements for the year 2004 showed profit before tax of CZK 134,516 thousand. The profit after tax was CZK 97,683 thousand. The Supervisory Board discussed the Auditor's Report for Shareholders for the year ended December 31, 2004, which had been prepared by the Deloitte s.r.o. Audit Company. The Auditor's Report contained no reservations expressed.

The Supervisory Board of the Company discussed the Proposal of the Board of Directors on the business activities and state of Company assets as well as the Report on Relations Among Related Entities for the 2004 accounting period.

The Supervisory Board regularly monitored the business performance of the Company. The Supervisory Board did not find any facts of consequence, which would or could have influenced business performance in the course of 2004, and did not ascertain any fact, which would prevent the Shareholders' Meeting from endorsing the Y2004 Financial Statements of IKS KB, a.s.

The Supervisory Board discussed the Proposal of the Board of Directors of the Company on profit distribution.

The Supervisory Board recommends that the Shareholders' Meeting endorse the Financial Statements of Investiční kapitálová společnost KB, a.s. for the year 2004 and also recommends that the Proposal of the Board of Directors of this Company on profit distribution be approved.

Prague, March 17, 2005



Šárka Turoňová  
Chairman of the Supervisory Board





Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

# Auditor's Report to the Shareholders of Investiční kapitálová společnost, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1  
Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

Based upon our audit, we issued the following audit report dated 4 March 2005 on the financial statements which are included in this annual report on pages 48 to 68:

"We have audited the accompanying financial statements of Investiční kapitálová společnost KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of Investiční kapitálová společnost KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations."

We have reviewed the factual accuracy of information included in the report on relations among related parties included in this annual report on pages 253 to 256. This report is the responsibility of the Company's Board of Directors. Nothing has come to our attention based on our review that indicates that there are material factual inaccuracies in the information contained in the report. We have read other financial information included in this annual report for consistency with the above mentioned financial statements. The responsibility for the correctness of this information rests with the Company's Board of Directors. In our opinion, other financial information included in this annual report is consistent, in all material respects, with the relevant financial statements.

In Prague on 17 June 2005

**Audit firm:**

Deloitte s. r.o.

Certificate no. 79

Represented by:

**Statutory auditor:**

Michal Petrman

Certificate no. 1105

Michal Petrman, statutory executive

Audit • Tax • Consulting • Financial Advisory •

Member of  
Deloitte Touche Tohmatsu

# Sworn Statement

Investiční kapitálová společnost KB, a.s., declares that all information and data presented in this Annual Report are true and complete. The company further acknowledges that this report contains all facts, which may be significant in the decision-making of investors.

Investiční kapitálová společnost KB, a.s., further declares that by the date of preparation of the Annual Report no negative changes had occurred in the financial situation neither had there been any other changes, which could influence the precise and correct appreciation of the financial situation of Investiční kapitálová společnost KB, a.s.

Prague, May 27, 2005

Signed on behalf of the Board of Directors:



**Pavel Pršala**  
Chairman of the Board of Directors  
and CEO



**Pavel Hoffman**  
Vice-Chairman of the Board  
and Deputy CEO

# [ Financial Statement

Investiční kapitálová společnost, a.s.	47
IKS Peněžní trh	69
IKS Dluhopisový	91
IKS Plus bondový	113
IKS Global konzervativní	137
IKS Balancovaný	161
IKS Fond fondů	181
IKS Fond světových indexů	199
MAX – světový garantovaný fond	217
MAX – světový zajištěný fond 2	235





**Deloitte.**

# Investiční kapitálová společnost, a.s.

## Auditor's Report to the Shareholders of Investiční kapitálová společnost KB, a.s.

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of Investiční kapitálová společnost KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of Investiční kapitálová společnost KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



# Balance Sheet of 31 December 2004

## Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	8	6	15
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	State securities	3	0	0	0
2.2.	Other	4	0	0	0
3.	Amounts due from banks and savings associations	5	89,823	138,865	24,632
3.1.	Repayable on demand	6	39,523	165	331
3.2.	Other receivables	7	50,300	138,700	24,301
4.	Amounts due from clients – members of savings associations	8	0	0	0
4.1.	Repayable on demand	9	0	0	0
4.2.	Other receivables	10	0	0	0
5.	Debt securities	11	0	0	0
5.1.	Issued by state institutions	12	0	0	0
5.2.	Issued by other entities	13	0	0	0
6.	Shares, participation certificates and other holdings	14	89,190	82,952	129,362
6.1.	Shares	15	103	103	103
6.2.	Participation certificates	16	89,087	82,849	129,259
6.3.	Other holdings	17	0	0	0
7.	Equity holdings in associates	18	0	0	0
7.1.	In banks	19	0	0	0
7.2.	In other entities	20	0	0	0
8.	Equity holdings in subsidiaries	21	0	0	0
8.1.	In banks	22	0	0	0
8.2.	In other entities	23	0	0	0
9.	Intangible fixed assets	24	5,895	4,117	3,636
9.1.	Incorporation costs	25	0	0	0
9.2.	Goodwill	26	0	0	0
9.3.	Other	27	4,841	3,351	3,636
9.4.	Intangible assets under construction	28	1,054	766	0
10.	Tangible fixed assets	29	103,872	108,737	112,261
10.1.	Land and buildings for operating activities	30	99,334	101,757	106,496
10.2.	Other	31	4,468	6,981	5,765
10.3.	Tangible fixed assets under construction	32	70	0	0
11.	Other assets	33	37,723	40,554	65,200
11.1.	Trade receivables	34	34,935	39,190	63,366
11.2.	Settlement with the State budget	35	1,650	6	3
11.3.	Deferred tax asset	36	1,138	1,358	1,740
11.4.	Other receivables	37	0	0	(11)
11.5.	Estimated receivables	38	0	0	102
12.	Subscribed capital unpaid	39	0	0	0
13.	Deferred expenses and accrued income	40	853	1,375	1,167
	<b>TOTAL ASSETS</b>		<b>327,364</b>	<b>376,606</b>	<b>336,273</b>

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>41</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Repayable on demand	42	0	0	0
1.2.	Other payables	43	0	0	0
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>44</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Repayable on demand	45	0	0	0
2.1.1.	of which: Savings deposits	46	0	0	0
2.2.	Other payables	47	0	0	0
2.2.1.	of which: Savings deposits with maturity	48	0	0	0
2.2.2.	Savings deposits repayable at notice	49	0	0	0
2.2.3.	Term deposits with maturity	50	0	0	0
2.2.4.	Term deposits repayable at notice	51	0	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	Issued debt securities	53	0	0	0
3.2.	Other payables from debt securities	54	0	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>55</b>	<b>81,587</b>	<b>48,290</b>	<b>80,454</b>
4.1.	Trade payables	56	40,966	6,494	14,237
4.2.	Settlement with staff	57	1,879	1,798	3,434
4.3.	Settlement with insurance authorities	58	1,073	1,346	2,646
4.4.	Settlement with the State budget	59	598	8,317	21,090
4.5.	Deferred tax liability	60	5,992	8,546	8,842
4.6.	Other payables	61	0	0	0
4.7.	Estimated payables	62	31,079	21,789	30,205
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>63</b>	<b>15,156</b>	<b>7,196</b>	<b>9,196</b>
<b>6.</b>	<b>Reserves</b>	<b>64</b>	<b>2,000</b>	<b>1,889</b>	<b>0</b>
6.1.	For pensions and similar liabilities	65	0	0	0
6.2.	For taxes	66	0	0	0
6.3.	Other	67	2,000	1,889	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>68</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>69</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>
8.1.	of which: Share capital paid up	70	50,000	50,000	50,000
<b>9.</b>	<b>Treasury shares</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>10.</b>	<b>Share premium</b>	<b>72</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>11.</b>	<b>Reserve funds and other funds from profit</b>	<b>73</b>	<b>33,828</b>	<b>33,770</b>	<b>33,746</b>
11.1.	Mandatory reserve funds	74	33,079	33,079	33,079
11.2.	Reserves for treasury shares	75	0	0	0
11.3.	Other reserve funds	76	0	0	0
11.4.	Other funds from profit	77	749	691	667
11.4.1.	of which: Funds for risks	78	0	0	0
<b>12.</b>	<b>Revaluation reserve</b>	<b>79</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>13.</b>	<b>Capital funds</b>	<b>80</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>14.</b>	<b>Gains or losses from revaluation</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
14.1.	Of assets and liabilities	82	0	0	0
14.2.	Hedging derivatives	83	0	0	0
14.3.	Re-translation of equity holdings	84	0	0	0
<b>15.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>85</b>	<b>47,110</b>	<b>161,416</b>	<b>84,171</b>
<b>16.</b>	<b>Profit/(loss) for the period</b>	<b>86</b>	<b>97,683</b>	<b>74,046</b>	<b>78,706</b>
	<b>TOTAL LIABILITIES</b>	<b>88</b>	<b>327,364</b>	<b>376,606</b>	<b>336,273</b>

## Off Balance Sheet Accounts as of 31 December 2004

### Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>89</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	90	0	0	0
1.2.	Guarantees and warranties	91	0	0	0
1.3.	Guarantees from bills of exchange	92	0	0	0
1.4.	Guarantees under letters of credit	93	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>94</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	95	0	0	0
2.2.	Cash collateral	96	0	0	0
2.3.	Securities	97	0	0	0
2.4.	Other	98	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	100	0	0	0
3.2.	With currency instruments	101	0	0	0
3.3.	With equity instruments	102	0	0	0
3.4.	With commodity instruments	103	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>104</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	105	0	0	0
4.2.	With currency instruments	106	0	0	0
4.3.	With equity instruments	107	0	0	0
4.4.	With commodity instruments	108	0	0	0
4.5.	With credit instruments	109	0	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>110</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	111	0	0	0
5.2.	With currency instruments	112	0	0	0
5.3.	With equity instruments	113	0	0	0
5.4.	With commodity instruments	114	0	0	0
5.5.	With credit instruments	115	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>116</b>	<b>0</b>	<b>273</b>	<b>273</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>117</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	118	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>119</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	120	0	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>121</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	122	0	0	0
1.2.	Guarantees and warranties	123	0	0	0
1.3.	Guarantees from bills of exchange	124	0	0	0
1.4.	Guarantees under letters of credit	125	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>126</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	127	0	0	0
2.2.	Cash collateral	128	0	0	0
2.3.	Securities	129	0	0	0
2.4.	Other collateral	130	0	0	0
2.5.	Collateral – securities	131	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>132</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	133	0	0	0
3.2.	With currency instruments	134	0	0	0
3.3.	With equity instruments	135	0	0	0
3.4.	With commodity instruments	136	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>137</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	138	0	0	0
4.2.	With currency instruments	139	0	0	0
4.3.	With equity instruments	140	0	0	0
4.4.	With commodity instruments	141	0	0	0
4.5.	With credit instruments	142	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>143</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	144	0	0	0
5.2.	With currency instruments	145	0	0	0
5.3.	With equity instruments	146	0	0	0
5.4.	With commodity instruments	147	0	0	0
5.5.	With credit instruments	148	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>149</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	150	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>151</b>	<b>12,660,400</b>	<b>10,292,569</b>	<b>8,889,269</b>
7.1.	of which: Securities	152	12,660,400	10,292,569	8,889,269

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	<b>Interest income and similar income</b>	1	1,311	609	1,035
1.1.	of which: Interest income from debt securities	2	0	0	0
2.	<b>Interest expense and similar expense</b>	3	0	0	0
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	<b>Income from shares and equity investments</b>	5	(20)	1,825	61
3.1.	of which: Income from equity investments in associates	6	0	0	0
3.2.	Income from equity investments in subsidiaries	7	0	0	0
3.3.	Income from other shares and equity investments	8	(20)	1,825	61
4.	<b>Commission and fee income</b>	9	370,260	375,654	372,590
5.	<b>Commission and fee expense</b>	10	114,891	132,984	140,640
6.	<b>Net profit/(loss) on financial operations</b>	11	3,210	(457)	4,289
6.1.	Net profit/(loss) on securities trading	12	3,274	(410)	4,355
6.2.	Net profit/(loss) on other transactions	13	(64)	(47)	(66)
6.3.	Income from other financial transactions	14	0	0	0
6.4.	Costs of other financial transactions	15	0	0	0
7.	<b>Other operating income</b>	16	1,788	2,830	2,570
7.1.	Income from the transfer of tangible and intangible fixed assets	17	361	682	480
7.3.	Other operating income	19	1,427	2,148	2,090
8.	<b>Other operating expenses</b>	20	9,375	9,124	11,875
8.1.	Costs of the transfer of tangible and intangible fixed assets	21	304	699	383
8.2.	Other operating expenses	22	9,071	8,425	11,492
9.	<b>Administrative expenses</b>	23	109,979	120,243	117,883
9.1.	of which: Employee costs	24	59,811	61,723	67,110
9.1.1.	Wages and salaries	25	44,197	45,082	48,668
9.1.2.	Social security and health insurance	26	14,401	15,512	17,052
9.1.3.	Other employee costs	27	1,213	1,129	1,390
9.2.	Other administrative costs	28	50,168	58,520	50,773
9.2.1.	Other administrative costs – taxes and fees	29	961	429	132
9.2.2.	Other administrative costs – purchased consumables	30	49,207	58,091	50,641
10.	<b>Release of reserves and provisions for tangible and intangible fixed assets</b>	31	0	0	0
10.1.	Use of reserves for tangible fixed assets	32	0	0	0
10.2.	Use of provisions for tangible fixed assets	33	0	0	0
10.3.	Use of provisions for intangible fixed assets	34	0	0	0

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
11.	Depreciation/amortisation, charge for reserves and provisions for tangible and intangible fixed assets	35	7,677	8,550	7,862
11.1.	Depreciation of tangible fixed assets	36	4,822	7,040	7,180
11.2.	Charge for reserves for tangible fixed assets	37	0	0	0
11.3.	Charge for provisions for tangible fixed assets	38	0	0	0
11.4.	Amortisation of intangible fixed assets	39	2,855	1,510	682
11.5.	Charge for provisions for intangible fixed assets	40	0	0	0
12.	Release of provisions and reserves for receivables and guarantees, income from transferred receivables and recoveries of receivables previously written off	41	0	270	0
12.1.	Use of reserves for receivables and guarantees	42	0	0	0
12.2.	Use of provisions for receivables and receivables from guarantees	43	0	0	0
12.3.	Income from transferred receivables and recoveries of receivables previously written off	44	0	270	0
13.	Write-offs, charge for provisions and reserves for receivables and guarantees	45	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	46	0	0	0
13.2.	Charge for reserves for guarantees	47	0	0	0
13.3.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	48	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	49	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	50	0	0	0
16.	Release of other reserves	51	1,889	0	2,000
17.	Charge for and use of other reserves	52	2,000	1,889	0
18.	Share of profits/(losses) of subsidiaries and associates	53	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	55	134,516	107,941	104,285
20.	Extraordinary income	56	0	0	14,963
21.	Extraordinary expenses	57	0	0	137
22.	Profit/(loss) for the period from extraordinary activities before taxes	58	0	0	14,826
23.	Income tax	59	36,833	33,895	40,405
	Income tax – due	60	37,229	33,656	35,705
	Income tax – deferred	61	(2,333)	85	4,703
	Additional income tax payments	62	1,937	154	(3)
24.	Net profit/(loss) for the period	64	97,683	74,046	78,706

## Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	50,000	50,000	50,000
	Increase			
	Decrease			
	Conversion of convertible bonds to shares			
	Exercise of bonds and warrants			
	Closing balance	50,000	50,000	50,000
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	0	0	0
	Increase			
	Decrease			
	Closing balance	0	0	0
4.	<b>Reserve funds</b>			
	Opening balance	33,079	33,079	33,079
	Mandatory allocation			
	Other increase			
	Decrease			
	Closing balance	33,079	33,079	33,079
5.	<b>Other funds from profits</b>			
	Opening balance	691	667	614
	Increase	1,352	1,460	1,538
	Decrease	1,294	1,436	1,485
	Closing balance	749	691	667
6.	<b>Capital funds</b>	0	0	0
7.	<b>Valuation gains or losses not included in the profit or loss</b>			
	Opening balance	0	0	0
	Increase			
	Decrease			
	Closing balance	0	0	0
8.	<b>Retained earnings</b>			
	Opening balance	161,416	84,171	83,998
	Increase		77,245	173
	Decrease	114,306		
	Closing balance	47,110	161,416	84,171
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase			
	Decrease			
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	97,683	74,046	78,706
11.	<b>Dividends</b>	187,000	0	27,000



# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Company

Investiční kapitálová společnost KB, a.s. (henceforth the “Company” or “IKS KB”) is a Czech legal entity, a joint stock company, which was incorporated on 1 May 1994 as the legal successor of Investiční kapitálová společnost KB, spol. s r.o. The Company has its registered office at Dlouhá 34, Prague 1, the Czech Republic. Pursuant to the details held in the Register of Companies, the Company is primarily engaged in the management of the following mutual funds:

IKS Plus bondový, open-ended mutual fund  
IKS Peněžní trh, open-ended mutual fund  
IKS Balancovaný, open-ended mutual fund  
IKS Global konzervativní, open-ended mutual fund  
IKS Dluhopisový, open-ended mutual fund  
IKS Fond fondů, open-ended mutual fund  
IKS Fond světových indexů, open-ended mutual fund  
MAX – světový garantovaný fond, open-ended mutual fund  
MAX – světový zajištěný fond 2, open-ended mutual fund  
and Penzijní fond Komerční banky, a.s.

### Members of the Company’s Board of Directors and Supervisory Board

During the year ended 31 December 2004, the Company made no substantial changes to the corporate details held at the Register of Companies.

IKS KB is a wholly owned subsidiary of Komerční banka, a.s. (“Komerční banka”) with its registered office at Na Příkopě 33/969, 114 07 Prague 1 and is included in the consolidation group of Komerční banka.

### Members of statutory and supervisory bodies as of 31 December 2004

#### Board of Directors

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### Supervisory Board

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### 2.1. Basis of Accounting

The financial statements are prepared based on the Company's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the structural substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards. The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of financial instruments held for trading and available for sale to fair value. Assets that are not remeasured to fair value and suffered an impairment are stated at net recoverable amount.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets acquired in a foreign currency are translated into CZK using the exchange rate prevailing at the acquisition date or at the date that individual components are included in assets.

Cash and cash equivalents, and receivables and payables denominated in a foreign currency are translated into CZK using the exchange rate notified by the Czech National Bank at the balance sheet date.

Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Company and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing at the date of the transaction. Year-end unrealised gains or losses arising from movements in the exchange rates are reported within *Net profit/(loss) on financial operations* and decrease or increase the amount of the receivable or payable.

### 2.3. Securities

All securities held by the Company are recognised using settlement date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not greater than the period typical for the relevant type of transaction.

In the year ended 31 December 2004, the Company categorised its securities as "Held for trading" and "Available for sale". Securities held for trading are financial assets (participation certificates) acquired by the Company for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year. Available for sale securities are those financial assets (equities and participation certificates) that are not classified as securities held for trading.

Securities are initially measured at their cost plus direct transaction costs. From the trade date, the Company remeasures these securities to fair value. Fair value changes are recorded to income or expenses with a corresponding entry to the relevant securities accounts.

Securities are reported in the balance sheet line *Shares, participation certificates and other holdings* or *Debt securities*. Realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation no. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in the Regulation, the Company values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Under the Regulation, securities are valued at the price quoted on a public market, which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Company uses a value which it has determined with due care and diligence.

## 2.4. Tangible and Intangible Fixed Assets

### **Intangible Fixed Assets**

Intangible fixed assets are valued at cost which consists of purchase cost and other expenses directly attributable to the acquisition.

Assets costing less than CZK 60 thousand are expensed in the year of acquisition and reported through *Other operating expenses*.

The cost of intangible asset improvements increases the acquisition cost of the related fixed asset. Costs of repairs and maintenance are charged to expenses.

Intangible fixed assets are amortised over the estimated useful lives of the relevant assets, not exceeding 20 years.

### **Tangible Fixed Assets**

Tangible fixed assets are valued at cost which consists of purchase cost, freight, customs duty and other incidental expenses.

Assets costing less than CZK 40 thousand are expensed in the year of acquisition and reported through other operating expenses.

The cost of tangible asset improvements increases the acquisition cost of the related fixed asset. Costs of repairs and maintenance are charged to expenses.

### **Depreciation**

Depreciation is recorded based on the cost and the estimated useful lives of the relevant assets. The estimated useful lives are as follows:

	Number of years
Buildings	50
Machinery, tools and equipment	3 – 8
Vehicles	4
Furniture and fixtures	8 – 10

During the year ended 31 December 2004, the Company extended the depreciation period of buildings from 30 to 50 years.

## 2.5. Receivables

Receivables are stated at amortised cost net of provisions. The Company recognises provisions if the current recoverable value of receivables is lower than their carrying amount. The Company recognises provisions for temporary impairment of receivables.

## 2.6. Taxation

Income tax is calculated using the currently enacted tax rate based upon the accounting profit increased or decreased by permanent or temporary non-tax deductible expenses and non-taxable income in accordance with the provisions of the relevant legislation of the Czech Republic.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. The principal temporary differences arise from depreciation of tangible fixed assets, provisions, and tax losses carried forward. Deferred tax assets in respect of unutilised tax losses carried forward and other temporary differences are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

## 2.7. Reserves and Provisions

Provisions are made based upon the results of the inventory taking, to the extent that the carrying values of assets are lower than the actual balance. Reserves are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

# 3. Financial Instruments

## 3.1. Market Risks

The Company primarily manages risk exposures undertaken by individual funds. In accordance with the investment policy of the funds set out in their statutes, and in line with the adopted investment strategies, the Company approves the methods and policies of controlling and managing markets risks of the funds. Depending on the type of the fund, these exposures specifically relate to foreign currency and interest rate risks. The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions. The Company is exposed to market risks solely through its investments in securities and placements with banks. Investments in securities include investments in participation certificates issued by the mutual funds administered by the Company whose risks are managed as described above.

### 3.1.1. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The Company only carries term placements repayable within three months.

### 3.1.2. Foreign Exchange Exposure

All of the Company's receivables and payables are denominated in CZK.

## 3.2. Credit Risk

The Company monitors credit risk on an aggregate basis in respect of all on and off balance sheet positions. A predominant portion of credit risk exposures is concentrated within the Komerční banka Financial Group.

## 3.3. Operational Risk

The Company does not presently monitor and manage operational risk centrally. Operational risk is monitored at the level of organisational units. The Company centrally monitors and reports significant events of operational risk to its parent company. Management of the Company is currently not considering putting other tools in place for measuring and managing operational risk.

#### 4. Amounts Due from Banks

CZK thousand	2004	2003	2002
Current accounts	39,523	165	331
Terms placements	50,300	138,700	24,301
<b>Total amounts due from banks</b>	<b>89,823</b>	<b>138,865</b>	<b>24,632</b>

#### 5. Securities

##### 5.1. Shares, Participation Certificates and Other Holdings

CZK thousand	2004	Carrying value 2003	2002
Securities held for trading	31,019	0	46,000
Securities available for sale	58,171	82,952	83,362
<b>Total shares, participation certificates and other holdings</b>	<b>89,190</b>	<b>82,952</b>	<b>129,362</b>

##### 5.2. Securities Held for Trading

Securities held for trading consist of participation certificates issued by the fund IKS Peněžní trh.

CZK thousand	2004	Fair value 2003	2002
Participation certificates	31,019	0	46,000
<b>Total securities held for trading</b>	<b>31,019</b>	<b>0</b>	<b>46,000</b>

##### 5.3. Securities Available for Sale

CZK thousand	2004	Fair value 2003	2002
Shares	103	103	103
Participation certificates	58,068	82,849	83,259
<b>Total securities available for sale</b>	<b>58,171</b>	<b>82,952</b>	<b>83,362</b>

##### 5.3.1. Participation Certificates

CZK thousand	2004	Fair value 2003	2002
IKS Dluhopisový	56,953	81,834	82,292
IKS Globální	1,115	1,015	967
<b>Total participation certificates</b>	<b>58,068</b>	<b>82,849</b>	<b>83,259</b>

## 6. Intangible Fixed Assets

CZK thousand	Balance at 31 December 2002	Additions	Disposals	Balance at 31 December 2003	Additions	Disposals	Balance at 31 December 2004
Software	7,960	1,224	0	9,184	4,346	54	13,476
Accumulated amortisation	(5,239)	(1,155)	0	(6,394)	(2,501)	(54)	(8,841)
Copy rights	1,062	0	0	1,062	0	0	1,062
Accumulated amortisation	(147)	(355)	0	(501)	(355)	0	(856)
Intangible fixed assets under construction	0	766	0	766	1,054	766	1,054
<b>Total</b>	<b>3,636</b>			<b>4,117</b>			<b>5,895</b>

Amortisation of intangible fixed assets charged to expenses amounted to CZK 2,855 thousand, CZK 1,510 thousand, and CZK 682 thousand for the years ended 31 December 2004, 2003 and 2002, respectively.

Intangible assets with a cost lower than CZK 60 thousand not recognised on the face of the balance sheet and acquired in the years ended 31 December 2004, 2003 and 2002 totalled (at cost) CZK 26 thousand, CZK 81 thousand and CZK 91 thousand as of 31 December 2004, 2003 and 2002, respectively.

During the years ended 31 December 2004, 2003 and 2002, the Company acquired no intangible fixed assets without payment of consideration.

## 7. Tangible Fixed Assets

CZK thousand	Balance at 31 December 2002	Additions	Disposals	Balance at 31 December 2003	Additions	Disposals	Balance at 31 December 2004
Buildings	131,457	0	0	131,457	0	0	131,457
Land	2,621	0	0	2,621	0	0	2,621
Accumulated depreciation	(27,582)	(4,739)	0	(32,321)	(2,423)	0	(34,744)
Machinery, tools and equipment	13,687	1,101	1,153	13,635	191	1,059	12,767
Accumulated depreciation	(11,441)	(1,137)	(1,152)	(11,426)	(1,128)	(1,059)	(11,495)
Vehicles	4,371	3,128	2,410	5,089	0	609	4,480
Accumulated depreciation	(1,294)	(1,821)	(2,396)	(719)	(1,551)	(609)	(1,661)
Furniture and fixtures	3,604	0	0	3,604	0	0	3,604
Accumulated depreciation	(3,512)	(41)	0	(3,553)	(24)	0	(3,577)
Works of art	350	0	0	350	0	0	350
Acquisition of tangible fixed assets	0	0	0	0	70	0	70
<b>Total</b>	<b>112,261</b>			<b>108,737</b>			<b>103,872</b>

Depreciation of tangible fixed assets amounted to CZK 4,822 thousand, CZK 7,040 thousand and CZK 7,180 thousand for the years ended 31 December 2004, 2003 and 2002, respectively. The decreased charge for depreciation results from the change of depreciation period of buildings, i.e. the Company's seat, that was extended to 50 years for accounting purposes.

Tangible assets with a cost lower than CZK 40 thousand not recognised on the face of the balance sheet and acquired in the years ended 31 December 2004, 2003 and 2002 totalled (at cost) CZK 761 thousand, CZK 696 thousand and CZK 191 thousand as of 31 December 2004, 2003 and 2002, respectively.

During the years ended 31 December 2004, 2003 and 2001 the Company acquired no tangible fixed assets without payment of consideration.

## 8. Other Assets

CZK thousand	2004	2003	2002
Due from discounts/overcharges in respect of participation certificates	5,839	2,146	32,234
Receivables from the portfolio administration	25,211	32,859	26,540
Deferred tax asset	1,138	1,358	1,740
Tax assets	1,650	6	3
Estimated receivables	0	0	102
Other	3,885	4,185	4,581
<b>Total other assets</b>	<b>37,723</b>	<b>40,554</b>	<b>65,200</b>

The Company carried no outstanding receivables in its statutory books for the years ended 31 December 2004, 2003 and 2002 that would be considered uncollectible and hence charged no provisions.

## 9. Deferred Expenses and Accrued Income

CZK thousand	2004	2003	2002
Accrued income – interest income	6	27	0
Other	847	1,348	1,167
<b>Deferred expenses and accrued income</b>	<b>853</b>	<b>1,375</b>	<b>1,167</b>

Other expenses consist of prepaid rental, subscription and other costs of services arising from concluded contracts.

## 10. Share Capital

The Company's issued share capital consists of 500 ordinary shares fully subscribed and paid with a nominal value of CZK 100 thousand. No amount was recorded to other capital funds as of 31 December 2004.

The Company held no treasury stock as of 31 December 2004, 2003 and 2002, respectively.

There were no movements on the share capital accounts during the years ended 31 December 2004, 2003 and 2002.

## 11. Allocation of Profit

Pursuant to the decision of the sole shareholder, acting in the capacity as a general meeting, dated 12 May 2004, the following allocation of the profit for the year ended 31 December 2003 was approved:

CZK thousand	
Retained earnings brought forward as of 31 December 2003	161,416
Net profit for 2003	74,046
Allocation to the social fund	1,352
Dividends paid out	187,000
Allocation to retained earnings	0
Transfer to accumulated losses	0
<b>Retained earnings as of 31 December 2004</b>	<b>47,110</b>
<b>Accumulated losses as of 31 December 2004</b>	<b>0</b>

## 12. Other Liabilities

CZK thousand	2004	2003	2002
Trade payables	40,966	6,494	14,237
Owed to employees	1,879	1,798	3,434
Estimated payables	31,079	21,789	30,205
Payables to the state budget	598	8,317	21,090
Deferred tax liability	5,992	8,546	8,842
Other liabilities	1,073	1,346	2,646
<b>Total</b>	<b>81,587</b>	<b>48,290</b>	<b>80,454</b>

As of 31 December 2004, the Company reported trade payables to funds arising from their tax overpaid in previous reporting periods. The Company expects the payables to be paid out to the funds carrying the tax receivable during the year ending 31 December 2005.

As of 31 December 2004, the Company reported no past due short-term payables. As of 31 December 2003, the balance of the past due short-term payables was CZK 2,373 thousand. All payables were settled before 7 January 2004. All outstanding payables as of 31 December 2003 related to the supply of services and material for the year ended 31 December 2003 for which documentation had not been settled within the due date because of the investigation into the correctness of the billing procedure. As of 31 December 2002, the Company carried short-term payables of CZK 10,942 thousand past their due dates.

As of 31 December 2004, the Company had no short-term payables secured by pledges or guarantees.

As of 31 December 2004, estimated payables principally comprised costs of bonus payments for the year ended 31 December 2004, advisory fees and marketing expenses.

## 13. Accrued Expenses and Deferred Income

CZK thousand	2004	2003	2002
Bonuses for the sale of the Company's products	14,676	6,479	8,910
Other services as billed	480	717	286
<b>Total accrued expenses and deferred income</b>	<b>15,156</b>	<b>7,196</b>	<b>9,196</b>

Accrued expenses and deferred income principally relate to the provision of work and services not invoiced at the closing date and are expensed in the year ended 31 December 2004 to which they relate on an accruals basis. The substantial increase in bonuses for the sale of the Company's products in the year ended 31 December 2004 compared to the year ended 31 December 2003 is caused by the bonuses for the sale of participation certificates of the Max – světový garantový fund and the Max – světový zajištěný fund 2 which were paid out in December 2004. These funds were established during 2004.

## 14. Net Interest Income

Net interest income comprises:

CZK thousand	2004	2003	2002
<b>Interest income</b>			
From deposits with financial institutions	1,311	609	1,035
<b>Interest expenses</b>			
From loans	0	0	0
<b>Net interest income</b>	<b>1,311</b>	<b>609</b>	<b>1,035</b>



## 15. Net Fee and Commission Income

Net fee and commission income comprises:

CZK thousand	2004	2003	2002
Fees collected in respect of administration, discounts and overcharges	370,260	375,654	372,590
Costs of received fees	114,763	132,854	140,509
Costs of banking fees	128	130	131
<b>Net fee and commission income</b>	<b>255,369</b>	<b>242,670</b>	<b>231,950</b>

Costs of received fees include the fees for using Komerční banka's distribution network in selling participation certificates amounting to CZK 106,158 thousand, CZK 122,507 thousand and CZK 128,681 thousand for the years ended 31 December 2004, 2003 and 2002, respectively, and advisory fees amounting to CZK 6,819 thousand, CZK 6,308 thousand and CZK 7,757 thousand for the years ended 31 December 2004, 2003 and 2002.

## 16. Net Profit/(Loss) on Financial Operations

Net profit/(loss) on financial operations comprises:

CZK thousand	2004	2003	2002
Realised and unrealised profit/(loss) on foreign exchange transactions	(64)	(47)	(66)
Realised and unrealised profit/(loss) on transactions with securities	3,274	(410)	4,355
<b>Net profit/(loss) on financial operations</b>	<b>3,210</b>	<b>(457)</b>	<b>4,289</b>

Realised and unrealised profit/(loss) on transactions with securities comprises income from the sale of participation certificates held by the Company.

## 17. Other Operating Income and Expenses

Other operating income and expenses comprise:

CZK thousand	2004	2003	2002
Other operating income	1,788	2,830	2,570
Remuneration to the members of the statutory and supervisory bodies*	805	1,084	1,510
Other operating expenses	8,570	8,040	10,365
<b>Gain on the transfer of receivables</b>	<b>0</b>	<b>270</b>	<b>0</b>

\* Remuneration to the members of the statutory and supervisory bodies is defined on the basis of mandate agreements.

Other operating income principally consists of proceeds from the lease of non-residential areas, proceeds from insurance claims and income from the sale of disposed assets. Other operating expenses consist of the costs of leasing the Company's trade mark, and insurance premiums.

## 18. Administrative Expenses

Administrative expenses comprise:

CZK thousand	2004	2003	2002
<b>Staff costs</b>	<b>59,811</b>	<b>61,723</b>	<b>67,110</b>
Wages and salaries	44,197	45,082	48,668
Wages and salaries to the members of the Company's statutory bodies	9,577	10,724	10,876
Wages and salaries net of wages and salaries to the members of the Company's statutory bodies	34,620	34,358	37,792
Social security and health insurance	14,401	15,512	17,052
Other staff costs	1,213	1,129	1,390
<b>Other administrative expenses</b>	<b>50,168</b>	<b>58,520</b>	<b>50,773</b>
Taxes and fees	961	429	132
Audit	772	734	1,008
Tax and legal advisory services	1,910	2,145	1,838
Other purchased consumables	46,525	55,212	47,795
<b>Total administrative expenses</b>	<b>109,979</b>	<b>120,243</b>	<b>117,883</b>
Actual number of staff at year-end	42	41	43
Average recalculated number of staff during the year	43	42	41
Number of members of the Company's statutory bodies	6	6	6
<b>Average expenses per employee in CZK</b>	<b>2,618</b>	<b>2,933</b>	<b>2,741</b>

Other purchased consumables include all services and material acquired by the Company externally.

## 19. Reserves

Movements in the accounts of reserves are as follows:

CZK thousand	Balance at 31 December 2002	Charge	Release	Balance at 31 December 2003	Charge	Release	Balance at 31 December 2004
Reserve for penalty costs	0	1,889	0	1,889	2,000	1,889	2,000

The reserve for possible penalty costs arising from the administrative proceedings initiated by the Securities Commission was recognised based on an expert report prepared by Vyroubal, Krajhanzl, Školout, Attorneys at Law. The reserve for additional payments of corporate income tax for the period from 1998 to 2001 was released. Tax arrears were settled during the year ended 31 December 2004; appellate proceedings are held with respect to payment assessment and the outcome of the tax examination.

## 20. Income Taxes, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due taxes – current period	37,229	33,656	35,705
Due taxes – prior periods	1,937	154	(3)
Deferred taxes	(2,333)	85	4,702
<b>Total income taxes</b>	<b>36,833</b>	<b>33,895</b>	<b>40,405</b>

Set out below is an analysis of the due taxes:

CZK thousand	2004
Profit before tax	134,516
Items to add	10,450
Deductible items	(11,885)
Tax base	133,081
Tax deductions and gifts	(120)
Decreased tax base	132,961
Tax	37,229
Tax relief	0
<b>Total due tax</b>	<b>37,229</b>

Movements in deferred income tax balances are as follows:

CZK thousand	2004	2003	2002
Deferred tax at 1 January	(7,187)	(7,102)	(2,400)
Deferred tax credit/(charge)	2,333	85	(4,703)
<b>Net deferred tax at 31 December</b>	<b>(4,854)</b>	<b>(7,187)</b>	<b>(7,102)</b>

Deferred income tax balances comprise:

<b>Deferred income tax liability</b>	
Depreciation of fixed assets	(5,992)
	<b>(5,992)</b>
<b>Deferred income tax assets</b>	
Social security and health insurance from bonuses	1,138
	<b>1,138</b>
<b>Net deferred income tax liability</b>	<b>(4,854)</b>

## 21. Administered Assets as of 31 December 2004

Set out below is a summary of assets administered in the mutual funds:

CZK thousand Fund	Administration fee	Assets at 31 December 2004	Equity at 31 December 2004
IKS Global konzervativní	45,252	1,769,757	1,748,925
IKS Plus bondový	16,563	659,291	657,560
IKS Balancovaný	13,563	1,218,128	1,200,422
IKS Dluhopisový	55,537	3,679,871	3,660,924
IKS Peněžní trh	115,107	14,906,403	14,777,827
IKS Fond světových indexů	6,068	377,776	371,985
IKS Fond fondů	4,734	263,181	262,061
MAX – světový garantovaný fond	3,304	895,492	892,837
MAX – světový zajištěný fond 2	501	469,898	464,560
<b>Total</b>	<b>260,629</b>	<b>24,239,797</b>	<b>24,037,101</b>

Set out below is a summary of assets administered in other funds:

CZK thousand	
Fund	Balance of administered assets at 31 December 2004
Penzijní fond	12,660,400
<b>Total</b>	<b>12,660,400</b>

## 22. Interest Rate Risk

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Cash and current balances with banks	39,531	0	0	0	0	39,531
Amounts due from banks	50,300	0	0	0	0	50,300
Securities held for trading	0	0	0	0	31,019	31,019
Securities available for sale	0	0	0	0	58,171	58,171
Securities held to maturity	0	0	0	0	0	0
Deferred expenses, accrued income and other assets	0	0	0	0	37,438	37,438
Deferred tax asset	0	0	0	0	1,138	1,138
Tangible and intangible fixed assets, net	0	0	0	0	109,767	109,767
<b>TOTAL ASSETS</b>	<b>89,831</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>237,533</b>	<b>327,364</b>
Accrued expenses, deferred income, reserves and other liabilities	0	0	0	0	92,153	92,153
Income tax	0	0	0	0	598	598
Deferred tax	0	0	0	0	5,992	5,992
Equity	0	0	0	0	228,621	228,621
<b>TOTAL LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>327,364</b>	<b>327,364</b>
Net on balance sheet interest rate exposure	89,831	0	0	0	(89,831)	0
Net off balance sheet interest rate exposure	0	0	0	0	0	0
Cumulative interest rate exposure	89,831	0	0	0	(89,831)	0

## 23. Liquidity Risk

CZK thousand	On demand within 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Cash and current balances with banks	39,531	0	0	0	0	0	39,531
Amounts due from banks	50,300	0	0	0	0	0	50,300
Securities held for trading	0	0	0	0	0	31,019	31,019
Securities available for sale	0	0	0	0	0	58,171	58,171
Deferred expenses, accrued income and other assets	0	37,413	18	7	0	0	37,438
Deferred tax asset	0	0	0	0	0	1,138	1,138
Tangible and intangible fixed assets, net	0	0	0	0	0	109,767	109,767
<b>TOTAL ASSETS</b>	<b>89,831</b>	<b>37,413</b>	<b>18</b>	<b>7</b>	<b>0</b>	<b>200,095</b>	<b>327,364</b>
Accrued expenses, deferred income, reserves and other liabilities		90,153	0	0	0	2,000	92,153
Income tax	0	598	0	0	0	0	598
Deferred tax	0	0	0	0	0	5,992	5,992
Equity	0	0	0	0	0	228,621	228,621
<b>TOTAL LIABILITIES</b>	<b>0</b>	<b>90,751</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>236,613</b>	<b>327,364</b>
Net on balance sheet liquidity exposure	89,831	(53,338)	18	7	0	(36,518)	0
Net off balance sheet liquidity exposure	0	0	0	0	0	0	0
Cumulative liquidity exposure	89,831	36,493	36,511	36,518	36,518	0	0

## 24. Foreign Currency Risk

All assets and liabilities are denominated in CZK.

## 25. Off Balance Sheet Commitments and Contingent Liabilities

As of 31 December 2004, the Company was involved in the following administrative proceedings initiated by the Securities Commission (henceforth the "SC"):

Purchases and sales of shares of Vertex, Optimit, Metrostav, Chemapol Group, SPT Telecom, Deza, AERO, Pražské pivovary, Tatra, Škoda, Liaz, Lázně Teplice, Rybníkářství Třeboň, Rybníkářství Hluboká, Ostroj Opava, Česká zbrojovka, Kovospol. The SC undertook an inspection in July 2000 and the Company received a report on the results of the inspection on 21 May 2001 to which the Company filed objections on 22 June 2001. On 18 July 2001, the SC initiated administrative proceedings regarding a potential violation of certain provisions of the Investment Companies and Funds Act. The Company submitted its comments on the initiated administrative proceedings to the SC on 8 August 2001 through its lawyers Vyroubal Krajhanzl Školout, Attorneys at Law. The SC had not responded to the comments at the balance sheet date (see Note 19).

The Company records a potential off balance sheet receivable arising from legal disputes with two entities in which the Company acts as the plaintiff. The subject matters of the disputes are the dividends of Pražská teplárenská, a.s. paid to an unauthorised entity and a failure to pay out a portion of dividends. The total amount of the off-balance receivable is CZK 17,528 thousand. The Company is involved in the legal dispute for the benefit of the IKS Global konzervativní fund.

The Company is also involved in another legal dispute with a defendant who entered into a contract for the purchase of securities whose subject matter was the transfer of shares of Mrazírny Praha, a.s. to the defendant. The proceedings were postponed until January 2005. The Company is involved in the dispute for the benefit of the IKS Global konzervativní fund.

## 26. Related Party Transactions

The members of statutory bodies received no loans, guarantees or advances and held no shares of the Company for the years ended 31 December 2004 and 2003. Other benefits relating to the use of cars for both business and private purposes were provided to the members of the Board of Directors.

The Company carried no long-term payables to related parties as of 31 December 2004, 2003 and 2002.

In the normal course of business, the Company makes use of services of its parent company, primarily in relation to the use of Komerční banka's branch network for the purpose of sale and repurchase of participation certificates of the open-ended mutual funds managed by IKS KB, a.s. Aggregate costs incurred in relation to these services amounted to CZK 106,158 thousand, CZK 122,507 thousand, and CZK 128,681 thousand for the years ended 31 December 2004, 2003 and 2002, respectively.

As of 31 December 2004, short-term receivables from the parent company amounted to CZK 6 thousand. This receivable resulted from the payment of leased telephone lines for the period December 2004. The receivable was repaid on 20 January 2005.

The Company carried short-term amounts due from Penzijní fond KB, a.s. amounting to CZK 4,128 thousand.

The Company reported an amount of CZK 24 thousand due from the parent company as part of the accrual accounts.

The Company carried no long-term amounts due from Komerční banka.

As of 31 December 2004, short-term payables to Komerční banka amounted to CZK 198 thousand. This balance reflects the billing for depository services and the services of Komerční bankas's call centre. These payables were settled on 4 February 2005.

The Company reported estimated payables of CZK 11,180 thousand arising from unbilled services provided by Komerční banka. This balance reflects primarily services related to the use of trade marks and the re-billing of costs attributable to the Company's promotion.

The Company reported payables as part of the accrual accounts arising from a bonus for the sale of participation certificates amounting to CZK 14,676 thousand (see Note 13) and other payables of CZK 36 thousand.

## 27. Significant Post Balance Sheet Events

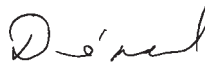
On 10 January 2005, the Municipal Court in Prague made a judgement with respect to the transfer of shares of Mrazírny Praha, a.s. fully upholding the claim of the Company. The defendant was instructed to pay CZK 8,352 thousand to the Company including civil fruits, to settle the contractual penalty of CZK 12,000 thousand, and to reimburse the Company for the costs of the proceedings.

These financial statement were approved by the Board of Directors on 4 March 2005

Signed on behalf of the Board of Directors:



**Ing. Pavel Pršala**  
Chairman of the Board  
and CEO



**Jan Drápal**  
Member of the Board  
of Director and Deputy CEO

**Deloitte.**

IKS Peněžní trh

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

## Auditor's Report to the Shareholders of IKS Peněžní trh, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of IKS Peněžní trh, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of IKS Peněžní trh, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	0	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	a) State securities	3	0	0	0
2.2.	b) Other	4	0	0	0
3.	Amounts due from banks	5	2,456,372	4,458,738	4,755,015
3.1.	a) Repayable on demand	6	23,375	19,473	42,561
3.2.	b) Other receivables	7	2,432,997	4,439,265	4,712,454
4.	Amounts due from clients	8	0	0	0
4.1.	a) Repayable on demand	9	0	0	0
4.2.	b) Other receivables	10	0	0	0
5.	Debt securities	11	12,361,673	9,605,614	6,724,366
5.1.	a) Issued by state institutions	12	3,608,642	315,346	3,131,118
5.2.	b) Issued by other entities	13	8,753,031	9,290,268	3,593,248
6.	Shares, participation certificates and other holdings	14	0	0	0
7.	Equity holdings in associates	15	0	0	0
7.1.	In banks	16	0	0	0
7.2.	In other entities	17	0	0	0
8.	Equity holdings in subsidiaries	18	0	0	0
8.1.	In banks	19	0	0	0
8.2.	In other entities	20	0	0	0
9.	Intangible fixed assets	21	0	0	0
9.1.	Incorporation costs	22	0	0	0
9.2.	Goodwill	23	0	0	0
9.3.	Other	24	0	0	0
10.	Tangible fixed assets	25	0	0	0
10.1.	Land and buildings for operating activities	26	0	0	0
10.2.	Other	27	0	0	0
11.	Other assets	28	52,175	6,616	105,089
12.	Subscribed capital unpaid	29	0	0	0
13.	Deferred expenses and accrued income	30	36,183	35,997	38,078
TOTAL ASSETS			14,906,403	14,106,965	11,622,548



## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	a) Repayable on demand	32	0	0	0
1.2.	b) Other payables	33	0	0	0
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0	0
2.1.1.	of which: Savings deposits	36	0	0	0
2.2.	b) Other payables	37	0	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0	0
2.2.3.	Term deposits with maturity	40	0	0	0
2.2.4.	Term deposits repayable at notice	41	0	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0	0
3.2.	b) Other payables from debt securities	44	0	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>128,576</b>	<b>175,482</b>	<b>178,389</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	a) For pensions and similar liabilities	48	0	0	0
6.2.	b) For taxes	49	0	0	0
6.3.	c) Other	50	0	0	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0	0
8.2.	b) Treasury shares	54	0	0	0
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>3,516,670</b>	<b>3,354,165</b>	<b>2,628,618</b>
<b>10.</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>0</b>	<b>0</b>	<b>0</b>
10.1.	a) Mandatory reserve funds	57	0	0	0
10.3.	b) Other reserve funds	59	0	0	0
10.4.	c) Other funds from profit	60	0	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>9,653,494</b>	<b>9,338,146</b>	<b>7,818,147</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>39,443</b>	<b>(24,408)</b>	<b>35,730</b>
12.1.	a) Of assets and liabilities	65	45,009	74,243	66,419
12.2.	b) Hedging derivatives	66	(5,566)	(98,651)	(30,689)
12.3.	c) Re-translation of equity holdings	67	0	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>1,263,580</b>	<b>961,666</b>	<b>690,636</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>304,641</b>	<b>301,914</b>	<b>271,030</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>14,906,403</b>	<b>14,106,965</b>	<b>11,622,548</b>

# Off Balance Sheet Accounts as of 31 December 2004

## Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0	0
1.2.	Guarantees and warranties	73	0	0	0
1.3.	Guarantees from bills of exchange	74	0	0	0
1.4.	Guarantees under letters of credit	75	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0	0
2.2.	Cash collateral	78	0	0	0
2.3.	Securities	79	0	0	0
2.4.	Other	80	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0	0
3.2.	With currency instruments	83	0	0	0
3.3.	With equity instruments	84	0	0	0
3.4.	With commodity instruments	85	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>1,673,696</b>	<b>1,809,349</b>	<b>1,717,512</b>
4.1.	With interest rate instruments	87	400,000	800,000	400,000
4.2.	With currency instruments	88	1,273,696	1,009,349	1,317,512
4.3.	With equity instruments	89	0	0	0
4.4.	With commodity instruments	90	0	0	0
4.5.	With credit instruments	91	0	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0	0
5.2.	With currency instruments	94	0	0	0
5.3.	With equity instruments	95	0	0	0
5.4.	With commodity instruments	96	0	0	0
5.5.	With credit instruments	97	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0	0
1.2.	Guarantees and warranties	105	0	0	0
1.3.	Guarantees from bills of exchange	106	0	0	0
1.4.	Guarantees under letters of credit	107	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0	0
2.2.	Cash collateral	110	0	0	0
2.3.	Securities	111	0	0	0
2.4.	Other collateral	112	0	0	0
2.5.	Collateral – securities	113	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0	0
3.2.	With currency instruments	116	0	0	0
3.3.	With equity instruments	117	0	0	0
3.4.	With commodity instruments	118	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>1,673,696</b>	<b>1,809,349</b>	<b>1,717,512</b>
4.1.	With interest rate instruments	120	400,000	800,000	400,000
4.2.	With currency instruments	121	1,273,696	1,009,349	1,317,512
4.3.	With equity instruments	122	0	0	0
4.4.	With commodity instruments	123	0	0	0
4.5.	With credit instruments	124	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0	0
5.2.	With currency instruments	127	0	0	0
5.3.	With equity instruments	128	0	0	0
5.4.	With commodity instruments	129	0	0	0
5.5.	With credit instruments	130	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Interest income and similar income	1	545,337	404,424	379,427
1.1.	of which: Interest income from debt securities	2	466,919	269,600	211,581
2.	Interest expense and similar expense	3	55,881	67,625	75,169
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	Income from shares and equity investments	5	0	0	0
3.1.	of which: a) Income from equity investments in associates	6	0	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0	0
3.3.	c) Income from other shares and equity investments	8	0	0	0
4.	Commission and fee income	9	21	25	26
5.	Commission and fee expense	10	129,954	117,581	79,358
6.	Net profit/(loss) on financial operations	11	(38,951)	135,136	87,163
7.	Other operating income	12	0	0	0
8.	Other operating expenses	13	0	0	0
9.	Administrative expenses	14	1	3	196
9.1.	of which: a) Employee costs	15	0	0	0
9.1.1.	aa) Wages and salaries	16	0	0	0
9.1.2.	ab) Social security and health insurance	17	0	0	0
9.2.	b) Other administrative costs	18	1	3	196
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0	1
11.1.	Depreciation of tangible fixed assets	24	0	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0	1
11.4.	Use of reserves for tangible fixed assets	27	0	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0	0

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0	0
12.3.	Income from receivables previously written off	35	0	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0	0
13.3.	Charge for reserves for guarantees	39	0	0	0
13.4.	Use of reserves for guarantees	40	0	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0	0
16.	Release of other reserves	44	0	0	0
17.	Charge for and use of other reserves	45	0	0	0
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	320,570	354,376	311,892
20.	Extraordinary income	48	0	0	0
21.	Extraordinary expenses	49	0	0	1
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0	(1)
23.	Income tax	51	15,929	52,462	40,864
24.	Net profit/(loss) for the period	52	304,641	301,914	271,030

## Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	3,354,165	2,628,618	950,068
	Increase	1,715,821	2,052,989	2,429,452
	Decrease	1,553,316	1,327,442	750,902
	Closing balance	3,516,670	3,354,165	2,628,618
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	9,338,146	7,818,147	3,976,872
	Increase	3,366,358	4,276,230	5,533,638
	Decrease	3,051,010	2,756,231	1,692,363
	Closing balance	9,653,494	9,338,146	7,818,147
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	(24,408)	35,730	(7,274)
	Increase	27,907	37,252	150,254
	Decrease	(35,944)	97,390	107,250
	Closing balance	39,443	(24,408)	35,730
8.	<b>Retained earnings</b>			
	Opening balance	961,666	690,636	431,060
	Increase	301,914	271,030	259,576
	Decrease	0	0	0
	Closing balance	1,263,580	961,666	690,636
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	<b>304,641</b>	<b>301,914</b>	<b>271,030</b>
11.	<b>Dividends</b>	<b>0</b>	<b>0</b>	<b>0</b>

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

IKS Peněžní trh, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the “Fund” or “IKS Peněžní trh”) was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004.

The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. The Fund focuses on investing in monetary and debt security markets.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Company’s Board of Directors and Supervisory Board

During the year ended 31 December 2004, no changes were made to the composition of the Board of Directors and the Supervisory Board.

Members of the statutory and supervisory bodies as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards. The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing as of the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading" and "Available for sale". Securities held for trading are financial assets (shares, debt securities, treasury bills, participation certificates) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*.

Securities are reported in the balance sheet line *Debt securities* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation No. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in the Regulation, the Company values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Under the Regulation, securities are valued at the price quoted on a public market, which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Company uses a value which it has determined with due care and diligence.



#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Derivative Financial Instruments and Hedging

In the normal course of business, the Fund enters into hedging contracts for derivative financial instruments which represent a very low initial investment. The derivative financial instruments used include currency forwards. These financial instruments are used by the Fund to hedge foreign currency exposures associated with its transactions in the financial markets and the composition of its portfolio.

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

- (a) The Company has developed a risk management strategy;
- (b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- (c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as hedges and that prove to be highly effective in relation to the hedged risk, are retained in the balance sheet line *Gains or losses from revaluation*. The balances recognised in the balance sheet are taken to the profit and loss account and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss account.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are retained in the balance sheet line *Gains or losses from revaluation* in compliance with the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended. The balances recognised in the balance sheet are taken to the profit and loss account line *Gains or losses from derivative transactions* at settlement of the relevant instrument.

Certain derivatives are embedded in compound financial instruments which comprise the host instrument and the derivative. Pursuant to Section 29 of the Czech Finance Ministry Regulation No. 501/1992, as amended, the Company recognises gains or losses from the revaluation of assets and liabilities at fair value through *Gains or losses from revaluation*.

#### 2.7. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund recorded no provisions in its statutory books for the year ended 31 December 2004.

#### 2.8. Corrections Related to Previous Reporting Periods

Corrections to the expenses and income of previous reporting periods are recognised as income or expenses in the profit and loss account in the current period unless the corrections are significant.

#### 2.9. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, and the Collective Investing Act effective since 1 May 2004, the depositary, Komerční banka, a.s., oversees the Fund's compliance with the Acts.

#### 2.10. New Accounting Pronouncements in 2004

No changes were made during the year ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Year Ended 31 December 2004

No such developments were experienced during the year ended 31 December 2004.

## 4. Financial Instruments

#### 4.1. Market Risks

The investment policy set out in the statutes of individual funds of the Company which is additionally specified in the Fund's investment strategy, establishes various investment priorities for the Company and the related need to monitor, control or mitigate various investment risks. In accordance with this, the Company adopted a policy of separately monitoring individual investment risks and approves the methods and policies of controlling and managing market risks of the Fund in line with the adopted investment policy of the Fund. Depending on the type of fund, these exposures specifically relate to foreign currency, credit and interest rate risks. The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against selected market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

The Statute requires that the Fund predominantly invest in fixed income earning instruments while maintaining a low interest rate risk, measured in terms of the average modified duration. The value of the duration is required to be maintained within the range of 0 to 1 year. The current average duration of the Fund was assessed on a daily basis during the year ended 31 December 2004. The hedging of selected instruments with duration exceeding one year was undertaken through interest rate swaps. The long-term investment strategy makes it mandatory for the fund to hedge, to the maximum degree possible, currency risks attached to the securities added to the portfolio. The Fund's current risk profile is assessed on a daily basis. The Fund hedges all investments denominated in a foreign currency. The hedging of currency risk attached to securities denominated in a foreign currency was undertaken by entering into currency swaps and forwards depending upon the type and time horizon of the investment. The hedging was implemented such that the overall currency risk profile does not exceed 0.1 percent of the Fund's assets over a period of six months with a 95 percent confidence level.

#### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended.

In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

IKS Peněžní trh is required by its conservative investment strategy to solely acquire high-credit instruments. As such, the Fund was allowed to exclusively purchase instruments with the investment rating.

#### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

### 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with the banks of the depositary and the custodian, that is, with Komerční banka and ING Bank. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004	2003	2002
Current accounts with banks	23,375	19,473	42,561
Term deposits with banks	2,432,997	4,439,265	4,712,454
<b>Total amounts due from banks</b>	<b>2,456,372</b>	<b>4,458,738</b>	<b>4,755,015</b>

Set out below is a summary of term deposits as of 31 December 2004:

Name of the bank	Placement term	Interest (%)	Interest at 31 December 2004 (CZK thousand)	Total interest (CZK thousand)	Amount of term deposit (CZK thousand)
KB – CZK	30 December 2004 – 3 January 2005	2.23	174,107	348,215	1,405,350
KB – CZK	30 December 2004 – 20 January 2005	2.36	131,111	1,376,667	1,000,000
KB – EUR	31 December 2004 – 3 January 2005	1.63	1,238	3,714	27,340
<b>Total term deposits</b>			<b>306,456</b>	<b>1,728,596</b>	<b>2,432,690</b>

## 6. Securities

Securities at fair value comprise:

CZK thousand	2004	2003	2002
Securities held for trading	6,157,606	4,859,330	5,074,900
Securities available for sale	6,204,067	4,746,284	1,649,466
<b>Total securities</b>	<b>12,361,673</b>	<b>9,605,614</b>	<b>6,724,366</b>

CZK thousand	2004 Net cost	2004 Fair value	2003 Fair value	2002 Fair value
Fixed income debt securities	3,404,348	3,460,308	3,812,923	4,081,098
Variable yield debt securities	6,129,846	6,190,384	5,792,692	1,202,784
Treasury bills	2,689,745	2,710,981	0	1,440,484
<b>Debt securities</b>	<b>12,223,939</b>	<b>12,361,673</b>	<b>9,605,614</b>	<b>6,724,366</b>
<b>Total securities</b>	<b>12,223,939</b>	<b>12,361,673</b>	<b>9,605,614</b>	<b>6,724,366</b>
of which: Interest income		94,969	51,291	53,991
of which: Revaluation gains or losses		42,765	34,229	34,942

Debt securities at fair value comprise:

CZK thousand	2004	2003	2002
<b>Variable yield debt securities</b>			
Local	1,164,662	763,042	70,133
Foreign	5,025,722	5,029,650	1,132,651
<b>Total variable yield debt securities</b>	<b>6,190,384</b>	<b>5,792,692</b>	<b>1,202,784</b>
<b>Fixed income debt securities</b>			
Local	3,693,238	1,045,132	3,987,339
Foreign	2,478,051	2,767,790	1,534,243
<b>Total fixed income debt securities</b>	<b>6,171,289</b>	<b>3,812,922</b>	<b>5,521,582</b>
<b>Total debt securities held for trading and available for sale</b>	<b>12,361,673</b>	<b>9,605,614</b>	<b>6,724,366</b>

Debt securities, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
<b>Debt securities held for trading and available for sale</b>			
Czech state institutions	3,384,702	315,346	3,131,118
Czech financial institutions	0	494,628	0
Other Czech entities	849,520	998,201	926,354
Foreign state institutions	223,940	0	0
Foreign financial institutions	4,492,896	5,007,270	2,030,961
Other entities abroad	3,410,615	2,790,169	635,933
<b>Total debt securities held for trading and available for sale</b>	<b>12,361,673</b>	<b>9,605,614</b>	<b>6,724,366</b>

In the year ended 31 December 2001, the Fund acquired a portfolio of USD and EUR denominated collateralised bond obligations ("CBO") and asset backed securities ("ABS") issued by a series of special purpose corporations. The acquisition cost of the portfolio was CZK 199 million as of 31 December 2004. The securities bear a floating interest rate based on USD LIBOR and EURIBOR. These securities were quoted on a foreign stock exchange market but there is no liquid market in respect of these securities and therefore market values are not readily available. The Company values these securities using valuation models acquired from a third party valuation provider or the discounted cashflow method as appropriate. The aggregate fair value of these securities was CZK 173 million and CZK 182 million as of 31 December 2004 and 2003, respectively. Management considers that this valuation represents the best estimate of the net recoverable value of these securities and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio. The Fund has classified these securities as available for sale.

In the year ended 31 December 2003, the Fund acquired Credit Linked Notes ("CLNs") at the aggregate cost of CZK 1,000 million. The aggregate fair value of these securities was CZK 963 million as of 31 December 2003. During the year ended 31 December 2004, these securities were sold – refer to Note 13.

In addition to the CBO and ABS instruments, the Fund invested in securities with embedded derivatives. The aggregate fair value of these securities was CZK 4,990 million and CZK 4,135 million as of 31 December 2004 and 2003, respectively. The Fund has classified these securities as trading and available for sale.

## 7. Other Assets

Other assets comprise:

CZK thousand	2004	2003	2002
Positive fair value of derivative instruments	26,209	6,615	80,139
Tax receivables	25,966	0	24,949
Other receivables from securities trading	0	1	1
Other receivables	0	0	0
<b>Total other assets</b>	<b>52,175</b>	<b>6,616</b>	<b>105,089</b>

Deferred expenses and accrued income comprise:

CZK thousand	2004	2003	2002
Expected coupon payments	36,183	35,997	38,078
<b>Total deferred expenses and accrued income</b>	<b>36,183</b>	<b>35,997</b>	<b>38,078</b>

## 8. Other Liabilities

Other liabilities comprise:

CZK thousand	2004	2003	2002
Negative fair value of financial derivatives	67,158	104,768	110,830
Deferred tax	0	0	6,306
Amounts owed to shareholders	49,931	57,439	52,194
Estimated payables	10,904	10,186	8,295
Other payables from securities trading	0	0	0
Other payables	583	3,089	764
<b>Total other liabilities</b>	<b>128,576</b>	<b>175,482</b>	<b>178,389</b>

## 9. Capital Funds

The Fund's capital recorded in "Capital funds" consists of 9,653,493,431 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The selling price of the participation certificate may include a future tax payable from unrealised gains arising from the remeasurement of the securities.

CZK thousand	Capital funds Nominal value	Share premium	Total
<b>Balance at 31 December 2002</b>	<b>7,818,147</b>	<b>2,628,618</b>	<b>10,446,765</b>
Issued in 2003	4,276,230	2,052,989	6,329,219
Repurchased in 2003	2,756,231	1,327,442	4,083,673
<b>Balance at 31 December 2003</b>	<b>9,338,146</b>	<b>3,354,165</b>	<b>12,692,311</b>
Issued in 2004	3,366,358	1,715,821	5,082,179
Repurchased in 2004	3,051,010	1,553,316	4,604,326
<b>Balance at 31 December 2004</b>	<b>9,653,494</b>	<b>3,516,670</b>	<b>13,170,164</b>

Allocation of Profit

CZK thousand	
<b>Retained earnings as of 31 December 2002</b>	<b>690,636</b>
Profit for 2002	271,030
<b>Retained earnings as of 31 December 2003</b>	<b>961,666</b>
Profit for 2003	301,914
<b>Retained earnings as of 31 December 2004</b>	<b>1,263,580</b>

## 10. Gains or Losses from Revaluation

Gains or losses from revaluation of:

CZK thousand	2004	2003	2002
Debt securities	42,765	34,229	34,942
Currency contracts	13,030	(31,602)	46,271
Interest rate contracts	(18,596)	(29,507)	(39,398)
Securities forwards	0	254	0
Remeasurement of current accounts and repurchase transactions	2,244	2,218	220
Deferred taxes	0	0	(6,305)
<b>Total gains or losses from revaluation</b>	<b>39,443</b>	<b>(24,408)</b>	<b>35,730</b>

## 11. Net Interest Income

Net interest income comprises:

CZK thousand	2004	2003	2002
Interest on debt securities	466,920	269,600	211,581
Interest on current accounts, term deposits and repurchase transactions	49,398	94,434	104,424
Interest on swap transactions	29,019	40,390	63,422
<b>Total interest income</b>	<b>545,337</b>	<b>404,424</b>	<b>379,427</b>
<b>CZK thousand</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest on current accounts and repurchase transactions	22	80	252
Interest on swap transactions	55,859	67,545	74,917
<b>Total interest expenses</b>	<b>55,881</b>	<b>67,625</b>	<b>75,169</b>
<b>Total net interest income</b>	<b>489,456</b>	<b>336,799</b>	<b>304,258</b>

## 12. Net Commission and Fee Income

Fees and commissions comprise:

CZK thousand	2004	2003	2002
Income from discounts on repurchasing participation certificates	21	25	26
Other commissions	0	0	0
<b>Total fee and commission income</b>	<b>21</b>	<b>25</b>	<b>26</b>
Fee for the sale of securities	2	11	44
Fee for fund administration	115,107	104,510	71,229
Fee for other KB services	3,761	0	0
Fee to the depository	8,451	10,481	6,649
Custody fee	2,071	1,570	361
Other fees	48	162	892
Audit fee	514	847	183
<b>Total fee and commission expenses</b>	<b>129,954</b>	<b>117,581</b>	<b>79,358</b>
<b>Total net fee and commission income</b>	<b>(129,933)</b>	<b>(117,556)</b>	<b>(79,332)</b>

In the year ended 31 December 2004, the Company concluded a new framework contract with Komerční banka, a.s. stipulating the fees for depository and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

### 13. Net Profit/(Loss) on Financial Operations

CZK thousand	2004	2003	2002
Profit/(loss) on securities held for trading	(54,626)	35,825	77,159
Profit/(loss) on foreign exchange transactions	1,747	9,716	10,004
Profit/(loss) on derivative transactions	13,928	89,595	0
<b>Total profit/(loss) on financial operations</b>	<b>(38,951)</b>	<b>135,136</b>	<b>87,163</b>

In the year ended 31 December 2004, profit/(loss) on financial operations was affected primarily by the loss on the sale of foreign currency debt securities of CZK 54 million (refer to Note 6).

### 14. Administrative Expenses

CZK thousand	2004	2003	2002
<b>Other administrative expenses</b>			
Administrative, arbitration and court fees	1	3	196
<b>Total administrative expenses</b>	<b>1</b>	<b>3</b>	<b>196</b>

### 15. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due tax	15,929	52,462	40,863
Deferred tax	0	0	0
<b>Total income tax</b>	<b>15,929</b>	<b>52,462</b>	<b>40,863</b>

Set out below is an analysis of due taxes:

CZK thousand	31 December 2004
Profit before tax	320,570
Items increasing taxable profit	0
Items decreasing taxable profit	0
Tax base	320,570
Tax on the tax base	16,029
Correction of tax liability of previous years	-100
<b>Total income tax</b>	<b>15,929</b>



Movements in deferred taxes are analysed as follows:

CZK thousand	2004	2003	2002
Deferred tax at the start of the year	0	6,305	0
Deferred tax credit/charge (movement through equity)	0	(6,305)	6,305
<b>Deferred tax at the end of the year</b>	<b>0</b>	<b>0</b>	<b>6,305</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under "Gains or losses from revaluation" to retained earnings or accumulated losses as of 1 January 2005. This eliminates temporary differences that materialised in previous periods.

## 16. Financial Derivative Instruments

Financial derivatives held as hedging instruments:

CZK thousand	Notional value		Notional value		Notional value	
	2004 Assets	2004 Liabilities	2003 Assets	2003 Liabilities	2002 Assets	2002 Liabilities
<b>Interest rate instruments</b>						
Interest rate swaps	400,000	400,000	400,000	400,000	400,000	400,000
Interest rate forwards	0	0	0	0	0	0
<b>Total interest rate instruments</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>
<b>Currency instruments</b>						
Currency swaps	448,226	448,226	414,759	414,759	424,422	424,422
Cross currency swaps	825,470	825,470	594,590	594,590	893,090	893,090
Currency forwards	0	0	0	0	0	0
<b>Total currency instruments</b>	<b>1,273,696</b>	<b>1,273,696</b>	<b>1,009,349</b>	<b>1,009,349</b>	<b>1,317,512</b>	<b>1,317,512</b>
<b>Other instruments</b>						
Credit options	0	0	0	0	0	0
Forwards for debt securities	0	0	400,000	400,000	0	0
<b>Total other instruments</b>	<b>0</b>	<b>0</b>	<b>400,000</b>	<b>400,000</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>1,673,696</b>	<b>1,673,696</b>	<b>1,809,349</b>	<b>1,809,349</b>	<b>1,717,512</b>	<b>1,717,512</b>

CZK thousand	Fair value		Fair value		Fair value	
	2004 Positive	2004 Negative	2003 Positive	2003 Negative	2002 Positive	2002 Negative
<b>Interest rate instruments</b>						
Interest rate swaps	0	(31,884)	0	(43,018)	0	(52,807)
Interest rate forwards	0	0	0	0	0	0
<b>Total interest rate instruments</b>	<b>0</b>	<b>(31,884)</b>	<b>0</b>	<b>(43,018)</b>	<b>0</b>	<b>(52,807)</b>
<b>Currency instruments</b>						
Currency swaps	1,077	(1,518)	728	(483)	0	(6,703)
Cross currency swaps	25,132	(33,756)	5,634	(61,267)	80,139	(51,318)
Currency forwards	0	0	0	0	0	0
<b>Total currency instruments</b>	<b>26,209</b>	<b>(35,274)</b>	<b>6,362</b>	<b>(61,750)</b>	<b>80,139</b>	<b>(58,021)</b>
<b>Other instruments</b>						
Credit options	0	0	0	0	0	0
Forwards for debt securities	0	0	254	0	0	0
<b>Total other instruments</b>	<b>0</b>	<b>0</b>	<b>254</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>26,209</b>	<b>(67,158)</b>	<b>6,616</b>	<b>(104,768)</b>	<b>80,139</b>	<b>(110,828)</b>

Financial derivatives held as hedging instruments at nominal values according to remaining maturity:

CZK thousand	Less than 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	0	400,000	0	400,000
Interest rate forwards	0	0	0	0
<b>Total interest rate instruments</b>	<b>0</b>	<b>400,000</b>	<b>0</b>	<b>400,000</b>
<b>Currency instruments</b>				
Currency swaps	448,226	0	0	448,226
Cross currency swaps	0	825,470	0	825,470
Currency forwards	0	0	0	0
<b>Total currency instruments</b>	<b>448,226</b>	<b>825,470</b>	<b>0</b>	<b>1,273,696</b>
<b>Other instruments</b>				
Credit options	0	0	0	0
Forwards for debt securities	0	0	0	0
<b>Total other instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Interest rate instruments</b>	<b>448,226</b>	<b>1,225,470</b>	<b>0</b>	<b>1,673,696</b>

17. Related Party Transactions and Balances

Short-term payables:

CZK thousand	2004	2003	2002
Investiční kapitálová společnost KB, a.s.	583	1,160	764

The Fund’s expenses include fees for the Fund’s management payable to the Company in the aggregate amount of CZK 115,107 thousand, depositary fees totalling CZK 8,451 thousand paid to Komerční banka, a.s. and fees for other services totalling CZK 3,761 thousand paid to Komerční banka, a.s.

18. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund’s interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the “Maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	2,432,997	0	0	0	0	23,375	2,456,372
Debt securities	4,133,323	5,068,545	1,276,529	1,409,023	474,253		12,361,673
Other assets	0	0	0	0	0	52,175	52,175
Deferred expenses and accrued income	0	0	0	0	0	36,183	36,183
<b>Total assets</b>	<b>6,566,320</b>	<b>5,068,545</b>	<b>1,276,529</b>	<b>1,409,023</b>	<b>474,253</b>	<b>111,733</b>	<b>14,906,403</b>
Other liabilities	0	0	0	0	0	128,576	128,576
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>128,576</b>	<b>128,576</b>
<b>Net on balance sheet interest rate exposure as of 31 December 2004</b>	<b>6,566,320</b>	<b>5,068,545</b>	<b>1,276,529</b>	<b>1,409,023</b>	<b>474,253</b>	<b>(16,843)</b>	<b>14,777,827</b>
Off balance sheet interest rate risk assets	0	0	1,134,180	91,290	0	0	1,225,470
Off balance sheet interest rate risk liabilities	0	0	1,134,180	91,290	0	0	1,225,470
<b>Net off balance sheet interest rate exposure as of 31 December 2004</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 19. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “Maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	2,432,997	0	0	0	23,375	2,456,372
Debt securities	640,072	3,912,296	3,825,479	3,983,826	0	12,361,673
Other assets	0	25,966	0	0	26,206	52,175
Deferred expenses and accrued income	36,183	0	0	0	0	36,183
<b>Total assets</b>	<b>3,109,252</b>	<b>3,938,262</b>	<b>3,825,479</b>	<b>3,983,826</b>	<b>49,584</b>	<b>14,906,403</b>
Other liabilities	61,418	0	0	0	67,158	128,576
<b>Total liabilities</b>	<b>61,418</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>67,158</b>	<b>128,576</b>
<b>Net on balance sheet liquidity exposure as of 31 December 2004</b>	<b>3,047,834</b>	<b>3,938,262</b>	<b>3,825,479</b>	<b>3,983,826</b>	<b>(17,574)</b>	<b>14,777,827</b>
Off balance sheet assets	448,226	0	1,225,470	0	0	1,673,696
Off balance sheet liabilities	448,226	0	1,225,470	0	0	1,673,696
<b>Net off balance sheet liquidity exposure as of 31 December 2004</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 20. Foreign Currency Position

The following table shows the Fund's foreign currency position by currency. The principal instrument in managing foreign currency risk is the monitoring of limits for individual currencies.

CZK thousand	CZK	USD	EUR	PLN	Total
Amounts due from banks	2,429,003	2	27,342	25	2,456,372
Debt securities	11,093,448	248,627	939,975	79,623	12,361,673
Other assets	52,175	0	0	0	52,175
Deferred expenses and accrued income	36,183	0	0	0	36,183
<b>Total assets</b>	<b>13,610,808</b>	<b>248,629</b>	<b>967,317</b>	<b>79,648</b>	<b>14,906,403</b>
Owed to non-banking entities	0	0	0	0	0
Other liabilities	128,576	0	0	0	128,576
Reserves	0	0	0	0	0
Accrued expenses and deferred income	0	0	0	0	0
<b>Total liabilities</b>	<b>128,576</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>128,576</b>
<b>Net on balance sheet currency exposure as of 31 December 2004</b>	<b>13,482,232</b>	<b>248,629</b>	<b>967,317</b>	<b>79,648</b>	<b>14,777,827</b>
Off balance sheet currency risk assets	1,673,696	0	0	0	1,673,696
Off balance sheet currency risk liabilities	400,000	255,198	943,755	74,743	1,673,696
<b>Net off balance sheet currency exposure as of 31 December 2004</b>	<b>1,273,696</b>	<b>(255,198)</b>	<b>(943,755)</b>	<b>(74,743)</b>	<b>0</b>

## 21. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities.

## 22. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the year ended 31 December 2004, the Fund breached Section 51(2) of Act No. 198/2004 Coll. (effective since 1 May 2004). On 15 July 2004, the Fund breached the 10 percent limit established in respect of the nominal value of securities of one type issued by the same issuer. The breach involved the SUEZ FINANCE LYOE FLOAT 4/10, ISIN FR0000474231 security and represented 10.984 percent. The breach was caused by the maturity date of the Suez Finance Lyoe float 07/04 security issued by the same issuer as of 15 July 2004.

## 23. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund's financial, equity or income position.

**Deloitte.**

IKS Dluhopisový

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

## Auditor's Report to the Shareholders of IKS Dluhopisový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of IKS Dluhopisový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of IKS Dluhopisový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	0	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	a) State securities	3	0	0	0
2.2.	b) Other	4	0	0	0
3.	Amounts due from banks	5	576,768	114,265	1,545,289
3.1.	a) Repayable on demand	6	1,700	1,782	17,014
3.2.	b) Other receivables	7	575,068	112,483	1,528,275
4.	Amounts due from clients	8	0	0	0
4.1.	a) Repayable on demand	9	0	0	0
4.2.	b) Other receivables	10	0	0	0
5.	Debt securities	11	3,068,164	5,216,918	2,906,248
5.1.	a) Issued by state institutions	12	1,849,430	4,112,256	2,475,332
5.2.	b) Issued by other entities	13	1,218,734	1,104,662	430,916
6.	Shares, participation certificates and other holdings	14	0	0	0
7.	Equity holdings in associates	15	0	0	0
7.1.	In banks	16	0	0	0
7.2.	In other entities	17	0	0	0
8.	Equity holdings in subsidiaries	18	0	0	0
8.1.	In banks	19	0	0	0
8.2.	In other entities	20	0	0	0
9.	Intangible fixed assets	21	0	0	0
9.1.	Incorporation costs	22	0	0	0
9.2.	Goodwill	23	0	0	0
9.3.	Other	24	0	0	0
10.	Tangible fixed assets	25	0	0	0
10.1.	Land and buildings for operating activities	26	0	0	0
10.2.	Other	27	0	0	0
11.	Other assets	28	18,954	14,899	11,809
12.	Subscribed capital unpaid	29	0	0	0
13.	Deferred expenses and accrued income	30	15,985	12,510	16,684
TOTAL ASSETS			3,679,871	5,358,592	4,480,030

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	a) Repayable on demand	32	0	0	0
1.2.	b) Other payables	33	0	0	0
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0	0
2.1.1.	of which: Savings deposits	36	0	0	0
2.2.	b) Other payables	37	0	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0	0
2.2.3.	Term deposits with maturity	40	0	0	0
2.2.4.	Term deposits repayable at notice	41	0	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0	0
3.2.	b) Other payables from debt securities	44	0	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>18,947</b>	<b>37,050</b>	<b>73,266</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	a) For pensions and similar liabilities	48	0	0	0
6.2.	b) For taxes	49	0	0	0
6.3.	c) Other	50	0	0	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0	0
8.2.	b) Treasury shares	54			
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>811,692</b>	<b>1,392,148</b>	<b>1,058,994</b>
<b>10.</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>0</b>	<b>0</b>	<b>0</b>
10.1.	a) Mandatory reserve funds	57	0	0	0
10.3.	b) Other reserve funds	59	0	0	0
10.4.	c) Other funds from profit	60	0	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>2,393,304</b>	<b>3,626,037</b>	<b>2,983,940</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>42,089</b>	<b>(154,262)</b>	<b>104,082</b>
12.1.	a) Of assets and liabilities	65	32,150	(135,408)	131,951
12.2.	b) Hedging derivatives	66	9,939	(18,854)	(27,869)
12.3.	c) Re-translation of equity holdings	67	0	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>457,620</b>	<b>259,747</b>	<b>142,205</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>(43,781)</b>	<b>197,872</b>	<b>117,544</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>3,679,871</b>	<b>5,358,592</b>	<b>4,480,030</b>

# Off Balance Sheet Accounts as of 31 December 2004

## Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0	0
1.2.	Guarantees and warranties	73	0	0	0
1.3.	Guarantees from bills of exchange	74	0	0	0
1.4.	Guarantees under letters of credit	75	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0	0
2.2.	Cash collateral	78	0	0	0
2.3.	Securities	79	0	0	0
2.4.	Other	80	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0	0
3.2.	With currency instruments	83	0	0	0
3.3.	With equity instruments	84	0	0	0
3.4.	With commodity instruments	85	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>121,720</b>	<b>1,739,561</b>	<b>1,680,901</b>
4.1.	with interest rate instruments	87	0	0	50,000
4.2.	With currency instruments	88	121,720	1,739,561	1,630,901
4.3.	With equity instruments	89	0	0	0
4.4.	With commodity instruments	90	0	0	0
4.5.	With credit instruments	91	0	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0	0
5.2.	With currency instruments	94	0	0	0
5.3.	With equity instruments	95	0	0	0
5.4.	With commodity instruments	96	0	0	0
5.5.	With credit instruments	97	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0	0



## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0	0
1.2.	Guarantees and warranties	105	0	0	0
1.3.	Guarantees from bills of exchange	106	0	0	0
1.4.	Guarantees under letters of credit	107	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0	0
2.2.	Cash collateral	110	0	0	0
2.3.	Securities	111	0	0	0
2.4.	Other collateral	112	0	0	0
2.5.	Collateral – securities	113	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0	0
3.2.	With currency instruments	116	0	0	0
3.3.	With equity instruments	117	0	0	0
3.4.	With commodity instruments	118	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>121,720</b>	<b>1,739,561</b>	<b>1,680,901</b>
4.1.	With interest rate instruments	120	0	0	50,000
4.2.	With currency instruments	121	121,720	1,739,561	1,630,901
4.3.	With equity instruments	122	0	0	0
4.4.	With commodity instruments	123	0	0	0
4.5.	With credit instruments	124	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0	0
5.2.	With currency instruments	127	0	0	0
5.3.	With equity instruments	128	0	0	0
5.4.	With commodity instruments	129	0	0	0
5.5.	With credit instruments	130	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Interest income and similar income	1	210,035	242,230	195,861
1.1.	of which: Interest income from debt securities	2	199,923	216,280	136,180
2.	Interest expense and similar expense	3	6,693	11,068	20,298
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	Income from shares and equity investments	5	0	0	0
3.1.	of which: a) Income from equity investments in associates	6	0	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0	0
3.3.	c) Income from other shares and equity investments	8	0	0	0
4.	Commission and fee income	9	3	10	12
5.	Commission and fee expense	10	63,853	85,210	57,528
6.	Net profit/(loss) on financial operations	11	(183,323)	85,752	13,824
7.	Other operating income	12	0	0	0
8.	Other operating expenses	13	0	0	0
9.	Administrative expenses	14	2	3	2
9.1.	of which: a) Employee costs	15	0	0	0
9.1.1.	aa) Wages and salaries	16	0	0	0
9.1.2.	ab) Social security and health insurance	17	0	0	0
9.2.	b) Other administrative costs	18	2	3	2
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0	0

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0	0
12.3.	Income from receivables previously written off	35	0	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0	0
13.3.	Charge for reserves for guarantees	39	0	0	0
13.4.	Use of reserves for guarantees	40	0	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0	0
16.	Release of other reserves	44	0	0	2,234
17.	Charge for and use of other reserves	45	0	0	0
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	(43,833)	231,713	134,103
20.	Extraordinary income	48	0	0	0
21.	Extraordinary expenses	49	0	0	0
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0	0
23.	Income tax	51	(52)	33,839	16,559
24.	Net profit/(loss) for the period	52	(43,781)	197,872	117,544

## Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	1,392,148	1,058,995	505,956
	Increase	38,132	825,751	751,951
	Decrease	618,588	492,598	198,912
	Closing balance	811,692	1,392,148	1,058,995
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	3,626,037	2,983,940	1,645,937
	Increase	78,296	1,673,552	1,803,627
	Decrease	1,311,029	1,031,455	465,624
	Closing balance	2,393,304	3,626,037	2,983,940
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	(154,262)	104,082	9,835
	Increase	190,449	32,028	142,513
	Decrease	(5,902)	290,372	48,266
	Closing balance	42,089	(154,262)	104,082
8.	<b>Retained earnings</b>			
	Opening balance	259,747	142,203	45,947
	Increase	197,873	117,544	96,256
	Decrease	0	0	0
	Closing balance	457,620	259,747	142,203
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	(43,781)	197,872	117,544
11.	<b>Dividends</b>	0	0	0

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

IKS Dluhopisový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the “Fund” or “IKS Dluhopisový”) was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. The Fund was incorporated on 22 September 1997. The Fund has been formed for an indefinite period of time.

The Fund became the successor fund in respect of its merger with IKS eurobondový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (“IKS eurobondový”). The decision on the merger of these two funds was made by the Company’s Board of Directors on 16 January 2000. In accordance with the request of the Company and the subsequent decision of the Securities Commission, the merger took place on 27 July 2001. All assets and liabilities of IKS eurobondový became a component of the assets and liabilities of IKS Dluhopisový.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004.

The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. The Fund focuses on investing in debt security instruments.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Company’s Board of Directors and Supervisory Board

During the year ended 31 December 2004, changes were made to the composition of the Company’s Supervisory Board, no changes were made to the Board of Directors.

### Members of the Board of Directors and Supervisory Board as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the structural substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards.

The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing as of the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading" and "Available for sale". Securities held for trading are financial assets (debt securities, treasury bills) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*. The cost of debt securities is increased over time to reflect the accrued interest income. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its amortised cost. The Fund accounts for interest income on a straight line basis.

Securities are reported in the balance sheet line *Debt securities* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation No. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in the Regulation, the Company values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Under the Regulation, securities are valued at the price quoted on a public market, which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Company uses a value which it has determined with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Derivative Financial Instruments and Hedging

In the normal course of business, the Fund enters into hedging contracts for derivative financial instruments which represent a very low initial investment. The derivative financial instruments used include currency forwards, interest rate swaps and cross currency swaps. These financial instruments are used by the Fund to hedge interest rate and foreign currency exposures associated with its transactions in the financial markets and the composition of its portfolio. Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

- (a) The Company has developed a risk management strategy;
- (b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- (c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as hedges and that prove to be highly effective in relation to the hedged risk, are retained in the balance sheet line *Gains or losses from revaluation*. The balances recognised in the balance sheet are taken to the profit and loss account and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss account.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are retained in the balance sheet line *Gains or losses from revaluation* in compliance with the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended. The balances recognised in the balance sheet are taken to the profit and loss account line *Gains or losses from derivative transactions* at settlement of the relevant instrument.

Certain derivatives are embedded in compound financial instruments which comprise the host instrument and the derivative. Pursuant to Section 29 of the Czech Finance Ministry Regulation No. 501/1992, as amended, the Company recognises gains or losses from the revaluation of assets and liabilities at fair value through *Gains or losses from revaluation*.

#### 2.7. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund carried no provisions in its statutory books for the year ended 31 December 2004.

#### 2.8. Corrections Related to Previous Reporting Periods

Corrections to the expenses and income of previous reporting periods are recognised as income or expenses in the profit and loss statement in the current period unless the corrections are significant.

#### 2.9. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, and the Collective Investing Act effective since 1 May 2004, the depositary, Komerční banka, a.s., oversees the Fund's compliance with the Acts.

#### 2.10. New Accounting Pronouncements in 2004

No changes were made during the year ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Year Ended 31 December 2004

No such developments were experienced during the year ended 31 December 2004.



## 4. Financial instruments

### 4.1. Market Risks

The investment policy set out in the statutes of individual funds of the Company which is additionally specified in the Fund's investment strategy, establishes various investment priorities for the Company and the related need to monitor, control or mitigate various investment risks. In accordance with this, the Company adopted a policy of separately monitoring individual investment risks and approves the methods and policies of controlling and managing market risks of the Fund in line with the adopted investment policy of the Fund. Depending on the type of fund, these exposures specifically relate to foreign currency, credit and interest rate risks. The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against selected market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

The Statute of the Fund restricts the Fund's investments in fixed income-earning instruments. The average modified duration is not limited. The current average duration of the Fund is assessed on a daily basis. The hedging of interest rate risk through interest rate swaps was utilised in respect of a short-term (defined as several months) hedging of adverse developments of prices of debt securities with long-term maturity when interest rates increased. The investment strategy required that the Fund increase its hedging against foreign currency risks attached to investments. The aggregate foreign currency risk profile was not allowed to exceed 0.75 percent of the Fund's assets over a period of one year with a 95 percent confidence level. The Fund hedged against its foreign currency exposures by entering into currency swap and cross currency swap contracts.

### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended.

In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with the banks of the depositary and the custodian, that is, with Komerční banka and ING Bank. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004	2003	2002
Current accounts with banks	1,700	1,782	17,014
Term deposits with banks	575,068	112,483	1,528,275
<b>Total amounts due from banks</b>	<b>576,768</b>	<b>114,265</b>	<b>1,545,289</b>

Set out below is a summary of term deposits as of 31 December 2004:

Name of the bank	Placement term	Interest (%)	Total interest (CZK)	Interest at 31 December 2004 (CZK)	Amount of term deposit (CZK thousand)
KB – CZK	30 December 2004 – 2 January 2005	2.23	140,156	70,078	565,650
KB – PLN	30 December 2004 – 2 January 2005	5.75	113	57	180
KB – EUR	31 December 2004 – 2 January 2005	1.63	1,245	415	9,168
<b>Total term deposits</b>			<b>141,514</b>	<b>70,550</b>	<b>574,998</b>

## 6. Securities

CZK thousand	2004	2003	2002
Securities held for trading	2,293,109	4,582,122	2,680,680
Securities available for sale	775,055	634,796	225,568
<b>Total securities</b>	<b>3,068,164</b>	<b>5,216,918</b>	<b>2,906,248</b>

Securities, at fair value, comprise:

CZK thousand	2004 Fair value	2004 Net cost	2003 Fair value	2003 Net cost
Fixed income debt securities	2,427,372	2,330,524	4,395,823	4,475,461
Variable yield debt securities	485,008	500,001	494,690	500,001
Zero coupon bonds	155,784	144,032	326,405	321,930
Treasury bills	0	0	0	0
Debt securities	3,068,164	2,974,557	5,216,918	5,297,392
<b>Total securities</b>	<b>3,068,164</b>	<b>2,974,557</b>	<b>5,216,918</b>	<b>5,297,392</b>
of which: interest income	34,312	0	70,428	0
of which: revaluation gains or losses	53,566	0	(150,902)	0

Debt securities, at fair value, comprise:

CZK thousand	2004	2003	2002
Local debt securities	2,100,833	2,634,895	1,081,496
Foreign debt securities	326,539	1,760,928	1,824,752
<b>Fixed income debt securities</b>	<b>2,427,372</b>	<b>4,395,823</b>	<b>2,906,248</b>
Local debt securities	485,008	494,690	0
Foreign debt securities	0	0	0
<b>Variable yield debt securities</b>	<b>485,008</b>	<b>494,690</b>	<b>0</b>
Local debt securities	155,784	326,405	0
Foreign debt securities	0	0	0
<b>Zero interest debt securities</b>	<b>155,784</b>	<b>326,405</b>	<b>0</b>
<b>Total debt securities</b>	<b>3,068,164</b>	<b>5,216,918</b>	<b>2,906,248</b>

Debt securities, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
<b>Debt securities issued by:</b>			
Czech state institutions	1,809,108	2,351,328	787,152
Czech financial institutions	0	601,837	0
Other Czech entities	282,015	502,825	294,344
State institutions abroad	40,322	1,760,928	1,688,180
Financial institutions abroad	936,719	0	0
Other entities abroad	0	0	136,572
<b>Total debt securities</b>	<b>3,068,164</b>	<b>5,216,918</b>	<b>2,906,248</b>

The Fund invested in securities with embedded derivatives. The aggregate fair value of these instruments is CZK 485,008 thousand as of 31 December 2004. These securities are treated as available for sale and account for 16 percent of all securities.

## 7. Other Assets

Other assets comprise:

CZK thousand	2004	2003	2002
Positive fair value of financial derivatives	0	14,898	327
Tax receivables	18,954	0	11,481
Other receivables from securities trading	0	1	1
<b>Total other assets</b>	<b>18,954</b>	<b>14,899</b>	<b>11,809</b>

Deferred expenses and accrued income comprise:

CZK thousand	2004	2003	2002
Expected coupon payments	15,985	12,510	16,684
<b>Total deferred expenses and accrued income</b>	<b>15,985</b>	<b>12,510</b>	<b>16,684</b>

## 8. Other Liabilities

Other liabilities comprise:

CZK thousand	2004	2003	2002
Negative fair value of financial derivatives	11,570	18,854	28,196
Tax payables	0	7,755	0
Deferred tax	0	0	18,367
Other creditors	248	890	551
Amounts owed to shareholders	1,776	1,526	20,049
Discount/overcharge on trading with participation certificates	938	1,609	817
Estimated payables	4,415	6,416	5,286
<b>Total other liabilities</b>	<b>18,947</b>	<b>37,050</b>	<b>73,266</b>

## 9. Reserves

In the year ended 31 December 2002, the Fund released a reserve of CZK 2,234 thousand recognised in 2001 in respect of a tax liability arising from unrealised gains on securities. Since 2002, the Fund has recognised deferred income tax balances in respect of unrealised gains on securities. In the years ended 31 December 2003 and 2004, the Company did not record or release any reserve.

## 10. Capital Funds

The Fund's capital recorded in "Capital fund" consists of 2,393,303,573 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The selling price of the participation certificate may include a future tax payable from unrealised gains arising from the remeasurement of the securities.

CZK thousand	Capital funds Nominal value of participation certificates	Share premium	Total
<b>Balance at 31 December 2002</b>	<b>2,983,940</b>	<b>1,058,995</b>	<b>4,042,935</b>
Issued in 2003	1,673,552	825,751	2,499,303
Repurchased in 2003	1,031,455	492,598	1,524,053
<b>Balance at 31 December 2003</b>	<b>3,626,037</b>	<b>1,392,148</b>	<b>5,018,185</b>
Issued in 2004	78,296	38,132	116,428
Repurchased in 2004	1,311,029	618,588	1,929,617
<b>Balance at 31 December 2004</b>	<b>2,393,304</b>	<b>811,692</b>	<b>3,204,996</b>

## Allocation of Profit

CZK thousand

<b>Retained earnings as of 31 December 2002</b>	<b>142,203</b>
Profit/(loss) for 2002	117,544
<b>Retained earnings as of 31 December 2003</b>	<b>259,747</b>
Profit/(loss) for 2003	197,873
<b>Retained earnings as of 31 December 2004</b>	<b>457,620</b>

## 11. Gains or Losses from Revaluation

CZK thousand	2004	2003	2002
Debt securities	53,566	(150,902)	149,960
Currency contracts	(9,939)	(1,795)	(15,887)
Interest rate contracts	0	0	(10,485)
Remeasurement of current accounts and repurchase transactions	(1,538)	(1,565)	(1,139)
Deferred tax	0	0	(18,367)
<b>Total gains or losses from revaluation</b>	<b>42,089</b>	<b>(154,262)</b>	<b>104,082</b>

## 12. Net Interest Income

CZK thousand	2004	2003	2002
Interest on debt securities	199,923	216,280	136,180
Interest on current accounts and term deposits	6,470	21,024	50,774
Interest on swap transactions	3,642	4,926	8,907
<b>Total interest income</b>	<b>210,035</b>	<b>242,230</b>	<b>195,861</b>
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest on current accounts	13	32	441
Interest on loans (repurchase)	0	2,189	6,459
Interest on swap transactions	6,680	8,847	13,398
<b>Total interest expenses</b>	<b>6,693</b>	<b>11,068</b>	<b>20,298</b>
<b>Total net interest income</b>	<b>203,342</b>	<b>231,162</b>	<b>175,563</b>

### 13. Net Fee and Commission Income

CZK thousand	2004	2003	2002
Other commissions	3	10	12
<b>Total fee and commission income</b>	<b>3</b>	<b>10</b>	<b>12</b>

CZK thousand	2004	2003	2002
Fee for fund administration	55,537	73,221	50,011
Fee to the depository	4,458	8,733	5,829
Custody fee	1,884	2,359	948
Fee for the sale of securities	28	50	153
Other fees	40	190	255
Other KB services	1,607	0	0
Audit fee	299	657	332
<b>Total fee and commission expenses</b>	<b>63,853</b>	<b>85,210</b>	<b>57,528</b>
<b>Total net fee and commission income</b>	<b>(63,850)</b>	<b>(85,200)</b>	<b>(57,516)</b>

In the year ended 31 December 2004, the Company concluded a new framework contract with Komerční banka, a.s. stipulating the fees for depository and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

### 14. Net Profit/(Loss) on Financial Operations

CZK thousand	2004	2003	2002
Profit/(loss) on securities held for trading and available for sale	(105,674)	12,637	53,602
Profit/(loss) on foreign exchange transactions	665	33,868	(23,998)
Profit/(loss) on derivative transactions	(78,314)	39,247	(15,780)
<b>Total profit/(loss) on financial operations</b>	<b>(183,323)</b>	<b>85,752</b>	<b>13,824</b>

In the year ended 31 December 2004, *profit/(loss)* on financial operations was affected primarily by the loss on the sale of foreign currency debt securities.

### 15. Administrative Expenses

CZK thousand	2004	2003	2002
Other taxes and fees	2	3	2
<b>Total administrative expenses</b>	<b>2</b>	<b>3</b>	<b>2</b>

## 16. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due tax	(52)	33,839	16,559
Deferred tax	0	0	0

Set out below is an analysis of due taxes:

CZK thousand	2004
Profit before tax	(43,833)
Items increasing taxable profit	0
Items decreasing taxable profit	0
Tax base	(43,833)
<b>Tax on the tax base</b>	<b>0</b>
Settlement of the 2003 tax liability	(52)
<b>Total tax</b>	<b>(52)</b>

Deferred taxation is analysed as follows:

Deferred income tax asset	
Tax losses brought forward	43,833
<b>Total deferred income tax asset</b>	<b>2,192</b>
<b>Deferred income tax liability</b>	<b>0</b>
<b>Reduction due to the uncertainty regarding the realisation of the deferred tax asset</b>	<b>2,192</b>
<b>Net deferred tax</b>	<b>0</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under "Gains or losses from revaluation" to retained earnings or accumulated losses. This eliminates temporary differences that materialised in previous periods.

## 17. Financial Derivative Instruments

CZK thousand	Notional value		Notional value		Notional value	
	2004	2004	2003	2003	2002	2002
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest swaps	0	0	0	0	50,000	50,000
<b>Total interest rate instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>50,000</b>	<b>50,000</b>
Currency swaps	0	0	1,617,841	1,617,841	1,509,181	1,509,181
Cross currency swaps	121,720	121,720	121,720	121,720	121,720	121,720
<b>Total currency instruments</b>	<b>121,720</b>	<b>121,720</b>	<b>1,739,561</b>	<b>1,739,561</b>	<b>1,630,901</b>	<b>1,630,901</b>
<b>Total derivatives</b>	<b>121,720</b>	<b>121,720</b>	<b>1,739,561</b>	<b>1,739,561</b>	<b>1,680,901</b>	<b>1,680,901</b>

CZK thousand	Fair value		Fair value		Fair value	
	2004	2004	2003	2003	2002	2002
	Positive	Negative	Positive	Negative	Positive	Negative
Interest swaps	0	0	0	0	0	11,109
<b>Total interest rate instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,109</b>
Currency swaps	0	0	14,898	0	327	4,011
Cross currency swaps	0	11,570	0	18,854	0	13,076
<b>Total currency instruments</b>	<b>0</b>	<b>11,570</b>	<b>14,898</b>	<b>18,854</b>	<b>327</b>	<b>17,087</b>
<b>Total derivatives</b>	<b>0</b>	<b>11,570</b>	<b>14,898</b>	<b>18,854</b>	<b>327</b>	<b>28,196</b>

Financial derivatives at nominal values according to remaining maturity:

CZK thousand	Less than 1 year	1 to 5 years	Over 5 years	Total
Interest swaps	0	0	0	0
<b>Total interest rate instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Currency swaps	0	0	0	0
Cross currency swaps	0	121,720	0	121,720
<b>Total currency instruments</b>	<b>0</b>	<b>121,720</b>	<b>0</b>	<b>121,720</b>
<b>Total derivatives</b>	<b>0</b>	<b>121,720</b>	<b>0</b>	<b>121,720</b>

## 18. Related Party Transactions and Balances

Payables to related parties:

CZK thousand			
Company	2004	2003	2002
Investiční kapitálová společnost KB, a.s.	1,186	2,498	1,368

The Fund's expenses include fees for the Fund's management payable to the Company in the aggregate amount of CZK 55,537 thousand and depository fees totalling CZK 4,458 thousand paid to Komerční banka, a.s.



## 19. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "Maturity undefined" category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	575,068	0	0	0	0	1,700	576,768
Debt securities	0	0	459,765	693,386	1,915,013	0	3,068,164
Other assets	0	0	0	0	0	18,954	18,954
Deferred expenses and accrued income	0	0	0	0	0	15,985	15,985
<b>Total assets</b>	<b>575,068</b>	<b>0</b>	<b>459,765</b>	<b>693,386</b>	<b>1,915,013</b>	<b>36,639</b>	<b>3,679,871</b>
Other liabilities	0	0	0	0	0	18,947	18,947
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18,947</b>	<b>18,947</b>
<b>Net on balance sheet interest rate exposure</b>	<b>575,068</b>	<b>0</b>	<b>459,765</b>	<b>693,386</b>	<b>1,915,013</b>	<b>17,692</b>	<b>3,660,924</b>
Off balance sheet assets	0	0	0	121,720	0	0	121,720
Off balance sheet liabilities	0	0	0	121,720	0	0	121,720
<b>Net off balance sheet interest rate exposure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 20. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "Maturity undefined" category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	575,068	0	0	0	1,700	576,768
Debt securities	0	0	1,153,151	1,915,013	0	3,068,164
Other assets	0	18,954	0	0	0	18,954
Deferred expenses and accrued income	15,985	0	0	0	0	15,985
<b>Total assets</b>	<b>591,053</b>	<b>18,954</b>	<b>1,153,151</b>	<b>1,915,013</b>	<b>1,700</b>	<b>3,679,871</b>
Other liabilities	7,377	0	0	0	11,570	18,947
<b>Total liabilities</b>	<b>7,377</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,570</b>	<b>18,947</b>
<b>Net on balance sheet liquidity exposure as of 31 December 2004</b>	<b>583,676</b>	<b>0</b>	<b>1,153,151</b>	<b>1,915,013</b>	<b>(9,870)</b>	<b>3,660,924</b>
Off balance sheet assets	0	0	121,720	0	0	121,720
Off balance sheet liabilities	0	0	121,720	0	0	121,720
<b>Net off balance sheet liquidity exposure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 21. Foreign Currency Position

Set out below is a summary of assets and liabilities by principal currency:

CZK thousand	CZK	EUR	PLN	Total
Amounts due from banks	567,409	9,173	186	576,768
Debt securities	2,893,580	134,262	40,322	3,068,164
Other assets	18,954	0	0	18,954
Deferred expenses and accrued income	15,985	0	0	15,985
<b>Total assets</b>	<b>3,495,928</b>	<b>143,435</b>	<b>40,508</b>	<b>3,679,871</b>
Other liabilities	18,947	0	0	18,947
<b>Total liabilities</b>	<b>18,947</b>	<b>0</b>	<b>0</b>	<b>18,947</b>
<b>Net on balance sheet currency exposure</b>	<b>3,476,981</b>	<b>143,435</b>	<b>40,508</b>	<b>3,660,924</b>
Off balance sheet assets	121,720			121,720
Off balance sheet liabilities		121,720	0	121,720
<b>Net off balance sheet currency exposure</b>	<b>121,720</b>	<b>(121,720)</b>	<b>0</b>	<b>0</b>

## 22. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004.

## 23. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the year ended 31 December 2004, Section 24 (1) of the Investment Companies and Investment Funds Act 248/92 Coll., as amended, and the Collective Investing Act 189/2004, Coll., (effective since 1 May 2004) were not breached.

During the year ended 31 December 2004, the Fund breached no regulatory limits.

## 24. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund's financial, equity or income position.

**Deloitte.**

IKS Plus bondový

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

## Auditor's Report to the Shareholders of IKS Plus bondový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of IKS Plus bondový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of IKS Plus bondový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

Without qualifying our opinion, we draw attention to the following matter.

As discussed in Note 6 to the financial statements, the fund carries in its portfolio foreign collateralised bond obligations ("CBO") and asset backed securities ("ABS") in the aggregate fair value of CZK 87 million as of 31 December 2004 which represents 16 percent of the fund's assets. These securities were quoted on a foreign stock exchange market but there is no liquid market in respect of these securities and therefore market values are not readily available. The Company values these securities using valuation models.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	0	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	a) State securities	3	0	0	0
2.2.	b) Other	4	0	0	0
3.	Amounts due from banks	5	85,446	106,472	261,384
3.1.	a) Repayable on demand	6	390	411	1,363
3.2.	b) Other receivables	7	85,056	106,061	260,021
4.	Amounts due from clients	8	0	0	0
4.1.	a) Repayable on demand	9	0	0	0
4.2.	b) Other receivables	10	0	0	0
5.	Debt securities	11	554,682	873,830	892,246
5.1.	a) Issued by state institutions	12	307,185	580,562	478,282
5.2.	b) Issued by other entities	13	247,497	293,268	413,964
6.	Shares, participation certificates and other holdings	14	0	0	0
7.	Equity holdings in associates	15	0	0	0
7.1.	In banks	16	0	0	0
7.2.	In other entities	17	0	0	0
8.	Equity holdings in subsidiaries	18	0	0	0
8.1.	In banks	19	0	0	0
8.2.	In other entities	20	0	0	0
9.	Intangible fixed assets	21	0	0	0
9.1.	Incorporation costs	22	0	0	0
9.2.	Goodwill	23	0	0	0
9.3.	Other	24	0	0	0
10.	Tangible fixed assets	25	0	0	0
10.1.	Land and buildings for operating activities	26	0	0	0
10.2.	Other	27	0	0	0
11.	Other assets	28	19,008	12,723	20,155
12.	Subscribed capital unpaid	29	0	0	0
13.	Deferred expenses and accrued income	30	156	1,525	0
TOTAL ASSETS			659,292	994,550	1,173,785

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>91,069</b>
1.1.	a) Repayable on demand	32	0	0	0
1.2.	b) Other payables	33	0	0	91,069
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0	0
2.1.1.	of which: Savings deposits	36	0	0	0
2.2.	b) Other payables	37	0	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0	0
2.2.3.	Term deposits with maturity	40	0	0	0
2.2.4.	Term deposits repayable at notice	41	0	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0	0
3.2.	b) Other payables from debt securities	44	0	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>1,732</b>	<b>2,261</b>	<b>28,559</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	a) For pensions and similar liabilities	48	0	0	0
6.2.	b) For taxes	49	0	0	0
6.3.	c) Other	50	0	0	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0	0
8.2.	b) Treasury shares	54	0	0	0
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>(35,458)</b>	<b>33,927</b>	<b>41,500</b>
<b>10.</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>0</b>	<b>0</b>	<b>0</b>
10.1.	a) Mandatory reserve funds	57	0	0	0
10.3.	b) Other reserve funds	59	0	0	0
10.4.	c) Other funds from profit	60	0	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>520,314</b>	<b>829,331</b>	<b>870,325</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>(44,414)</b>	<b>(135,911)</b>	<b>(13,980)</b>
12.1.	a) Of assets and liabilities	65	(53,188)	(138,728)	(20,708)
12.2.	b) Hedging derivatives	66	8,774	2,817	6,728
12.3.	c) Re-translation of equity holdings	67	0	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>264,942</b>	<b>156,312</b>	<b>100,814</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>(47,824)</b>	<b>108,630</b>	<b>55,498</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>659,292</b>	<b>994,550</b>	<b>1,173,785</b>

## Off Balance Sheet Accounts as of 31 December 2004

### Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0	0
1.2.	Guarantees and warranties	73	0	0	0
1.3.	Guarantees from bills of exchange	74	0	0	0
1.4.	Guarantees under letters of credit	75	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0	0
2.2.	Cash collateral	78	0	0	0
2.3.	Securities	79	0	0	0
2.4.	Other	80	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0	0
3.2.	With currency instruments	83	0	0	0
3.3.	With equity instruments	84	0	0	0
3.4.	With commodity instruments	85	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>130,973</b>	<b>226,508</b>	<b>465,217</b>
4.1.	With interest rate instruments	87	0	0	0
4.2.	With currency instruments	88	130,973	226,508	465,217
4.3.	With equity instruments	89	0	0	0
4.4.	With commodity instruments	90	0	0	0
4.5.	With credit instruments	91	0	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0	0
5.2.	With currency instruments	94	0	0	0
5.3.	With equity instruments	95	0	0	0
5.4.	With commodity instruments	96	0	0	0
5.5.	With credit instruments	97	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0	0
1.2.	Guarantees and warranties	105	0	0	0
1.3.	Guarantees from bills of exchange	106	0	0	0
1.4.	Guarantees under letters of credit	107	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0	0
2.2.	Cash collateral	110	0	0	0
2.3.	Securities	111	0	0	0
2.4.	Other collateral	112	0	0	0
2.5.	Collateral – securities	113	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0	0
3.2.	With currency instruments	116	0	0	0
3.3.	With equity instruments	117	0	0	0
3.4.	With commodity instruments	118	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>130,973</b>	<b>226,508</b>	<b>465,217</b>
4.1.	With interest rate instruments	120	0	0	0
4.2.	With currency instruments	121	130,973	226,508	465,217
4.3.	With equity instruments	122	0	0	0
4.4.	With commodity instruments	123	0	0	0
4.5.	With credit instruments	124	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0	0
5.2.	With currency instruments	127	0	0	0
5.3.	With equity instruments	128	0	0	0
5.4.	With commodity instruments	129	0	0	0
5.5.	With credit instruments	130	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Interest income and similar income	1	56,523	74,555	116,378
1.1.	of which: Interest income from debt securities	2	49,217	61,461	87,663
2.	Interest expense and similar expense	3	3,779	9,069	33,694
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	Income from shares and equity investments	5	0	0	0
3.1.	of which: a) Income from equity investments in associates	6	0	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0	0
3.3.	c) Income from other shares and equity investments	8	0	0	0
4.	Commission and fee income	9	0	0	3,510
5.	Commission and fee expense	10	19,329	23,528	26,364
6.	Net profit/(loss) on financial operations	11	(81,240)	45,838	(4,001)
7.	Other operating income	12	0	22,855	521
8.	Other operating expenses	13	0	0	10,090
9.	Administrative expenses	14	1	3	1
9.1.	of which: a) Employee costs	15	0	0	0
9.1.1.	aa) Wages and salaries	16	0	0	0
9.1.2.	ab) Social security and health insurance	17	0	0	0
9.2.	b) Other administrative costs	18	1	3	1
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0	0



CZK thousand

Item no.	Name of item	Note	2004	2003	2002
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0	0
12.3.	Income from receivables previously written off	35	0	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0	0
13.3.	Charge for reserves for guarantees	39	0	0	0
13.4.	Use of reserves for guarantees	40	0	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0	0
16.	Release of other reserves	44	0	0	11,350
17.	Charge for and use of other reserves	45	0	0	0
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	(47,824)	110,648	57,609
20.	Extraordinary income	48	0	0	0
21.	Extraordinary expenses	49	0	0	0
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0	0
23.	Income tax	51	0	2,018	2,111
24.	Net profit/(loss) for the period	52	(47,824)	108,630	55,498

# Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	33,927	41,500	70,387
	Increase	5,833	7,594	6,259
	Decrease	75,218	15,167	35,146
	Closing balance	(35,458)	33,927	41,500
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	829,331	870,325	1,054,021
	Increase	24,355	37,087	38,506
	Decrease	33,372	78,081	222,202
	Closing balance	520,314	829,331	870,325
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	(135,911)	(13,980)	(9,989)
	Increase	92,391	2,763	1,746
	Decrease	896	124,694	5,737
	Closing balance	(44,415)	(135,911)	(13,980)
8.	<b>Retained earnings</b>			
	Opening balance	156,312	100,814	130,254
	Increase	108,630	55,498	0
	Decrease	0	0	29,440
	Closing balance	264,942	156,312	100,814
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	(47,824)	108,630	55,498
11.	<b>Dividends</b>	0	0	0

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

IKS Plus bondový, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the “Fund” or “IKS Plus bondový”) was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. The Fund was formed for an indefinite period of time.

The original name of the Fund was IKS Plus balancovaný, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. The Fund was formed through the transformation of the close-ended mutual fund IKS KB PLUS Investiční kapitálové společnosti KB, a.s., uzavřený podílový fond, pursuant to Section 35h of the Investment Companies and Investment Funds Act 248/1992 Coll., as amended. On 22 February 2000, the Securities Commission approved the transformation of the close-ended mutual fund to an open-ended mutual fund with effect from 14 March 2000.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004.

The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. The Fund focuses on investing in debt securities in global markets.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Board of Directors and Supervisory Board

During the year ended 31 December 2004, no changes were made to the composition of the Board of Directors and the Supervisory Board.

Members of the statutory and supervisory bodies as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards.

The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing as of the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading" and "Available for sale". Securities held for trading are financial assets (debt securities, treasury bills) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*. The cost of debt securities is increased over time to reflect the accrued interest income. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its amortised cost. The Fund accounts for interest income on a straight line basis.

Securities are reported in the balance sheet line *Debt securities* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation No. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in the Regulation, the Company values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Under the Regulation, securities are valued at the price quoted on a public market, which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Company uses a value which it has determined with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Derivative Financial Instruments and Hedging

In the normal course of business, the Fund enters into hedging contracts for derivative financial instruments which represent a very low initial investment. The derivative financial instruments used include currency forwards. These financial instruments are used by the Fund to hedge foreign currency exposures associated with its transactions in the financial markets and the composition of its portfolio.

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

- (a) The Company has developed a risk management strategy;
- (b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- (c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as hedges and that prove to be highly effective in relation to the hedged risk, are retained in the balance sheet line *Gains or losses from revaluation*. The balances recognised in the balance sheet are taken to the profit and loss account and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss account.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are retained in the balance sheet line *Gains or losses from revaluation* in compliance with the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended. The balances recognised in the balance sheet are taken to the profit and loss account line *Gains or losses from derivative transactions* at settlement of the relevant instrument.

Certain derivatives are embedded in compound financial instruments which comprise the host instrument and the derivative. Pursuant to Section 29 of the Czech Finance Ministry Regulation No. 501/1992, as amended, the Company recognises gains or losses from the revaluation of assets and liabilities at fair value through *Gains or losses from revaluation*.

#### 2.7. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund recorded no provisions in its statutory books for the year ended 31 December 2004.

#### 2.8. Corrections Related to Previous Reporting Periods

Corrections to the expenses and income of previous reporting periods are recognised as income or expenses in the profit and loss account in the current period unless the corrections are significant.

#### 2.9. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, the depositary, Komerční banka, a.s., oversees the Fund's compliance with this Act.

#### 2.10. New Accounting Pronouncements in 2004

No changes were made during the year ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Year Ended 31 December 2004

No such developments were experienced during the year ended 31 December 2004.

## 4. Financial Instruments

### 4.1. Market Risks

The investment policy set out in the statutes of individual funds of the Company which is additionally specified in the Fund's investment strategy, establishes various investment priorities for the Company and the related need to monitor, control or mitigate various investment risks. In accordance with this, the Company adopted a policy of separately monitoring individual investment risks and approves the methods and policies of controlling and managing market risks of the Fund in line with the adopted investment policy of the Fund. Depending on the type of fund, these exposures specifically relate to foreign currency, credit and interest rate risks. The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against selected market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

The Statute of IKS Plus bondový restricts the Fund's investment in fixed-income earning instruments or securities issued by debt security funds. The investment strategy sets out that the Fund's profile is more risky than that of IKS Dluhopisový, with a focus on debt securities with a higher return and securities denominated in a foreign currency. The Fund's interest rate exposure was monitored (through a daily assessment of duration) but was not actively hedged by hedging instruments in the year ended 31 December 2004 as the overall duration of the Fund was not significant. The investment profile enables the Fund to take greater currency risk. The Fund assessed the degree of currency risk on a daily basis and partially hedged its currency exposures in accordance with the established limit. The instruments predominantly included debt securities issued in PLN, HUF and EUR and were specifically hedged through currency forwards and swaps. For the year ended 31 December 2004, the aggregate foreign currency risk profile was not allowed to exceed 9 percent of the Fund's assets over a period of one year with a 95 percent confidence level.

### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended.

In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

The strategy of IKS Plus bondový enabled the Fund to invest in instruments with a rating outside the investment range. The selection of investments is subject to rigorous oversight and approval by the Investment Committee. Nevertheless, the established limits require the Fund to invest no less than 70 percent of its assets in instruments with the investment rating.

### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with the banks of the depositary and the custodian, that is, with Komerční banka and ING Bank. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004	2003	2002
Current accounts with banks	390	411	1,363
Term deposits with banks	85,056	106,061	260,021
<b>Total amounts due from banks</b>	<b>85,446</b>	<b>106,472</b>	<b>261,384</b>

Set out below is a summary of term deposits as of 31 December 2004:

Name of the bank	Placement term	Interest (%)	Total interest (CZK)	Interest at 31 December 2004 (CZK)	Amount of term deposit (CZK thousand)
KB – CZK	30 December 2004 – 3 January 2005	2.23	14,619	7,310	59,000
KB – PLN	30 December 2004 – 3 January 2005	5.75	1,904	952	3,022
KB – HUF	30 December 2003 – 3 January 2005	9.75	523	262	484
KB – SKK	30 December 2003 – 3 January 2005	2.50	6,260	3,130	22,539
<b>Total term deposits</b>			<b>23,306</b>	<b>11,654</b>	<b>85,045</b>

## 6. Securities

All securities are listed on public markets.  
Securities at fair value comprise:

CZK thousand	2004	2003	2002
Securities held for trading	352,224	751,140	704,350
Securities available for sale	202,458	122,690	187,896
<b>Total securities</b>	<b>554,682</b>	<b>873,830</b>	<b>892,246</b>

CZK thousand	Fair value 2004	Net cost 2004	Fair value 2003	Fair value 2002
Shares	0	0	0	0
<b>Shares and participation certificates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Fixed income debt securities	332,249	346,135	620,938	489,140
Variable yield debt securities	222,433	230,854	252,892	403,106
<b>Debt securities</b>	<b>554,682</b>	<b>576,989</b>	<b>873,830</b>	<b>892,246</b>
<b>Total securities</b>	<b>554,682</b>	<b>0</b>	<b>873,830</b>	<b>892,246</b>
of which: Interest income	26,884	0	27,188	27,458
of which: Revaluation gains or losses	(49,191)	0	(136,165)	(19,475)



Debt securities at fair value comprise:

CZK thousand	2004	2003	2002
Local debt securities	0	68,685	10,858
Foreign debt securities	332,249	552,253	478,282
<b>Fixed income debt securities</b>	<b>332,249</b>	<b>620,938</b>	<b>489,140</b>
Local debt securities	69,915	67,212	0
Foreign debt securities	152,518	185,680	403,106
<b>Variable yield debt securities</b>	<b>222,433</b>	<b>252,892</b>	<b>403,106</b>
<b>Total debt securities</b>	<b>554,682</b>	<b>873,830</b>	<b>892,246</b>

Debt securities, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
Debt securities issued by:			
Czech state institutions	0	58,069	0
Czech financial institutions	9,886	9,788	0
Other Czech entities	60,030	68,041	10,859
Foreign state institutions	307,185	522,493	478,282
Foreign financial institutions	55,736	52,957	287,582
Other entities abroad	121,845	162,482	115,523
<b>Total debt securities</b>	<b>554,682</b>	<b>873,830</b>	<b>892,246</b>

In the year ended 31 December 2001, the Fund acquired a portfolio of USD and EUR denominated collateralised bond obligations ("CBO") and asset backed securities ("ABS") issued by a series of special purpose corporations. The acquisition cost of the portfolio was CZK 100 million as of 31 December 2004. The securities bear a floating interest rate based on USD LIBOR and EURIBOR. These securities were quoted on a foreign stock exchange market but there is no liquid market in respect of these securities and therefore market values are not readily available.

The Company values these securities using valuation models acquired from a third party valuation provider or the discounted cashflow method as appropriate. The aggregate fair value of these securities was CZK 87 million and CZK 123 million as of 31 December 2004 and 2003, respectively. The decrease of the fair value of these securities is caused primarily by the sale of an asset-backed security with the acquisition cost of CZK 64 million (refer to Note 11). Management considers that this valuation represents the best estimate of the net recoverable value of these securities and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio. The Fund has classified these securities as available for sale.

In addition, the Fund invested in securities with embedded derivatives. The aggregate fair value of these securities was CZK 56 million and CZK 53 million as of 31 December 2004 and 2003, respectively. The Fund has classified these securities as held for trading.

## 7. Other assets

Other assets comprise:

CZK thousand	2004	2003	2002
Positive fair value of derivatives	9,002	3,957	9,613
Tax receivables	9,882	8,639	10,431
Other debtors	0	0	1
Other receivables from securities trading	1	1	1
Other receivables	123	126	109
<b>Provisions</b>	<b>19,008</b>	<b>12,723</b>	<b>20,155</b>

Other receivables include amounts due arising from outstanding balances in respect of the State budget.

Deferred expenses and accrued income comprise:

CZK thousand	2004	2003	2002
Expected coupon payments	156	1,525	0
<b>Total deferred expenses and accrued income</b>	<b>156</b>	<b>1,525</b>	<b>0</b>

## 8. Amounts Owed to Banks

CZK thousand	2004	2003	2002
Loans received under repurchase transactions	0	0	91,069
<b>Amounts owed to banks</b>	<b>0</b>	<b>0</b>	<b>91,069</b>

## 9. Other Liabilities

Other liabilities comprise:

CZK thousand	2004	2003	2002
Negative fair value of derivatives	0	0	2,885
Other creditors	76	214	152
Amounts owed to shareholders	347	97	329
Discount/surcharge on trading with participation certificates	77	177	122
Unpaid dividends	0	0	23,026
Estimated payables	1,232	1,773	2,045
<b>Total other liabilities</b>	<b>1,732</b>	<b>2,261</b>	<b>28,559</b>

## 10. Capital Funds

The Fund's capital recorded in "Capital fund" consists of 520,314,183 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The selling price of the participation certificate may include a future tax payable from unrealised gains arising from the remeasurement of the securities. The difference between the nominal value of participation certificates and the price of the participation certificates when they are issued and resold represents share premium.

When reselling the participation certificates, the Company gives a discount on the current amount of the Fund's participation certificates. This discount is 2–8 percent depending on the holding period of the participation certificate and is recorded as Company income.

On 13 March 2000, IKS KB Plus, Investiční kapitálové společnosti KB, a.s., a close-ended mutual fund, ceased to exist; the nominal value of this fund's participation certificates was CZK 300. On 14 March 2000, an open-ended mutual fund IKS Plus balancovaný, otevřený podílový fond IKS KB, a.s. was incorporated through the transformation of the above close-ended mutual fund. The nominal value of participation certificates of the newly formed fund is CZK 1.

Based on the resolution the Board of Directors of the Company, each participation certificate of the terminated close-ended mutual fund was exchanged (to shareholders of the newly established open-ended mutual fund) for such a number of participation certificates with a nominal value of CZK 1 that corresponds with the equity of IKS KB Plus, IKS KB, a.s. uzavřený podílový fond, falling on one participation certificate as of 24 September 1999. The audited financial statements as of 24 September 1999 indicated that the equity amounted to CZK 1,805,020,698. Therefore, the value of one participation certificate is CZK 290 (the value of equity falling on one participation certificate was rounded downwards to the nearest crown). The exchange ratio as of the transformation date was 290 participation certificates of the open-ended mutual fund for one participation certificate of the terminated close-ended mutual fund. The aggregate number of participation certificates issued as of the transformation date was 520,314,183.

In accordance with the revised investment strategy, the Fund was renamed to IKS Plus bondový, otevřený podílový fond IKS KB, a.s. during the year ended 31 December 2002.

CZK thousand	Capital funds Nominal value of participation certificates	Share premium	Total
Balance at 31 December 2002	870,325	41,500	911,825
Issued in 2003	37,087	7,594	44,681
Repurchased in 2003	78,081	15,167	93,248
Balance at 31 December 2003	829,331	33,927	863,258
Issued in 2004	24,355	5,833	30,188
Repurchased in 2004	333,372	75,218	408,590
Balance at 31 December 2004	520,314	(35,458)	484,856

### Allocation of Profit

Retained earnings as of 31 December 2002	100,814
Profit/(loss) for 2002	55,498
Retained earnings as of 31 December 2003	156,312
Profit/(loss) for 2003	108,630
Retained earnings as of 31 December 2004	264,942

## 11. Gains or Losses from Revaluation

CZK thousand	2004	2003	2002
Shares	0	(10,406)	(10,406)
Debt securities	(49,191)	(125,759)	(9,069)
Currency contracts	75	3,954	8,433
Interest rate contracts	8,774	0	0
Remeasurement of current accounts and repurchase transactions	(4,072)	(3,700)	(2,938)
<b>Total gains or losses from revaluation</b>	<b>(44,414)</b>	<b>(135,911)</b>	<b>(13,980)</b>

## 12. Net Interest Income

CZK thousand	2004	2003	2002
Interest on debt securities	49,217	61,461	87,663
Interest on current accounts and term deposits	3,171	3,796	5,594
Interest on a loan (repurchase)	0	3,050	0
Interest on swap transactions	4,135	6,248	23,121
<b>Total interest income</b>	<b>56,523</b>	<b>74,555</b>	<b>116,378</b>
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest on current accounts and term deposits	1	15	2,254
Interest on a loan (repurchase)	0	1,338	0
Interest on swap transactions	3,778	7,716	31,440
<b>Total interest expenses</b>	<b>3,779</b>	<b>9,069</b>	<b>33,694</b>
<b>Total net interest income</b>	<b>52,744</b>	<b>65,486</b>	<b>82,684</b>

## 13. Net Fee and Commission Income

CZK thousand	2004	2003	2002
Income from discounts in repurchasing participation certificates	0	0	434
Other commissions	0	0	3,076
<b>Total fee and commission income</b>	<b>0</b>	<b>0</b>	<b>3,510</b>

<b>CZK thousand</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Fee for fund administration	16,563	20,295	22,943
Fee to the depositary	1,082	1,610	1,714
Custody fee	1,003	1,132	1,120
Fee for the sale of securities	2	3	6
Other fees	38	86	128
Other KB services	488	0	0
Audit fees	153	402	453
<b>Total fee and commission expenses</b>	<b>19,329</b>	<b>23,528</b>	<b>26,364</b>
<b>Total net fee and commission income</b>	<b>(19,329)</b>	<b>(23,528)</b>	<b>(22,854)</b>

In the year ended 31 December 2004, the Company concluded a new framework contract with Komerční banka, a.s. stipulating the fees for depositary and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

In accordance with the Fund's statute, the discount is recorded as the Company's income rather than the Fund's income in the period following 24 months from the transformation date.

#### 14. Net Profit/(Loss) on Financial Operations

<b>CZK thousand</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Profit/(loss) on securities held for trading	(69,998)	20,380	(5,132)
Profit/(loss) on foreign exchange transactions	86	1,978	1,131
Profit/(loss) on derivative transactions	(11,328)	23,480	0
<b>Total profit/(loss) on financial operations</b>	<b>(81,240)</b>	<b>45,838</b>	<b>(4,001)</b>

In the year ended 31 December 2004, profit/(loss) on financial operations was affected primarily by the loss on the sale of a foreign currency debt security of CZK 35 million (refer to Note 6).

#### 15. Other Operating Income and Expenses

<b>CZK thousand</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Proceeds from transferred receivables	0	0	521
Release of unpaid dividends	0	22,855	0
<b>Total other operating income</b>	<b>0</b>	<b>22,855</b>	<b>521</b>

<b>CZK thousand</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Losses on transferred receivables	0	0	10,090
<b>Total other operating expenses</b>	<b>0</b>	<b>0</b>	<b>10,090</b>

During the year ended 31 December 2003, outstanding dividends that had been forfeited were written off.

## 16. Administrative Expenses

CZK thousand	2004	2003	2002
Other taxes and fees	1	3	1
<b>Total administrative expenses</b>	<b>1</b>	<b>3</b>	<b>1</b>

## 17. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due tax	0	2,018	2,111
Deferred tax	0	0	0
<b>Total income tax</b>	<b>0</b>	<b>2,018</b>	<b>2,111</b>

Set out below is an analysis of due taxes:

CZK thousand	2004
Profit before tax	(47,824)
Items increasing taxable profit	0
Items decreasing taxable profit	0
Tax base	(47,824)
<b>Tax on tax base</b>	<b>0</b>
Tax due abroad	0
<b>Total tax</b>	<b>0</b>

Deferred income tax balances comprise:

CZK thousand	2004
Deferred income tax asset	
Tax losses brought forward	47,824
<b>Total deferred income tax asset</b>	<b>2,391</b>
Deferred income tax liability	0
<b>Reduction due to the uncertainty regarding the realisation of the deferred tax asset</b>	<b>2,391</b>
<b>Net deferred tax</b>	<b>0</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under "Gains or losses from revaluation" to retained earnings or accumulated losses as of 1 January 2005. This eliminates temporary differences that materialised in previous periods.

## 18. Financial Derivative Instruments

Financial derivatives:

CZK thousand	Notional value		Notional value		Notional value	
	2004	2004	2003	2003	2002	2002
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Currency swaps	31,073	31,073	126,608	126,608	277,317	277,317
Cross currency swaps	99,900	99,900	99,900	99,900	187,900	187,900
<b>Total currency instruments</b>	<b>130,973</b>	<b>130,973</b>	<b>226,508</b>	<b>226,508</b>	<b>465,217</b>	<b>465,217</b>

CZK thousand	Fair value		Fair value		Fair value	
	2004	2004	2003	2003	2002	2002
	Positive	Negative	Positive	Negative	Positive	Negative
Currency swaps	75	0	1,140	0	0	2,885
Cross currency swaps	8,927	0	2,817	0	9,613	0
<b>Total currency instruments</b>	<b>9,002</b>	<b>0</b>	<b>3,957</b>	<b>0</b>	<b>9,613</b>	<b>2,885</b>

In accordance with applicable accounting principles and policies, the Fund does not remeasure the notional value of off balance sheet assets and liabilities.

Financial derivatives at nominal values according to remaining maturity:

CZK thousand	Less than 1 year	1 to 5 years	Over 5 years	Total
Currency swaps	31,073	0	0	31,073
Cross currency swaps	0	99,900	0	99,900
<b>Total currency instruments</b>	<b>31,073</b>	<b>99,900</b>	<b>0</b>	<b>130,973</b>

## 19. Related Party Transactions and Balances

CZK thousand			
Company	2004	2003	2002
Investiční kapitálová společnost KB, a.s.	153	391	274

The Fund's expenses include fees for the Fund's management payable to the Company, and depository and service fees paid to Komerční banka, a.s.

## 20. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "Maturity undefined" category.

[illegible]



## 21. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “Maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	85,045	0	0	0	401	85,446
Debt securities	60,029	64,794	419,770	10,089	0	554,682
Other assets	0	9,882	0	0	9,126	19,008
Deferred expenses and accrued income	0	0	0	0	156	156
<b>Total assets</b>	<b>145,074</b>	<b>74,676</b>	<b>419,770</b>	<b>10,089</b>	<b>9,683</b>	<b>659,292</b>
Other liabilities	1,732	0	0	0	0	1,732
<b>Total liabilities</b>	<b>1,732</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,732</b>
<b>Net on balance sheet liquidity exposure as of 31 December 2004</b>	<b>143,342</b>	<b>74,676</b>	<b>419,770</b>	<b>10,089</b>	<b>9,683</b>	<b>657,560</b>
Off balance sheet assets	31,073	0	99,000	0	0	130,973
Off balance sheet liabilities	31,073	0	99,000	0	0	130,973
<b>Net off balance sheet liquidity exposure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 22. Foreign Currency Position

The following table shows the Fund’s foreign currency position by currency. However, the principal instrument in managing foreign currency risk is the monitoring of limits for individual currencies.

CZK thousand	CZK	USD	EUR	PLN	HUF	GBP	SKK	Total
Amounts due from banks	59,343	2	27	3,028	491	0	22,555	85,446
Debt securities	80,005	25,063	86,693	233,491	129,430	0	0	554,682
Other assets	19,008	0	0	0	0	0	0	19,008
Deferred expenses and accrued income	156	0	0	0	0	0	0	156
<b>Total assets</b>	<b>158,512</b>	<b>25,065</b>	<b>86,720</b>	<b>236,519</b>	<b>129,921</b>	<b>0</b>	<b>22,555</b>	<b>659,292</b>
Other liabilities	1,732	0	0	0	0	0	0	1,732
<b>Total liabilities</b>	<b>1,732</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,732</b>
<b>Net on balance sheet currency exposure</b>	<b>156,780</b>	<b>25,065</b>	<b>86,720</b>	<b>236,519</b>	<b>129,921</b>	<b>0</b>	<b>22,555</b>	<b>657,560</b>
Off balance sheet currency risk assets	130,973	0	0	0	0	0	0	130,973
Off balance sheet currency risk liabilities	0	0	99,900	12,462	18,611	0	0	130,973
<b>Net off balance sheet currency exposure</b>	<b>130,973</b>	<b>0</b>	<b>(99,900)</b>	<b>(12,462)</b>	<b>(18,611)</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 23. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004.

## 24. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the year ended 31 December 2003, the Fund did not breach the provision of Section 24 (1) of the Investment Companies and Investment Funds Act 248/1992 Coll., as amended.

As of 31 December 2004, the Fund breached no statutory limits.

## 25. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund's financial, equity or income position.

**Deloitte.**

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

IKS Global konzervativní

## Auditor's Report to the Shareholders of IKS Global konzervativní, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of IKS Global konzervativní, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of IKS Global konzervativní, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

Without qualifying our opinion, we draw attention to the following matter.

As discussed in Note 6 to the financial statements, the fund carries in its portfolio foreign collateralised bond obligations ("CBO") and asset backed securities ("ABS") in the aggregate fair value of CZK 173 million as of 31 December 2004 which represents 11 percent of the fund's assets. These securities were quoted on a foreign stock exchange market but there is no liquid market in respect of these securities and therefore market values are not readily available. The Company values these securities using valuation models.

In Prague on 4 March 2005

Audit firm:  
Deloitte s.r.o.  
Certificate no. 79  
Represented by:



Statutory auditor:  
Michal Petrman  
Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	0	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	a) State securities	3	0	0	0
2.2.	b) Other	4	0	0	0
3.	Amounts due from banks	5	147,568	262,887	253,986
3.1.	a) Repayable on demand	6	10,918	532	57,409
3.2.	b) Other receivables	7	136,650	262,355	196,577
4.	Amounts due from clients	8	0	0	0
4.1.	a) Repayable on demand	9	0	0	0
4.2.	b) Other receivables	10	0	0	0
5.	Debt securities	11	1,311,081	1,707,093	4,164,223
5.1.	a) Issued by state institutions	12	608,024	1,040,826	2,516,130
5.2.	b) Issued by other entities	13	703,057	666,267	1,648,093
6.	Shares, participation certificates and other holdings	14	251,980	549,876	794,826
7.	Equity holdings in associates	15	0	0	0
7.1.	In banks	16	0	0	0
7.2.	In other entities	17	0	0	0
8.	Equity holdings in subsidiaries	18	0	0	0
8.1.	In banks	19	0	0	0
8.2.	In other entities	20	0	0	0
9.	Intangible fixed assets	21	0	0	0
9.1.	Incorporation costs	22	0	0	0
9.2.	Goodwill	23	0	0	0
9.3.	Other	24	0	0	0
10.	Tangible fixed assets	25	0	0	0
10.1.	Land and buildings for operating activities	26	0	0	0
10.2.	Other	27	0	0	0
11.	Other assets	28	40,577	58,644	143,788
12.	Subscribed capital unpaid	29	0	0	0
13.	Deferred expenses and accrued income	30	18,551	24,496	17,712
	<b>TOTAL ASSETS</b>		<b>1,769,757</b>	<b>2,602,996</b>	<b>5,374,535</b>

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>300,527</b>
1.1.	a) Repayable on demand	32	0	0	0
1.2.	b) Other payables	33	0	0	300,527
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0	0
2.1.1.	of which: Savings deposits	36	0	0	0
2.2.	b) Other payables	37	0	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0	0
2.2.3.	Term deposits with maturity	40	0	0	0
2.2.4.	Term deposits repayable at notice	41	0	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0	0
3.2.	b) Other payables from debt securities	44	0	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>20,832</b>	<b>17,911</b>	<b>446,461</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>10,777</b>
6.1.	a) For pensions and similar liabilities	48	0	0	0
6.2.	b) For taxes	49	0	0	0
6.3.	c) Other	50	0	0	10,777
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0	0
8.2.	b) Treasury shares	54	0	0	0
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>252,962</b>	<b>361,785</b>	<b>439,005</b>
<b>10.</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>0</b>	<b>0</b>	<b>0</b>
10.1.	a) Mandatory reserve funds	57	0	0	0
10.3.	b) Other reserve funds	59	0	0	0
10.4.	c) Other funds from profit	60	0	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>1,474,029</b>	<b>2,247,368</b>	<b>4,493,588</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>31,573</b>	<b>(213,703)</b>	<b>(171,674)</b>
12.1.	a) Of assets and liabilities	65	30,468	(213,703)	(115,394)
12.2.	b) Hedging derivatives	66	1,105	0	(56,280)
12.3.	c) Re-translation of equity holdings	67	0	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>45,486</b>	<b>0</b>	<b>77,450</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>(55,125)</b>	<b>189,635</b>	<b>(221,599)</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>1,769,757</b>	<b>2,602,996</b>	<b>5,374,535</b>

## Off Balance Sheet Accounts as of 31 December 2004

### Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0	0
1.2.	Guarantees and warranties	73	0	0	0
1.3.	Guarantees from bills of exchange	74	0	0	0
1.4.	Guarantees under letters of credit	75	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0	0
2.2.	Cash collateral	78	0	0	0
2.3.	Securities	79	0	0	0
2.4.	Other	80	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0	0
3.2.	With currency instruments	83	0	0	0
3.3.	With equity instruments	84	0	0	0
3.4.	With commodity instruments	85	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>416,074</b>	<b>785,106</b>	<b>2,109,357</b>
4.1.	With interest rate instruments	87	0	0	350,000
4.2.	With currency instruments	88	416,074	785,106	1,759,357
4.3.	With equity instruments	89	0	0	0
4.4.	With commodity instruments	90	0	0	0
4.5.	With credit instruments	91	0	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0	0
5.2.	With currency instruments	94	0	0	0
5.3.	With equity instruments	95	0	0	0
5.4.	With commodity instruments	96	0	0	0
5.5.	With credit instruments	97	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>			
1.1.	Commitments	104	0	0	0
1.2.	Guarantees and warranties	105	0	0	0
1.3.	Guarantees from bills of exchange	106	0	0	0
1.4.	Guarantees under letters of credit	107	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>			
2.1.	Real estate collateral	109	0	0	0
2.2.	Cash collateral	110	0	0	0
2.3.	Securities	111	0	0	0
2.4.	Other collateral	112	0	0	0
2.5.	Collateral – securities	113	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>			
3.1.	With interest rate instruments	115	0	0	0
3.2.	With currency instruments	116	0	0	0
3.3.	With equity instruments	117	0	0	0
3.4.	With commodity instruments	118	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>			
4.1.	With interest rate instruments	120	416,074	785,106	2,109,357
4.2.	With currency instruments	121	0	0	350,000
4.3.	With equity instruments	122	416,074	785,106	1,759,357
4.4.	With commodity instruments	123	0	0	0
4.5.	With credit instruments	124	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>			
5.1.	With interest rate instruments	126	0	0	0
5.2.	With currency instruments	127	0	0	0
5.3.	With equity instruments	128	0	0	0
5.4.	With commodity instruments	129	0	0	0
5.5.	With credit instruments	130	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>			
6.1.	of which: Securities	132	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>			
7.1.	of which: Securities	134	0	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Interest income and similar income	1	87,691	156,760	448,218
1.1.	of which: Interest income from debt securities	2	80,322	136,099	302,958
2.	Interest expense and similar expense	3	509	30,478	147,414
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	Income from shares and equity investments	5	11,111	26,186	20,329
3.1.	of which: a) Income from equity investments in associates	6	0	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0	0
3.3.	c) Income from other shares and equity investments	8	11,111	26,186	20,329
4.	Commission and fee income	9	311	1	4,911
5.	Commission and fee expense	10	50,510	62,983	146,434
6.	Net profit/(loss) on financial operations	11	(103,991)	93,821	(396,372)
7.	Other operating income	12	771	0	0
8.	Other operating expenses	13	0	0	0
9.	Administrative expenses	14	0	4	5
9.1.	of which: a) Employee costs	15	0	0	0
9.1.1.	aa) Wages and salaries	16	0	0	0
9.1.2.	ab) Social security and health insurance	17	0	0	0
9.2.	b) Other administrative costs	18	0	4	5
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0	0



CZK thousand

Item no.	Name of item	Note	2004	2003	2002
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0	0
12.3.	Income from receivables previously written off	35	0	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0	0
13.3.	Charge for reserves for guarantees	39	0	0	0
13.4.	Use of reserves for guarantees	40	0	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0	0
16.	Release of other reserves	44	0	10,777	11,110
17.	Charge for and use of other reserves	45	0	0	10,777
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	(55,125)	194,077	(216,435)
20.	Extraordinary income	48	0	0	0
21.	Extraordinary expenses	49	0	0	1
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0	(1)
23.	Income tax	51	0	4,442	5,164
24.	Net profit/(loss) for the period	52	(55,125)	189,635	(221,599)

# Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	361,785	439,005	502,870
	Increase	16,274	2,982	126
	Decrease	125,097	80,202	63,993
	Closing balance	252,962	361,785	439,005
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	2,247,368	4,493,588	6,902,586
	Increase	262,660	39,795	5,533
	Decrease	1,035,999	2,286,015	2,414,530
	Closing balance	1,474,029	2,247,368	4,493,588
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	(213,703)	(171,674)	(298,477)
	Increase	1,045	0	126,803
	Decrease	246,321	42,029	0
	Closing balance	31,573	(213,703)	(171,674)
8.	<b>Retained earnings</b>			
	Opening balance	0	77,450	403,968
	Increase	0	0	0
	Decrease	0	77,450	326,518
	Closing balance	0	0	77,450
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	(55,125)	189,635	(221,599)
11.	<b>Dividends</b>	0	0	0

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

IKS Global konzervativní, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter “the Fund” or “IKS Global konzervativní”) was formed through the transformation of Investiční privatizační fond Komerční banky, a.s. in compliance with Section 35j of the Investment Companies and Investment Funds Act 248/1992 Coll., as amended. At the extraordinary general meeting held on 21 January 2000, the shareholders decided to transform Investiční privatizační fond Komerční banky, a.s. into an open-ended equity fund. Special-purpose financial statements were prepared as of that date. On 2 May 2000, the Securities Commission approved the transformation of Investiční privatizační fond Komerční banky, a.s. into an open-ended equity fund (ref. no. 211/2 381/R/2000). Based on the Board’s application, Investiční privatizační fond Komerční banky, a.s. was removed from the Register of Companies as of 15 August 2000 (ref. no. 55731/2000, Rg. B 997). Another set of special purpose financial statements were prepared as of that date. The Fund was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004. The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. The Fund is part of a group of mixed funds with a balanced investment strategy without any territorial restrictions. The Fund is intended for investors with an investment horizon exceeding three years.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Company’s Board of Directors and Supervisory Board

During the year ended 31 December 2004, no changes were made to the composition of the Board of Directors and the Supervisory Board.

### Members of the statutory and supervisory bodies as of 31 December 2004:

#### Board of Directors:

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### Supervisory Board:

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová



## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards. The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing as of the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading" and "Available for sale". Securities held for trading are financial assets (shares, debt securities, treasury bills) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*. The cost of debt securities is increased over time to reflect the accrued interest income. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its amortised cost. The Fund accounts for interest income on a straight line basis.

Securities are reported in the balance sheet line *Shares or Debt securities* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with Czech Finance Ministry Regulation No. 270/1998 Coll. (the "Regulation"). Pursuant to the guidance set out in this Regulation, the Fund values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Pursuant to the Regulation referred to above, the securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Fund uses a value determined by the Company with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Derivative Financial Instruments and Hedging

In the normal course of business, the Fund enters into hedging contracts for derivative financial instruments which represent a very low initial investment. The derivative financial instruments used include currency swaps, interest rate swaps and cross currency swaps. These financial instruments are used by the Fund to hedge interest rate and foreign currency exposures associated with its transactions in the financial markets and the composition of its portfolio.

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

- (a) The Company has developed a risk management strategy;
- (b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- (c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as hedges and that prove to be highly effective in relation to the hedged risk, are retained in the balance sheet line *Gains or losses from revaluation*. The balances recognised in the balance sheet are taken to the profit and loss account and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss account.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are retained in the balance sheet line *Gains or losses from revaluation* in compliance with the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended. The balances recognised in the balance sheet are taken to the profit and loss account line *Gains or losses from derivative transactions* at settlement of the relevant instrument.

Certain derivatives are embedded in compound financial instruments which comprise the host instrument and the derivative. Pursuant to Section 29 of the Czech Finance Ministry Regulation No. 501/1992, as amended, the Company recognises gains or losses from the revaluation of assets and liabilities at fair value through *Gains or losses from revaluation*.

#### 2.7. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund recorded no provisions in its statutory books for the year ended 31 December 2004.

#### 2.8. Corrections Related to Previous Reporting Periods

Corrections to the expenses and income of previous reporting periods are recognised as income or expenses in the profit and loss account in the current period unless the corrections are significant.

#### 2.9. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, the depositary, Komerční banka, a.s., oversees the Fund's compliance with this Act.

#### 2.10. New Accounting Pronouncements in 2004

No changes were made during the year ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Year Ended 31 December 2004

No such developments were experienced during the year ended 31 December 2004.

## 4. Financial instruments

### 4.1. Market Risks

The investment policy set out in the statutes of individual funds of the Company which is additionally specified in the Fund's investment strategy, establishes various investment priorities for the Company and the related need to monitor, control or mitigate various investment risks. In accordance with this, the Company adopted a policy of separately monitoring individual investment risks and approves the methods and policies of controlling and managing market risks of the Fund in line with the adopted investment policy of the Fund. Depending on the type of fund, these exposures specifically relate to foreign currency, credit and interest rate risks. The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against selected market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

The Statute defines IKS Globalní as a mixed fund focused on investing in fixed-income earnings instruments and equity instruments. The investment strategy has set out a conservative mixed strategy for the Fund with the proportion of equity instruments to the Fund's assets not exceeding 15 percent. The current average duration of the Fund's debt security segment was assessed on a daily basis. The hedging of interest rate risk through interest rate swaps was utilised in respect of a short-term (defined as several months) hedging against adverse developments of prices of debt securities with long-term maturity when interest rates increased. As of 31 December 2004, the Fund entered into no interest rate swap. Given the conservative strategy of the Fund, the Fund undertook significant efforts to hedge against its currency risks. The current risk profile was assessed on a daily basis. The hedged instruments specifically included debt securities issued in PLN, HUF, EUR and USD. For the year ended 31 December 2004, the aggregate foreign currency risk profile was not allowed to exceed 3 percent of the Fund's assets over a period of one year with a 95 percent confidence level. The Fund hedged against its foreign currency exposures by entering into currency swap and currency forward contracts.

### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended. For funds, whose investment strategy is predominantly focused on fixed income-earning instruments, limits are established in respect of the proportion of investments of the relevant investment rating.

In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

In respect of the debt security segment of its portfolio, IKS Global konzervativní was required, in view of its conservative strategy, to maintain no less than 90 percent of instruments carrying the investment rating.

### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with the banks of the depositary and the custodian, that is, with Komerční banka and ING Bank. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004	2003	2002
Current accounts with banks	10,918	532	57,409
Term deposits with banks	136,650	262,355	196,577
<b>Total amounts due from banks</b>	<b>147,568</b>	<b>262,887</b>	<b>253,986</b>

Name of the bank	Placement term	Interest (%)	Total interest (CZK)	Interest at 31 December 2004 (CZK)	Amount of term deposit (CZK thousand)
KB – CZK	30 December 2004 – 3 January 2005	2.23	33,004	16,502	133,200
KB – EUR	30 December 2004 – 3 January 2005	1.63	466	155	3,433
<b>Total term deposits</b>			<b>33,470</b>	<b>16,657</b>	<b>136,633</b>

## 6. Securities

Securities at fair value comprise:

CZK thousand	2004	2003	2002
Securities held for trading	1,086,024	2,006,854	4,499,655
Securities available for sale	477,037	250,115	459,394
<b>Total securities</b>	<b>1,563,061</b>	<b>2,256,969</b>	<b>4,959,049</b>

CZK thousand	2004 Net cost	2004 Fair value	2003 Net cost	2003 Fair value	2002 Fair value
Shares	121,356	179,405	587,246	549,876	794,826
Participation certificates	73,754	72,575	0	0	0
<b>Shares and participation certificates</b>	<b>195,110</b>	<b>251,980</b>	<b>587,246</b>	<b>549,876</b>	<b>794,826</b>
Fixed income debt securities	972,078	994,375	1,361,176	1,320,802	3,012,709
Variable yield debt securities	363,234	316,706	511,607	386,291	1,151,514
Treasury bills	0	0	0	0	0
<b>Debt securities</b>	<b>1,335,312</b>	<b>1,311,081</b>	<b>1,872,783</b>	<b>1,707,093</b>	<b>4,164,223</b>
<b>Total securities</b>	<b>1,530,422</b>	<b>1,563,061</b>	<b>2,460,029</b>	<b>2,256,969</b>	<b>4,959,049</b>
of which: Interest income	0	(1,659)	0	13,727	77,646
of which: Revaluation gains or losses		34,298		(216,787)	(127,221)

Shares and participation certificates held for trading, at fair value, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading</b>			
Local	168,041	357,112	548,148
Foreign	83,939	192,764	246,678
<b>Shares and participation certificates held for trading</b>	<b>251,980</b>	<b>549,876</b>	<b>794,826</b>



Shares and participation certificates held for trading, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading issued by</b>			
Financial institutions	0	0	0
Other institutions	251,980	549,876	794,826
<b>Total shares and participation certificates held for trading</b>	<b>251,980</b>	<b>549,876</b>	<b>794,826</b>

Debt securities held for trading comprise:

CZK thousand	2004	2003	2002
<b>Fixed income debt securities</b>			
Local	740,629	844,307	1,215,955
Foreign	253,746	476,495	1,796,754
<b>Total fixed income debt securities</b>	<b>994,375</b>	<b>1,320,802</b>	<b>3,012,709</b>

CZK thousand	2004	2003	2002
<b>Variable yield debt securities</b>			
Local	0	0	100,435
Foreign	316,706	386,291	1,051,079
<b>Total variable yield debt securities</b>	<b>316,706</b>	<b>386,291</b>	<b>1,151,514</b>
<b>Total debt securities</b>	<b>1,311,081</b>	<b>1,707,093</b>	<b>4,164,223</b>

CZK thousand	2004	2003	2002
<b>Debt securities</b>			
Czech state institutions	455,582	564,331	827,279
Czech financial institutions	0	119,053	100,435
Other Czech entities	160,332	160,923	388,676
Foreign state institutions	152,442	476,495	1,688,851
Foreign financial institutions	369,340	136,176	922,077
Other entities abroad	173,385	250,115	236,905
<b>Total debt securities</b>	<b>1,311,081</b>	<b>1,707,093</b>	<b>4,164,223</b>

In the year ended 31 December 2001, the Fund acquired a portfolio of USD and EUR denominated collateralised bond obligations ("CBO") and asset backed securities ("ABS") issued by a series of special purpose corporations. The acquisition cost of the portfolio was CZK 199 million as of 31 December 2004. The securities bear a floating interest rate based on USD LIBOR and EURIBOR. These securities were quoted on a foreign stock exchange market but there is no liquid market in respect of these securities and therefore market values are not readily available. The Company values these securities using valuation models acquired from a third party valuation provider or the discounted cashflow method as appropriate. The aggregate fair value of these securities was CZK 173 million and CZK 250 million as of 31 December 2004 and 2003, respectively. The decrease of the fair value of these securities is caused primarily by the sale of an asset based security with the acquisition cost of CZK 138 million (refer to Note 15). Management considers that this valuation represents the best estimate of the net recoverable value of these securities and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio. These securities are carried as available for sale. The Fund additionally invested in securities with embedded derivative instruments. The aggregate fair value of these securities was CZK 304 million as of 31 December 2004. These securities are carried as trading.

## 7. Other Assets

Other assets comprise:

CZK thousand	2004	2003	2002
Positive fair value of financial derivatives	1,105	6,394	34,760
Tax receivables	31,107	43,881	63,274
Estimated assets	0	0	0
Other amounts due from securities trading	13,388	13,388	50,775
Other receivables	12	16	14
Provisions	(5,035)	(5,035)	(5,035)
<b>Total other assets</b>	<b>40,577</b>	<b>58,644</b>	<b>143,788</b>

The Fund recognises a full provision against the amount receivable from Přerovské strojírný.

Deferred expenses and accrued income comprise:

CZK thousand	2004	2003	2002
Expected coupon payments	18,551	24,496	17,712
<b>Total deferred expenses and accrued income</b>	<b>18,551</b>	<b>24,496</b>	<b>17,712</b>

## 8. Amounts Owed to Banks

CZK thousand	2004	2003	2002
Loans received under repurchase transactions	0	0	300,527
<b>Amounts owed to banks</b>	<b>0</b>	<b>0</b>	<b>300,527</b>

## 9. Other Liabilities

Other liabilities comprise:

CZK thousand	2004	2003	2002
Negative fair value of financial derivatives	0	369	91,040
Other creditors	213	440	720
Amounts owed to shareholders	5,075	231	302,706
Discount/overcharge on trading with participation certificates	141	215	31,118
Estimated payables	3,300	4,554	8,775
Other payables from securities trading	0	0	0
Other payables	12,103	12,102	12,102
<b>Total other liabilities</b>	<b>20,832</b>	<b>17,911</b>	<b>446,461</b>

In the year ended 31 December 2002, the Fund recorded an amount of CZK 302,706 thousand owed to a shareholder which was settled during the year ended 31 December 2003.

## 10. Capital Funds

As of 31 December 2004, the balance of "Capital funds" comprises:

CZK thousand	2004	2003	2002
Capital funds and share premium at 1 January	2,609,153	4,932,593	7,405,456
Issued participation certificates	134,783	42,777	5,659
Repurchased participation certificates	(1,161,095)	(2,222,067)	2,478,523
Difference arising from the transformation of the fund	0	0	0
Settlement of part of the 2002 loss	144,150	(144,150)	0
Transfer of IPF's reserve fund	0	0	0
The difference between the shares acquired from the NPF and issued participation certificates	0	0	0
<b>Total capital funds and share premium at 31 December</b>	<b>1,726,991</b>	<b>2,609,153</b>	<b>4,932,593</b>

The Fund's capital recorded in "Other capital funds" consists of 1,474,027,836 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The selling price of the participation certificate may include a future tax payable from unrealised gains arising from the remeasurement of the securities.

CZK thousand	Nominal value of participation certificates	Settlement of loss	Capital funds	Share premium	Total
<b>Balance at 31 December 2002</b>	<b>4,493,588</b>	<b>0</b>	<b>4,493,588</b>	<b>439,005</b>	<b>4,932,593</b>
Issued in 2003	39,795		39,795	2,982	42,777
Purchased in 2003	2,141,865		2,141,865	80,202	2,222,067
Settlement of loss	0	144,150	(144,150)	0	144,150
<b>Balance at 31 December 2003</b>	<b>2,391,518</b>	<b>144,150</b>	<b>2,247,368</b>	<b>361,785</b>	<b>2,609,153</b>
Issued in 2004	118,510		118,510	16,274	134,784
Purchased in 2004	1,035,999		1,035,999	125,097	1,161,096
Settlement of loss	0	(144,150)	144,150	0	(144,150)
<b>Balance at 31 December 2004</b>	<b>1,474,029</b>	<b>0</b>	<b>1,474,029</b>	<b>252,962</b>	<b>1,726,991</b>

The share premium balance as of 31 December 2000 includes differences that arose in respect of the Fund's transformation totalling CZK 605,739 thousand.

If the Fund incurs losses from its operations at year-end, the losses are covered using the fund created from profit. If this fund is not sufficient to cover the loss, the loss needs to be covered through the reduction of the balance of the capital fund which reflects the current amount of the Fund's holding. During the year ended 31 December 2004, the Company decided to allocate profit for the year ended 31 December 2003 to capital funds as the Fund had incurred losses in the previous reporting periods that had been covered through a reduction of capital funds.

#### Allocation of Profit/Settlement of Loss

##### CZK thousand

<b>Retained earnings at 31 December 2002</b>	<b>77,450</b>
Loss for 2002	(221,599)
Settlement of a part of the loss for 2002 through retained earnings	(77,450)
Settlement of a part of the loss for 2002 through capital funds	(144,150)
<b>Retained earnings at 31 December 2003</b>	<b>0</b>
Profit for 2003	189,635
Allocation of profit for 2003 to capital funds	(144,150)
<b>Retained earnings at 31 December 2004</b>	<b>45,486</b>

#### 11. Gains or Losses from Revaluation

CZK thousand	2004	2003	2002
Shares	58,049	(37,371)	(202,375)
Participation certificates	(1,179)	0	0
Debt securities	(22,572)	(179,416)	75,154
Currency contracts	1,105	6,025	25,753
Interest rate contracts	0	0	(67,648)
Remeasurement of current accounts and repurchase transactions	(3,830)	(2,941)	(2,558)
<b>Total gains or losses from revaluation</b>	<b>31,573</b>	<b>(213,703)</b>	<b>(171,674)</b>

#### 12. Net Interest Income

Net interest income comprises:

CZK thousand	2004	2003	2002
Interest on debt securities	80,322	136,099	302,958
Interest on current accounts and term deposits	7,369	6,346	50,846
Interest on repurchase transactions	0	113	106
Interest on swap transactions	0	14,202	94,308
<b>Total interest income</b>	<b>87,691</b>	<b>156,760</b>	<b>448,218</b>
Interest on current accounts	4	116	152
Interest on repurchase transactions	505	5,193	9,629
Interest on swap transactions	0	25,169	137,633
<b>Total interest expenses</b>	<b>509</b>	<b>30,478</b>	<b>147,414</b>
<b>Total net interest income</b>	<b>87,182</b>	<b>126,282</b>	<b>300,804</b>

### 13. Income from Shares and Holdings

CZK thousand	2004	2003	2002
Income from local shares	11,111	26,186	19,269
Income from foreign shares	0	0	1,060
Income from foreign participation certificates	0	0	0
<b>Total received dividends</b>	<b>11,111</b>	<b>26,186</b>	<b>20,329</b>

### 14. Net Fee and Commission Income

Fees and commissions comprise:

CZK thousand	2004	2003	2002
Income from discounts in repurchasing participation certificates	0	0	4,911
Other commissions	311	1	0
<b>Total fee and commission income</b>	<b>311</b>	<b>1</b>	<b>4,911</b>
Fee for fund administration	45,252	56,917	131,322
Fee to the depository	2,747	3,796	8,120
Custody fee	729	1,130	2,342
Fee for the sale of securities	106	235	3,019
Other fees	46	142	966
Other KB services	1,377	0	0
Auditor fee	253	763	665
<b>Total fee and commission expenses</b>	<b>50,510</b>	<b>62,983</b>	<b>146,434</b>
<b>Total net fee and commission income</b>	<b>(50,199)</b>	<b>(62,982)</b>	<b>(141,523)</b>

In accordance with the Fund's statute, the discount is recorded as the Company's income rather than the Fund's income in the period following 24 months from the transformation date.

In the year ended 31 December 2004, the Company concluded a new framework contract with Komerční banka a.s. stipulating the fees for depository and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

### 15. Net Profit/(Loss) on Financial Operations

CZK thousand	2004	2003	2002
Profit/(loss) on securities held for trading	(94,309)	63,403	(326,055)
Profit/(loss) on foreign exchange transactions	1,829	16,620	(39,294)
Profit/(loss) on derivative transactions	(11,511)	13,797	(31,023)
<b>Total profit/(loss) on financial operations</b>	<b>(103,991)</b>	<b>93,820</b>	<b>(396,372)</b>

During the year ended 31 December 2004, profit/(loss) on financial operations was affected by the loss of the sale of a foreign currency debt security amounting to CZK 76 million (refer to Note 6).

## 16. Operating Expenses

The Fund recognises no operating expenses.

## 17. Administrative Expenses

CZK thousand	2004	2003	2002
Administrative, arbitration and court fees	0	4	5
<b>Total administrative expenses</b>	<b>0</b>	<b>4</b>	<b>5</b>

## 18. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due tax	0	4,442	5,164
Deferred tax	0	0	0
<b>Total income tax</b>	<b>0</b>	<b>4,442</b>	<b>5,164</b>

Set out below is an analysis of due taxes:

CZK thousand	2004
Profit/(loss) before taxation	(55,125)
Items increasing taxable profit	262
Items decreasing taxable profit	(6,901)
Tax base	(61,764)
Tax on the tax base	0
<b>Total due tax</b>	<b>0</b>

Deferred income tax balances comprise:

CZK thousand	2004
<b>Deferred income tax asset</b>	
Tax losses	323,623
<b>Total deferred income tax asset</b>	<b>16,181</b>
Deferred income tax liability	0
Reduction due to the uncertainty regarding the realisation of the deferred tax asset	16,181
<b>Net deferred tax</b>	<b>0</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under “Gains or losses from revaluation” to retained earnings or accumulated losses as at 1 January 2005. This eliminates temporary differences that materialised in previous periods.

## 19. Financial Derivative Instruments

CZK thousand	Notional value		Notional value		Notional value	
	2004	2004	2003	2003	2002	2002
	Positive	Negative	Positive	Negative	Positive	Negative
<b>Interest rate instruments</b>						
Interest rate swaps	0	0	0	0	350,000	350,000
<b>Total interest rate instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>350,000</b>	<b>350,000</b>
<b>Currency instruments</b>						
Cross currency swaps	0	0	0	0	362,292	362,292
Currency swaps	416,074	416,074	785,106	785,106	1,397,065	1,397,065
<b>Total currency instruments</b>	<b>416,074</b>	<b>416,074</b>	<b>785,106</b>	<b>785,106</b>	<b>1,759,357</b>	<b>1,759,357</b>
<b>Other instruments</b>						
Forwards for debt securities	0	0	0	0	0	0
<b>Total other instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>416,074</b>	<b>416,074</b>	<b>785,106</b>	<b>785,106</b>	<b>2,109,357</b>	<b>2,109,357</b>

CZK thousand	Fair value		Fair value		Fair value	
	2004	2004	2003	2003	2002	2002
	Positive	Negative	Positive	Negative	Positive	Negative
<b>Interest rate instruments</b>						
Interest rate swaps	0	0	0	0	0	76,974
Interest rate forwards	0	0	0	0	0	0
<b>Total interest rate instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>76,974</b>
<b>Currency instruments</b>						
Cross currency swaps	0	0	0	0	33,588	0
Currency swaps	1,105	0	6,394	369	1,172	14,066
<b>Total currency instruments</b>	<b>1,105</b>	<b>0</b>	<b>6,394</b>	<b>369</b>	<b>34,760</b>	<b>14,066</b>
<b>Other instruments</b>						
Forwards for debt securities	0	0	0	0	0	0
<b>Total other instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>1,105</b>	<b>0</b>	<b>6,394</b>	<b>369</b>	<b>34,760</b>	<b>91,040</b>

Financial derivatives at nominal values according to remaining maturity:

CZK thousand	Less than 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	0	0	0	0
<b>Total interest rate instruments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Currency instruments</b>				
Cross currency swaps	0	0	0	0
Currency swaps	416,074	0	0	416,074
<b>Total currency instruments</b>	<b>416,074</b>	<b>0</b>	<b>0</b>	<b>416,074</b>
<b>Total</b>	<b>416,074</b>	<b>0</b>	<b>0</b>	<b>416,074</b>

## 20. Related Party Transactions and Balances

Short-term payables:

CZK thousand	2004	2003	2002
Investiční kapitálová společnost KB, a.s.	355	440	31,838

The Fund's expenses include fees for the Fund's management payable to the Company in the aggregate amount of CZK 45,252 thousand, depository fees totalling CZK 2,747 thousand paid to Komerční banka, a.s. ("KB") and fees for other services totalling CZK 1,377 thousand paid to KB.

## 21. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "Maturity undefined" category.

[illegible]



## 22. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “Maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	136,650	0	0	0	10,918	147,568
Debt securities	0	0	517,411	793,670	0	1,311,081
Shares and participation certificates	0	0	0	0	251,980	251,980
Other assets	8,365	31,107	0	0	1,105	40,577
Deferred expenses and accrued income	18,551	0	0	0	0	18,551
<b>Total assets</b>	<b>163,566</b>	<b>31,107</b>	<b>517,411</b>	<b>793,670</b>	<b>264,003</b>	<b>1,769,757</b>
Owed to non-banking entities	0	0	0	0	0	0
Other liabilities	20,832	0	0	0	0	20,832
Reserves	0	0	0	0	0	0
<b>Total liabilities</b>	<b>20,832</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20,832</b>
<b>Net on balance sheet liquidity exposure as of 31 December 2004</b>	<b>142,734</b>	<b>0</b>	<b>517,411</b>	<b>793,670</b>	<b>264,003</b>	<b>1,748,925</b>
Off balance sheet assets	416,074	0	0	0	0	416,074
Off balance sheet liabilities	416,074	0	0	0	0	416,074
<b>Net off balance sheet liquidity exposure as of 31 December 2004</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 23. Foreign Currency Position

The following table shows the Fund’s foreign currency position by currency. The principal instrument in managing foreign currency risk is the monitoring of limits for individual currencies.

CZK thousand	CZK	USD	EUR	PLN	HUF	Total
Amounts due from banks	137,445	109	3,452	6,561	1	147,568
Debt securities	841,933	0	276,423	192,725	0	1,311,081
Shares and participation certificates	179,405	0	72,575	0	0	251,980
Other assets	40,577	0	0	0	0	40,577
Deferred expenses and accrued income	18,551	0	0	0	0	18,551
<b>Total assets</b>	<b>1,217,911</b>	<b>109</b>	<b>352,450</b>	<b>199,286</b>	<b>1</b>	<b>1,769,757</b>
Owed to non-banking entities	0	0	0	0	0	0
Other liabilities	20,831	0	0	0	0	20,832
Reserves	0	0	0	0	0	0
Accrued expenses and deferred income	0	0	0	0	0	0
<b>Total liabilities</b>	<b>20,831</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20,832</b>
<b>Net on balance sheet currency exposure as of 31 December 2004</b>	<b>1,197,080</b>	<b>109</b>	<b>352,450</b>	<b>199,286</b>	<b>1</b>	<b>1,748,925</b>
Off balance sheet currency risk assets	416,074	0				416,074
Off balance sheet currency risk liabilities	0	0	275,686	140,388	0	416,074
<b>Net off balance sheet currency exposure as of 31 December 2004</b>	<b>416,074</b>	<b>0</b>	<b>(275,686)</b>	<b>(140,388)</b>	<b>0</b>	<b>0</b>

## 24. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004.

The legal disputes discussed below and associated potential assets and liabilities relate to the activities of Investiční privatizační fond KB, a.s., the transformation of which resulted in the formation of the Fund (refer to Note 1).

The Fund sold the shares of Mrazírny Praha on the basis that only a portion of the purchase price was paid to it. The Fund recognised a receivable of CZK 8,352 thousand. Given that the outstanding portion of the purchase price was not settled, the Fund has not transferred the relevant shares to the buyer and these shares are retained in the balance sheet at the written-off value. At the same time, the Fund has an obligation to transfer the shares at their selling price, i.e., CZK 12,102 thousand. The receivable is being recovered through proceedings held at the Regional Court in Ostrava together with the contractual fine of CZK 12,000 thousand maintained in the off-balance sheet records. The payable will be settled after the payment of the receivable of CZK 8,352 thousand referred to above.

The off balance sheet accounts also include an amount receivable relating to the legal disputes with two entities where the Fund is the plaintiff. The subject matter of the disputes is the payment of dividends of Pražská teplárenská, a.s. to an unauthorised entity and a failure to pay out a portion of dividends. The total amount of the off balance sheet asset is CZK 17,528 thousand.

## 25. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

As of 31 December 2004, the Fund has not eliminated the breach of Section 24 (4) of Act 248/1992 Coll., (as amended by Act 189/2004 Coll.) that is, the breach of the 11 percent limit established in respect of the amount of securities of one type issued by the same issuer. This breach related to the Mrazírny Praha, a.s. (ISIN CS0008442968) security and represented 8.01 percent. Given that the statutory limit had been exceeded before an amendment to Act 248/92 Coll., tool effect (8 June 1998), the conditions laid down by Section 24 should have been met prior to 31 December 2000.

The Fund is a party to an ongoing legal dispute with the defendant with whom a security acquisition contract was entered into, the subject matter of which related to a transfer of shares of Mrazírny Praha, a.s. to the defendant. The court proceedings have been adjourned to January 2005.

This breach of the statutory limit was reported to the Securities Commission. The Fund is required by the Securities Commission to report to it on the status of the matter on an ongoing basis, always on the first day of each month.

The Fund has not breached any other regulatory limits.

## 26. Significant Post Balance Sheet Events

On 10 January 2005, the Municipal Court in Prague made a judgement with respect to the transfer of shares of Mrazírny Praha, a.s. fully upholding the claim of the Company. The defendant was instructed to pay CZK 8,352 thousand to the Company including accrued interest, to settle the contractual penalty of CZK 12,000 thousand, and to reimburse the Company for the costs of the proceedings.

**Deloitte.**

IKS Balancovaný

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

## Auditor's Report to the Shareholders of IKS Balancovaný, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of IKS Balancovaný, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of IKS Balancovaný, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	0	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	a) State securities	3	0	0	0
2.2.	b) Other	4	0	0	0
3.	Amounts due from banks	5	336,911	189,088	106,324
3.1.	a) Repayable on demand	6	3,541	1,288	3,143
3.2.	b) Other receivables	7	333,370	187,800	103,181
4.	Amounts due from clients	8	0	0	0
4.1.	a) Repayable on demand	9	0	0	0
4.2.	b) Other receivables	10	0	0	0
5.	Debt securities	11	126,449	23,039	0
5.1.	a) Issued by state institutions	12	126,449	23,039	0
5.2.	b) Issued by other entities	13	0	0	0
6.	Shares, participation certificates and other holdings	14	745,538	293,853	187,460
7.	Equity holdings in associates	15	0	0	0
7.1.	In banks	16	0	0	0
7.2.	In other entities	17	0	0	0
8.	Equity holdings in subsidiaries	18	0	0	0
8.1.	In banks	19	0	0	0
8.2.	In other entities	20	0	0	0
9.	Intangible fixed assets	21	0	0	0
9.1.	Incorporation costs	22	0	0	0
9.2.	Goodwill	23	0	0	0
9.3.	Other	24	0	0	0
10.	Tangible fixed assets	25	0	0	0
10.1.	Land and buildings for operating activities	26	0	0	0
10.2.	Other	27	0	0	0
11.	Other assets	28	9,230	1,949	2,208
12.	Subscribed capital unpaid	29	0	0	0
13.	Deferred expenses and accrued income	30	0	0	0
TOTAL ASSETS			1,218,128	507,929	295,992

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Amounts owed to banks, savings associations	31	0	0	0
1.1.	a) Repayable on demand	32	0	0	0
1.2.	b) Other payables	33	0	0	0
2.	Amounts owed to clients, members of savings associations	34	0	0	0
2.1.	a) Repayable on demand	35	0	0	0
2.1.1.	of which: Savings deposits	36	0	0	0
2.2.	b) Other payables	37	0	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0	0
2.2.3.	Term deposits with maturity	40	0	0	0
2.2.4.	Term deposits repayable at notice	41	0	0	0
3.	Payables from debt securities	42	0	0	0
3.1.	a) Issued debt securities	43	0	0	0
3.2.	b) Other payables from debt securities	44	0	0	0
4.	Other liabilities	45	17,705	3,545	695
5.	Deferred income and accrued expenses	46	0	0	0
6.	Reserves	47	0	0	781
6.1.	a) For pensions and similar liabilities	48	0	0	0
6.2.	b) For taxes	49	0	0	0
6.3.	c) Other	50	0	0	781
7.	Subordinated liabilities	51	0	0	0
8.	Share capital	52	0	0	0
8.1.	of which: a) Share capital paid up	53	0	0	0
8.2.	b) Treasury shares	54	0	0	0
9.	Share premium	55	238,908	80,324	43,823
10.	Reserve funds and other funds from profit	56	0	0	0
10.1.	a) Mandatory reserve funds	57	0	0	0
10.3.	b) Other reserve funds	59	0	0	0
10.4.	c) Other funds from profit	60	0	0	0
11.	Capital funds	63	672,113	351,844	265,867
12.	Gains or losses from revaluation	64	236,179	53,568	10,419
12.1.	a) Of assets and liabilities	65	236,179	53,568	10,419
12.2.	b) Hedging derivatives	66	0	0	0
12.3.	c) Re-translation of equity holdings	67	0	0	0
13.	Retained earnings or accumulated losses brought forward	68	0	0	26,513
14.	Profit/(loss) for the period	69	53,221	18,648	(52,106)
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>1,218,128</b>	<b>507,929</b>	<b>295,992</b>

## Off Balance Sheet Accounts as of 31 December 2004

### Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0	0
1.2.	Guarantees and warranties	73	0	0	0
1.3.	Guarantees from bills of exchange	74	0	0	0
1.4.	Guarantees under letters of credit	75	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0	0
2.2.	Cash collateral	78	0	0	0
2.3.	Securities	79	0	0	0
2.4.	Other	80	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0	0
3.2.	With currency instruments	83	0	0	0
3.3.	With equity instruments	84	0	0	0
3.4.	With commodity instruments	85	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	87	0	0	0
4.2.	With currency instruments	88	0	0	0
4.3.	With equity instruments	89	0	0	0
4.4.	With commodity instruments	90	0	0	0
4.5.	With credit instruments	91	0	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0	0
5.2.	With currency instruments	94	0	0	0
5.3.	With equity instruments	95	0	0	0
5.4.	With commodity instruments	96	0	0	0
5.5.	With credit instruments	97	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0	0
1.2.	Guarantees and warranties	105	0	0	0
1.3.	Guarantees from bills of exchange	106	0	0	0
1.4.	Guarantees under letters of credit	107	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0	0
2.2.	Cash collateral	110	0	0	0
2.3.	Securities	111	0	0	0
2.4.	Other collateral	112	0	0	0
2.5.	Collateral – securities	113	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0	0
3.2.	With currency instruments	116	0	0	0
3.3.	With equity instruments	117	0	0	0
3.4.	With commodity instruments	118	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	120	0	0	0
4.2.	With currency instruments	121	0	0	0
4.3.	With equity instruments	122	0	0	0
4.4.	With commodity instruments	123	0	0	0
4.5.	With credit instruments	124	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0	0
5.2.	With currency instruments	127	0	0	0
5.3.	With equity instruments	128	0	0	0
5.4.	With commodity instruments	129	0	0	0
5.5.	With credit instruments	130	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Interest income and similar income	1	9,713	2,837	4,303
1.1.	of which: Interest income from debt securities	2	4,228	275	(845)
2.	Interest expense and similar expense	3	19	0	47
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	Income from shares and equity investments	5	14,717	9,498	1,145
3.1.	of which: a) Income from equity investments in associates	6	0	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0	0
3.3.	c) Income from other shares and equity investments	8	14,717	9,498	1,145
4.	Commission and fee income	9	6	79	0
5.	Commission and fee expense	10	16,275	7,112	6,698
6.	Net profit/(loss) on financial operations	11	46,219	12,644	(49,785)
7.	Other operating income	12	0	0	0
8.	Other operating expenses	13	0	0	0
9.	Administrative expenses	14	2	3	136
9.1.	of which: a) Employee costs	15	0	0	0
9.1.1.	aa) Wages and salaries	16	0	0	0
9.1.2.	ab) Social security and health insurance	17	0	0	0
9.2.	b) Other administrative costs	18	2	3	136
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0	0



CZK thousand

Item no.	Name of item	Note	2004	2003	2002
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0	0
12.3.	Income from receivables previously written off	35	0	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0	0
13.3.	Charge for reserves for guarantees	39	0	0	0
13.4.	Use of reserves for guarantees	40	0	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0	0
16.	Release of other reserves	44	0	781	0
17.	Charge for and use of other reserves	45	0	0	781
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	54,361	18,724	(51,999)
20.	Extraordinary income	48	0	0	0
21.	Extraordinary expenses	49	0	0	0
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0	0
23.	Income tax	51	1,139	76	107
24.	Net profit/(loss) for the period	52	53,221	18,648	(52,106)

## Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	80,324	43,823	49,478
	Increase	200,662	47,534	1,344
	Decrease	42,078	11,033	6,999
	Closing balance	238,908	80,324	43,823
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	351,844	265,867	333,268
	Increase	385,532	161,152	11,344
	Decrease	65,263	75,175	78,745
	Closing balance	672,113	351,844	265,867
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	53,568	10,419	(12,963)
	Increase	182,888	43,959	25,084
	Decrease	277	810	1,702
	Closing balance	236,179	53,568	10,419
8.	<b>Retained earnings</b>			
	Opening balance	0	26,513	89,934
	Increase	0	0	0
	Decrease	0	26,513	63,421
	Closing balance	0	0	26,513
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	53,221	18,648	(52,106)
11.	<b>Dividends</b>		0	0

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

IKS Balancovaný, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the “Fund” or “IKS Balancovaný”) was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company.

IKS Balancovaný was formed by the transformation of the UNIVERSUM close-ended mutual fund of the Company in terms of Section 35h of Act No. 248/1992 Coll., as amended, based upon the decision of the Board of Directors of the Company dated 14 July 1997 and the Resolution of the Ministry of Finance of the Czech Republic dated 18 August 1997, Ref. No. 101/65160/1997. The Fund became an open-ended mutual fund on 22 September 1997.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004.

The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance and uses it to invest in securities (specifically equity and debt securities) or makes deposits in special accounts maintained by financial institutions. The Company manages the finance on its own account and on the account of the Fund. In addition, the Company is authorised to undertake other legal actions arising from the management of assets in the Fund.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Board of Directors and Supervisory Board

During the year ended 31 December 2004, no changes were made to the composition of the Board of Directors and the Supervisory Board.

Members of the statutory and supervisory bodies as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards. The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing at the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing at the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading". Securities held for trading are financial assets (shares, debt securities, treasury bills and participation certificates) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*. The cost of debt securities is increased over time to reflect the accrued interest income. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its amortised cost. The Fund accounts for interest income on a straight line basis.

Securities are reported in the balance sheet line *Shares, participation certificates and other holdings* and *Debt securities* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation No. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in the Regulation, the Company values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Under the Regulation, securities are valued at the price quoted on a public market, which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Company uses a value which it has determined with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Derivative Financial Instruments and Hedging

In the normal course of business, the Fund enters into hedging contracts for derivative financial instruments which represent a very low initial investment. The derivative financial instruments used include currency forwards. These financial instruments are used by the Fund to hedge foreign currency exposures associated with its transactions in the financial markets and the composition of its portfolio.

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

- (a) The Company has developed a risk management strategy;
- (b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- (c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as hedges and that prove to be highly effective in relation to the hedged risk, are retained in the balance sheet line *Gains or losses from revaluation*. The balances recognised in the balance sheet are taken to the profit and loss account and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss account.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are retained in the balance sheet line *Gains or losses from revaluation* in compliance with the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended. The balances recognised in the balance sheet are taken to the profit and loss account line *Gains or losses from derivative transactions* at settlement of the relevant instrument.

Certain derivatives are embedded in compound financial instruments which comprise the host instrument and the derivative. Pursuant to Section 29 of the Czech Finance Ministry Regulation No. 501/1992, as amended, the Company recognises gains or losses from the revaluation of assets and liabilities at fair value through *Gains or losses from revaluation*.

#### 2.7. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund recorded no provisions in its statutory books for the year ended 31 December 2004.

#### 2.8. Corrections Related to Previous Reporting Periods

Corrections to the expenses and income of previous reporting periods are recognised as income or expenses in the profit and loss account in the current period unless the corrections are significant.

#### 2.9. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, the depositary, Komerční banka, a.s., oversees the Fund's compliance with this Act.

#### 2.10. New Accounting Pronouncements in 2004

No changes were made during the year ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Year Ended 31 December 2004

No such developments were experienced during the year ended 31 December 2004.

## 4. Financial Instruments

### 4.1. Market Risks

The investment policy set out in the statutes of individual funds of the Company which is additionally specified in the Fund's investment strategy, establishes various investment priorities for the Company and the related need to monitor, control or mitigate various investment risks. In accordance with this, the Company adopted a policy of separately monitoring individual investment risks and approves the methods and policies of controlling and managing market risks of the Fund in line with the adopted investment policy of the Fund. Depending on the type of fund, these exposures specifically relate to foreign currency, credit and interest rate risks. The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against selected market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

The approved investment strategy has set out a mixed strategy for the Fund, with the bulk of investment being made in equities. The investment territory for the equity segment was restricted to countries in Central and Eastern Europe, the debt segment focuses on local state debt securities. Market risks attached to equities within the Fund's portfolio are assessed on a daily basis by determining the proportion of individual investments in the portfolio, proportion of individual segments (Czech Republic, Poland, Hungary, etc), and by calculating the volatility and VaR of these segments. The optimal allocation of the portfolio was determined through an established benchmark in accordance with the strategy. The maximum foreign currency exposure of the portfolio was also set in accordance with the benchmark (40 percent of assets in foreign currencies).

### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended.

In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with the banks of the depositary and the custodian, that is, with Komerční banka and ING Bank. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004	2003	2002
Current accounts with banks	3,541	1,288	3,143
Term deposits with banks	333,370	187,800	103,181
<b>Total amounts due from banks</b>	<b>336,911</b>	<b>189,088</b>	<b>106,324</b>

Set out below is a summary of term deposits as of 31 December 2004:

Name of the bank	Placement term	Interest (%)	Interest at 31 December 2004 (CZK)	Total interest (CZK) (CZK thousand)	Amount of term deposit
KB – CZK	30 December 2004 – 3 January 2005	2.23	40,685	81,370	328,400
KB – USD	31 December 2004 – 3 January 2005	1.89	260	780	4,929
<b>Total term deposits</b>			<b>40,945</b>	<b>82,150</b>	<b>333,329</b>

## 6. Securities Held for Trading

CZK thousand	2004 Net cost	2004 Fair value	2003 Fair value	2002 Fair value
Shares	513,292	745,538	293,853	187,460
Participation certificates	0	0	0	0
<b>Shares and participation certificates</b>	<b>513,292</b>	<b>745,538</b>	<b>293,853</b>	<b>187,460</b>
Fixed income debt securities	119,595	126,449	23,039	0
Variable yield debt securities	0	0	0	0
Debt securities	119,595	126,449	23,039	0
<b>Total securities held for trading</b>	<b>632,887</b>	<b>871,987</b>	<b>316,892</b>	<b>187,460</b>
of which: Interest income	0	2,147	246	0
of which: Revaluation gains or losses	0	236,952	54,379	11,281

Shares and participation certificates held for trading, at fair value, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading</b>			
Czech Republic	309,493	155,632	72,300
Abroad	436,045	138,221	115,160
<b>Total shares and participation certificates held for trading</b>	<b>745,538</b>	<b>293,853</b>	<b>187,460</b>

Shares and participation certificates held for trading, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading issued by</b>			
Financial institutions	309,493	38,123	35,491
Other institutions	436,045	255,730	151,969
<b>Total shares and participation certificates held for trading</b>	<b>745,538</b>	<b>293,853</b>	<b>187,460</b>



Debt securities held for trading, at fair value, comprise:

CZK thousand	2004	2003	2002
<b>Fixed income debt securities</b>			
Czech Republic	126,449	23,039	0
Abroad	0	0	0
<b>Total fixed income debt securities</b>	<b>126,449</b>	<b>23,039</b>	<b>0</b>
<b>Total debt securities held for trading</b>	<b>126,449</b>	<b>23,039</b>	<b>0</b>

Debt securities held for trading, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
<b>Debt securities held for trading issued by</b>			
Czech state institutions in the Czech Republic	126,449	23,039	0
<b>Total debt securities held for trading</b>	<b>126,449</b>	<b>23,039</b>	<b>0</b>

## 7. Other Assets

Other assets comprise:

CZK thousand	2004	2003	2002
Tax receivables	1,382	1,949	2,207
Estimated receivables	0	0	1
Other receivables from securities trading	13,818	5,970	5,970
Provisions	(5,970)	(5,970)	(5,970)
<b>Total other assets</b>	<b>9,230</b>	<b>1,949</b>	<b>2,208</b>

The Fund recognises a full provision against the amount receivable from Přerovské strojírny.

## 8. Other Liabilities

Other liabilities comprise:

CZK thousand	2004	2003	2002
Other creditors	62	166	45
Amounts owed to shareholders	6,670	2,511	159
Discount/overcharge on trading with participation certificates	298	125	60
Estimated payables	1,712	743	431
Other liabilities on trading with securities	8,963	0	0
<b>Total other liabilities</b>	<b>17,705</b>	<b>3,545</b>	<b>695</b>

## 9. Capital Funds

The Fund's capital recorded in "Capital funds" consists of 679,058,373 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The selling price of the participation certificate may include a future tax payable from unrealised gains arising prior to the remeasurement of the securities. The difference between the nominal value of a participation certificate and its market value represents share premium.

CZK thousand	Nominal value of participation certificates	Settlement of loss	Capital funds	Share premium	Total
<b>Balance at 31 December 2002</b>	<b>265,867</b>	<b>0</b>	<b>265,867</b>	<b>43,823</b>	<b>309,690</b>
Issued in 2003	161,152	0	161,152	47,534	208,686
Purchased in 2003	49,582	0	49,582	11,033	60,615
Settlement of loss	0	25,593	(25,593)	0	25,593
<b>Balance at 31 December 2003</b>	<b>377,437</b>	<b>25,593</b>	<b>351,844</b>	<b>80,324</b>	<b>432,168</b>
Issued in 2004	385,532	0	385,532	200,662	586,194
Purchased in 2004	83,911	0	83,911	42,078	125,989
Profit allocation	0	(18,648)	18,648	0	(18,648)
<b>Balance at 31 December 2004</b>	<b>679,058</b>	<b>6,945</b>	<b>672,113</b>	<b>238,908</b>	<b>911,021</b>

During the year ended 31 December 2004, the Company decided to allocate profit for the year ended 31 December 2003 to capital funds as the Fund had incurred losses in the previous reporting periods that had been covered through a reduction of capital funds.

## 10. Gains or Losses from Revaluation

CZK thousand	2004	2003	2002
From shares	232,246	54,941	11,281
From debt securities	4,706	(562)	0
From the revaluation of current account balances and repurchase transactions	(773)	(811)	(862)
<b>Total gains or losses from revaluation</b>	<b>236,179</b>	<b>53,568</b>	<b>10,419</b>

## 11. Net Interest Income

Net interest income comprises:

CZK thousand	2004	2003	2002
Interest on debt securities	4,228	275	(845)
Interest on current accounts and term deposits	5,475	2,545	5,129
Interest on repurchase transactions	10	17	19
<b>Total interest income</b>	<b>9,713</b>	<b>2,837</b>	<b>4,303</b>
<b>CZK thousand</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Interest payable on current accounts and term deposits	19	0	47
<b>Total interest expense</b>	<b>19</b>	<b>0</b>	<b>47</b>
<b>Total net interest income</b>	<b>9,694</b>	<b>2,837</b>	<b>4,256</b>

## 12. Income from Shares and Holdings

CZK thousand	2004	2003	2002
Local dividends	7,335	7,853	431
Dividends abroad	7,382	1,645	714
<b>Total dividend income</b>	<b>14,717</b>	<b>9,498</b>	<b>1,145</b>

## 13. Net Fee and Commission Income

Fees and commissions comprise:

CZK thousand	2004	2003	2002
Income from discounts in purchasing participation certificates	2	1	0
Other commissions	4	78	0
<b>Total fee and commission income</b>	<b>6</b>	<b>79</b>	<b>0</b>

CZK thousand	2004	2003	2002
Fee for fund administration	13,563	5,735	5,387
Fee to the depository	880	635	590
Custody fee	662	182	269
Fee for the sale of securities	530	150	286
Other fees	84	92	74
Other KB services	399	0	0
Audit fee	157	318	92
<b>Total fee and commission expenses</b>	<b>16,275</b>	<b>7,112</b>	<b>6,698</b>
<b>Total net fee and commission income</b>	<b>(16,269)</b>	<b>(7,033)</b>	<b>(6,698)</b>

In the year ended 31 December 2004, the Company concluded a new framework contract with Komerční banka a.s. stipulating the fees for depository and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

## 14. Net Profit/(Loss) on Financial Operations

CZK thousand	2004	2003	2002
Profit/(loss) on securities held for trading	45,637	13,476	(56,428)
Profit/(loss) on foreign exchange transactions	656	(832)	6,643
Profit/(loss) on derivatives trading	(74)	0	0
<b>Total profit/(loss) on financial operations</b>	<b>46,219</b>	<b>12,644</b>	<b>(49,785)</b>

## 15. Other Operating Income and Expenses

The Fund records no operating income or expenses.

## 16. Administrative Expenses

CZK thousand	2004	2003	2002
Other administrative expenses			
Administrative, arbitration and court fees	2	3	136
<b>Total administrative expenses</b>	<b>2</b>	<b>3</b>	<b>136</b>

## 17. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due tax	1,139	76	107
Deferred tax	0	0	0
<b>Total income tax</b>	<b>1,139</b>	<b>76</b>	<b>107</b>

Set out below is an analysis of the due taxes:

CZK thousand	2004
Profit before tax	54,361
Items increasing taxable profit	791
Items decreasing taxable profit	(60,355)
Tax base	(5,203)
Tax on tax base	0
Special tax base	7,381
Tax on special tax base	1,107
Correction of the 2003 tax liability	32
<b>Total</b>	<b>1,139</b>

Deferred taxation comprises:

CZK thousand	2004
Deferred tax asset	
Tax losses	53,727
<b>Total deferred tax asset</b>	<b>2,686</b>
Deferred tax liability	0
<b>Reduction due to the uncertainty regarding the realisation of the deferred tax asset</b>	<b>2,686</b>
<b>Net deferred tax</b>	<b>0</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under "Gains or losses from revaluation" to retained earnings or accumulated losses. This eliminates temporary differences that materialised in previous periods.

## 18. Related Party Transactions and Balances

Short-Term Payables:

CZK thousand	2004	2003	2002
Investiční kapitálová společnost KB, a.s.	360	291	104

The Fund's expenses include fees for the Fund's management payable to the Company, and depository and service fees paid to Komerční banka, a.s.

## 19. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "Maturity undefined" category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	333,370	0	0	0	0	3,541	336,911
Debt securities	0	0	0	40,540	85,909	0	126,449
Shares and participation certificates	0	0	0	0	0	745,538	745,538
Other assets	0	0	0	0	0	9,230	9,230
Deferred expenses and accrued income	0	0	0	0	0	0	0
<b>Total assets</b>	<b>333,370</b>	<b>0</b>	<b>0</b>	<b>40,540</b>	<b>85,909</b>	<b>758,309</b>	<b>1,218,128</b>
Other liabilities	0	0	0	0	0	17,705	17,705
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,705</b>	<b>17,705</b>
<b>Net interest rate exposure as of 31 December 2004</b>	<b>333,370</b>	<b>0</b>	<b>0</b>	<b>40,540</b>	<b>85,909</b>	<b>740,640</b>	<b>1,200,423</b>

## 20. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “Maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	333,370	0	0	0	3,541	336,911
Debt securities	0	0	40,540	85,909	0	126,449
Shares and participation certificates	0	0	0	0	745,538	745,538
Other assets	7,848	1,382	0	0	0	9,230
Deferred expenses and accrued income	0	0	0	0	0	0
<b>Total assets</b>	<b>325,522</b>	<b>1,382</b>	<b>40,540</b>	<b>85,909</b>	<b>749,079</b>	<b>1,218,128</b>
Other liabilities	17,705	0	0	0	0	17,705
<b>Total liabilities</b>	<b>17,705</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,705</b>
<b>Net on balance sheet liquidity risk as of 31 December 2004</b>	<b>307,817</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>749,079</b>	<b>1,200,423</b>

## 21. Foreign Currency Exposure

The following table shows the Fund’s foreign currency position by currency. However, the principal instrument in managing foreign currency risk is the monitoring of limits for individual currencies.

CZK thousand	CZK	USD	EUR	GBP	PLN	HUF	Total
Amounts due from banks	331,949	4,932	0	0	18	12	336,911
Debt securities	126,449	0	0	0	0	0	126,449
Shares and participation certificates	309,493	0	0	0	175,259	260,786	745,538
Other assets	9,230	0	0	0	0	0	9,230
Deferred expenses and accrued income	0	0	0	0	0	0	0
<b>Total assets</b>	<b>777,121</b>	<b>4,932</b>	<b>0</b>	<b>0</b>	<b>175,277</b>	<b>260,798</b>	<b>1,218,128</b>
Other liabilities	17,705	0	0	0	0	0	17,705
<b>Total liabilities</b>	<b>17,705</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,705</b>

## 22. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004.

## 23. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the year ended 31 December 2004, Section 24 (1) of the Investment Companies and Investment Funds Act 248/92 Coll., as amended, and the Collective Investing Act 189/2004, Coll., (effective since 1 May 2004) were not breached. As of 31 December 2004 no limits set up by the Acts had been breached.

## 24. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund’s financial, equity or income position.

**Deloitte.**

IKS Fond fondů

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

## Auditor's Report to the Shareholders of IKS Fond fondů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of IKS Fond fondů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of IKS Fond fondů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	0	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	a) State securities	3	0	0	0
2.2.	b) Other	4	0	0	0
3.	Amounts due from banks	5	148	2,538	3,862
3.1.	a) Repayable on demand	6	48	638	3,762
3.2.	b) Other receivables	7	100	1,900	100
4.	Amounts due from clients	8	0	0	0
4.1.	a) Repayable on demand	9	0	0	0
4.2.	b) Other receivables	10	0	0	0
5.	Debt securities	11	0	0	0
5.1.	a) Issued by state institutions	12	0	0	0
5.2.	b) Issued by other entities	13	0	0	0
6.	Shares, participation certificates and other holdings	14	262,896	247,840	152,412
7.	Equity holdings in associates	15	0	0	0
7.1.	In banks	16	0	0	0
7.2.	In other entities	17	0	0	0
8.	Equity holdings in subsidiaries	18	0	0	0
8.1.	In banks	19	0	0	0
8.2.	In other entities	20	0	0	0
9.	Intangible fixed assets	21	0	0	0
9.1.	Incorporation costs	22	0	0	0
9.2.	Goodwill	23	0	0	0
9.3.	Other	24	0	0	0
10.	Tangible fixed assets	25	0	0	0
10.1.	Land and buildings for operating activities	26	0	0	0
10.2.	Other	27	0	0	0
11.	Other assets	28	137	327	327
12.	Subscribed capital unpaid	29	0	0	0
13.	Deferred expenses and accrued income	30	0	0	0
TOTAL ASSETS			263,181	250,705	156,601



## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	a) Repayable on demand	32	0	0	0
1.2.	b) Other payables	33	0	0	0
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0	0
2.1.1.	of which: Savings deposits	36	0	0	0
2.2.	b) Other payables	37	0	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0	0
2.2.3.	Term deposits with maturity	40	0	0	0
2.2.4.	Term deposits repayable at notice	41	0	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0	0
3.2.	b) Other payables from debt securities	44	0	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>1,120</b>	<b>789</b>	<b>757</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	a) For pensions and similar liabilities	48	0	0	0
6.2.	b) For taxes	49	0	0	0
6.3.	c) Other	50	0	0	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0	0
8.2.	b) Treasury shares	54	0	0	0
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>(73,000)</b>	<b>(64,654)</b>	<b>(5,740)</b>
<b>10.</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>0</b>	<b>0</b>	<b>0</b>
10.1.	a) Mandatory reserve funds	57	0	0	0
10.3.	b) Other reserve funds	59	0	0	0
10.4.	c) Other funds from profit	60	0	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>375,127</b>	<b>355,245</b>	<b>281,478</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>(32,718)</b>	<b>(31,948)</b>	<b>(62,001)</b>
12.1.	a) Of assets and liabilities	65	(32,718)	(31,948)	(62,001)
12.2.	b) Hedging derivatives	66	0	0	0
12.3.	c) Re-translation of equity holdings	67	0	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>(7,348)</b>	<b>(8,727)</b>	<b>(57,893)</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>263,181</b>	<b>250,705</b>	<b>156,601</b>

## Off Balance Sheet Accounts as of 31 December 2004

### Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0	0
1.2.	Guarantees and warranties	73	0	0	0
1.3.	Guarantees from bills of exchange	74	0	0	0
1.4.	Guarantees under letters of credit	75	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0	0
2.2.	Cash collateral	78	0	0	0
2.3.	Securities	79	0	0	0
2.4.	Other	80	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0	0
3.2.	With currency instruments	83	0	0	0
3.3.	With equity instruments	84	0	0	0
3.4.	With commodity instruments	85	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	87	0	0	0
4.2.	With currency instruments	88	0	0	0
4.3.	With equity instruments	89	0	0	0
4.4.	With commodity instruments	90	0	0	0
4.5.	With credit instruments	91	0	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0	0
5.2.	With currency instruments	94	0	0	0
5.3.	With equity instruments	95	0	0	0
5.4.	With commodity instruments	96	0	0	0
5.5.	With credit instruments	97	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0	0
1.2.	Guarantees and warranties	105	0	0	0
1.3.	Guarantees from bills of exchange	106	0	0	0
1.4.	Guarantees under letters of credit	107	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0	0
2.2.	Cash collateral	110	0	0	0
2.3.	Securities	111	0	0	0
2.4.	Other collateral	112	0	0	0
2.5.	Collateral – securities	113	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0	0
3.2.	With currency instruments	116	0	0	0
3.3.	With equity instruments	117	0	0	0
3.4.	With commodity instruments	118	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	120	0	0	0
4.2.	With currency instruments	121	0	0	0
4.3.	With equity instruments	122	0	0	0
4.4.	With commodity instruments	123	0	0	0
4.5.	With credit instruments	124	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0	0
5.2.	With currency instruments	127	0	0	0
5.3.	With equity instruments	128	0	0	0
5.4.	With commodity instruments	129	0	0	0
5.5.	With credit instruments	130	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Interest income and similar income	1	54	136	249
1.1.	of which: Interest income from debt securities	2	0	0	0
2.	Interest expense and similar expense	3	3	3	2
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	Income from shares and equity investments	5	1,241	175	428
3.1.	of which: a) Income from equity investments in associates	6	0	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0	0
3.3.	c) Income from other shares and equity investments	8	1,241	175	428
4.	Commission and fee income	9	0	0	0
5.	Commission and fee expense	10	5,578	3,698	3,776
6.	Net profit/(loss) on financial operations	11	(2,876)	(5,308)	(54,725)
7.	Other operating income	12	0	0	0
8.	Other operating expenses	13	0	0	0
9.	Administrative expenses	14	0	2	3
9.1.	of which: a) Employee costs	15	0	0	0
9.1.1.	aa) Wages and salaries	16	0	0	0
9.1.2.	ab) Social security and health insurance	17	0	0	0
9.2.	b) Other administrative costs	18	0	2	3
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0	0

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0	0
12.3.	Income from receivables previously written off	35	0	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0	0
13.3.	Charge for reserves for guarantees	39	0	0	0
13.4.	Use of reserves for guarantees	40	0	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0	0
16.	Release of other reserves	44	0	0	0
17.	Charge for and use of other reserves	45	0	0	0
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	(7,162)	(8,700)	(57,829)
20.	Extraordinary income	48	0	0	0
21.	Extraordinary expenses	49	0	0	0
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0	0
23.	Income tax	51	187	27	64
24.	Net profit/(loss) for the period	52	(7,348)	(8,727)	(57,893)

## Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	(64,654)	(5,740)	(9,585)
	Increase	(53,799)	(159,369)	(50,996)
	Decrease	(45,453)	(100,455)	(54,841)
	Closing balance	(73,000)	(64,654)	(5,740)
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	355,245	281,478	305,514
	Increase	144,363	342,592	123,592
	Decrease	124,481	268,825	147,628
	Closing balance	375,127	355,245	281,478
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	(31,948)	(62,001)	(50,941)
	Increase	(558)	31,240	(8,002)
	Decrease	212	1,187	3,058
	Closing balance	(32,718)	(31,948)	(62,001)
8.	<b>Retained earnings</b>			
	Opening balance	0	0	1,260
	Increase	0	0	0
	Decrease	0	0	1,260
	Closing balance	0	0	0
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	(7,348)	(8,727)	(57,893)
11.	<b>Dividends</b>	0	0	0

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

IKS Fond fondů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the “Fund” or “IKS Fond fondů”) was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. The Fund was incorporated on 20 October 2000.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004.

The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. The Fund focuses on investing in global equity markets, specifically through participation certificates of open-ended funds of recognised foreign or local investment companies.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Board of Directors and Supervisory Board

During the year ended 31 December 2004, no changes were made to the composition of the Board of Directors and the Supervisory Board.

Members of the statutory and supervisory bodies as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards.

The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing as of the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading". Securities held for trading are financial assets (shares, participation certificates) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*.

Securities are reported in the balance sheet line *Shares, participation certificates and other holdings* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.



The market value of securities is determined in accordance with Czech Finance Ministry Regulation No. 270/1998 Coll. (the "Regulation"). Pursuant to the guidance set out in this Regulation, the Fund values securities in its portfolio that are publicly traded as well as securities that are not publicly traded.

Pursuant to the Regulation referred to above, the securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Fund uses a value determined by the Company with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise

tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund carried no provisions in its statutory books for the year ended 31 December 2004.

#### 2.7. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, and the Collective Investing Act effective since 1 May 2004, the depositary, Komerční banka, a.s., oversees the Fund's compliance with the Acts.

#### 2.8. New Accounting Pronouncements in 2004

No changes were made during the year ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Year Ended 31 December 2004

No such developments occurred during the year ended 31 December 2004.

## 4. Financial Instruments

### 4.1. Market Risks

The investment policy set out in the statutes of individual funds of the Company which is additionally specified in the Fund's investment strategy, establishes various investment priorities for the Company and the related need to monitor, control or mitigate various investment risks. In accordance with this, the Company adopted a policy of separately monitoring individual investment risks and approves the methods and policies of controlling and managing market risks of the Fund in line with the adopted investment policy of the Fund. Depending on the type of fund, these exposures specifically relate to foreign currency, credit and interest rate risks. The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against selected market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

The Statute defines IKS Fond fondů as an equity fund focused on investing in mutual funds of the largest global investment managers. The Statute sets out that the minimum level of investments in equity instruments is 66 percent of the Fund's assets. The objective of the investment strategy is to fulfil the approved regional structure of assets in selecting investments and, through a wide diversification of assets, provide the investor with an opportunity to participate in the growth of global equity markets, including the impact of CZK rate developments. As such, investments denominated in foreign currencies are not hedged against CZK rate developments.

### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended. In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with the banks of the depositary and the custodian, ie, Komerční banka and ING Bank. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004	2003	2002
Current accounts with banks	48	638	3,762
Term deposits with banks	100	1,900	100
Total amounts due from banks	148	2,538	3,862

Set out below is a summary of term deposits as of 31 December 2004:

Name of the bank	Placement term	Interest (%)	Interest at 31 December 2004 (CZK)	Total interest (CZK) (CZK thousand)	Amount of term deposit
KB – CZK	30 December 2004 – 3 January 2005	2.23	12	25	100
<b>Total term deposits</b>				<b>25</b>	<b>100</b>

## 6. Securities Held for Trading

CZK thousand	2004 Net cost	2004 Fair value	2003 Fair value	2002 Fair value
Shares	0	0	0	0
Participation certificates	295,492	262,896	247,840	152,412
<b>Shares and participation certificates</b>	<b>295,492</b>	<b>262,896</b>	<b>247,840</b>	<b>152,412</b>
<b>Total securities held for trading</b>	<b>295,492</b>	<b>262,896</b>	<b>247,840</b>	<b>152,412</b>
of which: Revaluation gains or losses		(32,596)	(31,878)	(62,074)

Shares and participation certificates held for trading, at fair value, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading</b>			
Local participation certificates	0	0	0
Foreign participation certificates	262,896	247,840	152,412
<b>Total participation certificates held for trading</b>	<b>262,896</b>	<b>247,840</b>	<b>152,412</b>

Shares and participation certificates held for trading, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading issued by</b>			
Other institutions	262,896	247,840	152,412
<b>Total shares and participation certificates held for trading</b>	<b>262,896</b>	<b>247,840</b>	<b>152,412</b>

Shares and participation certificates are traded on public markets.

## 7. Other Assets

Other assets comprise:

CZK thousand	2004	2003	2002
Tax receivables	137	327	327
<b>Total other assets</b>	<b>137</b>	<b>327</b>	<b>327</b>

## 8. Other Liabilities

Other liabilities comprise:

CZK thousand	2004	2003	2002
Other creditors	24	99	17
Amounts owed to shareholders	691	315	468
Discount/overcharge on trading with participation certificates	2	8	44
Estimated payables	403	367	228
<b>Total other liabilities</b>	<b>1,120</b>	<b>789</b>	<b>757</b>

## 9. Capital Funds and Share Premium

CZK thousand	2004	2003	2002
Capital funds and share premium at 1 January	290,591	275,738	295,929
Purchased participation certificates	90,563	183,223	72,596
Sold participation certificates	(70,300)	(110,477)	(86,703)
Settlement of loss from "Other capital funds"	(8,727)	(57,893)	(6,084)
<b>Capital funds and share premium at 31 December</b>	<b>302,127</b>	<b>290,591</b>	<b>275,738</b>

The Fund's capital recorded in "Capital fund" consists of 447,832,305 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The selling price of the participation certificate may include a future tax payable from unrealised gains arising from the remeasurement of the securities. The difference between the nominal value of participation certificates and the price of the participation certificates when they are issued and sold represents share premium.

CZK thousand	Nominal value of participation certificates	Settlement of loss	Capital funds	Share premium	Total
<b>Balance at 31 December 2002</b>	<b>287,562</b>	<b>6,084</b>	<b>281,478</b>	<b>(5,740)</b>	<b>275,738</b>
Issued in 2003	342,592	0	342,592	(159,369)	183,223
Repurchased in 2003	210,931	0	210,931	(100,455)	110,477
Loss settlement	0	57,893	(57,893)	0	57,893
<b>Balance at 31 December 2003</b>	<b>419,223</b>	<b>63,977</b>	<b>355,245</b>	<b>(64,654)</b>	<b>290,591</b>
Issued in 2004	144,363	0	144,363	(53,799)	90,563
Repurchased in 2004	115,754	0	115,754	(45,453)	70,300
Loss settlement	0	8,727	8,727	0	8,727
<b>Balance at 31 December 2004</b>	<b>447,832</b>	<b>72,704</b>	<b>375,127</b>	<b>(73,000)</b>	<b>302,127</b>

If the Fund incurs losses from its operations at year-end, the losses are covered using the fund created from profit. If this fund is not sufficient to cover the loss, the loss needs to be covered through the reduction of the balance of the capital fund which reflects the current amount of the Fund's holding. Aggregate losses covered by the decrease in the capital funds total CZK 72,704 thousand.

## 10. Gains or Losses from Revaluation

CZK thousand	2004	2003	2002
Participation certificates	(32,596)	(31,878)	(62,074)
Remeasurement of current accounts and repurchase transactions	(122)	(70)	73
<b>Total gains or losses from revaluation</b>	<b>(32,718)</b>	<b>(31,948)</b>	<b>(62,001)</b>

## 11. Net Interest Income

Net interest income comprises:

CZK thousand	2004	2003	2002
Interest on current accounts and term deposits	54	136	249
<b>Total interest income</b>	<b>54</b>	<b>136</b>	<b>249</b>
Interest on current accounts	3	3	2
<b>Total interest expenses</b>	<b>3</b>	<b>3</b>	<b>2</b>
<b>Total net interest income</b>	<b>51</b>	<b>133</b>	<b>247</b>

## 12. Income from Shares and Holdings

CZK thousand	2004	2003	2002
Foreign	1,241	175	428
<b>Total received dividends</b>	<b>1,241</b>	<b>175</b>	<b>428</b>

## 13. Net Fee and Commission Income

Net fee and commission income comprises:

CZK thousand	2004	2003	2002
Other commissions	0	0	0
<b>Total fee and commission income</b>	<b>0</b>	<b>0</b>	<b>0</b>
Fee for fund administration	4,734	3,057	3,239
Fee to the depository	301	223	228
Fee for other KB services	153	0	0
Custody fee	252	129	103
Other fees	18	48	40
Audit fee	120	241	166
<b>Total fee and commission expenses</b>	<b>5,578</b>	<b>3,698</b>	<b>3,776</b>
<b>Total net fee and commission income</b>	<b>(5,578)</b>	<b>(3,698)</b>	<b>(3,776)</b>

In the year ended 31 December 2004, the Company concluded a new framework contract with Komerční banka, a.s. stipulating the fees for depository and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

#### 14. Net Profit/(Loss) on Financial Operations

CZK thousand	2004	2003	2002
Profit/(loss) on securities held for trading	(2,708)	(5,678)	(50,934)
Profit/(loss) on foreign exchange transactions	(168)	370	(3,791)
<b>Total profit/(loss) on financial operations</b>	<b>(2,876)</b>	<b>(5,308)</b>	<b>(54,725)</b>

#### 15. Administrative Expenses

CZK thousand	2004	2003	2002
Other purchased outputs	0	2	3
<b>Total administrative expenses</b>	<b>0</b>	<b>2</b>	<b>3</b>

#### 16. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due tax	187	27	64
Deferred tax	0	0	0
<b>Total income tax</b>	<b>187</b>	<b>27</b>	<b>64</b>

Set out below is an analysis of due taxes:

CZK thousand	2004
Profit before tax	(7,162)
Items decreasing taxable profit	1,240
Items increasing taxable profit	205
Tax base	(8,197)
Tax on the tax base	0
Special tax base	1,240
Tax on the special tax base	187

Deferred income tax balances comprise:

CZK thousand	2004
Deferred income tax asset	
Tax losses	77,317
<b>Total deferred income tax asset</b>	<b>3,866</b>
Deferred income tax liability	0
<b>Reduction due to the uncertainty regarding the realisation of the deferred tax asset</b>	<b>3,866</b>
<b>Net deferred tax</b>	<b>0</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under “Gains or losses from revaluation” to retained earnings or accumulated losses as of 1 January 2005. This eliminates temporary differences that materialised in previous periods.

## 17. Related Party Transactions and Balances

Short-term payables:

CZK thousand	2004	2003	2002
Investiční kapitálová společnost KB, a.s.	26	106	61

The Fund's expenses include fees for the Fund's management payable to the Company in the aggregate amount of CZK 4,734 thousand, depository fees totalling CZK 301 thousand paid to Komerční banka, a.s. ("KB") and other services of KB totalling CZK 153 thousand.

## 18. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "Maturity undefined" category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	100	0	0	0	0	48	148
Shares and participation certificates	0	0	0	0	0	262,896	262,896
Other assets	0	0	0	0	0	137	137
<b>Total assets</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>263,081</b>	<b>263,181</b>
Other liabilities	0	0	0	0	0	1,120	1,120
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,120</b>	<b>1,120</b>
Net interest rate risk as of 31 December 2004	100	0	0	0	0	261,961	262,061

## 19. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "Maturity undefined" category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	100	0	0	0	48	148
Shares and participation certificates	0	0	0	0	262,896	262,896
Other assets	0	137	0	0	0	137
<b>Total assets</b>	<b>100</b>	<b>137</b>	<b>0</b>	<b>0</b>	<b>262,944</b>	<b>263,181</b>
Other liabilities	1,120	0	0	0	0	1,120
<b>Total liabilities</b>	<b>1,120</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,120</b>
Net on balance sheet liquidity risk as of 31 December 2004	(1,020)	137	0	0	262,944	262,061

20. Foreign Currency position

The following table shows the Fund’s foreign currency position by currency. The principal instrument in managing foreign currency risk is the monitoring of limits for individual currencies.

CZK thousand	CZK	USD	EUR	GBP	JPY	Total
Amounts due from banks	145	1	2	0	0	148
Shares and participation certificates	0	148,922	92,255	0	21,719	262,896
Other assets	137	0	0	0	0	137
<b>Total assets</b>	<b>282</b>	<b>148,923</b>	<b>92,257</b>	<b>0</b>	<b>21,719</b>	<b>263,181</b>
Other liabilities	1,120	0	0	0	0	1,120
Total liabilities	1,120	0	0	0	0	1,120
<b>Net currency risk as of 31 December 2004</b>	<b>(838)</b>	<b>148,923</b>	<b>92,257</b>	<b>0</b>	<b>21,719</b>	<b>262,061</b>

21. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004, 2003 and 2002.

22. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the year ended 31 December 2004, the Fund breached Section 24 (1) of the Investment Companies and Investment Funds Act, as amended. Breach of the regulatory limit was reported to the Securities Commission. On 25 March 2004, the Fund breached the 10 percent limit established in respect of the amount of securities of one type issued by the same issuer. The breach involved the CS EF (LUX) JPN MEGTRND, ISIN LU0055734247 security and represented 0.064 percent. The breach was rectified on 1 April 2004 through the sale of 400 securities.

23. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund’s financial, equity or income position.



**Deloitte.**

# IKS Fond světových indexů

## Auditor's Report to the Shareholders of IKS Fond světových indexů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of IKS Fond světových indexů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of IKS Fond světových indexů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003	2002
Item no.	Name of item	Note	Net	Net	Net
1.	Cash in hand, balances with central banks	1	0	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0	0
2.1.	a) State securities	3	0	0	0
2.2.	b) Other	4	0	0	0
3.	Amounts due from banks	5	1,065	4,792	12,156
3.1.	a) Repayable on demand	6	465	1,053	2,395
3.2.	b) Other receivables	7	600	3,739	9,761
4.	Amounts due from clients	8	0	0	0
4.1.	a) Repayable on demand	9	0	0	0
4.2.	b) Other receivables	10	0	0	0
5.	Debt securities	11	0	0	0
5.1.	a) Issued by state institutions	12	0	0	0
5.2.	b) Issued by other entities	13	0	0	0
6.	Shares, participation certificates and other holdings	14	375,795	341,646	179,666
7.	Equity holdings in associates	15	0	0	0
7.1.	In banks	16	0	0	0
7.2.	In other entities	17	0	0	0
8.	Equity holdings in subsidiaries	18	0	0	0
8.1.	In banks	19	0	0	0
8.2.	In other entities	20	0	0	0
9.	Intangible fixed assets	21	0	0	0
9.1.	Incorporation costs	22	0	0	0
9.2.	Goodwill	23	0	0	0
9.3.	Other	24	0	0	0
10.	Tangible fixed assets	25	0	0	0
10.1.	Land and buildings for operating activities	26	0	0	0
10.2.	Other	27	0	0	0
11.	Other assets	28	916	518	413
12.	Subscribed capital unpaid	29	0	0	0
13.	Deferred expenses and accrued income	30	0	0	0
TOTAL ASSETS			377,776	346,956	192,235

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	a) Repayable on demand	32	0	0	0
1.2.	b) Other payables	33	0	0	0
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0	0
2.1.1.	of which: Savings deposits	36	0	0	0
2.2.	b) Other payables	37	0	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0	0
2.2.3.	Term deposits with maturity	40	0	0	0
2.2.4.	Term deposits repayable at notice	41	0	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0	0
3.2.	b) Other payables from debt securities	44	0	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>5,791</b>	<b>1,445</b>	<b>617</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	a) For pensions and similar liabilities	48	0	0	0
6.2.	b) For taxes	49	0	0	0
6.3.	c) Other	50	0	0	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0	0
8.2.	b) Treasury shares	54	0	0	0
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>(221,099)</b>	<b>(187,628)</b>	<b>(51,841)</b>
10.	Reserve funds and other funds from profit	56	0	0	0
10.1.	a) Mandatory reserve funds	57	0	0	0
10.3.	b) Other reserve funds	59	0	0	0
10.4.	c) Other funds from profit	60	0	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>664,687</b>	<b>593,756</b>	<b>378,518</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>6,041</b>	<b>(54,398)</b>	<b>(90,451)</b>
12.1.	a) Of assets and liabilities	65	6,041	(54,398)	(90,451)
12.2.	b) Hedging derivatives	66	0	0	0
12.3.	c) Re-translation of equity holdings	67	0	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>(77,644)</b>	<b>(6,219)</b>	<b>(44,608)</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>377,776</b>	<b>346,956</b>	<b>192,235</b>

# Off Balance Sheet Accounts as of 31 December 2004

## Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0	0
1.2.	Guarantees and warranties	73	0	0	0
1.3.	Guarantees from bills of exchange	74	0	0	0
1.4.	Guarantees under letters of credit	75	0	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0	0
2.2.	Cash collateral	78	0	0	0
2.3.	Securities	79	0	0	0
2.4.	Other	80	0	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0	0
3.2.	With currency instruments	83	0	0	0
3.3.	With equity instruments	84	0	0	0
3.4.	With commodity instruments	85	0	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	87	0	0	0
4.2.	With currency instruments	88	0	0	0
4.3.	With equity instruments	89	0	0	0
4.4.	With commodity instruments	90	0	0	0
4.5.	With credit instruments	91	0	0	0
5.	Amounts due from option transactions	92	0	0	0
5.1.	With interest rate instruments	93	0	0	0
5.2.	With currency instruments	94	0	0	0
5.3.	With equity instruments	95	0	0	0
5.4.	With commodity instruments	96	0	0	0
5.5.	With credit instruments	97	0	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0	0
1.2.	Guarantees and warranties	105	0	0	0
1.3.	Guarantees from bills of exchange	106	0	0	0
1.4.	Guarantees under letters of credit	107	0	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0	0
2.2.	Cash collateral	110	0	0	0
2.3.	Securities	111	0	0	0
2.4.	Other collateral	112	0	0	0
2.5.	Collateral – securities	113	0	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0	0
3.2.	With currency instruments	116	0	0	0
3.3.	With equity instruments	117	0	0	0
3.4.	With commodity instruments	118	0	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1.	With interest rate instruments	120	0	0	0
4.2.	With currency instruments	121	0	0	0
4.3.	With equity instruments	122	0	0	0
4.4.	With commodity instruments	123	0	0	0
4.5.	With credit instruments	124	0	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0	0
5.2.	With currency instruments	127	0	0	0
5.3.	With equity instruments	128	0	0	0
5.4.	With commodity instruments	129	0	0	0
5.5.	With credit instruments	130	0	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
1.	Interest income and similar income	1	251	297	456
1.1.	of which: Interest income from debt securities	2	0	0	0
2.	Interest expense and similar expense	3	2	6	13
2.1.	of which: Interest expense from debt securities	4	0	0	0
3.	Income from shares and equity investments	5	4,750	2,217	1,586
3.1.	of which: a) Income from equity investments in associates	6	0	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0	0
3.3.	c) Income from other shares and equity investments	8	4,750	2,217	1,586
4.	Commission and fee income	9	1	1	1
5.	Commission and fee expense	10	7,612	4,680	5,481
6.	Net profit/(loss) on financial operations	11	(74,291)	(3,738)	(40,917)
7.	Other operating income	12	0	0	0
8.	Other operating expenses	13	0	0	0
9.	Administrative expenses	14	0	2	2
9.1.	of which: a) Employee costs	15	0	0	0
9.1.1.	aa) Wages and salaries	16	0	0	0
9.1.2.	ab) Social security and health insurance	17	0	0	0
9.2.	b) Other administrative costs	18	0	2	2
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0	0

CZK thousand

Item no.	Name of item	Note	2004	2003	2002
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0	0
12.3.	Income from receivables previously written off	35	0	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0	0
13.3.	Charge for reserves for guarantees	39	0	0	0
13.4.	Use of reserves for guarantees	40	0	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0	0
16.	Release of other reserves	44	0	0	0
17.	Charge for and use of other reserves	45	0	0	0
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	(76,904)	(5,911)	(44,370)
20.	Extraordinary income	48	0	0	0
21.	Extraordinary expenses	49	0	0	0
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0	0
23.	Income tax	51	740	308	238
24.	Net profit/(loss) for the period	52	(77,644)	(6,219)	(44,608)

# Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousand				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>			
3.	<b>Share premium</b>			
	Opening balance	(187,628)	(51,841)	(26,638)
	Increase	(111,384)	(237,289)	(132,309)
	Decrease	(77,913)	(101,502)	(107,106)
	Closing balance	(221,099)	(187,628)	(51,841)
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	593,756	378,518	356,896
	Increase	236,775	448,877	275,995
	Decrease	165,844	233,639	254,373
	Closing balance	664,687	593,756	378,518
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	(54,398)	(90,451)	(39,052)
	Increase	60,828	36,446	0
	Decrease	389	393	51,399
	Closing balance	6,041	(54,398)	(90,451)
8.	<b>Retained earnings</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	(77,644)	(6,219)	(44,608)
11.	<b>Dividends</b>	0	0	0



# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

IKS Fond světových indexů, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the "Fund" or "IKS Světových indexů") was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the "Company"), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. The Fund was established for an indefinite period of time. The Fund was formed on 18 September 2000.

The Company is registered in the Register of Companies held at the Regional Commercial Court in Prague, Volume B, File 2524 on the basis of notarial deeds NZ 200/93 and NZ 89/94 dated 23 December 1993 and 28 March 1994, respectively.

The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. The Fund focuses on investing in global equity markets.

The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Board of Directors and Supervisory Board

During the year ended 31 December 2004, no changes were made to the composition of the Board of Directors and the Supervisory Board.

Members of the statutory and supervisory bodies as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, as of 6 November 2002 which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards.

The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing at the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing at the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading". Securities held for trading are financial assets (shares, participation certificates) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*.

Securities are reported in the balance sheet line *Shares, participation certificates and other holdings* and capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation No. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in this Regulation, the Fund values securities in its portfolio that are publicly traded as well as securities that are not publicly traded.

Pursuant to the Regulation, the securities are valued at the price quoted on a public market which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Fund uses a value determined by the Company with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund carried no provisions in its statutory books for the year ended 31 December 2004.

#### 2.7. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, and the Collective Investing Act effective since 1 May 2004, the depositary, Komerční banka, a.s., oversees the Fund's compliance with the Acts.

#### 2.8. New Accounting Pronouncements in 2004

No changes were made during the year ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Year Ended 31 December 2004

No such developments occurred during the year ended 31 December 2004.

## 4. Financial instruments

### 4.1. Market Risks

The investment policy set out in the statutes of individual funds of the Company which is additionally specified in the Fund's investment strategy, establishes various investment priorities for the Company and the related need to monitor, control or mitigate various investment risks. In accordance with this, the Company adopted a policy of separately monitoring individual investment risks and approves the methods and policies of controlling and managing market risks of the Fund in line with the adopted investment policy of the Fund. Depending on the type of fund, these exposures specifically relate to foreign currency, credit and interest rate risks.

The methodology for assessing and monitoring risk is outlined by the risk management function and approved by the investment committee. The assessment of exposures is undertaken on a periodic basis by the relevant function responsible for overseeing compliance with statutory or internally established investment limits and restrictions. The Company hedges against selected market risks by utilising normal hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

The Statute defines IKS Světových indexů as an equity fund focused on global equity markets, specifically through investments in securities whose price developments provide a true reflection of the development of a stock exchange or any other index of individual equity markets. The Statute sets out that the Fund invests no less than 66 percent of its assets in equity instruments. The objective of the Fund's investment strategy is to ensure that the development of the value of the participation certificate follows, to the maximum extent possible, the MSCI global index, including the impact of CZK exchange rate developments. Given this objective, investments denominated in a foreign currency are not hedged against CZK rate developments. Investment instruments are selected such that the development of the instrument matches the selected market index of certain significant global equity markets (DJI, NASDAQ, S&P500, DAX, CAC, etc).

### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended. In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

### 4.3. Foreign Currency Position

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with the banks of the depositary and the custodian, that is, with Komerční banka and ING Bank. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004	2003	2002
Current accounts with banks	465	1,053	2,395
Term deposits with banks	600	3,739	9,761
<b>Total amounts due from banks</b>	<b>1,065</b>	<b>4,792</b>	<b>12,156</b>

Set out below is a summary of term deposits as of 31 December 2004:

Name of the bank	Placement term	Interest (%)	Interest at 31 December 2004 (CZK)	Total interest (CZK)	Amount of term deposit (CZK thousand)
KB – CZK	30 December 2004 – 3 January 2005	2.23	75	149	600
<b>Total term deposits</b>				<b>149</b>	<b>600</b>

## 6. Securities Held for Trading

CZK thousand	2004 Net cost	2004 Fair value	2003 Fair value	2002 Fair value
Shares	364,256	370,227	268,467	123,448
Participation certificates	5,475	5,568	73,179	56,218
<b>Shares and participation certificates</b>	<b>369,731</b>	<b>375,795</b>	<b>341,646</b>	<b>179,666</b>
<b>Total securities held for trading</b>		<b>375,795</b>	<b>341,646</b>	<b>179,666</b>
of which: Revaluation gains or losses		6,062	(54,398)	(90,451)

Shares and participation certificates held for trading, at fair value, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading</b>			
Local shares and participation certificates	0	0	0
Foreign shares and participation certificates	375,795	341,646	179,666
<b>Shares and participation certificates held for trading</b>	<b>375,795</b>	<b>341,646</b>	<b>179,666</b>

Shares and participation certificates held for trading, at fair value and split by issuer, comprise:

CZK thousand	2004	2003	2002
<b>Shares and participation certificates held for trading issued by</b>			
Financial institutions	0	0	0
Other institutions	375,795	341,646	179,666
<b>Total shares and participation certificates held for trading</b>	<b>375,795</b>	<b>341,646</b>	<b>179,666</b>

Shares and participation certificates are traded on public markets.

## 7. Other Assets

Other assets comprise:

CZK thousand	2004	2003	2002
Tax receivables	116	325	299
Estimated receivables	800	193	114
<b>Total other assets</b>	<b>916</b>	<b>518</b>	<b>413</b>

## 8. Other Liabilities

Other liabilities comprise:

CZK thousand	2004	2003	2002
Other creditors	33	121	23
Owed to shareholders	5,217	848	264
Discount/overcharge on trading with participation certificates	16	11	73
Estimated payables	525	465	257
<b>Total other liabilities</b>	<b>5,791</b>	<b>1,445</b>	<b>617</b>

## 9. Capital Funds

CZK thousand	2004	2003	2002
Capital funds and share premium at 1 January	406,128	326,677	330,258
Purchased participation certificates	125,391	211,588	143,686
Sold participation certificates	81,712	(87,529)	(116,981)
Settlement of loss from Other capital funds	(6,219)	(44,608)	(30,286)
<b>Capital funds and share premium at 31 December</b>	<b>443,588</b>	<b>406,128</b>	<b>326,677</b>

The Fund's capital recorded in "Other capital funds" consists of 748,380,386 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The selling price of the participation certificate may include a future tax payable from unrealised gains arising from the remeasurement of the securities. The difference between the nominal value of participation certificates and the price of the participation certificates when they are issued and sold represents share premium.

tis. Kč	Capital funds Nominal value of participation certificates	Share premium	Settlement of loss	Total
<b>Balance at 31 December 2002</b>	<b>411,384</b>	<b>(51,841)</b>	<b>32,866</b>	<b>326,677</b>
Issued in 2003	448,877	(237,289)	0	211,588
Repurchased in 2003	189,031	(101,502)	0	87,529
Loss settlement	0	0	44,608	44,608
<b>Balance at 31 December 2003</b>	<b>671,230</b>	<b>(187,628)</b>	<b>77,474</b>	<b>406,128</b>
Issued in 2004	236,775	(111,384)	0	125,391
Repurchased in 2004	159,625	(77,913)	0	81,712
Loss settlement	0	0	6,219	6,219
<b>Balance at 31 December 2004</b>	<b>748,380</b>	<b>(221,099)</b>	<b>83,693</b>	<b>443,588</b>

If the Fund incurs losses from its operations at year-end, the losses are covered using the fund created from profit. If this fund is not sufficient to cover the loss, the loss needs to be covered through the reduction of the balance of the capital fund which reflects the current amount of the Fund's holding. The aggregate amount of the loss covered through the reduction of capital funds is CZK 83,693 thousand.

## 10. Gains or Losses from Revaluation

CZK thousand	2004	2003	2002
Shares	5,969	(4,585)	(34,607)
Participation certificates	93	(49,551)	(55,561)
Remeasurement of current accounts and repurchase transactions	(21)	(262)	(283)
<b>Total gains or losses from revaluation</b>	<b>6,041</b>	<b>(54,398)</b>	<b>(90,451)</b>

## 11. Net Interest Income

Net interest income comprises:

CZK thousand	2004	2003	2002
Interest received on current accounts and term deposits	251	297	456
Interest paid on current accounts	2	6	13
<b>Total net interest income</b>	<b>249</b>	<b>291</b>	<b>443</b>

## 12. Income from Shares and Holdings

CZK thousand	2004	2003	2002
Foreign shares	4,644	2,017	1,559
Foreign participation certificates	106	200	27
<b>Total received dividends</b>	<b>4,750</b>	<b>2,217</b>	<b>1,586</b>

## 13. Net Fee and Commission Income

Fees and commissions comprise:

CZK thousand	2004	2003	2002
Fee and commission income			
Other commissions	1	1	1
<b>Total fee and commission income</b>	<b>1</b>	<b>1</b>	<b>1</b>
Fee and commission expense			
Fee for fund administration	6,068	3,777	3,459
Fee to the depository	422	301	273
Fee for other KB services	215	0	0
Custody fee	267	188	544
Fee for the sale of securities	492	83	985
Other fees	22	63	54
Audit fee	126	268	166
<b>Total fee and commission expenses</b>	<b>7,612</b>	<b>4,680</b>	<b>5,481</b>
<b>Total net fee and commission income</b>	<b>(7,611)</b>	<b>(4,679)</b>	<b>(5,480)</b>

In the year ended 31 December 2004, the Company concluded a new framework contract with Komerční banka, a.s. stipulating the fees for depository and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

#### 14. Net Profit/(Loss) on Financial Operations

CZK thousand	2004	2003	2002
Profit/(loss) on securities held for trading	(72,193)	(2,930)	(38,682)
Profit/(loss) on foreign exchange transactions	(2,098)	(808)	(2,235)
<b>Total profit/(loss) on financial operations</b>	<b>(74,291)</b>	<b>(3,738)</b>	<b>(40,917)</b>

In the year ended 31 December 2004, profit/(loss) on financial operations was affected primarily by the loss on the sale of foreign currency participation certificates.

#### 15. Other Operating Income and Expenses

The Company recorded no operating income or expenses.

#### 16. Administrative Expenses

CZK thousand	2004	2003	2002
Administrative, arbitration and court fees	0	2	2
<b>Total administrative expenses</b>	<b>0</b>	<b>2</b>	<b>2</b>

#### 17. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004	2003	2002
Due tax	740	308	238
Deferred tax	0	0	0
<b>Total income tax</b>	<b>740</b>	<b>308</b>	<b>238</b>

Set out below is an analysis of due taxes:

CZK thousand	31 December 2004
<b>Profit before tax</b>	<b>(76,904)</b>
Items increasing taxable profit	(4,750)
Items decreasing taxable profit	115
Tax base	(81,539)
<b>Tax on the tax base</b>	<b>0</b>
Special tax base	4,749
Tax on the special tax base	712
Payment of additional tax liability for 2003	28
<b>Total tax</b>	<b>740</b>



Deferred income tax balances comprise:

CZK thousand	2004
Deferred income tax asset	
Tax losses carried forward	144,731
<b>Total deferred income tax asset</b>	<b>7,237</b>
Deferred income tax liability	0
<b>Reduction due to the uncertainty regarding the realisation of the deferred tax asset</b>	<b>7,237</b>
<b>Net deferred tax</b>	<b>0</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under “Gains or losses from revaluation” to retained earnings or accumulated losses as of 1 May 2005. This eliminates temporary differences that materialised in previous periods.

## 18. Related Party Transactions and Balances

Short-term payables:

CZK thousand	2004	2003	2002
Investiční kapitálová společnost KB, a.s.	49	132	95

The Fund's expenses include fees for the Fund's management payable to the Company in the aggregate amount of CZK 6,068 thousand, depository fees totalling CZK 422 thousand paid to Komerční banka, a.s. and fees for other services totalling CZK 215 thousand paid to Komerční banka, a.s.

## 19. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the “Maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	600	0	0	0	0	465	1,065
Shares and participation certificates	0	0	0	0	0	375,795	375,795
Other assets	0	0	0	0	0	916	916
<b>Total assets</b>	<b>600</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>377,176</b>	<b>377,776</b>
Other liabilities	0	0	0	0	0	5,791	5,791
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,791</b>	<b>5,791</b>
<b>Net interest rate risk as of 31 December 2004</b>	<b>600</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>371,385</b>	<b>371,985</b>

## 20. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “Maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	600	0	0	0	465	1,065
Shares and participation certificates	0	0	0	0	375,795	375,795
Other assets	800	116	0	0	0	916
<b>Total assets</b>	<b>1,400</b>	<b>116</b>	<b>0</b>	<b>0</b>	<b>370,260</b>	<b>377,776</b>
Other liabilities	5,791	0	0	0	0	5,791
<b>Total liabilities</b>	<b>5,791</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,791</b>
Net on balance sheet liquidity as of 31 December 2004	(4,391)	116	0	0	370,260	371,985

## 21. Foreign Currency Position

The Fund’s foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

The following table shows the Fund’s foreign currency position by currency. The principal instrument in managing foreign currency risk is the monitoring of limits for individual currencies.

CZK thousand	CZK	USD	EUR	GBP	Total
Amounts due from banks	759	110	1	195	1,065
Shares and participation certificates	0	220,389	137,353	18,053	375,795
Other assets	916	0	0	0	916
<b>Total assets</b>	<b>1,675</b>	<b>220,499</b>	<b>137,354</b>	<b>18,248</b>	<b>377,776</b>
Other liabilities	5,791	0	0	0	5,791
<b>Total liabilities</b>	<b>5,791</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,791</b>
Net currency risk as of 31 Dec 2004	(4,116)	220,499	137,354	18,248	371,985

## 22. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004, 2003 and 2002.

## 23. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the year ended 31 December 2004, the Fund did not breach the provision of Section 24 (1) of the Investment Companies and Investment Funds Act 248/1992 Coll., as amended, or Act 189/2004 effective since 1 May 2004.

As of 31 December 2004, the Fund breached no statutory limits.

## 24. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund’s financial, equity or income position.

**Deloitte.**

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

## MAX – světový garantovaný fond

### Auditor's Report to the Shareholders of MAX – světový garantovaný fond, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of MAX – světový garantovaný fond, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of MAX – světový garantovaný fond, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive

## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003
Item no.	Name of item	Note	Net	Net
1.	Cash in hand, balances with central banks	1	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0
2.1.	a) State securities	3	0	0
2.2.	b) Other	4	0	0
3.	Amounts due from banks	5	2,435	0
3.1.	a) Repayable on demand	6	2,435	0
3.2.	b) Other receivables	7	0	0
4.	Amounts due from clients	8	0	0
4.1.	a) Repayable on demand	9	0	0
4.2.	b) Other receivables	10	0	0
5.	Debt securities	11	0	0
5.1.	a) Issued by state institutions	12	0	0
5.2.	b) Issued by other entities	13	0	0
6.	Shares, participation certificates and other holdings	14	844,925	0
7.	Equity holdings in associates	15	0	0
7.1.	In banks	16	0	0
7.2.	In other entities	17	0	0
8.	Equity holdings in subsidiaries	18	0	0
8.1.	In banks	19	0	0
8.2.	In other entities	20	0	0
9.	Intangible fixed assets	21	0	0
9.1.	Incorporation costs	22	0	0
9.2.	Goodwill	23	0	0
9.3.	Other	24	0	0
10.	Tangible fixed assets	25	0	0
10.1.	Land and buildings for operating activities	26	0	0
10.2.	Other	27	0	0
11.	Other assets	28	48,132	0
12.	Subscribed capital unpaid	29	0	0
13.	Deferred expenses and accrued income	30	0	0
TOTAL ASSETS			895,492	0

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>
1.1.	a) Repayable on demand	32	0	0
1.2.	b) Other payables	33	0	0
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0
2.1.1.	of which: Savings deposits	36	0	0
2.2.	b) Other payables	37	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0
2.2.3.	Term deposits with maturity	40	0	0
2.2.4.	Term deposits repayable at notice	41	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0
3.2.	b) Other payables from debt securities	44	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>2,655</b>	<b>0</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>
6.1.	a) For pensions and similar liabilities	48	0	0
6.2.	b) For taxes	49	0	0
6.3.	c) Other	50	0	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0
8.2.	b) Treasury shares	54	0	0
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>228</b>	<b>0</b>
<b>10.</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>0</b>	<b>0</b>
10.1.	a) Mandatory reserve funds	57	0	0
10.3.	b) Other reserve funds	59	0	0
10.4.	c) Other funds from profit	60	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>870,161</b>	<b>0</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>23,433</b>	<b>0</b>
12.1.	a) Of assets and liabilities	65	23,433	0
12.2.	b) Hedging derivatives	66	0	0
12.3.	c) Re-translation of equity holdings	67	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>0</b>	<b>0</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>(985)</b>	<b>0</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>895,492</b>	<b>0</b>

# Off Balance Sheet Accounts as of 31 December 2004

## Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0
1.2.	Guarantees and warranties	73	0	0
1.3.	Guarantees from bills of exchange	74	0	0
1.4.	Guarantees under letters of credit	75	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0
2.2.	Cash collateral	78	0	0
2.3.	Securities	79	0	0
2.4.	Other	80	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0
3.2.	With currency instruments	83	0	0
3.3.	With equity instruments	84	0	0
3.4.	With commodity instruments	85	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>1,917,276</b>	<b>0</b>
4.1.	With interest rate instruments	87	880,000	0
4.2.	With currency instruments	88	1,037,276	0
4.3.	With equity instruments	89	0	0
4.4.	With commodity instruments	90	0	0
4.5.	With credit instruments	91	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0
5.2.	With currency instruments	94	0	0
5.3.	With equity instruments	95	0	0
5.4.	With commodity instruments	96	0	0
5.5.	With credit instruments	97	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0

## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0
1.2.	Guarantees and warranties	105	0	0
1.3.	Guarantees from bills of exchange	106	0	0
1.4.	Guarantees under letters of credit	107	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0
2.2.	Cash collateral	110	0	0
2.3.	Securities	111	0	0
2.4.	Other collateral	112	0	0
2.5.	Collateral – securities	113	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0
3.2.	With currency instruments	116	0	0
3.3.	With equity instruments	117	0	0
3.4.	With commodity instruments	118	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>1,917,276</b>	<b>0</b>
4.1.	With interest rate instruments	120	880,000	0
4.2.	With currency instruments	121	1,037,276	0
4.3.	With equity instruments	122	0	0
4.4.	With commodity instruments	123	0	0
4.5.	With credit instruments	124	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>0</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0
5.2.	With currency instruments	127	0	0
5.3.	With equity instruments	128	0	0
5.4.	With commodity instruments	129	0	0
5.5.	With credit instruments	130	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003
1.	Interest income and similar income	1	7,833	0
1.1.	of which: Interest income from debt securities	2	273	0
2.	Interest expense and similar expense	3	3,818	0
2.1.	of which: Interest expense from debt securities	4	0	0
3.	Income from shares and equity investments	5	0	0
3.1.	of which: a) Income from equity investments in associates	6	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0
3.3.	c) Income from other shares and equity investments	8	0	0
4.	Commission and fee income	9	9	0
5.	Commission and fee expense	10	3,837	0
6.	Net profit/(loss) on financial operations	11	(1,172)	0
7.	Other operating income	12	0	0
8.	Other operating expenses	13	0	0
9.	Administrative expenses	14	0	0
9.1.	of which: a) Employee costs	15	0	0
9.1.1.	aa) Wages and salaries	16	0	0
9.1.2.	ab) Social security and health insurance	17	0	0
9.2.	b) Other administrative costs	18	0	0
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0



CZK thousand

Item no.	Name of item	Note	2004	2003
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0
12.3.	Income from receivables previously written off	35	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0
13.3.	Charge for reserves for guarantees	39	0	0
13.4.	Use of reserves for guarantees	40	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0
16.	Release of other reserves	44	905	0
17.	Charge for and use of other reserves	45	905	0
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	(985)	0
20.	Extraordinary income	48	0	0
21.	Extraordinary expenses	49	0	0
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0
23.	Income tax	51	0	0
24.	Net profit/(loss) for the period	52	(985)	0

# Statement of Changes in Equity for the Period Ended 31 December 2004

CZK thousands				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	0	0	0
	Increase	234	0	0
	Decrease	6	0	0
	Closing balance	228	0	0
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	0	0	0
	Increase	870,937	0	0
	Decrease	776	0	0
	Closing balance	870,161	0	0
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	0	0	0
	Increase	24,731	0	0
	Decrease	1,298	0	0
	Closing balance	23,433	0	0
8.	<b>Retained earnings</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	(985)	0	0
11.	<b>Dividends</b>	0	0	0

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

MAX – světový garantovaný fond, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the “Fund”) was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. The Fund was established for a fixed period and will be liquidated upon the expiration of four years and three months from the date of commencement of issue of the participation certificates.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004. The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. In its Statute the Fund provides a full guarantee of invested funds at the Fund’s liquidation date. The guarantee of invested funds does not relate to shareholders using their right to sell back participation certificates before the Fund’s date of liquidation.

The establishment and the Statute of the Fund were approved by the Securities Commission Decision Ref. No. 41/N/59/2004/2 as of 9 July 2004 that became effective on 14 July 2004. The Fund is an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. Pursuant to the Collective Investing Act No. 189/2004 Coll., the Fund is a special fund of funds.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Board of Directors and Supervisory Board

During the period ended 31 December 2004, no changes were made to the composition of the Board of Directors or the Supervisory Board.

Members of the statutory and supervisory bodies as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards. The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing at the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing at the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading". Securities held for trading are financial assets (participation certificates) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*.

Securities are reported in the balance sheet line *Shares, participation certificates and other holdings* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation No. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in the Regulation, the Company values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Under the Regulation, securities are valued at the price quoted on a public market, which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Company uses a value which it has determined with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the year ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Derivative Financial Instruments and Hedging

In the normal course of business, the Fund enters into hedging contracts for derivative financial instruments which represent a very low initial investment. The derivative financial instruments used include currency forwards. These financial instruments are used by the Fund to hedge foreign currency exposures associated with its transactions in the financial markets and the composition of its portfolio.

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

- (a) The Company has developed a risk management strategy;
- (b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- (c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as hedges and that prove to be highly effective in relation to the hedged risk, are retained in the balance sheet line *Gains or losses from revaluation*. The balances recognised in the balance sheet are taken to the profit and loss account and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss account.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are retained in the balance sheet line *Gains or losses from revaluation* in compliance with the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended. The balances recognised in the balance sheet are taken to the profit and loss account line *Gains or losses from derivative transactions* at settlement of the relevant instrument.

Certain derivatives are embedded in compound financial instruments which comprise the host instrument and the derivative. Pursuant to Section 29 of the Czech Finance Ministry Regulation No. 501/1992, as amended, the Company recognises gains or losses from the revaluation of assets and liabilities at fair value through *Gains or losses from revaluation*.

#### 2.7. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund recorded no provisions in its statutory books for the period ended 31 December 2004.

#### 2.8. Corrections Related to Previous Reporting Periods

Corrections to the expenses and income of previous reporting periods are recognised as income or expenses in the profit and loss account in the current period unless the corrections are significant.

#### 2.9. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, the depositary, Komerční banka, a.s., oversees the Fund's compliance with this Act.

#### 2.10. New Accounting Pronouncements in 2004

No changes were made during the period ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Period Ended 31 December 2004

No such developments were experienced during the period ended 31 December 2004.

## 4. Financial Instruments

#### 4.1. Market Risks

The investment policy is set out in the statutes of the Company's individual funds, and is additionally specified in the Fund's investment strategy. The investment strategy developed by the administration company together with a co-manager establishes various investment priorities for the Company and the related need to monitor, control and mitigate various investment risks. The principal priority of the Fund is to return the invested funds to shareholders at the Fund's liquidation date and to participate in the growth of the largest global equity markets. This strategy is achieved by the approved guarantee as of the fund maturity date and through an active investment policy providing the optimum balance of the Fund's high- and low-risk assets. In accordance with this, the administration company or the co-manager conducts a daily assessment of the portfolio risk profile and the portfolio structure is optimised based on the outcome of the stress testing. The Fund hedges against selected market risks with the usual hedging instruments (swaps, forwards, cross currency swaps) acquired through OTC transactions with selected financial institutions.

#### 4.2. Credit Risk

The Fund is defined in its Statute as a fund of funds with participation certificates of recognised European and global investment companies being the major assets acquired for portfolios of funds. Their selection is made by a co-manager and approved by the Company and the depositary.

#### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.

## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with banks. Term deposits are typically negotiated for a period of one day. As of 31 December 2004, the Fund had not maintained a term deposit.

CZK thousand	2004
Current accounts with banks	2,435
Term deposits with banks	0
<b>Total amounts due from banks</b>	<b>2,435</b>

## 6. Securities Held for Trading

Securities comprise:

CZK thousand	Fair value 2004	Net cost 2004
Shares	0	0
Participation certificates	844,925	866,709
<b>Shares and participation certificates</b>	<b>844,925</b>	<b>866,709</b>
<b>Total securities</b>	<b>844,925</b>	<b>866,709</b>
of which: Revaluation gains or losses	(21,784)	0

Participation certificates, at fair value, comprise:

CZK thousand	2004
Local participation certificates	0
Foreign participation certificates	844,925
<b>Total participation certificates</b>	<b>844,925</b>

Participation certificates, at fair value and split by issuer, comprise:

CZK thousand	2004
Participation certificates:	
Financial institutions	844,925
Other institutions	0
<b>Total participation certificates</b>	<b>844,925</b>

## 7. Other Assets

Other assets comprise:

CZK thousand	2004
Positive fair value of derivative instruments	48,132
<b>Total other assets</b>	<b>48,132</b>

## 8. Other Liabilities

Other liabilities comprise:

CZK thousand	2004
Negative fair value of derivative instruments	24
Other creditors	1,148
Discount/overcharge on trading with participation certificates	9
Estimated payables	1,474
<b>Total other liabilities</b>	<b>2,655</b>

## 9. Capital Funds and Share Premium

The Fund's capital recorded in "Capital funds" consists of 870,160,788 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The difference between the nominal value of a participation certificate and its market value represents share premium.

The Fund was established for a fixed period and will be liquidated upon the expiration of four years and three months from the date of commencement of issue of the participation certificates. In its Statute, the Fund provides a full guarantee of invested funds at the Fund's liquidation date. The guarantee of invested funds does not relate to the shareholders using their right to sell back participation certificates before the Fund's date of liquidation.

CZK thousand	Capital funds Nominal value of participation certificates	Share premium	Total
Opening balance	0	0	0
Issued in 2004	870,937	234	871,171
Purchased in 2004	776	6	782
<b>Balance at 31 December 2004</b>	<b>870,161</b>	<b>228</b>	<b>870,389</b>

Allocation of Profit:

For the period ended 31 December 2004, the Fund generated profit of CZK 7,979 thousand.

## 10. Gains or Losses from Revaluation

CZK thousand	2004
Participation certificates	(21,784)
Currency contracts	37,194
Interest rate contracts	9,257
Remeasurement of current accounts and repurchase transactions	(1,234)
<b>Total gains or losses from revaluation</b>	<b>23,433</b>



## 11. Net Interest Income

CZK thousand	2004
Interest on securities	273
Interest on current accounts and term deposits	2,060
Interest on swap transactions	5,500
<b>Total interest income</b>	<b>7,833</b>
Interest on current accounts and term deposits	0
Interest on swap transactions	3,818
<b>Total interest expense</b>	<b>3,818</b>
<b>Total net interest income</b>	<b>4,015</b>

## 12. Net Fee and Commission Income

CZK thousand	2004
Income from discounts in purchasing participation certificates	8
Other commissions	1
<b>Total fee and commission income</b>	<b>9</b>
Fee for fund administration	3,304
Fee to the depository	183
Fee for other KB services	205
Custody fee	44
Fee for the sale of securities	0
Audit fee	101
<b>Total fee and commission expenses</b>	<b>3,837</b>
<b>Total net fee and commission income</b>	<b>(3,828)</b>

In the period ended 31 December 2004, the Company concluded a new framework contract with Komerční banka, a.s. stipulating the fees for depository and other services (opening and administration of current accounts, local and foreign payment system and direct banking services).

## 13. Net Profit/(Loss) on Financial Operations

CZK thousand	2004
Profit/(loss) on securities held for trading	(54)
Profit/(loss) on foreign exchange transactions	(1,118)
<b>Total profit/(loss) on financial operations</b>	<b>(1,172)</b>

## 14. Income Tax, Deferred Taxation

Principal components of income taxes are as follows:

CZK thousand	2004
Due tax	0
Deferred tax	0
<b>Total income tax</b>	<b>0</b>

Set out below is an analysis of the due taxes:

CZK thousand	31 December 2004
Profit before tax	(985)
Items increasing taxable profit	0
Items decreasing taxable profit	0
Tax base	(985)
General tax credit	0
Adjusted tax base	0
<b>Tax on the tax base</b>	<b>0</b>

Deferred taxation comprises:

Deferred tax asset	
Tax losses	985
<b>Total deferred tax asset</b>	<b>49</b>
Deferred tax liability	0
Reduction due to the uncertainty regarding the realisation of the deferred tax asset	49
<b>Net deferred tax</b>	<b>0</b>

Pursuant to Regulation No. 501/2002 Coll., as amended, the Fund is obliged to re-allocate the amounts of changes in fair values of derivatives and securities recognised under “Gains or losses from revaluation” to retained earnings or accumulated losses. This eliminates temporary differences that materialised in previous periods.

## 15. Financial Derivative Instruments

Financial derivative instruments comprise:

CZK thousand	Notional value	
	2004	2004
	Assets	Liabilities
Currency forwards	164,519	164,519
Currency swaps	872,757	872,757
<b>Currency instruments</b>	<b>1,037,276</b>	<b>1,037,276</b>
Interest swaps	880,000	880,000
Interest tools	880,000	880,000
<b>Financial derivative instruments</b>	<b>1,917,276</b>	<b>1,917,276</b>

Pursuant to the relevant accounting principles, the Fund does not remeasure the notional value of its assets and liabilities recognised off balance sheet.

CZK thousand	Fair value	
	2004	2004
	positive	negative
Currency forwards	6,770	0
Currency swaps	30,424	24
<b>Currency instruments</b>	<b>37,194</b>	<b>24</b>
Interest swaps	10,938	0
Interest instruments	10,938	0
<b>Financial derivative instruments</b>	<b>48,132</b>	<b>24</b>

Financial derivatives at nominal values according to remaining maturity:

CZK thousand	Less than 1 year	1 to 5 years	Over 5 years	Total
Currency forwards	164,519	0	0	164,519
Currency swaps	872,757	0	0	872,757
Interest swaps	0	880,000	0	880,000
<b>Financial derivatives</b>	<b>1,037,276</b>	<b>880,000</b>	<b>0</b>	<b>1,917,276</b>

## 16. Related Party Transactions and Balances

CZK thousand	2004
Investiční kapitálová společnost KB, a.s.	1,157

The Fund's expenses include fees for the Fund's management payable to the Company in the aggregate amount of CZK 3,303 thousand, and the depository and service fees totalling CZK 388 thousand paid to Komerční banka, a.s.

## 17. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "Maturity undefined" category.

[illegible]

## 18. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	0	0	0	0	2,435	2,435
Shares and participation certificates	0	0	0	0	844,925	844,925
Other assets	0	0	0	0	48,132	48,132
<b>Total assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>895,492</b>	<b>895,492</b>
Other liabilities	2,631	0	0	0	24	2,655
<b>Total liabilities</b>	<b>2,631</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24</b>	<b>2,655</b>
<b>Net on balance sheet liquidity risk</b>	<b>(2,631)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>895,468</b>	<b>892,837</b>
Off balance sheet assets	1,037,276	0	880,000	0	0	1,917,276
Off balance sheet liabilities	1,037,276	0	880,000	0	0	1,917,276
<b>Net off balance sheet interest rate exposure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 19. Foreign Currency Position

The Fund’s foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund. Set out below is a summary of assets and liabilities by principal currency:

CZK thousand	CZK	EUR	USD	JPY	Total
Amounts due from banks	2,406	29	0	0	2,435
Shares and participation certificates	0	844,925	0	0	844,925
Other assets	48,132	0	0	0	48,132
<b>Total assets</b>	<b>50,538</b>	<b>844,954</b>	<b>0</b>	<b>0</b>	<b>895,492</b>
Other liabilities	2,655	0	0	0	2,655
<b>Total liabilities</b>	<b>2,655</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,655</b>
<b>Net on balance sheet liquidity risk</b>	<b>47,883</b>	<b>844,954</b>	<b>0</b>	<b>0</b>	<b>892,837</b>
Off balance sheet assets	1,755,664	161,612	0	0	1,917,276
Off balance sheet liabilities	881,395	875,664	94,446	65,771	1,917,276
<b>Net off balance sheet interest rate exposure</b>	<b>874,269</b>	<b>(714,052)</b>	<b>(94,446)</b>	<b>(65,771)</b>	<b>0</b>

## 20. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004.

## 21. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the period ended 31 December 2004, the Fund breached no regulatory limits.

## 22. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund’s financial, equity or income position.

**Deloitte.**

Deloitte s.r.o.  
Týn 641/4  
110 00 Prague 1  
Czech Republic  
Tel.: +420 224 895 500  
Fax: +420 224 895 555  
DeloitteCZ@deloitteCE.com  
www.deloitte.cz  
Registered at the Municipal Court  
in Prague, Section C, File 24349  
IČ: 49620592  
DIČ: CZ49620592

## MAX – světový zajištěný fond 2

### Auditor's Report to the Shareholders of MAX – světový zajištěný fond 2, otevřený podílový fond Investiční kapitálové společnosti KB, a.s.

Having its registered office at: Dlouhá 34, 110 15, Praha 1

Identification number: 601 96 769

Principal activities: Collection of funds through the issuance of participation certificates and management of assets in mutual funds

We have audited the accompanying financial statements of MAX – světový zajištěný fond 2, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's Board of Directors of Investiční kapitálová společnost KB, a.s. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of MAX – světový zajištěný fond 2, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

In Prague on 4 March 2005

**Audit firm:**

Deloitte s.r.o.

Certificate no. 79

Represented by:



**Statutory auditor:**

Michal Petrman

Certificate no. 1105



Michal Petrman, statutory executive



## Balance Sheet of 31 December 2004

### Assets

CZK thousand			2004	2003
Item no.	Name of item	Note	Net	Net
1.	Cash in hand, balances with central banks	1	0	0
2.	State zero-coupon bonds and other securities eligible for refinancing with the CNB	2	0	0
2.1.	a) State securities	3	0	0
2.2.	b) Other	4	0	0
3.	Amounts due from banks	5	8,250	0
3.1.	a) Repayable on demand	6	49	0
3.2.	b) Other receivables	7	8,201	0
4.	Amounts due from clients	8	0	0
4.1.	a) Repayable on demand	9	0	0
4.2.	b) Other receivables	10	0	0
5.	Debt securities	11	438,737	0
5.1.	a) Issued by state institutions	12	438,737	0
5.2.	b) Issued by other entities	13	0	0
6.	Shares, participation certificates and other holdings	14	0	0
7.	Equity holdings in associates	15	0	0
7.1.	In banks	16	0	0
7.2.	In other entities	17	0	0
8.	Equity holdings in subsidiaries	18	0	0
8.1.	In banks	19	0	0
8.2.	In other entities	20	0	0
9.	Intangible fixed assets	21	0	0
9.1.	Incorporation costs	22	0	0
9.2.	Goodwill	23	0	0
9.3.	Other	24	0	0
10.	Tangible fixed assets	25	0	0
10.1.	Land and buildings for operating activities	26	0	0
10.2.	Other	27	0	0
11.	Other assets	28	22,911	0
12.	Subscribed capital unpaid	29	0	0
13.	Deferred expenses and accrued income	30	0	0
TOTAL ASSETS			469,898	0

## Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003
<b>1.</b>	<b>Amounts owed to banks, savings associations</b>	<b>31</b>	<b>0</b>	<b>0</b>
1.1.	a) Repayable on demand	32	0	0
1.2.	b) Other payables	33	0	0
<b>2.</b>	<b>Amounts owed to clients, members of savings associations</b>	<b>34</b>	<b>0</b>	<b>0</b>
2.1.	a) Repayable on demand	35	0	0
2.1.1.	of which: Savings deposits	36	0	0
2.2.	b) Other payables	37	0	0
2.2.1.	of which: Savings deposits with maturity	38	0	0
2.2.2.	Savings deposits repayable at notice	39	0	0
2.2.3.	Term deposits with maturity	40	0	0
2.2.4.	Term deposits repayable at notice	41	0	0
<b>3.</b>	<b>Payables from debt securities</b>	<b>42</b>	<b>0</b>	<b>0</b>
3.1.	a) Issued debt securities	43	0	0
3.2.	b) Other payables from debt securities	44	0	0
<b>4.</b>	<b>Other liabilities</b>	<b>45</b>	<b>5,338</b>	<b>0</b>
<b>5.</b>	<b>Deferred income and accrued expenses</b>	<b>46</b>	<b>0</b>	<b>0</b>
<b>6.</b>	<b>Reserves</b>	<b>47</b>	<b>0</b>	<b>0</b>
6.1.	a) For pensions and similar liabilities	48	0	0
6.2.	b) For taxes	49	0	0
6.3.	c) Other	50	0	0
<b>7.</b>	<b>Subordinated liabilities</b>	<b>51</b>	<b>0</b>	<b>0</b>
<b>8.</b>	<b>Share capital</b>	<b>52</b>	<b>0</b>	<b>0</b>
8.1.	of which: a) Share capital paid up	53	0	0
8.2.	b) Treasury shares	54	0	0
<b>9.</b>	<b>Share premium</b>	<b>55</b>	<b>308</b>	<b>0</b>
<b>10.</b>	<b>Reserve funds and other funds from profit</b>	<b>56</b>	<b>0</b>	<b>0</b>
10.1.	a) Mandatory reserve funds	57	0	0
10.3.	b) Other reserve funds	59	0	0
10.4.	c) Other funds from profit	60	0	0
<b>11.</b>	<b>Capital funds</b>	<b>63</b>	<b>465,171</b>	<b>0</b>
<b>12.</b>	<b>Gains or losses from revaluation</b>	<b>64</b>	<b>571</b>	<b>0</b>
12.1.	a) Of assets and liabilities	65	571	0
12.2.	b) Hedging derivatives	66	0	0
12.3.	c) Re-translation of equity holdings	67	0	0
<b>13.</b>	<b>Retained earnings or accumulated losses brought forward</b>	<b>68</b>	<b>0</b>	<b>0</b>
<b>14.</b>	<b>Profit/(loss) for the period</b>	<b>69</b>	<b>(1,490)</b>	<b>0</b>
	<b>TOTAL LIABILITIES</b>	<b>71</b>	<b>469,898</b>	<b>0</b>

# Off Balance Sheet Accounts as of 31 December 2004

## Off Balance Sheet Assets

CZK thousand

Item no.	Name of item	Note	2004	2003
<b>1.</b>	<b>Issued commitments and guarantees</b>	<b>71</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	72	0	0
1.2.	Guarantees and warranties	73	0	0
1.3.	Guarantees from bills of exchange	74	0	0
1.4.	Guarantees under letters of credit	75	0	0
<b>2.</b>	<b>Provided collateral</b>	<b>76</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	77	0	0
2.2.	Cash collateral	78	0	0
2.3.	Securities	79	0	0
2.4.	Other	80	0	0
<b>3.</b>	<b>Amounts due from spot transactions</b>	<b>81</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	82	0	0
3.2.	With currency instruments	83	0	0
3.3.	With equity instruments	84	0	0
3.4.	With commodity instruments	85	0	0
<b>4.</b>	<b>Amounts due from term transactions</b>	<b>86</b>	<b>464,991</b>	<b>0</b>
4.1.	With interest rate instruments	87	464,991	0
4.2.	With currency instruments	88	0	0
4.3.	With equity instruments	89	0	0
4.4.	With commodity instruments	90	0	0
4.5.	With credit instruments	91	0	0
<b>5.</b>	<b>Amounts due from option transactions</b>	<b>92</b>	<b>464,991</b>	<b>0</b>
5.1.	With interest rate instruments	93	0	0
5.2.	With currency instruments	94	0	0
5.3.	With equity instruments	95	464,991	0
5.4.	With commodity instruments	96	0	0
5.5.	With credit instruments	97	0	0
<b>6.</b>	<b>Receivables written off</b>	<b>98</b>	<b>0</b>	<b>0</b>
<b>7.</b>	<b>Assets provided into custody, administration and safe-keeping</b>	<b>99</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	100	0	0
<b>8.</b>	<b>Assets provided for management</b>	<b>101</b>	<b>0</b>	<b>0</b>
8.1.	of which: Securities	102	0	0



## Off Balance Sheet Liabilities

CZK thousand

Item no.	Name of item	Note	2004	2003
<b>1.</b>	<b>Accepted commitments and guarantees</b>	<b>103</b>	<b>0</b>	<b>0</b>
1.1.	Commitments	104	0	0
1.2.	Guarantees and warranties	105	0	0
1.3.	Guarantees from bills of exchange	106	0	0
1.4.	Guarantees under letters of credit	107	0	0
<b>2.</b>	<b>Received collateral</b>	<b>108</b>	<b>0</b>	<b>0</b>
2.1.	Real estate collateral	109	0	0
2.2.	Cash collateral	110	0	0
2.3.	Securities	111	0	0
2.4.	Other collateral	112	0	0
2.5.	Collateral – securities	113	0	0
<b>3.</b>	<b>Amounts owed from spot transactions</b>	<b>114</b>	<b>0</b>	<b>0</b>
3.1.	With interest rate instruments	115	0	0
3.2.	With currency instruments	116	0	0
3.3.	With equity instruments	117	0	0
3.4.	With commodity instruments	118	0	0
<b>4.</b>	<b>Amounts owed from term transactions</b>	<b>119</b>	<b>464,991</b>	<b>0</b>
4.1.	With interest rate instruments	120	464,991	0
4.2.	With currency instruments	121	0	0
4.3.	With equity instruments	122	0	0
4.4.	With commodity instruments	123	0	0
4.5.	With credit instruments	124	0	0
<b>5.</b>	<b>Amounts owed from option transactions</b>	<b>125</b>	<b>464,991</b>	<b>0</b>
5.1.	With interest rate instruments	126	0	0
5.2.	With currency instruments	127	0	0
5.3.	With equity instruments	128	464,991	0
5.4.	With commodity instruments	129	0	0
5.5.	With credit instruments	130	0	0
<b>6.</b>	<b>Assets received into custody, administration and safe-keeping</b>	<b>131</b>	<b>0</b>	<b>0</b>
6.1.	of which: Securities	132	0	0
<b>7.</b>	<b>Assets received for management</b>	<b>133</b>	<b>0</b>	<b>0</b>
7.1.	of which: Securities	134	0	0

## Profit and Loss Statement for the Year Ended 31 December 2004

CZK thousand

Item no.	Name of item	Note	2004	2003
1.	Interest income and similar income	1	944	0
1.1.	of which: Interest income from debt securities	2	105	0
2.	Interest expense and similar expense	3	0	0
2.1.	of which: Interest expense from debt securities	4	0	0
3.	Income from shares and equity investments	5	0	0
3.1.	of which: a) Income from equity investments in associates	6	0	0
3.2.	b) Income from equity investments in subsidiaries	7	0	0
3.3.	c) Income from other shares and equity investments	8	0	0
4.	Commission and fee income	9	1	0
5.	Commission and fee expense	10	561	0
6.	Net profit/(loss) on financial operations	11	(1,869)	0
7.	Other operating income	12	0	0
8.	Other operating expenses	13	0	0
9.	Administrative expenses	14	5	0
9.1.	of which: a) Employee costs	15	0	0
9.1.1.	aa) Wages and salaries	16	0	0
9.1.2.	ab) Social security and health insurance	17	0	0
9.2.	b) Other administrative costs	18	5	0
10.	Release of reserves and provisions for tangible and intangible fixed assets	19	0	0
10.1.	Release of reserves for tangible fixed assets	20	0	0
10.2.	Release of provisions for tangible fixed assets	21	0	0
10.3.	Release of provisions for intangible fixed assets	22	0	0
11.	Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets	23	0	0
11.1.	Depreciation of tangible fixed assets	24	0	0
11.2.	Charge for reserves for tangible fixed assets	25	0	0
11.3.	Charge for provisions for tangible fixed assets	26	0	0
11.4.	Use of reserves for tangible fixed assets	27	0	0
11.5.	Use of provisions for tangible fixed assets	28	0	0
11.6.	Amortisation of intangible fixed assets	29	0	0
11.7.	Charge for provisions for intangible fixed assets	30	0	0
11.8.	Use of provisions for intangible fixed assets	31	0	0

CZK thousand

Item no.	Name of item	Note	2004	2003
12.	Release of provisions and reserves for receivables and guarantees, income from receivables previously written off	32	0	0
12.1.	Release of reserves for receivables and guarantees	33	0	0
12.2.	Release of provisions for receivables and receivables from guarantees	34	0	0
12.3.	Income from receivables previously written off	35	0	0
13.	Write-offs, charge for and use of provisions and reserves for receivables and guarantees	36	0	0
13.1.	Charge for provisions for receivables and receivables from guarantees	37	0	0
13.2.	Use of provisions for receivables and receivables from guarantees	38	0	0
13.3.	Charge for reserves for guarantees	39	0	0
13.4.	Use of reserves for guarantees	40	0	0
13.5.	Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables	41	0	0
14.	Release of provisions for equity investments in subsidiaries and associates	42	0	0
15.	Loss on transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates	43	0	0
16.	Release of other reserves	44	0	0
17.	Charge for and use of other reserves	45	0	0
18.	Share of profits/(losses) of subsidiaries and associates	46	0	0
19.	Profit/(loss) for the period from ordinary activities before taxes	47	(1,490)	0
20.	Extraordinary income	48	0	0
21.	Extraordinary expenses	49	0	0
22.	Profit/(loss) for the period from extraordinary activities before taxes	50	0	0
23.	Income tax	51	0	0
24.	Net profit/(loss) for the period	52	(1,490)	0

# Statement of Changes in Equity for the Year Ended 31 December 2004

CZK thousands				
Item no.	Name of item	2004	2003	2002
1.	<b>Share capital</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Conversion of convertible bonds to shares	0	0	0
	Exercise of bonds and warrants	0	0	0
	Closing balance	0	0	0
2.	<b>Treasury shares</b>	0	0	0
3.	<b>Share premium</b>			
	Opening balance	0	0	0
	Increase	308	0	0
	Decrease	0	0	0
	Closing balance	308	0	0
4.	<b>Reserve funds</b>			
	Opening balance	0	0	0
	Mandatory allocation	0	0	0
	Other increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
5.	<b>Other funds from profits</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
6.	<b>Capital fund of the mutual fund</b>			
	Opening balance	0	0	0
	Increase	465,181	0	0
	Decrease	10	0	0
	Closing balance	465,171	0	0
7.	<b>Valuation gains or losses not included in profit or loss</b>			
	Opening balance	0	0	0
	Increase	571	0	0
	Decrease	0	0	0
	Closing balance	571	0	0
8.	<b>Retained earnings</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
9.	<b>Accumulated losses brought forward</b>			
	Opening balance	0	0	0
	Increase	0	0	0
	Decrease	0	0	0
	Closing balance	0	0	0
10.	<b>Net profit/(loss) for the period</b>	(1,490)	0	0
11.	<b>Dividends</b>	0	0	0

# [ Notes to the Financial Statements for the Year Ended 31 December 2004

## 1. Description of the Fund

MAX – světový zajištěný fond 2, otevřený podílový fond Investiční kapitálové společnosti KB, a.s. (hereinafter the “Fund”) was incorporated by Investiční kapitálová společnost KB, a.s., with its registered office at Dlouhá 34, Prague 1 (hereinafter the “Company”), as an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. The Fund was established for a fixed period and will be liquidated upon the expiration of five years and one week after the Fund’s accumulation period.

The Company is an investment company under the effective legislation and acts as a legal entity collecting finance of both individuals and legal entities for the purpose of participation in business (collective investing). The Fund is subject to the regulatory requirements of Collective Investing Act No. 189/2004 Coll., effective since 1 May 2004. The principal document of the Fund is its Statute which defines mutual rights and obligations between the shareholders of the Fund and the Company. The Fund collects finance by issuing its participation certificates. The Company manages the collected finance. The Statute provides guidance on the determination of the future value of the invested amount ensuing from the selected investment strategy.

The establishment and the Statute of the Fund were approved by the Securities Commission Decision Ref. No. 41/N/64/2004/2 as of 13 October 2004 that became effective on 15 October 2004. The Fund is an open-ended mutual fund which is not a stand-alone legal entity and exists within the Company. Pursuant to the Collective Investing Act No. 189/2004 Coll., the Fund is a special fund of securities.

The Fund is not included in any consolidated group.

The Fund has no staff, all administration functions connected with the business activities of the Fund are outsourced to the Company.

### Members of the Board of Directors and Supervisory Board

During the period ended 31 December 2004, no changes were made to the composition of the Board of Directors and the Supervisory Board.

Members of the statutory and supervisory bodies as of 31 December 2004:

#### **Board of Directors:**

Chairman:	Pavel Pršala
Vice Chairman:	Pavel Hoffman
Member:	Jan Drápal

#### **Supervisory Board:**

Chairman:	Šárka Turoňová
Member:	Marie Netíková
Member:	Jana Kesslerová

## 2. Basis of Preparation and Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1. Basis of Accounting

The financial statements are prepared based on the Fund's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., as amended, in the scope determined by the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended, which provides guidance on the substance of financial statement components and disclosures to be made by banks and certain financial institutions, and in compliance with Czech Accounting Standards. The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of all securities and financial derivatives to fair value.

The presentation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the financial reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

The reporting currency used in the financial statements is the Czech crown ("CZK") with accuracy to CZK thousand, unless indicated otherwise.

### 2.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ("CNB") prevailing at the balance sheet date. Income and expenses denominated in foreign currencies are recorded in CZK in the underlying accounting system of the Fund and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing at the date of the transaction. Unrealised gains or losses arising from movements in the exchange rates are reported within *Gains or losses from revaluation*. With regard to the maturity of a term placement, spot purchase or sale of foreign currencies or at settlement of security transactions, the Fund recognises realised foreign exchange rate gains or losses through accounts within the grouping *Costs/income from financial operations*. These gains and losses are reported within *Net profit/(loss) on financial operations*.

### 2.3. Securities

All securities held by the Fund are recognised using trade date accounting provided that the period between the contract date and the fulfilment of the commitment arising from this contract is not longer than the period typical for the relevant type of transaction.

The Fund has classified its securities as "Held for trading". Securities held for trading are financial assets (debt securities) acquired by the Fund for the purpose of generating a profit from fluctuations in prices in the short term, typically defined as one year.

All securities are initially measured at their cost plus direct transaction costs (fees to securities traders and exchange markets). From the trade date, the Fund remeasures these securities to fair value. Fair value changes are recorded to *Gains or losses from revaluation*. The cost of debt securities is increased over time to reflect the accrued interest income. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its amortised cost. The Fund accounts for interest income on a straight line basis.

Securities are reported in the balance sheet line *Debt securities* and realised capital gains and losses are reported within the profit and loss account line *Net profit/(loss) on financial operations*.

The market value of securities is determined in accordance with the Czech Finance Ministry Regulation No. 270/2004, Coll., on determination of fair value of assets and liabilities of collective investment funds and determination of current value of shares or participation certificates of collective investment funds (henceforth the "Regulation"). Pursuant to the guidance set out in the Regulation, the Company values securities in its portfolio that are publicly traded as well as securities that are not publicly traded. Under the Regulation, securities are valued at the price quoted on a public market, which is adjusted, as appropriate, to reflect the rules set out in the Regulation. If the value is not determinable on this basis, the Company uses a value which it has determined with due care and diligence.

#### 2.4. Taxation

Income tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and double taxation treaties entered into with countries in which the Fund operates through the purchase and sale of securities and other financial assets, based upon the profit reported in the profit and loss account prepared under Czech Accounting Standards. Under applicable tax regulations, the corporate income tax rate applicable to mutual funds for the period ended 31 December 2004 is 5 percent.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the tax asset or liability will be realised.

The principal temporary differences arise from tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

#### 2.5. Sale and Repurchase Agreements

Securities lent and provided under repurchase transactions are recognised in stand-alone subledger accounts within ledger accounts where they were recorded prior to their being lent or provided under repurchase transactions. The Fund continues to value these securities on the same basis used previously.

Securities borrowed or received under reverse repurchase transactions are stated at fair value in off balance sheet accounts. In selling these securities, the Fund incurs a commitment from a short sale. The Fund remeasures these commitments to fair value over the period from the short sale trade date to the repurchase trade date.

#### 2.6. Derivative Financial Instruments and Hedging

In the normal course of business, the Fund enters into hedging contracts for derivative financial instruments which represent a very low initial investment. The derivative financial instruments used include currency forwards. These financial instruments are used by the Fund to hedge foreign currency exposures associated with its transactions in the financial markets and the composition of its portfolio.

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

- (a) The Company has developed a risk management strategy;
- (b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective; and
- (c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as hedges and that prove to be highly effective in relation to the hedged risk, are retained in the balance sheet line *Gains or losses from revaluation*. The balances recognised in the balance sheet are taken to the profit and loss account and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss account.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are retained in the balance sheet line *Gains or losses from revaluation* in compliance with the Czech Finance Ministry Regulation No. 501/2002 Coll., as amended. The balances recognised in the balance sheet are taken to the profit and loss account line *Gains or losses from derivative transactions* at settlement of the relevant instrument.

Certain derivatives are embedded in compound financial instruments which comprise the host instrument and the derivative. Pursuant to Section 29 of the Czech Finance Ministry Regulation No. 501/1992, as amended, the Company recognises changes in assets and liabilities ensuing from changes in the exchange rate or cost of securities, or changes of foreign exchange rates through *Gains or losses from revaluation*.

Changes in the fair value of derivatives that do not qualify for recognition under hedge accounting rules are recognised in the profit and loss account line *Gains or losses from derivative transactions*.

#### 2.7. Provisions against Receivables

According to the principle of prudence, the Fund recognises full provisions against outstanding receivables arising from unpaid claims for income from securities. The Fund recorded no provisions in its statutory books for the period ended 31 December 2004.

#### 2.8. Corrections Related to Previous Reporting Periods

Corrections to the expenses and income of previous reporting periods are recognised as income or expenses in the profit and loss account in the current period unless the corrections are significant.

#### 2.9. Regulatory Requirements

Investment companies and mutual funds administered by them are subject to regulation and oversight by the Securities Commission. Pursuant to the Investment Companies and Investment Funds Act, and the Collective Investing Act effective since 1 May 2004, the depositary, Komerční banka, a.s., oversees the Fund's compliance with the Acts.

#### 2.10. New Accounting Pronouncements in 2004

No changes were made during the period ended 31 December 2004.

### 3. Specific Developments Impacting the Fund's Operations for the Period Ended 31 December 2004

No such developments were experienced during the period ended 31 December 2004.

## 4. Financial Instruments

#### 4.1. Market Risks

The investment profile and investment policy specified in the Statute describe the Fund as having passive management and clearly defined expected results at its liquidation date. At the inception of the Fund, a structure was developed to eliminate, as far as possible, undesired market risks (foreign exchange, credit, interest rate) and to support achievement of the envisaged state of affairs at the Fund's liquidation date. The weekly determination of the value of the participation certificate is accompanied by a review of the investment strategy for compliance.

#### 4.2. Credit Risk

In accordance with the Statute and investment strategies, the Company establishes rules and policies of selecting investment instruments such that the overall credit risk profile of allocated investments is consistent with the characteristics of the Fund. New types of instruments are approved on a case by case basis by the Investment Committee or the risk management function together with the specification of maximum limits and funds for which the investments are intended.

In the year ended 31 December 2003, the Company put in place a system for all the funds under which approved credit limits are assessed on a daily basis both in terms of issuers of investment instruments, and counterparties to the transactions negotiated by the Company's funds. Compliance with the approved credit limit is assessed on a daily basis in respect of each fund and each possible partner (issue, counterparty).

#### 4.3. Foreign Currency Risk

The Fund's foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund.



## 5. Amounts Due from Banks

The Fund places funding, which is not currently being used in undertaking transactions with securities, on term deposits with banks. Term deposits are typically negotiated for a period of one day.

CZK thousand	2004
Current accounts with banks	49
Term deposits with banks	8,201
<b>Total amounts due from banks</b>	<b>8,250</b>

Set out below is a summary of term deposits as of 31 December 2004:

Name of the bank	Placement term	Interest (%)	Total interest (CZK)	Interest at 31 December 2004 (CZK)	Amount of term deposit (CZK thousand)
KB – CZK	30 December 2004 – 3 January 2005	2.23	2,031	1,015	8,201
<b>Total term deposits</b>			<b>2,031</b>	<b>1,015</b>	<b>8,201</b>

## 6. Securities

Securities, at fair value, comprise:

CZK thousand	Fair value 2004	Net cost 2004
Fixed income debt securities	438,737	428,094
Variable yield debt securities	0	0
Debt securities	438,737	428,094
<b>Total securities</b>	<b>438,737</b>	<b>428,094</b>
of which: Interest income	106	0
of which: Revaluation gains or losses	(1,241)	0

Debt securities, at fair value, comprise:

CZK thousand	2004
Local debt securities	0
Foreign debt securities	438,737
<b>Fixed income debt securities</b>	<b>438,737</b>
Local debt securities	0
Foreign debt securities	0
<b>Variable yield debt securities</b>	<b>0</b>
<b>Total debt securities</b>	<b>438,737</b>

Debt securities, at fair value and split by issuer, comprise:

CZK thousand	2004
State institutions abroad	438,737
<b>Total debt securities</b>	<b>438,737</b>

## 7. Other Assets

Other assets comprise:

CZK thousand	2004
Positive fair value of financial derivatives	1,405
Options	21,506
<b>Total other assets</b>	<b>22,911</b>

## 8. Other Liabilities

Other liabilities comprise:

CZK thousand	2004
Other creditors	5
Amounts owed to shareholders	520
Discount/overcharge on trading with participation certificates	4,358
Estimated payables	455
<b>Total other liabilities</b>	<b>5,338</b>

## 9. Capital Funds

The Fund's capital recorded in "Capital funds" consists of 465,171,494 participation certificates with a nominal value of CZK 1 each.

The value of the participation certificates held by the Fund for the purposes of issuing and reselling the Fund's participation certificates is determined on the basis of the Fund's equity. As such, the value of participation certificates held by the Fund is derived on the basis of the value of one participation certificate as a multiple of the nominal value of the participation certificate and the value of one shareholding. The difference between the nominal value of a participation certificate and its market value represents share premium.

The Fund was established for a fixed period and will be liquidated on 28 December 2009. The Statute provides guidance on the determination of the future value of the invested amount ensuing from the selected investment strategy.

CZK thousand	Capital funds Nominal value of participation certificates	Share premium	Total
Opening balance	0	0	0
Issued in 2004	465,181	308	465,489
Purchased in 2004	10	0	10
<b>Balance at 31 December 2004</b>	<b>465,171</b>	<b>308</b>	<b>465,479</b>

Allocation of profit:

In the period ended 31 December 2004, the Fund generated profit of CZK 286 thousand.

## 10. Gains or Losses from Revaluation

CZK thousand	2004
Foreign debt securities	(1,241)
Interest rate contracts	1,231
Option contracts	581
<b>Total gains or losses from revaluation</b>	<b>571</b>

## 11. Net Interest Income

CZK thousand	2004
Interest on debt securities	106
Interest on current accounts and term deposits	664
Interest on swap transactions	174
<b>Total interest income</b>	<b>944</b>
<b>Total interest expense</b>	<b>0</b>
<b>Total net interest income</b>	<b>944</b>

## 12. Net Fee and Commission Income

CZK thousand	2004
Other commissions	1
<b>Total fee and commission income</b>	<b>1</b>
Fee for fund administration	501
Fee to the depositary	28
Fee for other KB services	30
Other fees	2
<b>Total fee and commission expenses</b>	<b>561</b>
<b>Total net fee and commission income</b>	<b>(560)</b>

## 13. Net Profit/(Loss) on Financial Operations

CZK thousand	2004
Profit/(loss) on foreign exchange transactions	(1,869)
<b>Total profit/(loss) on financial operations</b>	<b>(1,869)</b>

## 14. Administrative Expenses

CZK thousand	2004
Other taxes and fees	5
<b>Total administrative expenses</b>	<b>5</b>

15. Income Tax

Principal components of income taxes are as follows:

CZK thousand	2004
Due tax	0
Deferred tax	0
Total income tax	0

Set out below is an analysis of the due taxes:

CZK thousand	2004
Profit before tax	(1,490)
Items increasing taxable profit	0
Items decreasing taxable profit	0
Tax base	(1,490)
General tax credit	0
Adjusted tax base	0
Tax on the tax base	0

Deferred taxation comprises:

CZK thousand	2004
Deferred income tax asset	
Tax losses	1,490
Total deferred tax asset	75
Deferred tax liability	0
Reduction due to the uncertainty regarding the realisation of the deferred tax asset	75
Net deferred tax	0

16. Financial Derivative Instruments

Financial derivative instruments comprise:

CZK thousand	Notional value	
	2004 Assets	2004 Liabilities
Options	464,991	464,991
Interest swaps	464,991	464,991
Interest instruments	929,982	929,982
Total financial derivatives	929,982	929,982

Pursuant to the relevant accounting principles, the Fund does not remeasure the notional value of its assets and liabilities recognised off balance sheet.

CZK thousand	Fair value	
	2004 positive	2004 negative
Options	21,506	0
Interest swaps	1,405	0
Interest instruments	22,911	0
Total financial derivative instruments	22,911	0

Financial derivatives at nominal values according to remaining maturity:

CZK thousand	Less than 1 year	1 to 5 years	Over 5 years	Total
Options	0	464,991	0	464,991
Interest swaps	0	464,991	0	464,991
<b>Financial derivative instruments</b>	<b>0</b>	<b>929,982</b>	<b>0</b>	<b>929,982</b>

## 17. Related Party Transactions and Balances

CZK thousand	2004
Investiční kapitálová společnost KB, a.s.	4,363

The Fund's expenses include fees for the Fund's management payable to the Company in the aggregate amount of CZK 501 thousand, and the depository and other service fees totalling CZK 58 thousand paid to Komerční banka, a.s.

## 18. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Fund's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "Maturity undefined" category.

[illegible]

## 19. Liquidity Risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the “maturity undefined” category.

CZK thousand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Amounts due from banks	8,201	0	0	0	49	8,250
Debt securities	0	0	292,551	146,186	0	438,737
Other assets	0	0	0	0	22,911	22,911
<b>Total assets</b>	<b>8,201</b>	<b>0</b>	<b>292,551</b>	<b>146,186</b>	<b>22,960</b>	<b>469,898</b>
Other liabilities	5,338	0	0	0	0	5,338
<b>Total liabilities</b>	<b>5,338</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,338</b>
<b>Net on balance sheet interest rate exposure</b>	<b>2,863</b>	<b>0</b>	<b>292,551</b>	<b>146,186</b>	<b>22,960</b>	<b>464,560</b>
Off balance sheet assets	0	0	929,982	0	0	929,982
Off balance sheet liabilities	0	0	929,982	0	0	929,982
<b>Net off balance sheet interest rate exposure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 20. Foreign Currency Position

The Fund’s foreign currency exposures are assessed on a daily basis by establishing the current foreign currency risk of the Fund with a 95 percent confidence level. The model reflects correlations in respect of individual currencies. The resulting foreign currency risk is compared to the approved maximum limit established by the Investment Committee for each fund. Set out below is a summary of assets and liabilities by principal currency:

CZK thousand	CZK	EUR	Total
Amounts due from banks	8,250	0	8,250
Debt securities	0	438,737	438,737
Other assets	22,911	0	22,911
<b>Total assets</b>	<b>31,161</b>	<b>438,737</b>	<b>469,898</b>
Other liabilities	5,338	0	5,338
<b>Total liabilities</b>	<b>5,338</b>	<b>0</b>	<b>5,338</b>
<b>Net on balance sheet interest rate exposure</b>	<b>25,823</b>	<b>438,737</b>	<b>464,560</b>
Off balance sheet assets	929,982	0	929,982
Off balance sheet liabilities	929,982	0	929,982
<b>Net off balance sheet interest rate exposure</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 21. Contingent Assets and Liabilities

The Fund carried no contingent assets or liabilities as of 31 December 2004.

## 22. Compliance with Section 24 (1) to (5) of Act 248/1992 Coll.

During the period ended 31 December 2004, the Fund breached no regulatory limits.

## 23. Significant Post Balance Sheet Events

Subsequent to the balance sheet date, no significant events occurred affecting the assessment of the Fund’s financial, equity or income position.

# [ Report on Relations Among Related Entities for the year ended 31 December 2004

(hereinafter referred to as “Report on Relations”)

Investiční kapitálová společnost KB, a. s. with registered office: Praha 1, Dlouhá 34/713, 110 15, Corporate ID No.: 60196769, incorporated in the Business Register kept by the Municipal Court in Prague under Section B, File 2524, (hereinafter referred to as the “Company”), is part and parcel of an entrepreneurial association (concern), in which the following relations exist between the Company and the controlling entity, and further on among the Company and the entities controlled by the same controlling entity (hereinafter referred to as “Related Entities”).

This Report on Relations among the hereunder-stated entities was prepared in compliance with the provision of Section 66a (9) of Act No. 513/1991 Coll., of the Commercial Code as amended, for the year ended December 31, 2004, i.e. from January 1, 2004 to December 31, 2004 (hereinafter referred to as the “Reporting Period”).

## I. Introduction

In the period covering January 1 to December 31, 2004 the Company was part and parcel of the Société Générale S. A. Group, having its registered office address at 29, BLD Hausmann, 75009 Paris, France, Corporate ID No. in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter referred to as “SG” or “SG Paris”).

During the Reporting Period, the Company maintained relations with the following related entities in addition to Société Générale S.A.:

Company	Registered office address	SG’s share in the voting rights of the Company
Komerční banka, a.s.	Praha 1, Na Příkopě 33, čp. 969, PSČ 114 07, Czech Republic	60.35%
Penzijní fond Komerční banky, a.s.	Praha 2, Lucemburská 1170/7, Czech Republic	60.35%
Société Générale Asset Management S.A.	2 Place de la Coupole, 92400 Courbevoie, France	100.00%

II. Arrangements with Related Entities

A. Agreements and Contracts with the Controlling Entity and Other Related Entities

I. Agreements and Contracts Concluded during the Reporting Period

Type of Agreement (or subject of the agreement, if not contained in its title)	Contractual Party	Company Commitment Undertaken	Services Delivered	Damage Incurred by the Company
Contract on Fixed Technical Rules and Business Terms and Conditions for Automatic “Overnight Deposits” with individual interest rate, including Amendment No. 1	Komerční banka, a.s.	Contractual fee	Setting technical rules and business terms and conditions for receiving and managing term accounts with overnight automatic transfer of excess current account balance, interest	None
Contract on transfers from current accounts	Komerční banka, a.s.	Contractual fee	Automatic transfers of excess current account balance, interest	None
Framework Agreement on Service Settlement, including Amendment No. 1 and 2	Komerční banka, a.s.	Contractual fee	Providing depositary services, other services	None
Agreements on Performing Depositary Activities (for individual funds)	Komerční banka, a.s.	Contractual fee	Providing depositary services	None
Agreement on the Arrangement of Relations Among the Investment company, Depositary and Custodian	Komerční banka, a.s.	None	Arrangement of mutual relations	None
License Agreement	Komerční banka, a.s.	Money commitment	Trademark use	None
Agreement on Direct Banking Use	Komerční banka, a.s.	KB tariff fee and contractual fees	Use of direct banking, Profibanka, moje banka, direct IKS channel	None
Agreement on Service Provision in the system of short-term bonds, including Amendment No.1	Komerční banka, a.s.	KB tariff fee and contractual fees	Services related to short-term bond trading	None
Agreement on Custody Provision for MAX – světový garantovaný fond	Komerční banka, a.s.	Depositary fee component	Provision and management of foreign equity	None
Agreement on Custody Provision for MAX 2 – světový zajištěný fond	Komerční banka, a.s.	Depositary fee component	Provision and management of foreign securities	None
Guarantee Agreement	Société Générale S.A., 29 BLD Hausmann – 75009, Paris, France shareholders in the	None	Guarantee for the deposits of MAX garantovaný fund	None
Sub-management Agreement on Partial Management of the MAX garantovaný Fund	Société Générale Asset Management S.A.	Contractual fee	Cooperation in managing the fund	None
Master Agreement (ISDA)	Société Générale S.A.	Contractual fee	Derivatives trading	None
Agreement on Provision of Purchase or Sale of Equities – Amendment No. 2	Komerční banka, a.s.	Contractual fee	Provision of purchase or sale of equities	None
Treasury Framework Agreement – Amendment No. 2	Komerční banka, a.s.	Contractual fee	Derivatives trading	None



**II. Commitments Undertaken and Services Provided over the Reporting Period and Ensuing from Agreements  
Concluded in Previous Reporting Periods**

<b>Type of Agreement (or subject of the agreement, if not contained in its title)</b>	<b>Contractual Party</b>	<b>Company Commitment Undertaken</b>	<b>Services Delivered</b>	<b>Damage Incurred by the Company</b>
Agreement on Opening and Keeping a CZK Current Account with Komerční banka	Komerční banka, a.s.	KB tariff fees	Opening and keeping a current account with the ensuing interest	None
Agreement on Opening and Keeping a CZK Current Account with Komerční banka – Social Fund	Komerční banka, a.s.	KB tariff fees	Opening and keeping a current account with the ensuing interest	None
Agreements on Current Accounts in CZK and Other Currencies (Funds)	Komerční banka, a.s.	KB tariff fees	Keeping a current account with the ensuing interest	None
Agreements on Opening and Keeping Accounts in CZK and Other Currencies	Komerční banka, a.s.	KB tariff fees	Opening and keeping accounts with the ensuing interest	None
Contract on Fixed Technical Rules and Business Terms and Conditions for CZK Short-Term Deposits	Komerční banka, a.s.	KB tariff fees	Setting technical rules and business terms and conditions for short-term deposits	None
Mandate Agreement on the Sale of IKS KB, a.s. Products, including Amendment No. 1-3	Komerční banka, a.s.	Contractual fee	Sale brokerage of IKS KB, a.s. fund shares through the KB, a.s. branch network	None
Mandate Agreement on Securing the Transfer of Shares within the IKS Family of Funds, including Amendment No. 1 and 2"	Komerční banka, a.s.	Contractual fee	Share book-entering	None
Framework Agreement on Securing Money Receivables Backed by Securities, including the Amendment	Komerční banka, a.s.	Contractual fee	Concluding business deals, option deals	None
Depository Framework Agreement (for IKS)	Komerční banka, a.s.	Contractual fee	Holding the Office of Depositary	None
Depository Agreement (for Individual Funds)	Komerční banka, a.s.	Contractual fee	Holding the Office of Depositary	None
Framework Agreement on the Purchase and Sale of Foreign Equities, including Amendment No. 1-6	Komerční banka, a.s.	Contractual fee	Purchase and sale of foreign equities	None
Agreement on Provision of Purchase or Sale of Equities, including Amendment No. 1	Komerční banka, a.s.	Contractual fee	Provision of purchase or sale of equities	None
Treasury Framework Agreement including Amendment No. 1	Komerční banka, a.s.	Contractual fee	Derivatives trading	None
Asset Management Agreement	Penzijní fond KB, a.s.	Contractual fee	Asset management (commitment undertaken)	None
Contract on Operation Termination of the License Agreement and of the Price Agreement	Komerční banka, a.s.	Contractual fee	Terminating the use of the old trademark	None
Agreement on Personal Data Processing, including Amendment No. 1	Komerční banka, a.s.	None	Personal data processing by the manager in the spheres of particular business	None
Subcontract on Mutual Cooperation in Phone Banking with the KB Phone Center in Liberec	Komerční banka, a.s.	Contractual fee	Providing call center services	None
Agreement on Office Space Lease	Komerční banka, a.s.	Contractual fee (commitment undertaken)	Office space lease, including use of phone lines	None
Investment Sub-management Agreement – Contract on Cooperation in Managing the IKS Fond fondů	Société Générale Asset Management S.A.	Contractual fee	Consultancy service provision	None
Investment Advice Agreement – Agreement on Consultancy in Managing the IKS Globální Fund, including Amendment No. 1 and 2	Société Générale Asset Management S.A.	Contractual fee	Consultancy service provision	None

B. Other Legal Acts Undertaken by the Company in the Interest of the Controlling Entity and the Other Related Entities

In the course of the Reporting Period the Company paid Komerční banka, a. s., dividends amounting to CZK 187,000,000.

C. Measures Adopted or Undertaken by the Company in the Interest of or on the Strength of the Controlling Entity and the Other Related Entities

During the Reporting period the Company did not adopt or implement any measures in the interest of or on the strength of the Related Entities.

III. Conclusion

The Board of Directors of the Company checked up all relations between the Company and the Related Entities over the Y2004 Reporting Period and states that the Company did not incur any loss in consequence of the agreements concluded, other legal acts implemented or other measures adopted by the Company.

Prague, 4 March 2005



**Pavel Pršala**  
Chairman of the Board of Directors



**Jan Drápal**  
Member of the Board of Directors

**Investiční kapitálová společnost KB, a.s.**

Dlouhá 34, 110 15 Praha 1

phone: +420 224 008 111

fax: +420 222 321 161

bezplatná informační linka: 800 111 166

e-mail: [info@iks-kb.cz](mailto:info@iks-kb.cz)

internet: [www.iks-kb.cz](http://www.iks-kb.cz)



< ]