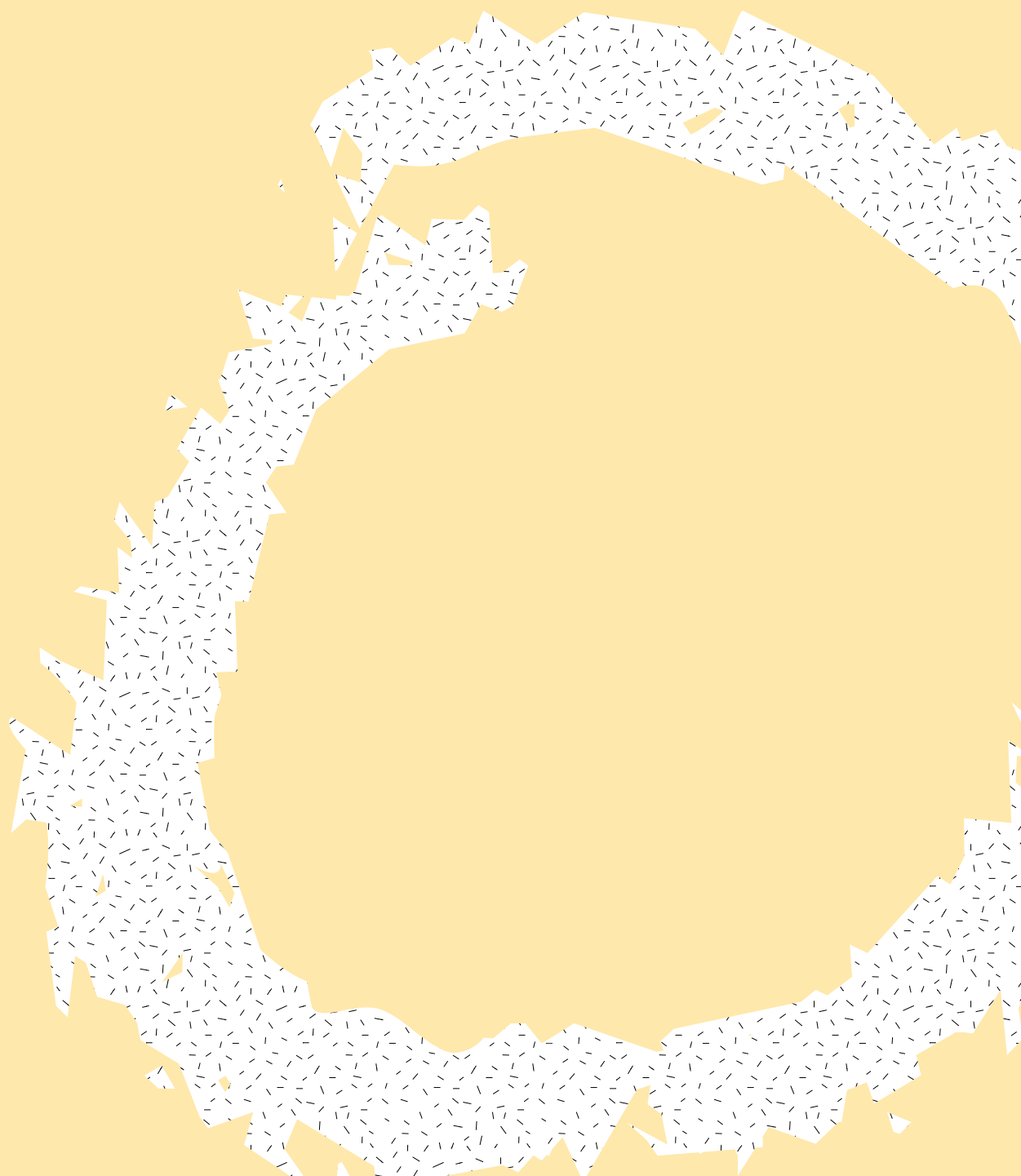


FINANCIAL STATEMENTS II

**Consolidated results
according to International Accounting Standards**



Independent Auditor's Report to the Shareholders of Česká spořitelna, a.s.

We have audited the accompanying consolidated balance sheets of Česká spořitelna, a.s. as at 31 December 1999 and 1998, and the related consolidated statements of profit and loss, changes in equity and the cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Česká spořitelna, a.s. as at 31 December 1999 and 1998, and the results of its operations, changes in equity and cash flows for the years then ended in accordance with International Accounting Standards.

Prague, 2 May 2000

KPMG Česká republika Audit
KPMG Česká republika Audit, spol. s r.o.

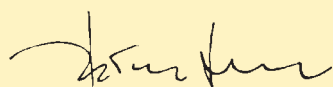
Consolidated Balance Sheet as at 31 December 1999

MCZK

	Notes	1999	1998
ASSETS			
Cash and balances with the CNB	5	19,764	32,756
Treasury bills		38,476	34,567
Loans and advances to credit institutions	6	132,812	103,483
Trading securities	7	31,387	35,179
Loans and advances to customers	8	104,479	146,584
Investment securities	11	15,057	12,866
Property and equipment	12	17,977	19,756
Deferred tax assets	13	4,302	6,316
Other assets	14	13,614	15,865
TOTAL ASSETS		377,868	407,372
LIABILITIES AND SHAREHOLDERS' FUNDS			
Amounts owed to credit institutions	15	10,877	27,442
Amounts owed to customers	16	317,358	330,536
Bonds in issue	17	5,165	5,165
Subordinated debt	18	5,500	5,500
Other liabilities	19	10,228	10,615
Provisions for liabilities and charges	20	5,323	6,176
Deferred tax liabilities	13	27	72
Total liabilities		354,478	385,506
Shareholders' funds			
Share capital	21	15,200	7,600
Retained earnings and reserves		7,644	13,866
Shareholders' Funds attributable to Shareholders of the Bank		22,844	21,466
Minority interests in controlled companies		546	400
Total Shareholders' funds		23,390	21,866
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		377,868	407,372

The accompanying notes are an integral part of these financial statements.

These consolidated financial statements were approved by the Board of Directors of the Bank on 2 May 2000 and signed on its behalf by.



Dušan BARAN
Chairman of the Board and
Chief Executive Officer

Consolidated Profit and Loss Account for the Year ended 31 December 1999

MCZK

	Notes	1999	1998
Interest income	22	30,339	42,889
Interest expense	23	(16,150)	(26,132)
Net interest income		14,189	16,757
Dividend income		4	83
Fee and commission income		4,811	3,827
Fee and commission expense		(575)	(733)
Net profit on financial operations	24	1,255	924
Net profit/(loss) from associates		662	(425)
Other operating income	25	3,765	2,284
Non-interest income		9,922	5,960
General administrative expenses	27	(13,574)	(13,706)
Other operating expenses	28	(4,527)	(2,393)
Provision for credit losses	9	(9,939)	(12,558)
Operating expenses		(28,040)	(28,657)
Loss before taxes and minority interest		(3,929)	(5,940)
Income tax (expense)/benefit	29	(2,111)	1,996
Net loss after taxes and before minority interest		(6,040)	(3,944)
Minority interest in net income of controlled companies		(182)	(214)
Retained loss for the year		(6,222)	(4,158)
Basic and diluted loss per share (CZK)	30	(71.80)	(64.18)

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity for the Year ended 31 December 1999

MCZK

	Notes	Retained earnings	Statutory reserve fund	Share premium	General reserves	Share capital	Total
At 1 January 1998 as previously reported		8,024	6,690	4,115	–	7,600	26,429
Adjustment to deferred tax	13	(805)	–	–	–	–	(805)
Restated opening balance		7,219	6,690	4,115	–	7,600	25,624
Transfer to reserve funds		(1,169)	1,169	–	–	–	–
Loss for the year		(4,158)	–	–	–	–	(4,158)
At 31 December 1998		1,892	7,859	4,115	–	7,600	21,466
Shares issued	21	–	–	–	–	7,600	7,600
Transfer (from)/to reserve funds		6,585	(2,543)	(4,115)	73	–	–
Loss for the year		(6,222)	–	–	–	–	(6,222)
At 31 December 1999		2,255	5,316	–	73	15,200	22,844

The accompanying notes are an integral part of these financial statements.

Statutory reserve fund

The statutory reserve fund comprises funds the Group is required to retain according to current legislation. Use of the statutory reserve fund is limited by legislation and the articles of the Bank and is not readily available for distribution to the shareholders.

General reserves

General reserves comprise funds that have been set aside by one of the subsidiaries in the Group for general banking risks. These amounts are in addition to provisions for losses on loans and advances which have been specifically identified and potential losses which may be present in the portfolio but have not yet been specifically identified.

Consolidated Statement of Cash Flows for the Year ended 31 December 1999

MCZK

	Notes	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss on ordinary activities before taxation		(3,929)	(5,940)
<i>Adjustments for:</i>			
Provision for credit losses (net of write-offs)		(4,668)	4,790
Depreciation and amortisation		3,107	3,388
Net (profit)/loss from associates		(662)	425
Net (profit)/loss on sale of tangible fixed assets		(6)	9
Net (profit)/loss on sale of investment securities		396	(54)
Non cash adjustments to investments		(24)	(83)
Operating (loss)/profit before changes in operating assets and liabilities		(5,786)	2,535
(Increase)/decrease in operating assets			
Treasury bills		8,398	(17,734)
Reserve deposit with CNB		17,178	(5,070)
Loans and advances to credit institutions		(30,271)	(6,381)
Trading securities		3,792	(355)
Loans and advances to customers		45,693	21,690
Other assets		3,969	(1,321)
Increase/(decrease) in operating liabilities			
Amounts owed to credit institutions		(16,575)	(3,256)
Amounts owed to customers		(13,178)	15,483
Other liabilities		(432)	(748)
Provisions for liabilities and charges		(715)	319
Net cash from operating activities before income tax		12,073	5,162
Income taxes paid		(292)	(216)
Net cash provided by operations		11,781	4,946
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (increase)/decrease in investments		(2,191)	241
Purchase of property and equipment		(1,559)	(2,592)
Proceeds from sale of property and equipment		143	209
Net cash used in investing activities		(3,607)	(2,142)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares issued		7,600	–
Dividends paid		(220)	(111)
Increase in minority interests		–	50
Bonds in issue		–	165
Subordinated debt		–	5,500
Net cash provided by financing activities		7,380	5,604
Net increase in cash and cash equivalents		15,554	8,408
Cash and cash equivalents at beginning of year		24,415	16,007
Cash and cash equivalents at end of year	31	39,969	24,415

The accompanying notes are an integral part of these financial statements.

1. INTRODUCTION

Česká spořitelna, a.s. ("the Bank", "ČS") is the legal successor of the Czech State Savings Bank and was founded as a joint-stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services in the territory of the Czech Republic.

The activities of the Bank are as follows:

- acceptance of deposits from the general public;
- extension of credit;
- mortgage banking;
- securities activities on its own or client's behalf;
- payments and clearing;
- payment facility issuance;
- underwriting;
- letter of credit issuance;
- collection services;
- participation in the issuance of shares and provision of related financial services;
- financial brokerage;
- provision of consulting services on business matters;
- security portfolio management (via its subsidiary Spořitelni investiční společnost, a.s.);
- safekeeping and administration of securities and other assets;
- depositary for investment funds;
- foreign exchange services; and
- rental of safe-deposit boxes.

The Bank provides the following additional services through its subsidiaries:

- funds management;
- building society savings;
- insurance;
- financial leasing;
- real estate activities; and
- consulting services.

2. BASIS OF PREPARATION

These consolidated financial statements comprise the accounts of the Bank and its controlled companies (together "the Group") which have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee. All figures are in millions of Czech Crowns (MCZK), unless stated otherwise.

The consolidated financial statements have been prepared under the historical cost convention modified by the revaluation of certain trading assets and liabilities to fair value.

The accounting policies have been consistently applied by the entities in the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Principles of consolidation

The consolidated financial statements present the accounts and results of the Bank and, to the extent that they are material to the Group as a whole, of its controlled and associated companies. An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50% of its registered capital or in which the Bank can exercise more than 50% of the voting rights or otherwise has power to exercise control over operations. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

All intercompany balances and transactions, including unrealised intercompany profits are eliminated on consolidation. Outside interests in the equity and results of companies that are controlled by the Bank are shown as a separate item in the consolidated financial statements.

Material associates are accounted for under the equity method of accounting. An investment in an associate is one in which the Bank holds, directly or indirectly, 20% to 50% of its registered capital and over which the Bank exercises significant influence, but which it does not control.

Subsidiaries and associates whose results, equity and financial position are, in aggregate, not material to the financial statements are accounted for at acquisition cost less provision for any permanent diminution in value and included in investment securities.

(b) Loans and advances and provisions for credit losses

Loans and advances are carried at the amount of principal and accrued interest and fees outstanding, net of provisions for credit losses and interest on non-performing loans (refer Note 3(h)).

Provisions for losses represent management's assessment of potential losses in relation to the Group's on and off balance sheet activities. Amounts are set aside to cover credit losses that have been specifically identified and for potential losses which experience indicates are present in the portfolio but have not yet been specifically identified. The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the profit and loss account, "Provision for credit losses".

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. A country risk provision is made in respect of aggregate exposures based on an overall assessment of underlying economic conditions in certain countries and is included in "Provision for credit losses" in the profit and loss account.

(c) Debt, equity securities and participating interests

Debt and equity securities held for trading purposes are included in the balance sheet at market value. Changes in the market values of such assets are recognised in the profit and loss account as "Net profit on financial operations". For debt and equity securities traded on the Prague Stock Exchange, market values are obtained from quoted prices. The market values of those securities not traded on the Prague Stock Exchange are estimated by the directors.

Debt and equity securities intended to be held on a continuing basis are classified as investment securities and are included in the balance sheet at cost less provision for permanent diminution in value. Participating interests include investments in non-consolidated subsidiaries, associates and other companies.

Where investment securities have been purchased at a premium or discount, these premiums or discounts are amortised through the profit and loss account over the period from the date of purchase to the date of maturity. These securities are included in the balance sheet adjusted for the amortisation of premiums and discounts arising on acquisition. The amortisation of premiums and discounts is included in "Interest income" or "Interest expense".

(d) Sale and repurchase agreements

Where debt or equity securities are sold under a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is recorded in "Amounts owed to credit institutions" or "Amounts owed to customers". Conversely, debt or equity securities purchased under a commitment to resell are not recognised in the balance sheet and the consideration paid is recorded in "Loans and advances to credit institutions" or "Loans and advances to customers".

(e) Property and equipment

Property and equipment is stated at historical cost and depreciated on a straight-line basis over its estimated useful lives as follows:

Buildings and construction	20 – 30 years
Electronic machines and equipment	6 – 12 years
Other equipment	4 – 12 years
Furniture	4 – 6 years
Leasehold improvements	Period of the lease

Leases of property and equipment under which the Group assumes substantially all the risks and rewards incidental to ownership (finance leases) are recognised in the balance sheet by recording an asset and liability equal to the present value of the minimum lease payments at the inception of the lease. Capitalised leased assets are depreciated in accordance with the depreciation policy noted above. The depreciation period is the estimated useful life of the asset, or the lease term if shorter. Lease liabilities are reduced by repayments of principal, whilst the finance charge component of the lease payment is charged directly to profit and loss.

(f) Accrued interest

Interest receivable and payable accrued on outstanding loan balances and on the majority of deposit products is included in the respective loan and deposit account balances.

(g) Foreign currency

Transactions denominated in foreign currencies are recorded in local currency at official exchange rates as announced by the Czech National Bank ("the CNB") on the date of transaction. Assets and liabilities denominated in foreign currencies are translated into local currency at the prevailing Czech National Bank exchange rate on the balance sheet date. Realised and unrealised gains and losses on foreign exchange are recognised in the profit and loss account in "Net profit on financial operations".

(h) Interest income and interest expense

Interest income and expense are recognised in the profit and loss statement when earned or incurred, on an accrual basis. Non-performing loans are those loans which have overdue interest and/or principal, or for which management otherwise believes the contractual interest or principal due will not be collected. During 1998, interest on non-performing loans and advances was recorded as income and provisions for similar amounts were charged to "Provision for credit losses" in the profit and loss account. During 1999, interest on non-performing loans and advances has not been recorded.

(i) Finance lease income

Finance lease income is calculated under an effective interest method to provide a constant rate of return on the net investment in the leases.

(j) Insurance business

Insurance premiums are recognised in the accounting period in which they incept and are recorded in "Other operating income". Reserves are created for unearned premiums which relate to periods after the balance sheet date. Amounts in respect of insurance business are shown net of reinsurance.

(k) Pension business

Contributions of participants in pension funds are included in "Amounts owed to customers".

(l) Taxation

Tax on the profit or loss for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

(m) Derivative financial instruments

Derivatives include swaps, forwards and options. The Group uses various types of derivative instruments in both its trading and hedging activities.

Derivative instruments entered into for trading purposes or to hedge trading positions are carried at fair value. Unrealised gains and losses are reported as "Other assets" and "Other liabilities". Realised and unrealised gains and losses are recognised in "Net profit on financial operations". Fair values for derivatives are based upon quoted market prices or pricing models which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Derivative instruments specifically designated for hedging purposes, mainly asset and liability management, are accounted for on the same basis as the underlying transactions they hedge.

(n) Earnings per share

Earnings per share has been calculated by dividing the net income applicable to ordinary shares by the weighted average number of ordinary shares outstanding during the year.

(o) Segment reporting

Segmental information is based on two segment formats. The primary format represents two business segments – banking and other operations. The secondary format represents the Group's geographical markets.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy. Unallocated items mainly comprise administrative expenses. Segment results are determined before any adjustments for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible fixed assets).

(p) Statement of Cash Flows

The Group considers cash, nostro account with the CNB, treasury bills with a residual maturity of 3 months or less, nostro accounts with credit institutions and vostro accounts with credit institutions to be cash equivalents. For the purposes of determining cash flows, the minimum reserve deposit with the CNB is not included as a cash equivalent due to restrictions on its availability.

(q) Reclassifications

Certain amounts in the 1998 consolidated financial statements have been reclassified to conform with 1999 presentation, including:

- Pensioners' contributions have been reclassified from "Other liabilities" to "Amounts owed to customers". As a result, "Amounts owed to customers" has increased by MCZK 3,352 (1998: MCZK 2,375) with a corresponding decrease in "Other liabilities". There has been no impact on current or prior year profit and loss as a result of this reclassification.
- Deferred tax assets and deferred tax liabilities have been reclassified from "Other assets" in the balance sheet. The deferred tax assets and deferred tax liabilities have been off-set when they relate to income taxes levied by the same taxation authority and there is a legally enforceable right to off-set current tax assets against current tax liabilities. As a result, deferred tax assets in 1998 total MCZK 6,316 (including adjustment to retained earnings) and deferred tax liabilities total MCZK 72.

4. COMPANIES INCLUDED IN CONSOLIDATION

The consolidated financial statements include the following subsidiaries:

Name of company	Registered office	Principal activities	Bank interest	Bank interest
			1999	1998
ČS-stavební spořitelna, a.s.	Prague	Building savings bank	60.5%	60.5%
Corfina, a.s.	Prague	Leasing	100%	100%
Spořitelní investiční společnost, a.s.	Prague	Investment management	100%	100%
ČS-Reality, a.s.	Prague	Real estate	5%	60%
ČS-Živnostenská pojišťovna, a.s.	Pardubice	Insurance	100%	100%
První česká zajišťovna, a.s.	Prague	Reinsurance	100%	100%
Sindat ČS Consulting, a.s.	Prague	Consulting	51%	51%
Spořitelní penzijní fond, a.s.	Prague	Pension fund	92%	92%
ČS-Informatika, a.s.	Prague	Data processing	100%	100%

(a) ČS-Reality, a.s.

During 1999, the Group sold its majority interest in ČS-Reality, a.s. The subsidiary contributed a loss of MCZK 78 to the consolidated net loss for the year ended 31 December 1998 and MCZK nil for the current year. As the company is no longer controlled, the Group's remaining participation has been classified as investment securities. Refer note 11.

(b) Spořitelní penzijní fond, a.s.

Up to 10% of the profits from the pension fund can be distributed to the shareholders and the shareholders incur the entire loss.

5. CASH AND BALANCES WITH THE CNB

MCZK	1999	1998
Cash on hand (Note 31)	12,890	9,476
Minimum reserve deposit with the CNB	5,921	23,099
Nostro account with the CNB (Note 31)	953	181
Total	19,764	32,756

Minimum reserve deposits represent mandatory non-interest bearing deposits calculated in accordance with regulations promulgated by the CNB, and whose withdrawal is restricted. The nostro balances represent balances with the CNB relating to settlement activity and were available for withdrawal at year end.

6. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

MCZK	1999	1998
Repayable on demand (Note 31)	1,122	2,051
Other loans and advances	132,021	101,750
	133,143	103,801
Less provision for credit losses (Note 9)	(331)	(318)
Total	132,812	103,483

Classified loans

The nominal value of loans classified as substandard, doubtful or loss, included in loans and advances to credit institutions, totalled MCZK 111 at 31 December 1999 (1998: MCZK 112). (refer Note 43)

7. TRADING SECURITIES

(a) Analysis by issuer

MCZK	1999	1998
Issued by public bodies		
debt securities	7,769	5,467
Issued by other issuers		
debt securities	21,971	28,642
equity securities	1,647	1,070
Total	31,387	35,179

(b) Analysis by market

MCZK	1999	1998
Debt securities		
listed on Prague Stock Exchange	27,626	28,387
unlisted	2,114	5,722
Equity securities		
listed on Prague Stock Exchange	841	1,060
unlisted	806	10
Total	31,387	35,179

As at 31 December 1999, all debt securities held by the Group (including those held in the investment portfolio) were issued by Czech entities except for MCZK 8,865 (1998: MCZK 8,230). Of this amount, MCZK 980 (1998: MCZK 1,586) are Russian and Ukrainian debt securities which are fully provided as at 31 December 1999 (1998: provisioned raised for MCZK 1,408).

8. LOANS AND ADVANCES TO CUSTOMERS

MCZK	1999	1998
Repayable on demand	394	108
Other loans and advances	123,816	169,795
	124,210	169,903
Less provision for credit losses (Note 9)	(19,731)	(23,319)
Total	104,479	146,584

Loans and advances to customers include net investment in finance leases (Note 10).

Classified loans

The nominal value of loans classified as substandard, doubtful or loss, included in loans and advances to customers, totalled MCZK 29,120 at 31 December 1999 (1998: MCZK 24,092). (refer Note 43)

9. PROVISIONS FOR CREDIT LOSSES

(a) Composition of provisions for credit losses

MCZK	1999	1998
Loans and advances to customers (Note 8)	19,731	23,319
Off-balance sheet credit risks (Note 20)	2,175	2,313
Loans and advances to credit institutions (Note 6)	331	318
General and business risk	89	60
Other assets	—	984
Total	22,326	26,994

(b) Movements in provisions for credit losses

MCZK	1999	1998
At 1 January	26,994	22,204
Charge against profits	9,939	12,558
Amounts written off	(14,607)	(7,768)
Total	22,326	26,994

10. FINANCE LEASES

MCZK	1999	1998
Gross investment in finance leases	5,117	5,194
Unearned income	(273)	(178)
Provisions for business risk	(89)	(40)
Net investment in finance leases (Note 8)	4,755	4,976

11. INVESTMENT SECURITIES

MCZK	1999	1998
Debt securities		
listed on Prague Stock Exchange	3,701	2,939
unlisted	5,990	5,266
Equity securities		
listed on Prague Stock Exchange	801	801
unlisted	137	149
Associates accounted for under the equity method		
listed on Prague Stock Exchange	739	3,663
unlisted – refer note 11 (c)	3,598	3
Non-consolidated subsidiaries		
unlisted	91	45
Total	15,057	12,866

All equity securities and participating interests held by the Group as at 31 December 1999 represented Czech entities except for MCZK 7 (1998: MCZK 17).

(a) Bankers Trust International

Included in investment securities as at 31 December 1999, are two zero coupon bonds issued by Bankers Trust International ("BTI") with a nominal value of MCZK 6,386 (1998: MCZK 6,648) yielding 4.77% per annum and maturing on 14 December 2000.

On 14 December 1995, the Group sold portions of its equity holdings in Spořitelní privatizační – Český investiční fond, a.s. ("CIFAS") and Spořitelní privatizační – Výnosový investiční fond, a.s. ("VIFAS") to BTI. BTI purchased 7,680,402 CIFAS shares and 7,735,456 VIFAS shares. During 1999, both funds were converted to open-end investment funds, SIS, a.s. – Český OPF ("COPF") and SIS, a.s. – Výnosový OPF ("VOPF") and the shares were converted to share certificates in the funds (3,240 million share certificates in COPF and 2,344 million share certificates in VOPF).

Due to the change in the conditions during 1999, the discount on the bonds has been amortised in income on a straight line basis, beginning 14 December 1995 (the issue date). The amortised discount of MCZK 1,120 has been recorded in "Interest income" in the profit and loss account in 1999.

The bonds were revalued during 1999 and the amortised purchase price was compared with the net asset value of the underlying securities. The aggregate unrealised loss on the bonds as at 31 December 1999 totalled MCZK 396 (1998: nil) and has been recorded in "Net profit on financial operations".

(b) VSFAS

Included in investment securities at 31 December 1999 is an investment totalling MCZK 801 (1998: MCZK 801) in the shares of the Spořitelní privatizační – Všeobecný investiční fond, a.s. ("VSFAS"), which represents 65.4% of VSFAS' total outstanding shares. VSFAS is not consolidated as it is management's intention to dispose of the shares or liquidate VSFAS by the year 2002.

(c) Associates accounted for under the equity method

Name of company	Registered office	Principal activities	Bank interest
SIS, a.s. – Český OPF	Prague	Open-end investment fund	30%
SIS, a.s. – Výnosový OPF	Prague	Open-end investment fund	25%
2. Spořitelní privatizační fond, a.s.	Prague	Investment fund	32%
ČS-Factoring, a.s.	Prague	Factoring	10%*

During the year, Český investiční fond, a.s. (now SIS, a.s. – Český OPF) and Výnosový investiční fond, a.s. (now SIS, a.s. – Výnosový OPF) were converted to open-end mutual funds. As a result, these funds are no longer listed on the Prague Stock Exchange as they were in 1998.

* Based on ČS-Factoring, a.s. by-laws, the Bank is able to exert significant influence over the company by having control of 20% of the voting rights of the company.

(d) Other

The following table provides details of the controlled companies of the Group whose accounts and results have not been consolidated in these financial statements as they are not considered material and would not influence the consolidated result or consolidated net assets of the Group. These companies are classified as investment securities and are stated at cost less any provision for permanent diminution in value.

Name of company	Registered office	Principal activities	Bank Interest
Ceska Sportelna – Finance, B.V.	Netherlands	Financial services	100%*
IC, s.r.o.	Prague	Recovery of debts	10%**

* On 19 May 1998, the Group established Ceska Sportelna – Finance, B.V. in the Netherlands, through which it intended to issue subordinated notes. For the years ended 31 December 1999 and 1998, the Group had not issued any notes through this company.

** Based on IC, s.r.o.'s Articles of Association, the Bank is able to exert control over the company by having control of 50% of the voting rights of the company.

12. PROPERTY AND EQUIPMENT

MCZK

	Land and buildings	Equipment fixtures and fittings	Assets under construction	Total
Cost				
At 1 January 1999	14,335	14,670	1,554	30,559
Net movement	643	546	(386)	803
At 31 December 1999	14,978	15,216	1,168	31,362
Accumulated depreciation				
At 1 January 1999	1,688	9,041	74	10,803
Net movement	547	2,107	(72)	2,582
At 31 December 1999	2,235	11,148	2	13,385
Net book value at 31 December 1999	12,743	4,068	1,166	17,977
Net book value at 31 December 1998	12,647	5,629	1,480	19,756

13. DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 31% (1998: 35%).

The movement on the deferred income tax account is as follows:

MCZK	1999	1998
Balance at beginning of year as previously reported	6,244	4,777
Adjustment	–	(805)
Balance at beginning of year as restated	6,244	3,972
Deferred tax (expense)/benefit relating to the origination and reversal of temporary differences	(931)	2,272
Deferred tax expense resulting from reduction in tax rate	(714)	–
Deferred tax expense resulting from write-down of deferred tax asset previously recognised	(324)	–
Balance at end of year	4,275	6,244

Prior to 1999, the Group did not calculate the tax written down values of property and equipment. During the year, the Group completed this process and determined that the deferred tax effect of accelerated tax depreciation amounted to a deferred tax liability of MCZK 805 as at 1 January 1998. The Group recorded the liability as a reduction of retained earnings as at that date.

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

MCZK	1999	1998
Deferred tax assets		
Provisions on loan losses	1,630	2,187
Other provisions	1,305	2,097
Tax losses carry forward	2,217	2,807
	5,152	7,091
Set off of tax	(850)	(775)
Total deferred tax assets	4,302	6,316
Deferred tax liabilities		
Accelerated tax depreciation	(779)	(847)
Other temporary differences	(98)	–
	(877)	(847)
Set off of tax	850	775
Total deferred tax liabilities	(27)	(72)
Net deferred tax asset	4,275	6,244

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit is probable. Management of the Group believe it is probable that the deferred income tax assets will be realised based upon the Group's expected future level of taxable profits except for MCZK 969 in 1999 and MCZK 104 in 1998. The expiration dates and amounts of the unrecognised tax losses carried forward are: 2000 – MCZK 90; 2002 – MCZK 419; 2003 – MCZK 538; 2004 – MCZK 295; and 2006 – MCZK 1,783.

The deferred tax (charge)/credit in the income statement comprises the movements on the following temporary differences:

MCZK	1999	1998
Provisions on loan losses	(557)	812
Other provisions	(792)	1,486
Tax losses carry forward	(590)	(238)
Accelerated tax depreciation	68	212
Other temporary differences	(98)	–
Total	(1,969)	2,272

14. OTHER ASSETS

MCZK	1999	1998
Other debtors	5,232	5,784
Accrued income	3,445	5,382
Intangible fixed assets	1,211	1,480
Receivable from state subsidy	1,745	1,249
Deferred expenses	627	665
Other	1,354	1,305
Total	13,614	15,865

The receivable from state subsidy of MCZK 1,745 (1998: MCZK 1,249) is for participants in the building savings program offered by the Bank's subsidiary ČS-stavební spořitelna, a.s. A subsidy is provided to the participants from the Ministry of Finance of the Czech Republic based on the amount of customer deposits at year end with a limit of CZK 4,500 per participant.

During 1996, the Group sold MCZK 2,456 of "Loans and advances to credit institutions and customers", which had a history of delinquency. The price for the ceded receivables was set in accordance with the expected return on the receivables and the remaining balance of receivables was written off. The outstanding amount of ceded receivables in 1998 totalled MCZK 2,292 million and was included in "Other debtors" in that year. During 1999, a significant amount of these receivables were transferred to Konsolidační banka Praha, s.p.ú. ("KoB") and the remainder has been reclassified and included in "Loans and advances to customers".

15. AMOUNTS OWED TO CREDIT INSTITUTIONS

MCZK	1999	1998
Repayable on demand (Note 31)	19	9
Other deposits	10,858	27,433
Total	10,877	27,442

16. AMOUNTS OWED TO CUSTOMERS

MCZK	1999	1998
Repayable on demand	107,151	103,429
Other deposits	210,207	227,107
Total	317,358	330,536
of which certificates of deposit represent	31	71

Customer Analysis:

MCZK	1999	1998
Individuals		
current accounts	74,926	73,694
term deposits	196,904	202,167
other	3,352	2,375
Corporates		
current accounts	21,573	19,828
term deposits	8,162	22,040
other	310	–
Government		
current accounts	10,652	9,907
term deposits	1,479	525
Total	317,358	330,536

17. BONDS IN ISSUE

Issue date	Maturity date	Interest rate	1999 (MCZK)	1998 (MCZK)
August 1998	August 2003	11.85%	165	165
February 1997	February 2002	10.75%	5,000	5,000
Total			5,165	5,165

18. SUBORDINATED DEBT

On 23 December 1998, the Group issued subordinated debt totalling MCZK 5,500. The subordinated debt is for a period of 10 years, with the option to repay the total amount, or part thereof, after 5 years subject to the CNB's approval. The interest payable is calculated based on 6 month PRIBOR + 1.8% for the first 5 years and 6 month PRIBOR + 3.7% for the remaining term. Interest is payable half yearly in arrears.

In the case of liquidation, bankruptcy or any other procedure to avoid bankruptcy, the claims resulting from this debt are subordinate to the claims of other creditors and rank in preference only to the rights of the preference and ordinary shareholders.

19. OTHER LIABILITIES

MCZK	1999	1998
Other creditors	4,395	4,491
Other liabilities to customers from state subsidy	1,690	1,249
Accrued expenses	907	1,759
Deferred income	419	414
Other	2,817	2,702
Total	10,228	10,615

20. PROVISIONS FOR LIABILITIES AND CHARGES

MCZK	1999	1998
Liabilities to social institutions and state	1,496	2,516
Provision for off-balance sheet credit risks (Note 9)	2,175	2,313
Insurance technical reserves	1,107	909
Provision for remuneration and social expenses	186	126
Provisions for tangible fixed assets maintenance	82	62
Other	277	250
Total	5,323	6,176

21. SHARE CAPITAL

Authorised, called up and fully paid share capital was as follows:

	Number of shares	1999 (MCZK)	Number of shares	1998 (MCZK)
Ordinary shares of CZK 100 each	140,788,787	14,079	64,788,787	6,479
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	152,000,000	15,200	76,000,000	7,600

On 10 March 1999, at an extraordinary shareholders' meeting of the Bank, an increase in registered capital of MCZK 7,600 was approved. The subscription process was held in three stages. In the first and second stages, only shareholders with existing subscription rights were allowed to subscribe, whilst the third stage was open to public investors. All newly issued shares were ordinary shares with a nominal value of CZK 100 each. The new subscription was fully paid and registered in the Business Register on 17 September 1999.

Preference shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profit making; the amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In case of liquidation, preference shareholders have a right to the assets of the Bank. Preference shareholders have a right to purchase shares offered by the Bank when it increases its basic capital in the same proportion as the current holding. Preference shares can be issued only to municipalities in the Czech republic.

In June 1996, 5,090,000 Global Depositary Receipts (GDRs), each representing one ordinary share of the Bank, were issued. The shares represented by the GDRs constituted 6.7% of the Bank's share capital. None of the proceeds of the GDR issue were received by the Bank. The GDRs are listed on the London Stock Exchange. Holders of the GDRs are entitled to receive the dividends on the underlying shares and can exchange the GDRs for the underlying shares. Holders of the GDRs are not the registered owners of the shares represented by the GDRs and have no voting rights. As at 31 December 1999, GDRs of 2,777,034 (1998: 1,180,469) were outstanding. This amount represents 1.8% (1998: 1.6%) of share capital.

22. INTEREST INCOME

MCZK	1999	1998
Loans and advances to customers	13,508	23,184
Loans and advances to credit institutions	10,712	13,716
Debt securities	6,119	5,989
Total	30,339	42,889

In accordance with the Group's accounting policy adopted in 1999, interest income on non-performing loans of MCZK 411 has not been recorded. In prior years, interest income on non-performing loans was recorded and a corresponding provision included in "Provision for credit losses". Information for these amounts is unavailable for periods prior to 1999.

23. INTEREST EXPENSE

MCZK	1999	1998
Amounts owed to customers	12,945	21,669
Amounts owed to credit institutions	2,486	3,173
Bonds in issue	719	1,290
Total	16,150	26,132

24. NET PROFIT ON FINANCIAL OPERATIONS

MCZK	1999	1998
Net gains on trading securities	714	204
Net foreign exchange gains	979	663
Net losses on investment securities	(396)	–
Other	(42)	57
Total	1,255	924

25. OTHER OPERATING INCOME

MCZK	1999	1998
Insurance premium income	1,285	949
Other – inclusive of out of court settlement	2,480	1,335
Total	3,765	2,284

26. SUPPORT OF THE MAJOR SHAREHOLDER

In accordance with a resolution of the Government of the Czech Republic made on 8 November 1999, the Group transferred to KoB selected doubtful and loss receivables totalling MCZK 32,714 as at 30 November 1999. The receivables were ceded for a contractual price of MCZK 19,885. The estimated net book value of the transferred receivables varied between MCZK 13,500 and MCZK 14,500 depending on the valuation of collateral.

On 27 December 1998, in accordance with a resolution of the Government of the Czech Republic, the Group transferred selected doubtful and loss receivables totalling MCZK 10,379 to KoB. The receivables were ceded for a contractual price of MCZK 6,499 which was determined as the nominal value of the loans, decreased by 50% of the provisions created (and those to be created) at the time of the transfer. The net positive effect of the transaction was MCZK 3,880 on the Group's result for the year.

27. GENERAL ADMINISTRATIVE EXPENSES

(a) Composition of general administrative expenses

MCZK	1999	1998
Staff costs:		
wages and salaries	3,945	3,691
social security costs	1,533	1,463
Depreciation and amortisation	3,107	3,388
Other administrative expenses:		
rent	1,030	778
telecommunications	347	561
repairs and maintenance	463	488
advisory services	337	472
materials	392	446
advertising and sponsorship	453	282
energy	236	240
building maintenance	205	183
fees and other taxes	118	124
other	1,408	1,590
Total	13,574	13,706

(b) Board of Directors and Supervisory Board emoluments

MCZK	1999	1998
Salaries	78	46
Bonuses	9	15
Total	87	61

(c) Average number of employees and Board members

The average number of employees and Board members of the Group during the year was as follows:

	1999	1998
Board of Directors	33	38
Supervisory Board	50	52
Employees	17,487	18,410
Total	17,570	18,500

28. OTHER OPERATING EXPENSES

MCZK	1999	1998
Insurance technical reserves	194	63
Insurance claims expenses	652	505
Other	3,681	1,825
Total	4,527	2,393

29. INCOME TAX

MCZK	1999	1998
Current tax expense	142	276
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	931	(2,272)
Deferred tax expense resulting from reduction in tax rate	714	–
Deferred tax expense resulting from write-down of deferred tax asset previously recognised	324	–
Total	2,111	(1,996)

The tax on loss on ordinary activities differs from the theoretical amount that would arise using the basic tax rate as follows:

MCZK	1999	1998
Loss/(profit) before tax	(3,929)	(5,940)
Prima facie tax calculated at a tax rate of 35% (1998: 35%)	(1,375)	(2,079)
Income not assessable for tax purposes	(806)	(1,397)
Expenses not deductible for tax purposes	2,614	1,389
Tax credits utilised	(67)	(13)
Effect of tax loss not recognised	865	104
Deferred tax resulting from reduction in tax rate	714	–
Other items	166	–
Total	2,111	(1,996)

30. LOSS PER SHARE

MCZK	1999	1998
Net loss applicable to ordinary shares	(6,222)	(4,158)
Weighted average shares outstanding	86,651,800	64,788,787
Basic and diluted loss per share (CZK)	(71.80)	(64.18)

31. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is composed of the following items:

MCZK	1999	1998
Cash on hand (Note 5)	12,890	9,476
Nostro account with the CNB (Note 5)	953	181
Treasury bills with maturity of less than three months	25,023	12,716
Nostro accounts with credit institutions (Note 6)	1,122	2,051
Vostro accounts with credit institutions (Note 15)	(19)	(9)
Total	39,969	24,415

32. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments may result in certain risks to the Group. The most significant risks facing the Group include:

(a) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions. In addition to monitoring limits, the Group also uses the "value at risk" concept for measuring its open foreign currency position, and for trading positions etc. The Group's net open foreign exchange position at 31 December 1999 is shown in Note 34.

(b) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group manages its interest rate risk through monitoring the repricing dates of the Group's assets and liabilities and developing models showing the potential impact that changes in interest rates may have on the Group's net interest income. (refer Note 35)

(c) Credit risk

Credit risk relates to the ability of the Group's counterparties to meet their obligations. The Group's credit risk exposure is managed by entering contracts with approved counterparties under specific credit limits. The Group regularly monitors its limits with, and exposures to, individual counterparties and countries. (also refer Note 36)

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Group's liquidity position is monitored and managed based on expected cash inflows and outflows and adjusting interbank deposits and placements accordingly. (refer Note 37 for an analysis of the Group's balance sheet)

In addition to the risks noted here, the Group also deals in derivative financial instruments which are discussed in more detail in Note 33.

33. OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

(a) Contingent liabilities

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

MCZK	1999	1998
Acceptances	81	207
Guarantees and irrevocable letters of credit	4,820	5,319
Undrawn loan commitments	21,883	27,651

(b) Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). Commitments to purchase and sell foreign currency facilitate the management of market risk by ensuring that the Bank will have a specified currency at a future point in time. The notional amount of these contracts does not represent the actual market or credit risk associated with this product.

Foreign currency contracts are used by the Group for risk management and trading purposes. The Group's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

MCZK	1999	1998
<i>Risk management purposes</i>		
Commitments to sell	720	–
<i>Trading purposes</i>		
Commitments to purchase	6,113	5,290
Commitments to sell	8,110	5,712

(c) Interest rate swaps

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount. Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties. The group's interest rate swaps were transacted for propriety trading purposes.

At 31 December 1999	Weighted Average Rate		
	MCZK	Receive	Pay
Residual maturity:			
1 year or less	1,900	6.85%	6.95%
5 years or less but over 1 year	5,606	8.02%	7.43%
over 5 years	6,245	6.36%	10.24%
Total	13,751	7.10%	8.64%

At 31 December 1998	Weighted Average Rate		
	MCZK	Receive	Pay
Residual maturity:			
5 years or less but over 1 year	300	15.22%	15.30%
over 5 years	6,000	16.56%	11.26%
Total	6,300	16.49%	11.45%

(d) Option contracts written

MCZK	1999	1998
Option contracts written	—	5,266

Due to the change in conditions of the discounted bonds issued by BTI (refer Note 11 (a)), the option contract was terminated during 1999.

(e) Forward rate agreements

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates. The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for propriety trading purposes.

	1999 (MCZK)	Weighted average rate 1999	1998 (MCZK)	Weighted average rate 1998
Residual maturity:				
Purchases				
– 1 year or less	20,020	6.59%	33,650	11.37%
Sales				
– 1 year or less	20,620	6.62%	34,450	11.10%

(f) Forward treasury bill contracts

Forward contracts with treasury and other bills are agreements to purchase or sell the securities for a specific amount at a future date. The forward contracts are used by the Group for trading purposes.

MCZK	1999	1998
<i>Trading purposes</i>		
Commitments to purchase	3,349	995
Commitments to sell	—	72

(g) Cross currency swaps

Cross currency swaps are combinations of interest rate swaps and a series of foreign currency contracts. As with interest rate swaps, the Group agrees to make fixed versus floating interest payments at periodic dates over the life of the instrument. These payments are, however, in different currencies, are gross and not settled on a net basis. Unlike interest rate swaps, the notional balances of the different currencies to which these interest payments are based are typically exchanged at the beginning and re-exchanged at the end of the contract period. During 1999, the Group entered into three cross currency swap contracts for propriety trading purposes.

MCZK	1999	1998
<i>Trading purposes</i>		
Commitments to purchase	2,225	–
Commitments to sell	2,166	–

(h) Security swaps

During 1997, the Group entered into structured transactions with several counterparties resulting in the Group assuming the credit risk on the underlying emerging market debt instruments. As at 31 December 1999, the total notional amount of transactions involving security swaps is MCZK 482 (1998: MCZK 1,075). During 1999, the Group terminated three of these transactions, resulting in a loss of MCZK 408 (1998: loss of MCZK 635).

The Group's potential exposure to the remaining transactions is estimated to be approximately MCZK 556 as at 31 December 1999 (1998: MCZK 1,810). This amount has been calculated as the difference between the present value of amounts payable by the Group under the swap arrangement and the present value of payments the Group receives for the credit risk assumption of the underlying instrument.

(i) Total return swaps

During 1999, the Group entered into structured transactions resulting in the Group assuming the credit risk on certain underlying debt securities issued by Czech entities and denominated in foreign currency. As at 31 December 1999, the total notional amount of transactions involving total return swaps is MCZK 1,200 (1998: MCZK nil). The Group's potential exposure is estimated to be approximately MCZK 1,716 (1998: MCZK nil).

The Group has created provisions against off-balance sheet risks to cover any potential losses which may arise from these and other off-balance sheet transactions. As at 31 December 1999, these provisions totalled MCZK 2,175 (1998: MCZK 2,313). (refer Note 20)

34. NET FOREIGN EXCHANGE POSITIONS

The net foreign exchange positions of the Group were as follows:

MCZK	Net asset/(liability) position	
	1999	1998
On balance sheet		
EUR	3,337	–
USD	2,972	660
SKK	96	33
DEM	65	335
CHF	22	120
JPY	8	44
ATS	–	55
Other currencies	62	140
Total	6,562	1,387
Off balance sheet		
USD	(3,219)	(419)
EUR	(1,972)	–
DEM	–	(26)
Other currencies	37	(139)
Total	(5,154)	(584)

35. INTEREST RATE RISK

(a) Interest rate repricing analysis

The following table presents the interest rate repricing dates for the banking segment of the Group. It includes significant financial assets and liabilities in CZK, EUR and USD only as at 31 December 1999. Variable-rate assets and liabilities have been reported according to their next rate change date. Fixed-rate assets and liabilities have been reported according to their scheduled principal repayment dates.

MCZK

	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Balances with the CNB	953	–	–	–	–	953
Treasury bills	11,521	11,951	13,453	–	–	36,925
Loans and advances to credit institutions	34,190	33,151	53,271	4,190	7,678	132,480
Trading securities	1,552	1,898	6,146	15,909	2,364	27,869
Loans and advances to customers	69,059	9,477	13,898	7,315	1,388	101,137
Investment securities	–	270	6,460	3,037	–	9,767
	117,275	56,747	93,228	30,451	11,430	309,131
Liabilities						
Amounts owed to credit institutions	4,849	2,592	596	–	–	8,037
Amounts owed to customers	213,292	10,200	58,937	31,009	19	313,457
Bonds in issue	–	–	–	5,200	–	5,200
Subordinated debt	–	–	–	–	5,500	5,500
	218,141	12,792	59,533	36,209	5,519	332,194
Current gap	(100,866)	43,955	33,695	(5,758)	5,911	(23,063)
Cumulative gap	(100,866)	(56,911)	(23,216)	(28,974)	(23,063)	–

(b) Effective yield information

The effective yields of significant financial assets and liabilities by major currencies of the banking segment as at 31 December 1999 are as follows.

	Weighted average interest rate CZK	Weighted average interest rate EUR	Weighted average interest rate USD	Weighted average interest rate Total
Assets				
Balances with the CNB	3.81%	–	–	3.81%
Treasury bills	5.89%	–	–	5.89%
Loans and advances to credit institutions	6.61%	3.01%	6.07%	6.57%
Trading securities	9.47%	3.88%	8.20%	9.41%
Loans and advances to customers	9.41%	5.30%	8.20%	9.01%
Investment securities	6.41%	–	–	6.41%
Liabilities				
Amounts owed to credit institutions	5.48%	3.17%	6.30%	5.15%
Amounts owed to customers	3.81%	1.25%	3.17%	3.76%
Bonds in issue	10.85%	–	–	10.85%
Subordinated debt	7.44%	–	–	7.44%

36. CONCENTRATIONS OF CREDIT RISK

The following table presents the distribution of the Group's credit exposure by industry sector for loans and advances to customers and interbank exposures:

MCZK	1999	1998
Financial	138,788	122,684
Individuals	33,896	32,847
Trading	14,525	28,078
Mechanical engineering	6,084	5,687
Municipal authorities	5,048	6,660
Construction	3,482	5,179
Metallurgy	2,991	8,761
Hotels	2,315	4,992
Machine industries	1,718	3,445
Electronics	554	1,667
Other	47,952	53,704
	257,353	273,704
Less provision for credit losses	(20,062)	(23,637)
Total	237,291	250,067

Also refer Note 40 for an analysis of the Group's assets and liabilities by geographical concentration.

37. MATURITY ANALYSIS

The following table shows assets and liabilities as at 31 December 1999 according to their residual maturities.

MCZK	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non specific	Total
Assets							
Cash	12,890	–	–	–	–	–	12,890
Balances with the CNB	953	–	–	–	–	5,921	6,874
Loans and advances to credit institutions	26,938	27,684	35,806	23,929	18,377	78	132,812
Trading securities and treasury bills	12,178	12,849	18,194	22,051	2,944	1,647	69,863
Loans and advances to customers	3,127	7,216	23,214	30,554	11,381	28,987	104,479
Investment securities	–	170	570	8,951	–	5,366	15,057
Other assets	1,280	1,726	3,844	301	300	28,442	35,893
	57,366	49,645	81,628	85,786	33,002	70,441	377,868
Liabilities							
Amounts owed to credit institutions	4,036	968	1,141	4,716	16	–	10,877
Amounts owed to customers	152,526	23,831	41,230	96,252	73	3,446	317,358
Bonds in issue	–	–	–	5,165	–	–	5,165
Subordinated debt	–	–	–	–	5,500	–	5,500
Other liabilities	2,496	2,179	1,947	100	92	8,764	15,578
	159,058	26,978	44,318	106,233	5,681	12,210	354,478
Current gap	(101,692)	22,667	37,310	(20,447)	27,321	58,231	23,390
Cumulative gap	(101,692)	(79,025)	(41,715)	(62,162)	(34,841)	23,390	–

The following table shows assets and liabilities as at 31 December 1998 according to their residual maturities.

MCZK

	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non specific	Total
Assets							
Cash	9,476	–	–	–	–	–	9,476
Balances with the CNB	181	–	–	–	–	23,099	23,280
Loans and advances to credit institutions	25,471	21,027	32,584	23,169	1,550	(318)	103,483
Trading securities and treasury bills	11,550	13,262	18,321	19,373	6,170	1,070	69,746
Loans and advances to customers	12,428	12,624	42,220	54,569	18,701	6,042	146,584
Investment securities	–	–	799	7,407	–	4,660	12,866
Other assets	2,371	2,867	2,010	1,612	376	32,701	41,937
	61,477	49,780	95,934	106,130	26,797	67,254	407,372
Liabilities							
Amounts owed to credit institutions	6,593	3,003	13,526	4,320	–	–	27,442
Amounts owed to customers	158,548	23,983	52,667	95,193	145	–	330,536
Bonds in issue	–	–	–	5,165	–	–	5,165
Subordinated debt	–	–	–	–	5,500	–	5,500
Other liabilities	6,478	1,789	967	1,381	–	6,248	16,863
	171,619	28,775	67,160	106,059	5,645	6,248	385,506
Current gap	(110,142)	21,005	28,774	71	21,152	61,006	21,866
Cumulative gap	(110,142)	(89,137)	(60,363)	(60,292)	(39,140)	21,866	–

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

IAS 32, "Financial Instruments: Disclosure and Presentation," requires disclosure of the estimated fair value of on and off-balance sheet financial instruments. Fair value estimates are made at a point in time, based on relevant market data and information about the financial instruments. Because no readily available market exists for a significant portion of the Group's financial instruments, fair value estimates for these instruments are based on judgements regarding current economic conditions, currency and interest rate characteristics and other factors.

Many of these estimates involve uncertainties and matters of significant judgement and cannot be determined with precision. Therefore, the calculated fair value estimates cannot always be substantiated by comparison to developed markets and, in many cases, may not be realised in a current sale of the financial instrument. Changes in underlying assumptions could significantly affect the estimates.

The following methods and assumptions were used by the Group in estimating the fair value of its financial instruments at 31 December 1999 and 1998:

(a) Short-term financial instruments

The carrying values reported on the Group's balance sheet generally approximate fair value for financial instruments that reprice or mature in approximately 180 days or less, with no significant change in credit risk. The carrying amounts approximate fair value for cash and balances with the CNB, demand deposits and certain other assets and liabilities.

(b) Treasury bills

The estimated fair value of treasury bills with residual maturities over 180 days is based on market maker quotes at 31 December 1999 and 1998.

(c) Loans and advances to credit institutions and customers

The estimated fair value of performing loans and advances to credit institutions and customers that reprice or mature in 180 days or less approximate their respective carrying amounts. The estimated fair value for performing loans that reprice or mature in more than 180 days is estimated using discounted cash flow analyses, using interest rates currently offered for loans with similar terms to borrowers of similar credit quality and for similar maturities.

Non-performing loans and advances to credit institutions and customers are reported at estimated fair value equal to book value. The estimated fair value for loss loans is the appraised value of the underlying collateral. For other classified loans, the estimated fair value represents the carrying value less a credit risk adjustment based on the Group's estimated credit losses. Fair value estimation utilising a discounted cash flow analysis was not practicable due to the uncertainties regarding the timing of cash receipts.

(d) Debt and equity securities and participating interests

Trading securities are recorded at market value on the Group's balance sheet. Market values of trading securities and investment securities are based on quoted market prices, if available. The market values of those securities not traded on the Prague Stock Exchange are estimated by management. Associates are included in fair value estimates under the equity method and non consolidated subsidiaries are included at net asset value estimates.

(e) Amounts owed to credit institutions and customers

The fair value of amounts owed to credit institutions and customers with no stated maturity and that reprice or mature in 180 days or less represents their carrying value. The fair value of fixed maturity deposits which reprice or mature in more than 180 days is estimated using a discounted cash flow method using rates currently offered for deposits of similar remaining maturities.

(f) Bonds in issue

A significant portion of the issued bonds are publicly traded and their fair values are based upon quoted market prices.

(g) Derivative financial instruments (other assets and liabilities)

Estimated fair values for derivative financial instruments are based upon quoted market prices or discounted cash flow models and options pricing models as appropriate.

MCZK

	Carrying value 1999	Estimated fair value 1999	Carrying value 1998	Estimated fair value 1998
Financial assets				
Cash and balances with CNB	19,764	19,764	32,756	32,756
Treasury bills	38,476	38,512	34,567	34,650
Loans and advances to credit institutions	132,812	133,155	103,483	103,753
Trading securities	31,387	31,387	35,179	35,765
Loans and advances to customers	104,479	104,966	146,584	147,096
Investment securities	15,057	15,307	12,866	13,715
Trading derivatives with positive fair value	384	384	642	642
Financial liabilities				
Amounts owed to credit institutions	10,877	10,877	27,442	27,473
Amounts owed to customers	317,358	317,358	330,536	330,536
Bonds in issue	5,165	5,797	5,165	5,417
Subordinated debt	5,500	5,500	5,500	5,500
Trading derivatives with negative fair value	367	367	533	533

(h) Forward foreign currency contracts

The estimated fair value of forward foreign currency contracts is based on the consideration of interest rate differentials between the Czech Crown and foreign currencies. The Group's forward foreign currency contracts have residual maturities of less than one year at 31 December 1999 and 1998.

(i) Interest rate swaps

The fair value of interest rate swaps ("IRS") represents the present value of expected cash flows from the swaps. The expected future cash flows are estimated from the forward interest rates as calculated from the swap yield curve at 31 December 1999 and 1998. The fair value of IRS at the year end includes accrued interest and the carrying value includes provisions raised against the swaps and the accrued interest.

(j) Forward rate agreements

The Group's forward rate agreements have residual maturities of less than one year at 31 December 1999 and 1998. Fair value estimates are based on a theoretical forward interest rate based on the yield curve with a fair value of MCZK 12 and 11 at 31 December 1999 and 1998, respectively.

(k) Forward treasury bill contracts

The fair value estimate of forward treasury bill contracts represents the present value of expected cash flows arising from the change in forward price calculated based on the spot price and "cost-of-carry" of the underlying treasury bills at 31 December 1999 and 1998.

(l) Cross currency swaps

The estimated fair value of cross currency swaps has been calculated as the difference between the present values of the future cash flows of the individual currencies. The present value of cash flows in a foreign currency is recalculated to CZK using the spot rate. Present values are calculated based on the yield curves of individual currencies as at 31 December 1999.

(m) Securities swaps

The estimated fair value of the securities swaps has been calculated based on a valuation model, which takes into consideration the cumulative probability of default by the counterparties (using data published by rating agencies); deposit and swap rates for foreign currencies (which have been used to calculate the present value of the risk premium payments); any potential loss; and the probability of recovery (calculated using prices published by rating agencies for securities which have defaulted).

(n) Total return swaps

The estimated fair value of the total return swaps ("TRS") has been calculated using the TRS market yield. The market yield of the TRS is determined using three components: 1) the sum of the current credit risk and liquidity risk (spread) of the issuer of the underlying debt securities adjusted by the rate of IRS in USD; 2) the current quotation of basis cross currency swap of CZK/USD; and 3) the quotation of IRS in CZK.

MCZK

Fair value estimates at 31 December 1999	Notional amount	Carrying value	Estimated fair value
Forward foreign currency contracts	14,943	(59)	(59)
Interest rate swaps	13,751	(993)	(993)
Forward rate agreements	40,640	12	12
Forward treasury bill contracts	3,349	(8)	(8)
Cross currency swaps	4,391	56	56
Security swaps	482	(409)	(409)
Total return swaps	1,200	1,205	1,205

MCZK

Fair value estimates at 31 December 1998	Notional amount	Carrying value	Estimated fair value
Forward foreign currency contracts	10,942	94	94
Interest rate swaps	7,788	(251)	(846)
Option contract written	5,266	74	74
Forward rate agreements	68,100	11	11
Forward treasury bill contracts	1,067	5	5
Security swaps	1,075	(1,205)	(1,205)

39. SEGMENT REPORTING

(a) Industry segments

MCZK

	Banking		Other operations		Total	
	1999	1998	1999	1998	1999	1998
External revenue	35,703	46,306	4,129	3,282	39,832	49,588
Inter-segment revenue	375	523	130	179	505	702
Total revenue	36,078	46,829	4,259	3,461	40,337	50,290
Segment result	(4,903)	(5,338)	436	138	(4,467)	(5,200)
Unallocated costs					(124)	(315)
Loss from operations					(4,591)	(5,515)
Net profit/(loss) from associates			662	(425)	662	(425)
Income tax (expense)/benefit					(2,111)	1,996
Minority interest					(182)	(214)
Net loss for the year					(6,222)	(4,158)
Other information						
Segment assets	360,752	392,012	12,376	11,082	373,128	403,094
Associates			4,335	3,671	4,335	3,671
Unallocated assets					405	607
Consolidated total assets					377,868	407,372
Segment liabilities	346,818	379,778	10,834	10,090	357,652	389,868
Unallocated liabilities					(3,174)	(4,362)
Consolidated total liabilities					354,478	385,506
Capital expenditure	1,359	2,135	200	457	1,559	2,592
Depreciation and amortisation	3,073	2,923	34	40	3,107	3,388
Provisions for credit losses	9,819	12,301	120	257	9,939	12,558

For management purposes, the Group is organised into the following major operating divisions:

- Banking; and
- Other operations, which comprise leasing, insurance, funds management, real estate activities and advisory services.

(b) Geographical segments

The Group operates predominantly within the Czech Republic and has no significant cross border investments.

40. CONCENTRATION OF ASSETS AND LIABILITIES

The geographical concentration of assets and liabilities as at 31 December 1999 was as follows:

MCZK

	OECD (1)	OECD (2) Government and central bank	Non OECD (3)	Total
Assets				
Cash	12,890	–	–	12,890
Balances with the CNB	–	6,874	–	6,874
Loans and advances to credit institutions	66,268	66,526	18	132,812
Trading securities and treasury bills	21,846	47,714	303	69,863
Loans and advances to customers	94,770	5,029	4,680	104,479
Investment securities	11,912	3,113	32	15,057
Other assets	28,710	7,183	–	35,893
Total assets	236,396	136,439	5,033	377,868
Liabilities				
Amounts owed to credit institutions	10,674	200	3	10,877
Amounts owed to customers	305,227	12,131	–	317,358
Bonds in issue	5,165	–	–	5,165
Subordinated debt	–	5,500	–	5,500
Other liabilities	14,100	1,478	–	15,578
Total liabilities	335,166	19,309	3	354,478
Net position at 31 December 1999	(98,770)	117,130	5,030	23,390

(1) Represents persons or entities located within OECD countries.

(2) Represents government bodies and central banks located within OECD countries.

(3) Represents persons, entities or government bodies located outside OECD countries.

The geographical concentration of assets and liabilities as at 31 December 1998 was as follows:

MCZK

	OECD (1)	OECD (2) Government and central bank	Non OECD (3)	Total
Assets				
Cash	9,476	–	–	9,476
Balances with the CNB	–	23,280	–	23,280
Loans and advances to credit institutions	79,665	23,511	307	103,483
Trading securities and treasury bills	27,723	41,571	452	69,746
Loans and advances to customers	133,643	7,562	5,379	146,584
Investment securities	10,057	2,809	–	12,866
Other assets	33,601	8,336	–	41,937
Total assets	294,165	107,069	6,138	407,372
Liabilities				
Amounts owed to credit institutions	26,342	1,100	–	27,442
Amounts owed to customers	319,680	10,856	–	330,536
Bonds in issue	5,165	–	–	5,165
Subordinated debt	–	5,500	–	5,500
Other liabilities	8,838	8,025	–	16,863
Total liabilities	360,025	25,481	–	385,506
Net position at 31 December 1998	(65,860)	81,588	6,138	21,866

- (1) Represents persons or entities located within OECD countries.
- (2) Represents government bodies and central banks located within OECD countries.
- (3) Represents persons, entities or government bodies located outside OECD countries.

41. ASSETS UNDER ADMINISTRATION

The Group administered MCZK 7,040 and 6,028 of assets at 31 December 1999 and 1998, respectively, representing securities and other valuables received from customers into its custody for administration.

Furthermore, the Group acts as depositary for several investment funds, whose assets amounted to MCZK 43,175 and 28,792 at 31 December 1999 and 1998, respectively.

42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Fond národního majetku (National Property Fund) which holds 52.8% of the voting rights of the Bank's total votes. No disclosure of transactions between the Bank and National Property Fund is required as both entities are state-controlled.

(a) Directors and officers

Loans and advances granted to the members of the Board of Directors and Supervisory Board were CZK nil and CZK 200,000 at 31 December 1999 and 1998, respectively.

Shares held by members of the Board of Directors and Supervisory Board of the Bank totalled 5,318 and 57,120 which represented 0.003% and 0.075% of the Bank's capital at 31 December 1999 and 1998, respectively.

(b) Related parties

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and conditions and at market rates.

(c) Other related transactions

MCZK	1999	1998
Amounts receivables from associated companies	1,026	847
Amounts payable to associated companies	944	842

43. SUBSEQUENT EVENTS

(a) Privatization of the bank

On 22 April 1999, subsequent to a decision of the Government of the Czech Republic made on 19 November 1997 in relation to the approval of the sale of National Property Fund's ("FNM ČR's") participating interest in ČS to a strategic partner, an advertisement inviting investors to indicate their interest in buying the state's participating interest in ČS was published. Investors who expressed such an interest and also signed confidentiality agreements with the FNM ČR, received an Information Memorandum on the Bank in August 1999. Based upon closer inspection of the preliminary proposals received from potential investors, the Government's investment advisor recommended exclusivity be granted to Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank"). The Ministry of Finance of the Czech Republic granted Erste Bank exclusive rights to ongoing negotiations up until 29 October 1999. During this period, the first phase of the potential investor's due diligence of the Bank was performed and subsequent to its completion, Erste Bank presented a revised preliminary offer to purchase FNM ČR's share in ČS. As part of the privatisation process of ČS, certain assets were transferred to KoB (refer note 26) and certain ring-fence arrangements were entered into to ensure that a significant portion of ČS' credit risks were eliminated and that potential future problems with respect to the quality of the loan portfolio were minimised. Based on the recommendation of the Privatisation Management Steering Committee for the privatisation of banks, Erste Bank's exclusivity was extended until 31 January 2000. On 2 February 2000, the Government of the Czech Republic announced its decision to sell its 52% stake in ČS to Erste Bank and on 1 March 2000, representatives of the FNM ČR and Erste Bank signed the Share Purchase and Sale Agreement.

Erste Bank has committed to increase the registered capital of the Bank and/or its subsidiaries by at least CZK 4 billion by 30 June 2002. The full amount of the registered capital increase will be subscribed and paid by Erste Bank, its subsidiaries or some other strategic partner which has been pre-approved by FNM ČR.

The Agreement also specifies certain future potential liabilities of the Bank which may result from offering lending programs to selected economic segments in the Czech Republic. The impact of these potential liabilities on the future financial position of the Bank cannot be quantified at the present time.

(b) Restructuring and Guarantee Agreement

On 1 March 2000, ČS, Corfina, a.s. and KoB signed a Restructuring and Guarantee Agreement ("Agreement"). The successful transfer of 52.07% to Erste Bank of ČS' shares, which remain under the control of FNM ČR, is the event which initiates the terms and conditions of the Agreement.

Under the terms of the Agreement, KoB guarantees the net asset value of certain ring-fenced arrangements and selected financial derivatives at their value as accounted for in ČS' accounting records as at 31 December 1999. Based on the Agreement, ČS has an option to sell and KoB is obligated to buy, the ring-fenced arrangements from ČS for a predefined price, which is equal to the assets' net book value, in aggregate amounts which do not exceed a predefined annual limit. Reciprocally, KoB has an option to buy ring-fenced arrangements at the same predefined price subject to the same annual limits. In addition, the Agreement enables ČS and KoB to exercise in 2002, a one time option to buy/sell all of the ring-fenced arrangements for which options have not been previously exercised.

The ring-fenced arrangements include listed loans due from corporate clients (legal entities) classified as substandard, doubtful or loss in accordance with the Czech National Bank's rating principles at 31 December 1999. Further, the ring-fenced arrangements include specified bonds, interbank exposures, financial derivatives and off-balance sheet liabilities. The total nominal value of the ring-fenced arrangements is MCZK 24,827 with a guaranteed value of MCZK 15,186.

If certain conditions are met, the Agreement allows, until June 2001, additional loans to be 'put' into ring-fenced arrangements, without any limitations, in relation to loans from legal entities classified as standard or inspected as at 31 December 1999.

During the term of the Agreement (not beyond 2005), the ring-fenced arrangements remain in ČS' balance sheet and are subject to certain conditions and managed by ČS under specific rules. Income realised on the ring-fenced arrangements is earned by KoB (except in some cases, the income is earned by ČS due to an offsetting decrease in the transfer price of such ring-fenced arrangements). KoB reimburses ČS for the interest cost of carrying the portfolio in its balance sheet and also pays a motivation fee for payments collected by ČS.

As the Agreement relates to the balances of ring-fenced arrangements as at 31 December 1999, ČS did not create provisions to cover any potential credit risks associated with these arrangements in the amount of MCZK 1,142 as at that date.

In relation to Corfina, a.s. and its subsidiaries CORFINA TRADE s.r.o. and CF Danube Leasing s.r.o., KoB guarantees that in the case of premature termination of any leasing contract, KoB will pay to Corfina and its subsidiaries rather than the debtor involved in the leasing contract. KoB guarantees the amount up to the respective liability, which may be increased or decreased for expenses and revenue upon realisation of the leased asset and for other adjustments for lease payments and penalties. The guarantees for Corfina and its subsidiaries' assets cover leasing contracts with legal entities, entrepreneurs and individuals concluded by 31 December 1999 (including 31 December 1999). The total amount of all payments made by KoB arising from the guarantees will not exceed MCZK 1,200.

44. OTHER CONTINGENT LIABILITIES

Czech tax legislation has changed significantly in the last several years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.