Financial Statements II

Consolidated Financial Statements
for the Year ended 31 December 2000
Prepared in Accordance with
International Accounting Standards

Deloitte & Touche spol. s r. o.
Týn 641/4
110 00 Praha 1
Czech Republic

Tel.: +420 (2) 248 95 500
Fax: +420 (2) 248 95 555
www.deloitteCE.com

Deloitte & Touche

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ČESKÁ SPOŘITELNA, a.s.

We have audited the accompanying consolidated financial statements of Česká spořitelna, a.s. (the "Bank") for the year ended 31 December 2000 prepared in accordance with International Accounting Standards. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements, taken as a whole, based on our audit. The consolidated financial statements of the Bank for the year ended 31 December 1999 were audited by another auditor whose report dated 2 May 2000 was unqualified.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Bank in the preparation of the consolidated financial statements, as well as evaluation of the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Česká spořitelna, a.s. as of 31 December 2000, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with International Accounting Standards.

Prague, 2 May 2001

Deloitte & Touche

Deloitte & Touche

Deloitte
Touche
Tohmatsu

Consolidated Balance Sheet as at 31 December 2000

MCZK

	Note	2000	1999
ASSETS			
1. Cash and balances with the CNB	6	21,144	19,764
2. Loans and advances to financial institutions	7	155,144	133,143
3. Loans and advances to customers	8	134,900	124,210
4. Provisions for losses on loans and advances	9	(23,523)	(20,062)
5. Trading securities	10	47,017	69,997
6. Securities available for sale	11	11,132	–
7. Investment securities	12	55,082	15,121
8. Intangible assets	13	1,603	1,212
9. Property and equipment	14	16,583	17,914
10. Other assets	15, 16	18,973	16,569
TOTAL ASSETS		**438,055**	**377,868**
LIABILITIES AND SHAREHOLDERS' EQUITY			
1. Amounts owed to financial institutions	17	16,709	10,877
2. Amounts owed to customers	18	357,477	317,327
3. Bonds in issue	19	5,175	5,196
4. Provisions for liabilities and other reserves	20	3,827	3,454
5. Other liabilities	21	25,676	12,124
6. Subordinated debt	22	5,500	5,500
7. Minority interests	23	1,036	546
8. Shareholders' equity	24	22,655	22,844
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**438,055**	**377,868**

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 2001.

Jack Stack

Jack STACK
Chairman of the Board and
Chief Executive Officer

Consolidated Profit and Loss Account for the Year ended 31 December 2000

MCZK

	Note	2000	1999
1. Interest income	25	24,904	30,193
2. Interest expense	26	(12,906)	(16,150)
I. Net interest income		**11,998**	**14,043**
3. Provisions for losses on loans and advances	27	(3,217)	(11,650)
4. Fee and commission income		5,580	4,811
5. Fee and commission expense		(460)	(585)
Net fee and commission income		***5,120***	***4,226***
6. Net profit/(loss) on financial operations	28	1,994	1,562
7. General administrative expenses	29	(13,508)	(13,441)
8. Other operating income/(expense)	30	(1,387)	1,331
II. Profit/(loss) before taxes		**1,000**	**(3,929)**
9. Income tax expense	31	(975)	(2,111)
III. Profit/(loss) after taxes		**25**	**(6,040)**
10. Minority interest	23	16	(182)
IV. Net profit/(loss) for the year		**41**	**(6,222)**
Basic and diluted profit/(loss) per share (CZK)	32	**0.27**	**(71.80)**

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

Consolidated Statement of Changes in Shareholders' Equity

for the Year ended 31 December 2000

MCZK	Retained earnings	Statutory reserve fund	General reserves	Share premium	Share capital	Total
At 1 January 1999	**1,892**	**7,859**	**–**	**4,115**	**7,600**	**21,466**
Shares issued	–	–	–	–	7,600	7,600
Transfer (from)/to reserve funds	6,585	(2,543)	73	(4,115)	–	–
Loss for the year	(6,222)	–	–	–	–	(6,222)
At 31 December 1999	**2,255**	**5,316**	**73**	**–**	**15,200**	**22,844**
Difference between the purchase price and net assets acquired (Note 34)	(230)	–	–	–	–	(230)
Transfer (from)/to reserve funds	4,765	(4,765)	–	–	–	–
Profit for the year	41	–	–	–	–	41
At 31 December 2000	**6,831**	**551**	**73**	**–**	**15,200**	**22,655**

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 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 deducted from the assets (Note 9), and provisions for liabilities and other reserves included in liabilities (Note 21).

Consolidated Statement of Cash Flows for the Year ended 31 December 2000

MCZK

	Note	2000	1999
Cash flows from operating activities			
Profit/(loss) before taxes		1,000	(3,929)
Adjustments for:			
Provisions for losses on loans and advances		3,460	(4,668)
Depreciation and amortisation		2,750	3,107
Restructuring reserves		1,196	–
Net (profit)/loss from fixed asset investments		690	(662)
Impairment of property and equipment		225	(6)
Net (profit)/loss on investment securities		(42)	396
Non-cash adjustments to fixed asset investments		–	(24)
Operating profit/(loss) before changes in operating assets and liabilities		9,279	(5,786)
(Increase)/decrease in operating assets			
Minimum reserve deposits with the CNB		(1,167)	17,178
Loans and advances to credit institutions		(15,402)	(30,271)
Trading securities		13,028	12,190
Loans and advances to customers		3,014	45,693
Other assets		(35)	3,969
Increase/(decrease) in operating liabilities			
Amounts owed to financial institutions		(6,228)	(16,575)
Amounts owed to customers		31,876	(13,138)
Other liabilities		12,153	(432)
Provisions for liabilities and charges		(987)	(715)
Net cash flow from operating activities before income tax		45,531	12,113
Income taxes paid		(164)	(292)
Net cash flow from operating activities		**45,367**	**11,821**
Cash flows from investing activities			
Cash flow from the acquisition of EBCR business		(1,432)	–
Net (increase)/decrease in investment securities		(40,609)	(2,191)
Purchase of property and equipment		(3,076)	(1,559)
Proceeds from sale of property and equipment		120	143
Net cash flow from investing activities		**(44,997)**	**(3,607)**
Cash flows from financing activities			
Shares issued		–	7,600
Dividends paid		–	(220)
Increase in minority interests		500	–
Bonds in issue		(22)	(40)
Net cash flow from financing activities		**478**	**7,340**
Net increase in cash and cash equivalents		**848**	**15,554**
Cash and cash equivalents at beginning of year		**39,969**	**24,415**
Cash and cash equivalents at end of year	**33**	**40,817**	**39,969**

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

Notes to the Consolidated Financial Statements

for the Year ended 31 December 2000

1. Introduction

Česká spořitelna, a.s. (henceforth “the Bank”), having its registered office address at Prague 1, Na Příkopě 29, 113 98, Corporate ID 45244782, 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 parent enterprise is Erste Bank der Oesterreichischen Sparkassen AG (henceforth “Erste Bank”) which acquired 52.07% of the issued share capital (56.22% of voting rights) of the Bank.

The principal 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 Spořitelní 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;
- consulting services.

The Bank is subject to the regulatory requirements of the Czech National Bank (“CNB”). These regulations include those pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate and foreign currency position.

Similarly, Group companies are subject to regulatory requirements, specifically in relation to insurance and collective investment.

2. Specific Events Impacting the Bank’s Results for the Year ended 31 December 2000

(a) Privatisation of the Bank

On 2 February 2000, the Government of the Czech Republic resolved to sell its majority 52.07% shareholding in the Bank to Erste Bank der Oesterreichischen Sparkassen AG. On 1 March 2000, the representatives of the Czech National Property Fund and Erste Bank entered into a Share Purchase and Sale Agreement. The transaction was completed on 3 August 2000 following the transfer and registration of ownership of the shares. The shareholding of 52.07% in the Bank is equivalent to 56.22% of the shareholders’ voting rights.

Erste Bank has committed to increase the share capital of the Bank and/or its subsidiaries by at least CZK 4,000 million by 30 June 2002. The full amount of the share capital increase will be subscribed and paid by Erste Bank, its subsidiaries or some other strategic partner which has been pre-approved by the National Property Fund of the Czech Republic.
The Agreement also specifies certain future potential obligations of the Bank which may result from offering lending programs to selected economic segments in the Czech Republic.

(b) Transformation and Restructuring Process

As part of their efforts to develop a new ownership strategy, management of the Bank undertook a comprehensive assessment and review of the Bank's operations. The implementation of the new strategy and the far-ranging transformation and restructuring program targeted at improving the quality of the operations and business of the Bank has impacted the organisational structure, systems and processes of the Bank. Key changes implemented by the Bank during 2000 are as follows:

- Changes to the organisational structure of the Bank;
- Changes to the composition and structure of the Bank's Management and Supervisory Boards and executive management;
- Changes to management processes;
- Reduction of branch network;
- Start of the centralisation of support operations.

The Bank has created restructuring reserves for estimated costs associated with these processes (refer to Note 20).

(c) Ring Fencing Arrangement

On 1 March 2000, the Bank, Corfina, a.s. and Konsolidační banka Praha, s.p.ú. ("KOB") entered into a Ring Fencing Arrangement. The execution of this arrangement was conditional upon a transfer of 52.07% of the Bank's issued share capital held by the Czech National Property Fund to Erste Bank. The transfer was effectively completed as at 3 August 2000.
Under the terms and conditions of the Ring Fencing Arrangement, KOB guarantees the net book values of certain ring-fenced exposures and selected financial derivatives as stated in the Bank's accounting records at 31 December 1999. Pursuant to the Ring Fencing Arrangement, the Bank has an option to sell and KOB is obligated to purchase the ring-fenced exposures for a pre-determined realisation price equal to the net book values of assets, in aggregate amounts that do not exceed set annual limits. Reciprocally, KOB has an option to purchase the ring-fenced exposures at a pre-determined realisation price up to the same annual limits. Furthermore, the Ring Fencing Arrangement enables the Bank and KOB to exercise in the year 2002 a one-time option to sell/purchase all of the ring-fenced exposures over which no options have been previously exercised.
The ring-fenced exposures principally consist of corporate loan receivables with a non-zero net book value, classified as substandard, doubtful and loss as at 31 December 1999 in accordance with CNB classification rules and off-balance sheet commitments of the Bank to the same corporate clients. Furthermore, the ring-fenced exposures include certain debt securities from the Bank's portfolio, interbank exposures and off-balance sheet liabilities. As at 31 December 2000, the aggregate nominal value of the ring-fenced exposures and financial derivatives was CZK 18,585 million, with the guaranteed value of these exposures being equal to CZK 11,970 million.
Subject to specific conditions being met, additional corporate loans classified as standard and watch as at 31 December 1999 are eligible, without limitation, for inclusion in the Ring Fencing Arrangement until June 2001.
Over the term of the Ring Fencing Arrangement (until 2005), the ring-fenced exposures will remain on the Bank's balance sheet and will be managed by the Bank under defined rules pending their effective transfer to KOB. All revenues realised on the ring-fenced exposures are earned by KOB (or, in certain instances, the revenues are earned by the Bank due to an offsetting decrease in the realisation price of such ring-fenced exposures). KOB reimburses the Bank for interest costs of carrying the ring-fenced portfolio on its balance sheet and pays a motivation fee for payments collected by the Bank. As at 31 December 2000, the Bank recorded a total receivable of CZK 425 million from KOB within other assets, of which the motivation fee, recognised in the profit and loss account in "Commission and fee income", amounted to CZK 131 million and the estimated interest cost of the realisation price, recognised in "Net interest income" amounted to CZK 294 million. As at 31 December 2000, the Bank recorded in "Other liabilities" a total payable of CZK 188 million to KOB resulting from the payments received on ring-fenced assets.
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 a premature termination of any lease contract, KOB will pay to Corfina and its subsidiaries rather than the debtor involved in the lease 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 lease contracts with legal entities, entrepreneurs and individuals entered into prior to 31 December 1999 (including 31 December 1999). The total amount of all payments made by KOB under the guarantees will not exceed CZK 1,200 million.

3. Basis of Preparation

These consolidated financial statements comprise the accounts of the Bank and its controlled companies (together "the Group") and 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 and available-for-sale assets and liabilities to fair value.
The accounting policies have been consistently applied by the entities in the Group.
The presentation of consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
The format of the financial statements has been adjusted to comply, where possible, with Erste Bank Group presentation requirements.

4. 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.

Subsidiary Undertakings

An investment in a subsidiary is one in which the Bank holds, directly or indirectly, more than 50% of its share 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. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.
Minority 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.

Associate Undertakings

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 share 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 Losses on Loans and Advances

Loans and advances are stated at the amount of principal and accrued interest and fees outstanding.
Provisions for losses on loans and advances are recorded when there are reasonable doubts over the recoverability of the loan balance.
Provisions for losses on loans and advances 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 losses on loans and advances that have been specifically identified and for potential losses which experience indicates are present in the portfolio but have not yet been specifically identified, as such. The amount necessary to adjust the provisions to their assessed levels, after write-offs, is charged to the profit and loss account, “Provisions for losses on loans and advances”.
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. The loan is written off against the related provision for loan losses in the profit and loss account. If the reason for provisioning is no longer deemed appropriate, the provisioning charge is released into income. Recoveries of loans and advances previously written off are reflected in the profit and loss account through “Provisions for losses on loans and advances”.
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 “Provisions for losses on loans and advances” in the profit and loss account.

(c) Debt, Equity Securities and Participating Interests excluded from the Consolidation

Trading Securities and Equity Securities

Trading debt and equity securities are defined as securities held by the Bank with the intention of reselling them, thereby generating profits on price fluctuations in the short term. Debt and equity securities held for trading purposes are carried at cost on acquisition and subsequently marked to market. 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 (“PSE”), market values are obtained from quoted prices. The market values of those securities not traded on the PSE are estimated by the directors.

Available for Sale Securities and Investment Securities

Investment securities are financial assets with fixed maturity that the Bank has the positive intent and ability to hold to maturity. Available for sale securities are securities held by the Bank that are available for sale as liquidity requirements arise or market conditions change. 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 subsidiaries, associates and other companies excluded from the consolidation.
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”.
Available for sale securities are recorded at cost on acquisition and subsequently marked to market. Changes in the market values of such assets are recognised in the profit and loss account as “Other operating income/(expense)”.

(d) Sale and Repurchase Agreements

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the balance sheet and the consideration received is recorded in “Amounts owed to financial 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 financial institutions” or “Loans and advances to customers.” Interest is accrued evenly over the life of the repo agreement.

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as an asset and is amortised using the straight-line method over the estimated useful life. The amortisation period reflects the best estimate of the period during which future economic benefits are expected to flow to the enterprise and does not exceed five years. However, goodwill is immediately expensed through “Other operating income/expense” if it appears more likely than not that no future economic benefits will be available.

(f) Intangible Fixed Assets

Costs associated with acquiring software are treated as intangible assets and are amortised on a straight-line basis over the estimated useful life not exceeding four years. Costs associated with the maintenance of existing software are expensed as incurred whilst costs of technical improvements are capitalised and increase the acquisition cost of the software.

(g) Property and Equipment

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

Buildings and structures	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

(h) Provisions

Provisions are recognised when the Group has a present legal obligation or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.
Restructuring reserves are recognised if the Group has a detailed formal plan for the restructuring that has raised a valid expectation in those affected that the Group will carry out the restructuring.

(i) Shareholders' Equity

On acquisition of the business when the acquirer and the acquiree are under common control the difference between purchase price and net assets of the enterprise on the date of acquisition is recognised as a reduction in equity in "Retained earnings" (refer to Note 34).

(j) Accrued Interest

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

(k) Foreign Currency

Transactions denominated in foreign currencies are recorded in local currency at official exchange rates as announced by the CNB on the date of transaction. Assets and liabilities denominated in foreign currencies are translated into local currency at the prevailing CNB 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/(loss) on financial operations".

(l) 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. Outstanding penalties, contractual sanctions and interest on non-performing loans, which are those loans that have overdue interest and/or principal, or for which management of the Group otherwise believes the contractual interest or principal due may not be received, are only recognised on collection.

(m) Fees and Commissions

Fees and commissions are recognised in the profit and loss accounts on an accruals basis.

(n) Finance Lease Income

A Group Company as the Lessee

Leases of property and equipment under which the Group assumes substantially all the 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.

A Group Company as the Lessor

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

(o) Dividends on Ordinary Shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Tax on declared dividends (15%) is recognised in the current year profit and loss account in “Income tax (expense)/benefit”.

(p) 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 costs.

(q) Pension Business

Contributions and accumulated unpaid earnings of participants in pension funds are included in “Amounts owed to customers”.

(r) 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 principal temporary differences arise from tax losses carried forward, non-tax deductible reserves and provisions, tax and accounting depreciation on tangible and intangible assets and revaluation of other assets.
The estimated tax value of operating loss carryovers expected to be available for utilisation against future taxable income and tax deductible temporary differences are 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.

(s) Derivative Financial Instruments

Derivatives include foreign currency and interest rate swaps, currency forwards, forward rate agreements, foreign currency and interest rate options (both put and call options) and other finance derivative instruments. 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 stated 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/(loss) on financial operations” in the profit and loss account. 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.

(t) Earnings per Share

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

(u) Assets under Administration

Assets under administration are not included in these financial statements.

(v) Segment Reporting

Segment 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 adjustments that are reported as direct offsets in the Group’s balance sheet. Segment assets and liabilities do not include income tax items.

(w) Cash and Cash Equivalents

The Group considers cash, nostro account with the CNB, treasury bills with a residual maturity of 3 months or less, nostro accounts with financial institutions and vostro accounts with financial 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.

(x) Reclassifications

In the current year, the Group has adopted the following International Accounting Standards for the first time:

IAS 10 (Revised 1999)	Events after the Balance Sheet Date
IAS 16 (Revised 1998)	Property, Plant and Equipment
IAS 22 (Revised 1998)	Business Combinations
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets

Adoption of these Standards has resulted in some changes in the detailed application of the Group's accounting policies and some modifications to financial statements presentation. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. However, none of these amendments has affected the net profit for the current or prior periods.

Implementation of IAS 39 Financial Instruments – Recognition and Measurement

The Group has applied IAS 39 Financial Instruments – Recognition and Measurement as at 1 January 2001. IAS 39 establishes standards for recognising, measuring, and disclosing information about an enterprise's financial assets and liabilities, including accounting for hedging transactions. The principal impacts of the adoption of this standard relates to the presentation and valuation the Bank's securities portfolia and the total carrying value of assets increased by CZK 88 million. Additionally, the deferred tax asset attributable to temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purpose decreased by CZK 27 million. The total impact of the adoption of IAS 39 on the shareholders' equity was CZK 61 million.

5. Companies Included in Consolidation

The consolidated financial statements include the following subsidiaries:

Name of the company	**Registered office**	**Principal activities**	**Group interest**	
			2000	**1999**
Corfina, a.s.	Praha	leasing	100%	100%
ČS-stavební spořitelna, a.s.	Praha	building savings bank	60.5%	60.5%
ČS-Živnostenská pojišťovna, a.s.	Pardubice	insurance	55.25%	100%
Sindat ČS Consulting, a.s.	Praha	consultancy	51%	51%
Spořitelní investiční společnost, a.s.	Praha	investment management	100%	100%
Spořitelní penzijní fond, a.s.	Praha	pension fund	92%	92%
CF Danube Leasing, s.r.o.	SR, Bratislava	leasing	100%	100%
ČS-Informatika, a.s.	Praha	data processing	–	100%
ČS-Spořitelní akademie, a.s.	Praha	consultancy	–	100%

(a) ČS-Živnostenská pojišťovna, a.s.

During 2000, the following changes occurred in respect of the share capital and shareholding structure of ČS-Živnostenská pojišťovna, a.s. Pursuant to the amended Insurance Act the share capital of the company was decreased from CZK 816 million to CZK 367.2 million in order to cover accumulated losses. Subsequently, the Bank and Sparkasse Versicherung AG from the Erste Bank Group raised the share capital by subscribing for CZK 250 million and CZK 500 million in shares, respectively. As a result of these transactions, the share capital of ČS-Živnostenská pojišťovna, a.s. increased to CZK 1,117.2 million and the Bank's equity interest declined from 100% to 55.25%.

(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, if any. All other profit is available for distribution to participants (customers).

(c) CF Danube Leasing, s.r.o.

The company CF Danube Leasing, s.r.o., which is a subsidiary of Corfina, a.s., was consolidated for the first time in the year ended 31 December 2000. This company was not consolidated in 1999 as it was deemed immaterial (impact on the profit and loss accounts for the year ended 31 December 1999 was CZK -4 million).

(d) ČS-Spořitelní akademie, a.s., ČS-Informatika, a.s.

During 2000, První česká zajišťovna, a.s. was renamed to ČS-Spořitelní akademie, a.s. and its principal business activities were altered (agency and advisory services relating to insurance and reinsurance for Czech underwriters were eliminated). For the year ended 31 December 2000, ČS-Spořitelní akademie, a.s. and ČS-Informatika, a.s. were not consolidated as the scope of their activities was limited.

6. Cash and Balances with the CNB

MCZK	2000	1999
Cash	13,216	12,890
Nostro account with the CNB	652	953
Minimum reserve deposits with the CNB	7,276	5,921
Total	**21,144**	**19,764**

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 activities and were available for withdrawal at the year-end.

7. Loans and Advances to Financial Institutions

MCZK	2000	1999
Repayable on demand	817	1,122
Loans and advances to financial institutions	102,435	81,074
Placements with financial institutions	51,892	50,947
Total	**155,144**	**133,143**

Classified loans
The nominal value of loans classified as substandard, doubtful or loss, included in loans and advances to financial institutions, totalled CZK 61 million as at 31 December 2000 (1999: CZK 111 million).

The loan exposure to state-owned financial institutions amounted to CZK 40,494 million as at 31 December 2000 (1999: CZK 42,901 million).

8. Loans and Advances to Customers

MCZK	2000	1999
Corporate clients	96,373	85,266
Retail clients	33,238	33,896
Public sector	5,289	5,048
Total	**134,900**	**124,210**

We provide below a breakdown of the loan balance by type of loan in more detail below:

MCZK	2000	1999
Other loans provided and corporate loans	66,277	66,438
Retail loans (net of mortgage loans)	28,211	30,401
Loans acquired through the acquisition of EBCR	13,703	–
Loans denominated in foreign currency	10,572	12,539
Mortgage loans	6,862	4,940
Public sector	5,289	5,048
Leasing	3,986	4,844
Total	**134,900**	**124,210**

Finance Leases

Loans and advances to customers include net investments in finance leases:

MCZK	2000	1999
Gross investment in finance leases	5,438	5,117
Unearned income	(1,452)	(273)
Subtotal	**3,986**	**4,844**
Provisions for business risk	(566)	(89)
Net investment in finance leases	**3,420**	**4,755**

The main loans and receivables from clients are held by the Bank. The following tables and information outline the Bank's portfolio:

Industry Sector Analysis

The table below details the breakdown of loans and receivables from clients by industry sector:

MCZK	2000	1999
Non-financial institutions	54,417	52,304
Financial institutions	14,074	1,101
Insurance companies	70	254
Government sector	5,314	5,067
Not-for-profit organisations	2,685	63
Self employed	10,712	14,234
Resident individuals	31,858	27,477
Other	5,733	17,595
Total non-consolidated	**124,863**	**118,095**
Loans and advances from other group companies	10,037	6,115
Total	**134,900**	**124,210**

Analysis of Loans by Type of Collateral

MCZK	2000	1999
Banking guarantees	11,322	658
Bills of exchange	4,263	6,316
Pledged real estate	34,403	42,788
Pledged movables	470	1,100
Third party guarantees	17,948	22,704
Cash collateral	1,383	125
Bonds and shares	1,604	3,973
Ceded receivables	5,014	10,919
Non-collateralised	48,456	29,512
Total non-consolidated	**124,863**	**118,095**
Loans and advances from other Group companies	10,037	6,115
Total	**134,900**	**124,210**

The legal framework relating to creditors rights restricts the Bank's ability to realise collateral values for certain types, especially real estate. Recent modifications in legislation designed to strengthen the position of creditors may improve recovery of these loans. The Bank continues to use all legal remedies available to it.

Risk Categorisation of Loans and Receivables

The table below details the breakdown of loans and advances to clients by specific risks identified within the credit portfolio of the Bank only. The Bank has divided the credit portfolio into two parts corresponding to the credit risk characteristics of the underlying loans and receivables. The table below presents loans and receivables that are being managed under a special regime and the remaining loan portfolio.

MCZK	Gross exposure	Collateral	Net exposure	Provisions and reserves
Special loans and receivables – non-consolidated				
Ring Fencing loans	16,103	9,765	6,338	6,477
Fully provisioned receivables	9,316	1,127	8,189	9,316
Subtotal	**25,419**	**10,892**	**14,527**	**15,793**
Remaining receivables by CNB classification – non-consolidated				
Standard	76,692	33,300	43,392	–
Watch	16,387	10,642	5,745	288
Substandard	2,741	2,218	522	104
Doubtful	1,108	977	130	65
Loss	2,517	1,394	1,123	1,472
Subtotal	**99,444**	**48,532**	**50,911**	**1,929**
General reserves for credit risk				**4,712**
Total	**124,863**	**59,424**	**65,439**	**22,434**

Collateral values are stated net of discount that indicates the estimated recovery rate of the relevant type of collateral.
Ring Fencing loans include loans and receivables only that are included in the Ring Fencing concluded between the Bank and KOB. This agreement is explained in greater detail in Note 2(c) to the financial statements. These Ring Fencing loans have a guaranteed value of CZK 9,765 million as at 31 December 2000. Also, subject to specific conditions being met, additional loans classified as standard and watch are eligible until June 2001 for reclassification and inclusion in the Ring Fencing Arrangement. The Bank estimates that additional loans that will likely be included in the Ring Fencing will not exceed CZK 9 billion. The uncertainty about the final outcome of this matter was considered in establishing provisions for the loan portfolio. Management expects that no adjustment to provisions will be required upon completion of the process for adding loans to the Ring Fencing Arrangement.

Fully provisioned receivables include receivables against which the Bank has created 100% provisions without taking into account the possibility of recovering collateral.
Unrecognised interest related to non-performing loans that are overdue by greater than 90 days amounted to CZK 2,696 million (1999: CZK 2,607 million).

9. Provisions for Losses on Loans and Advances

(a) Composition of Provisions for Loan Losses

MCZK	2000	1999
Loans and advances to financial institutions	267	331
Loans and advances to customers	18,110	16,923
Territorial risks	247	247
General provisions	4,899	2,561
Total provisions for losses on loans and advances	**23,523**	**20,062**
Loan risks – off-balance sheet (Note 20)	656	2,175
General and business risks (Note 20)	–	89
Total provisions for on and off balance sheet credit risks	**24,179**	**22,326**

(b) Movements in Provisions for Credit Risks

MCZK	2000	1999
At 1 January	22,326	26,994
Net charge of provisions (Note 27)	3,179	9,983
Use of provisions (amounts written off)	(2,127)	(14,607)
Reclassification and FX differences from provisions in foreign currency	801	(44)
At 31 December	**24,179**	**22,326**

10. Trading Securities

MCZK	2000	1999
Debt securities and other fixed income securities		
Listed	43,565	66,102
Unlisted	322	2,114
Equity securities and other variable yield securities		
Listed	1,047	841
Unlisted	21	806
Financial derivatives with positive fair value		
Currency	1,501	(15)
Interest rate	561	107
Other	–	42
Total	**47,017**	**69,997**

Debt securities and other fixed income securities held for trading include Government treasury bills and purchased treasury bills in the amount of CZK 40,751 million (1999: CZK 38,476 million).

11. Available for Sale Securities

MCZK	2000
Debt securities and other fixed income securities	
Listed	223
Unlisted	1,751
Equity securities and other variable yield securities	
Unlisted	9,158
Total	**11,132**

As at 31 December 2000, securities available for sale include investments in open-ended mutual funds Český OPF, Výnosový OPF, Všeobecný OPF and 2. OPF and debt securities included in the Ring Fencing Arrangement (refer to Note 2 c).

During 2000, as a result of the opening of mutual funds (Všeobecný OPF a 2. OPF) and in view of the altered strategy of the Group and its intent to sell a portion of the portfolio, share certificates of open-ended mutual funds held by the Group (Český OPF, Výnosový OPF, Všeobecný OPF and 2. OPF) were re-allocated from the banking portfolio to "Securities available for sale" .

Additionally, the open-ended mutual funds accounted for under the equity method as associated undertakings in 1999 (Český OPF, Výnosový OPF, 2. OPF) were excluded from the consolidation and revalued to net assets value (NAV) in the "Securities available for sale" portfolio of Group companies. As a result of the opening of the mutual fund 2. OPF and its revaluation to net assets value the Group recognised a mark to market gain of CZK 171 million as income. Všeobecný OPF was re-allocated to the "Securities available for sale" and restated to net assets value (NAV). The impact of this change was positive in the amount of CZK 381 million.

12. Investment Securities

MCZK	2000	1999
Debt securities and other fixed income securities		
Listed	36,532	3,701
Unlisted	18,282	5,990
Equity securities and other variable yield securities		
Listed	6	801
Unlisted	–	137
Fixed asset investments		
Associates accounted for under the equity method	–	4,337
Subsidiaries excluded from consolidation	204	91
Other investments		
Buildings leased to third parties	58	64
Total	**55,082**	**15,121**

The portfolio of debt securities held by the Bank as at 31 December 2000 consisted of bonds costing CZK 17,425 million (1999: CZK 5,990 million) issued by a foreign issuer. These debt securities are comprised of eurobonds denominated in CZK and foreign currencies and bonds issued by the parent company Erste Bank at a cost of CZK 4,970 million (refer to Note 45).

(a) Bankers Trust International

As at 31 December 1999, investment securities included two zero coupon bonds issued by Bankers Trust International ("BTI") which yielded 4.77% per annum and matured on 14 December 2000.

The Bank purchased the above bonds in 1995 from the proceeds of 7,680,402 shares/deposit certificates of Český SPIF and 7,735,456 shares/deposit certificates of Výnosový SPIF which were sold by the Bank to BTI. In 1999, both funds were transferred to open-ended mutual 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 of COPF and 2,344 million share certificates of VOPF).

In December 2000, in accordance with the terms and conditions underlying the issue, the notes were redeemed by the share certificates of COPF and VOPF held by BTI. A portion of these share certificates was subject to repurchase and the remaining portion remained in the ownership of the Bank and was included in the securities available-for-sale portfolio.

(b) Associates Accounted for under the Equity Method

The following associates were accounted for under the equity method in 1999:

Name of the company	Registered office	Principal activities	Bank's interest
SIS, a.s. – Český OPF	Praha	open-ended mutual fund	30%
SIS, a.s. – Výnosový OPF	Praha	open-ended mutual fund	25%
SIS, a.s. – 2. OPF	Praha	open-ended mutual fund	32%
ČS-Factoring, a.s.	Praha	factoring	10%*

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

During 2000, as a result of the opening of mutual funds and in view of the altered strategy of the Group, share certificates of open-ended mutual funds held by the Group were re-allocated from the banking portfolio to "Securities available-for-sale" and were not consolidated (refer to Note 11). ČS-Factoring, a.s. was not consolidated in 2000 as it is deemed immaterial.

(c) 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 materially 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 the company	Registered office	Principal activities	Bank's interest
ČS-Informatika, a.s.	Praha	data processing	100%
ČS-Spořitelní akademie, a.s.	Praha	consultancy	100%
Česká sporitelna – Finance, B.V.	Netherlands	financial services	100%

On 19 May 1998, the Group established Česká spořitelna – Finance, B.V. in the Netherlands, through which it intended to issue subordinated notes. The Group has not issued any notes through this company.

13. Intangible Fixed Assets

MCZK	Goodwill	Software	Other	Total
Cost				
1 January 2000	–	2,207	342	2,549
Additions	8	708	225	941
Disposals	–	(39)	(16)	(55)
31 December 2000	**8**	**2,876**	**551**	**3,435**
Accumulated amortisation				
1 January 2000	–	1,086	251	1,337
Additions	6	417	98	521
Disposals	–	(9)	(17)	(26)
31 December 2000	**6**	**1,494**	**332**	**1,832**
Net book value				
31 December 2000	**2**	**1,382**	**218**	**1,603**
31 December 1999	–	1,121	91	1,212

14. Property and Equipment

MCZK	Land and buildings	Equipment fixtures and fittings	Total
Cost			
1 January 2000	16,413	14,883	31,296
Additions	1,287	1,056	2,343
Disposals	(922)	(1,473)	(2,395)
31 December 2000	**16,778**	**14,466**	**31,244**
Accumulated depreciation			
1 January 2000	2,321	11,061	13,382
Additions	567	1,911	2,478
Impairments (Note 20)	225	–	225
Disposals	(39)	(1,385)	(1,424)
31 December 2000	**3,074**	**11,587**	**14,661**
Net book value			
31 December 2000	**13,704**	**2,879**	**16,583**
31 December 1999	14,092	3,822	17,914

In developing the restructuring plan the Group has identified assets that are not in use and are held for sale. The difference between the carrying value of these assets and their estimated selling price has been recognised as an impairment of assets in accordance with IAS 36 and included in the profit and loss account in "Other operating income/(expense)."

15. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 31% (1999: 35%), 15% for Spořitelní penzijní fond, a.s. and 29% for CF Danube Leasing, s.r.o.
The movements on the deferred income tax accounts are as follows:

MCZK	2000	1999
Balance at beginning of year	4,275	6,244
Profit and loss account (charge)/credit	261	(931)
Adjustment for reduction in tax rate	–	(714)
Adjustment for uncertain realisation of deferred tax assets	(1,029)	(324)
Net balance at end of year	**3,507**	**4,275**

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

MCZK	2000	1999
Deferred tax assets		
Tax losses carried forward	3,350	2,217
Non-tax deductible reserves and provisions	1,029	2,935
	4,379	**5,152**
Deferred tax asset adjustment (offset of liabilities)	(677)	(850)
Total deferred tax asset (Note 16)	**3,702**	**4,302**
Deferred tax liabilities		
Accelerated tax depreciation	(386)	(779)
Other temporary differences	(486)	(98)
	(872)	(877)
Deferred tax liability adjustment (offset of assets)	677	850
Total deferred tax liabilities (Note 20)	**(195)**	**(27)**
Net deferred tax asset	**3,507**	**4,275**

The Group has incurred tax losses in recent years. However, management believes that it is more likely than not that it will generate future taxable income sufficient to realise the tax benefits associated with tax loss carry forwards prior to their expiration, the only exception being CZK 836 million of tax losses carried forward which is equivalent to potential additional deferred tax assets of CZK 192 million. This belief is based upon, among other factors, changes in operations that have occurred in the year 2000 due to the acquisition of a majority shareholding in the Bank by Erste Bank and the restructuring plans that are being implemented, as well as consideration of available tax planning strategies. If the Bank is unable to generate sufficient taxable income in the future through operating results, increases in the valuation allowance will be required through a charge to expense.

The Group recorded a valuation allowance amounting to CZK 1,029 million as of 31 December 2000 against the deferred tax asset balance because certain factors give rise to uncertainty as to whether the full amount of the tax benefits associated with temporary differences is realisable.

As at 31 December 2000, the Bank's tax losses recoverable in future periods amounted to CZK 10,805 million. These tax losses represent a deferred tax asset of CZK 3,350 million using the income tax rate of 31%. Tax losses carried forward can be utilised up to the following limits in the following periods:

Tax loss incurred in the period	Tax loss (MCZK)	Latest period for utilisation of tax losses carried forward
1995	3,199	2002
1996	4,858	2003
1999	1,783	2006
2000	965	2007
Total	**10,805**	

The deferred tax (charge)/credit in the profit and loss account comprises the following temporary differences:

MCZK	2000	1999
Tax losses carried forward	1,133	(590)
Provisions and reserves	(1,906)	(1,349)
Accelerated depreciation	393	68
Other temporary differences	(388)	(98)
Total (Note 31)	**(768)**	**(1 969)**

16. Other Assets

MCZK	2000	1999
Accrued income	4,604	3,445
Deferred expenses	463	627
Deferred taxation (Note 15)	3,702	4,302
Receivable from state subsidy	2,000	1,745
Various receivables	5,061	4,374
Other assets	3,143	2,076
Total	**18,973**	**16,569**

The receivable from state subsidy of CZK 2,000 million (1999: CZK 1,745 million) 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 (refer to Note 21).

17. Amounts Owed to Financial Institutions

MCZK	2000	1999
Repayable on demand	70	19
Other	16,639	10,858
Total	**16,709**	**10,877**

18. Amounts Owed to Customers

MCZK	2000	1999
Repayable on demand	116,843	107,151
Other	240,634	210,176
Total	**357,477**	**317,327**

Analysis of amounts owed to customers:

MCZK	2000	1999
Savings deposits	192,306	193,828
Other		
Public sector	11,508	12,131
Corporate clients	36,410	29,924
Retail clients	112,864	81,444
Other	4,389	–
Total	**357,477**	**317,327**

19. Bonds in Issue

	Date of issue	Maturity date	Interest rate %	2000 MCZK	1999 MCZK
Mortgage certificates	August 1998	August 2003	11.85	165	165
Bonds	February 1997	February 2002	10.75	5,000	5,000
Certificates of deposit				10	31
Total				**5,175**	**5,196**

20. Provisions for Liabilities and Other Reserves

MCZK	2000	1999
Provision for off-balance sheet credit risks (Note 9)	656	2,175
Other provisions for risks (Note 9)	–	89
Insurance technical reserves	1,703	1,107
Restructuring reserves	1,196	–
Other reserves	34	56
Income tax liability	43	–
Deferred income tax liability (Note 15)	195	27
Total	**3,827**	**3,454**

Restructuring Reserves

The Group has developed a detailed formal plan for restructuring its business. The Group has created restructuring reserves of CZK 1,776 million in the year 2000. The Group has utilised a portion of these reserves during 2000 and the remaining balance is CZK 1,421 million as at 31 December 2000 (this balance includes CZK 225 million that has been recognised as an impairment of assets (Note 14)).

The following table provides a summary of the restructuring reserves:

MCZK	
Balance at 1 January 2000	
Charges to operations	
Costs of closure of branches	60
Costs of replacement of software	749
Costs of earlier termination of leases of buildings	150
Costs of severance and compensation associated with reducing staff numbers	570
Disposal of under-utilised assets (refer to Note 14)	247
Total charges to operations	**1,776**
Costs incurred	
Costs of closure of branches	9
Costs of replacement of software	242
Costs of earlier termination of leases of buildings	–
Costs of severance and compensation associated with reducing staff numbers	82
Disposal of under-utilised assets (refer to Note 14)	22
Total costs incurred	**355**
Balance at 31 December 2000	
Costs of closure of branches	51
Costs of replacement of software	507
Costs of earlier termination of leases of buildings	150
Costs of severance and compensation associated with reducing staff numbers	488
Disposal of under-utilised assets (refer to Note 14)	225
Total balance at 31 December 2000	**1,421**

The balance of restructuring reserves is reported on the face of the balance sheet under the caption “Provisions for liabilities and other reserves,” the only exception being the amount of CZK 225 million that is recorded in the balance sheet under “Property and equipment.” The profit and loss account reflects restructuring reserves under the heading “Other operating income/(expense)” in the amount of CZK 1,776 million.

The Group expects that these restructuring charges will be used over the coming two years.

21. Other Liabilities

MCZK	2000	1999
Financial derivatives with negative fair value		
Foreign currency	1,525	(18)
Interest rate	1,432	84
Deferred income	196	419
Accrued expenses	862	907
Other liabilities to customers from state subsidy (refer to Note 16)	2,000	1,690
Short sales	7,558	–
Various creditors	5,284	5,671
Other short-term payables to customers	2,884	647
Other liabilities	3,935	2,724
Total	**25,676**	**12,124**

22. Subordinated Debt

On 23 December 1998, the Group issued a subordinated debt totalling CZK 5,500 million in the form of a loan with a maturity date of 23 December 2008 and an interest rate of 6M PRIBOR +1.8%. If the Group does not exercise its option for premature repayment of the loan after the elapse of 5 years, the interest rate shall be increased to 6M PRIBOR +3.7%. Interest is payable half yearly in arrears.

23. Minority Interest

MCZK	2000	1999
Balance at 1 January	**546**	**400**
Minority interest in current year profit/(loss)	(16)	182
Dividends paid to minority shareholders	–	(79)
Share of minority interest in equity increase	500	–
Share of minority interest in retained earnings	6	–
General provision	–	7
Exclusion from consolidation	–	36
Balance at 31 December	**1,036**	**546**

The increase in share of minority interests in equity relates principally to ČS-Živnostenská pojišťovna, a.s. During 2000, the Bank and Sparkasse Versicherung AG increased the share capital of this company by subscribing for new shares (refer to Note 5a).

24. Share Capital

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

	Number of shares	2000 MCZK	Number of shares	1999 MCZK
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Total	**152,000,000**	**15,200**	**152,000,000**	**15,200**

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 profitable; 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 share 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. 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 2000, GDRs of 887,709 (1999: 2,777,034) were outstanding. This amount represents 0.6% (1999: 1.8%) of share capital.

25. Interest Income

MCZK	2000	1999
Loans and advances to financial institutions	8,827	10,712
Loans and advances to customers	9,996	13,508
Debt securities and other fixed income securities	5,853	5,844
Other interest income and similar income	213	–
Proceeds from shares and other variable yield securities	–	4
Income from fixed asset investments (received dividends)	7	–
Proceeds from buildings leased to third parties	8	125
Total	**24,904**	**30,193**

26. Interest Expense

MCZK	2000	1999
Amounts owed to financial institutions	716	1,935
Amounts owed to customers	10,687	12,945
Bonds in issue	951	597
Subordinated debt	409	551
Other	143	122
Total	**12,906**	**16,150**

27. Provisions for Losses on Loans and Advances

MCZK	2000	1999
Provisioning charges	(6,162)	(12,536)
Release of provisions	2,983	2,553
Net charge of provisions (Note 9)	(3,179)	(9,983)
Write-offs of loans	(62)	(1,684)
Recoveries of loans written off	24	19
Total	**(3,217)**	**(11,650)**

28. Net Profit/Loss on Financial Operations

MCZK	2000	1999
Realised and unrealised profit on securities trading	1,652	2,322
Derivative instruments	61	7
Foreign exchange gains	319	696
Other	(38)	(1,463)
Total	**1,994**	**1,562**

29. General Administrative Expenses

(a) Composition of General Administrative Expenses

MCZK	2000	1999
Staff costs		
Wages and salaries	3,281	3,042
Social security costs	1,343	1,364
Other staff costs	163	170
Other personnel costs	702	919
Total staff costs	***5,489***	***5,495***
Other administrative expenses		
Data processing expenses	1,507	441
Building maintenance and rent	1,003	608
Costs of financial operations	725	874
Advertising and marketing	599	587
Advisory and legal services	469	256
Other administrative expenses	966	2,004
Total other administrative expenses	***5,269***	***4,770***
Depreciation		
Amortisation of intangible assets and other adjustments	272	537
Depreciation of property and equipment (Note 14)	2,478	2,639
Total depreciation, amortisation and other adjustments	***2,750***	***3,176***
Total	**13,508**	**13,441**

(b) Board of Directors and Supervisory Board Emoluments

MCZK	2000	1999
Salaries	105	78
Bonuses	3	9
Total	**108**	**87**

(c) Average Number of Employees and Board Members

	2000	1999
Board of Directors	31	33
Supervisory Board	46	50
Staff	16,333	17,487
Total	**16,410**	**17,570**

30. Other Operating Income and Expense

MCZK	2000	1999
Income from revaluation/sale of securities available-for-sale	908	–
Income from revaluation/sale of investment securities	216	5,948
Income from revaluation/sale of fixed asset investments	2	810
Other operating income	3,884	3,399
Total other operating income	***5,010***	***10,157***
Cost of revaluation/sale of securities available-for-sale	(1)	–
Cost of revaluation/sale of investment securities	(586)	(6,090)
Cost of revaluation/sale of fixed asset investments	–	(3)
Amortisation of goodwill	(6)	–
Restructuring charges (Note 20)	(1,776)	–
Other reserves	(3)	(46)
Other operating expense	(3,960)	(2,269)
Other taxes	(65)	(118)
Total other operating expense	***(6,397)***	***(8,826)***
Total other operating income/(expense)	**(1,387)**	**1,331**

Other operating expense for the year ended 31 December 2000 includes a loss incurred in respect of associated undertakings in the amount of CZK 689 million (1999: a profit of CZK 728 million).

31. Income Tax Expense

MCZK	2000	1999
Current tax expense	207	142
Deferred tax expense (Note 15)	768	1,969
Total	**975**	**2,111**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the home country of the parent as follows:

MCZK	2000	1999
Profit or loss before tax	1,000	(3,929)
Tax calculated at a tax rate of 31% (1999: 35%)	**310**	**(1,375)**
Income not subject to tax	(3,881)	(806)
Expenses not deductible for tax purposes	3,560	2,614
Tax credits	(31)	(67)
Other differences	249	(224)
Subtotal	**207**	**142**
Movement in deferred taxation (Note 15)	768	1,969
Income tax expense	**975**	**2,111**

Further information about deferred income tax is presented in Note 15.

32. Profit/(Loss) per Share

MCZK	2000	1999
Net profit/(loss) applicable to ordinary shares	41	(6,222)
Weighted average number of shares outstanding	152,000,000	86,651,800
Basic and diluted profit/(loss) per share (CZK)	**0.27**	**(71.80)**

The change in the weighted average shares outstanding relates to the share capital increase by 76 million shares during 1999.

33. Cash and Cash Equivalents

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

MCZK	2000	1999
Cash on hand (Note 6)	13,216	12,890
Nostro accounts with the CNB (Note 6)	652	953
Treasury bills with maturity of less than three months	26,202	25,023
Nostro accounts with financial institutions (Note 7)	817	1,122
Vostro accounts with financial institutions (Note 17)	(70)	(19)
Total cash and cash equivalents	**40,817**	**39,969**

34. Acquisition of the Business of Erste Bank Sparkassen (CR), a.s.

The acquisition of the business of Erste Bank Sparkassen (CR), a.s. (henceforth “EBCR”) and its integration into the Bank has been an integral part of the transformation process. The purchase of the business of EBCR was approved by the Supervisory Board and the Board of Directors of the Bank and the shareholders’ meeting of EBCR and was carried out in compliance with applicable legislation. The Business Purchase Agreement was also subject to a prior consent of the CNB.

The Bank and EBCR entered into a Licence Agreement relating to the EBCR trade-mark under which the Bank has the right to utilise the trade-mark for clearly defined business purposes.

The Bank and EBCR entered into the Business Purchase Agreement on 26 September 2000, the effective date of the agreement being 30 September 2000. The purchase price determined by an independent valuer was CZK 1,620 million. The difference between the purchase price and the net asset value of the assets and liabilities acquired from EBCR as at 30 September 2000 amounting to CZK 230 million was recognised against retained earnings in the shareholders’ equity accounts according to the principle of prudence.

The structure of assets and liabilities acquired from EBCR at the acquisition date was as follows:

MCZK	
Cash and balances with central banks	384
Amounts due from financial institutions	6,905
Amounts due from customers	13,703
Other financial investments	1,474
Intangible and tangible assets	215
Other assets, prepayments and accrued income	315
Amounts owed to financial institutions	(12,009)
Amounts owed to customers	(8,276)
Other liabilities, deferred income and accrued expenses	(1,321)
Subtotal	**1,390**
Difference between net assets acquired and purchase price	230
Purchase price	1,620
Less: cash and cash equivalents of EBCR	**(188)**
Cash flow on acquisition of EBCR, net of cash and cash equivalents	**1,432**

Cash and balances with the central bank acquired by the Bank in the acquisition of EBCR amounted to CZK 384 million of which CZK 188 million represented cash and cash equivalents and CZK 196 million represented the obligatory minimum reserve with CNB.

35. 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:

Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a ‘value at risk’ methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

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 as at 31 December 2000 is shown in Note 37.

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 to Note 38.

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 to Note 40 for an analysis of the Group's balance sheet as at 31 December 2000 and 1999, respectively.

In addition to the risks noted here, the Group also deals in derivative financial instruments which are discussed in greater detail in Note 36.

36. 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

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings correspond to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Current knowledge of the development of legal proceedings against the Group does not indicate a risk of material losses and therefore, the Group has recorded no provisions for the exposures associated with legal disputes as at 31 December 2000.

The Bank has been named as a defendant in a legal action brought by one particular party regarding rightful ownership of several of the Bank's buildings. While the ultimate outcome of this litigation cannot be ascertained at this time, based on current knowledge of the applicable laws and facts and taking into consideration the opinion of the Bank's internal and external legal counsel, an unfavourable outcome in this litigation is, in management's opinion, reasonably possible but not probable. At this time, the Bank cannot reasonably estimate a financial obligation arising from this matter. The Bank has not recorded an accrual for this matter in the financial statements for the year ended 31 December 2000.

Taxation

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.

Capital commitments

In the normal course of business, the Bank places orders and executes contracts for the purchase of property and equipment. Recently, the Bank has initiated a major project for the replacement and upgrade of its major information technology systems. The estimated total cost for these purchases is approximately CZK 2,830 million. The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks. Mandatory reserve deposits are also held with local central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.

Commitments from guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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	2000	1999
Acceptances	38	81
Guarantees and irrevocable letters of credit	3,999	4,820
Undrawn loan commitments	35,396	21,883

(b) Derivatives

The Group maintains strict control limits on net open derivative positions, ie. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (ie. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(c) 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 these contracts.

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	2000	1999
Notional amount of contracts		
Hedging instruments		
Commitments to sell	–	720
Trading instruments		
Commitments to purchase	62,550	6,113
Commitments to sell	62,631	8,110

(d) 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.

As at 31 December 2000	**MCZK**	**Weighted average rate**	
Notional amounts		**Receive**	**Pay**
Residual maturity			
– 1 year or less	5,963	6.56%	5.67%
– 1 to 5 years	21,683	6.44%	7.18%
– over 5 years	11,244	6.74%	6.24%
Total	**38,890**	**6.49%**	**6.88%**

As at 31 December 1999	**MCZK**	**Weighted average rate**	
Notional amounts		**Receive**	**Pay**
Residual maturity			
– 1 year or less	1,900	6.85%	6.95%
– 1 to 5 years	5,606	8.02%	7.43%
– over 5 years	6,245	6.36%	10.24%
Total	**13,751**	**7.10%**	**8.64%**

(e) Option Contracts

MCZK	**2000**	**1999**
National amounts		
Option contracts sold		
Interest rate	123	–
Foreign currency	2,039	–
Option contracts purchased		
Interest rate	123	–
Foreign currency	2,741	–

(f) 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.

Notional amounts	2000 MCZK	2000 Weighted average rate	1999 MCZK	1999 Weighted average rate
Residual maturity:				
Purchase				
– 1 year or less	47,491	6.23%	20,020	6.59%
– 1 to 5 year	200	6.92%	–	–
Sale				
– 1 year or less	54,491	6.23%	20,620	6.62%
– 1 to 5 year	200	6.99%	–	–

(g) 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	2000	1999
Notional amounts		
Trading instruments		
Commitments to purchase	11,657	3,349
Commitments to sell	–	–

(h) 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.

MCZK	2000	1999
Notional amounts		
Trading instruments		
Commitments to purchase	6,584	2,225
Commitments to sell	6,260	2,166

(i) Total Return Swaps

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 2000, the total notional amount of transactions involving total return swaps is CZK 1,794 million (1999: CZK 1,200 million). The Group’s potential exposure is estimated to be approximately CZK 1,945 million (1999: CZK 1,716 million).

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 2000, these provisions totalled CZK 656 million (1999: CZK 2,175 million). Refer to Note 20.

37. Net Foreign Exchange Positions

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

MCZK	2000	1999
On balance sheet		
CZK	429,350	371,306
EUR	4,621	3,337
USD	2,584	2,972
GBP	1,226	–
SKK	80	96
DEM	–	65
CHF	114	22
JPY	14	8
Other currencies	66	62
Total	**438,055**	**377,868**
Off-balance sheet		
USD	(1,167)	(3,219)
EUR	(9,534)	(1,972)
GBP	(350)	–
Other currencies	(553)	37
Total	**(11,604)**	**(5,154)**

38. 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 2000 and 1999. Variable yield assets and liabilities have been reported according to their next rate repricing date. Fixed income assets and liabilities have been reported according to their scheduled principal repayment dates.

As at 31 December 2000 MCZK	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Balances with the CNB	652	–	–	–	–	652
Loans and advances to financial institutions	68,217	13,205	42,393	10,104	4,000	137,919
Loans and advances to customers	71,884	31,479	11,415	7,901	1,293	123,972
Trading securities	1,368	11,446	25,906	537	69	39,326
Securities available for sale	–	1,974	–	–	–	1,974
Investment securities	1,657	1,606	5,068	28,375	12,054	48,760
Total	**143,778**	**59,710**	**84,782**	**46,917**	**17,416**	**352,603**
Liabilities						
Amounts owed to financial institutions	9,094	1,213	2,081	175	–	12,563
Amounts owed to customers	228,210	11,586	65,065	20,846	100	325,807
Bonds in issue	2	2	5	5,501	–	5,510
Subordinated debt	–	–	5,500	–	–	5,500
Total	**237,306**	**12,800**	**72,651**	**26,522**	**100**	**349,379**
Current gap	**(93,529)**	**46,910**	**12,131**	**20,395**	**17,316**	**3,224**
Cumulative gap	**(93,529)**	**(46,619)**	**(34,488)**	**(14,092)**	**3,224**	**–**

As at 31 December 2000 MCZK	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets						
Balances with the CNB	953	–	–	–	–	953
Loans and advances to financial institutions	34,190	33,151	53,271	4,190	7,678	132,480
Loans and advances to customers	69,059	9,477	13,898	7,315	1,388	101,137
Trading securities	13,073	13,849	19,599	15,909	2,364	64,794
Investment securities	–	270	6,460	3,037	–	9,767
Total	**117,275**	**56,747**	**93,228**	**30,451**	**11,430**	**309,131**
Liabilities						
Amounts owed to financial 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
Total	**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 2000 and 1999 are as follows:

As at 31 December 2000	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	0.00%	–	–	–
Loans and advances to financial institutions	5.69%	4.54%	6.69%	5.70%
Loans and advances to customers	7.64%	6.94%	6.15%	7.52%
Treasury bills	5.14%	–	–	5.14%
Trading securities	5.27%	–	–	5.27%
Investment securities	7.42%	6.04%	7.30%	7.35%
Liabilities				
Amounts owed to financial institutions	5.43%	5.19%	6.46%	5.45%
Amounts owed to customers	2.90%	2.17%	3.49%	2.90%
Bonds in issue	10.85%	–	–	10.85%
Subordinated debt	7.38%	–	–	7.38%

As at 31 December 2000	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%
Loans and advances to financial institutions	6.61%	3.01%	6.07%	6.57%
Loans and advances to customers	9.41%	5.30%	8.20%	9.01%
Treasury bills	5.89%	–	–	5.89%
Trading securities	9.47%	3.88%	8.20%	9.41%
Investment securities	6.41%	–	–	6.41%
Liabilities				
Amounts owed to financial 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%

39. 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	2000	1999
Financial institutions	204,201	154,361
Individuals	36,528	33,896
Trading	18,124	14,525
Energetics	12,196	15,665
Public sector	65,621	54,403
Construction	3,641	3,494
Hotels, public catering	2,421	2,315
Machine industries	22,936	5,261
Other	35,283	58,353
Total	**400,951**	**342,273**

For an analysis of the Group's assets and liabilities by geographical concentration refer to Note 43.

40. Maturity Analysis

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

MCZK	Demand and less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined	Total
Assets							
Cash and balances with the CNB	13,868	–	–	–	–	7,276	21,144
Loans and advances to financial institutions	33,500	47,763	40,392	17,487	16,002	(267)	154,877
Loans and advances to customers	59,779	10,674	18,514	32,867	13,066	(23,256)	111,644
Trading securities	9,101	20,612	12,162	4,983	159	–	47,017
Securities available for sale	763	112	1,081	749	8,427	–	11,132
Investment securities	–	231	3,819	36,170	14,599	263	55,082
Other assets	–	–	–	–	–	37,159	37,159
Total	**117,011**	**79,392**	**75,968**	**92,256**	**52,253**	**21,175**	**438,055**
Liabilities							
Amounts owed to financial institutions	6,353	4,716	1,974	3,666	–	–	16,709
Amounts owed to customers	151,850	68,487	39,375	93,225	4,540	–	357,477
Bonds in issue	–	4	5	5,166	–	–	5,175
Subordinated debt	–	–	–	–	5,500	–	5,500
Other liabilities	–	–	–	–	–	29,503	29,503
Total	**158,203**	**73,207**	**41,354**	**102,057**	**10,040**	**29,503**	**414,364**
Current gap	**(41,192)**	**6,185**	**34,614**	**(9,801)**	**42,213**	**(8,328)**	**23,691**
Cumulative gap	**(41,192)**	**(35,007)**	**(393)**	**(10,194)**	**32,019**	**23,691**	**–**

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	Over 5 years	Undefined	Total
Assets							
Cash and balances with the CNB	13,843	–	–	–	–	5,921	19,764
Loans and advances to financial institutions	26,938	27,684	35,806	23,929	18,377	78	132,812
Loans and advances to customers	3,127	7,216	23,214	30,554	11,381	28,987	104,479
Trading securities	12,178	12,849	18,194	22,051	2,944	1,781	69,997
Investment securities	–	170	570	8,951	64	5,366	15,121
Other assets	1,280	1,726	3,844	301	236	28,278	35,695
Total	**57,366**	**49,645**	**81,628**	**85,786**	**33,002**	**70,411**	**377,868**
Liabilities							
Amounts owed to financial institutions	4,036	968	1,141	4,716	16	–	10,877
Amounts owed to customers	152,526	23,821	41,218	96,243	73	3,446	317,327
Bonds in issue	–	10	12	5,174	–	–	5,196
Subordinated debt	–	–	–	–	5,500	–	5,500
Other liabilities	2,496	2,179	1,947	100	92	8,764	15,578
Total	**159,058**	**26,978**	**44,318**	**106,233**	**5,681**	**12,210**	**354,478**
Current gap	**(101,692)**	**22,667**	**37,310**	**(20,447)**	**27,231**	**58,231**	**23,390**
Cumulative gap	**(101,692)**	**(79,025)**	**(41,715)**	**(62,162)**	**(34,841)**	**23,390**	**–**

41. 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 2000 and 1999:

Balance sheet

MCZK	Carrying value 2000	Estimated fair value 2000	Carrying value 1999	Estimated value 1999
Financial assets				
Cash and balances with the CNB	21,144	21,144	19,764	19,764
Loans and advances to financial institutions	154,877	155,114	132,812	133,155
Loans and advances to customers	111,644	112,066	104,479	104,966
Trading securities	44,955	44,955	69,863	69,899
Trading derivatives with positive fair value	2,062	2,062	134	134
Securities available for sale	11,132	11,132	–	–
Investment securities	55,082	55,663	15,121	15,307
Financial liabilities				
Amounts owed to financial institutions	16,709	16,711	10,877	10,877
Amounts owed to customers	357,477	357,495	317,327	317,327
Bonds in issue	5,175	5,469	5,196	5,828
Subordinated debt	5,500	5,500	5,500	5,500
Trading derivatives with negative fair value	2,957	2,957	66	66

(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) Loans and Advances to Financial Institutions and Customers

The estimated fair value of performing loans and advances to financial 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.

(c) Debt and Equity Securities (and Other Securities)

Trading securities are recorded at market value on the Group's balance sheet. Market values of trading 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 unconsolidated subsidiaries are included at net asset value estimates.
The estimated fair value of treasury bills with residual maturities over 180 days is based on market maker quotes as at 31 December 2000 and 1999.

(d) Amounts Owed to Financial Institutions and Customers

The fair value of amounts owed to financial 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.

(e) Bonds in Issue

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

(f) 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.

Off balance sheet

Fair value estimates as at 31 December 2000 MCZK	Notional amount	Carrying value	Estimated fair value
Forward foreign currency contracts	62,550	(15)	(15)
Interest rate swaps	38,890	(760)	(760)
Option contracts written	5,026	(11)	(11)
Forward rate agreements	102,382	11	11
Cross currency swaps	6,584	(177)	(177)
Forward treasury bill contracts	11,657	–	–
Security swaps	1,794	(143)	(143)
Forward contracts with securities	314	–	–

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

(g) 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.

(h) 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 as at 31 December 2000 and 1999.

(i) Forward Rate Agreements

Fair value estimates are based on a theoretical forward interest rate based on the yield curve with a fair value of CZK 11 million and CZK (8) million as at 31 December 2000 and 1999, respectively.

(j) 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 as at 31 December 2000 and 1999.

(k) 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 2000.

(l) 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).

(m) 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.

42. Segment Reporting

(a) Industry Segments

	Banking		Other operations		Total	
MCZK	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**
External revenue	32,875	35,703	3,994	4,129	36,869	39,832
Inter-segment revenue	537	375	82	130	619	505
Total revenue	33,412	36,078	4,076	4,259	37,468	40,337
Segment result	1,297	(4,903)	392	436	1,689	(4,467)
Unallocated cost					–	(124)
Profit/(loss)					1,689	(4,591)
Net profit/(loss) from associates			(689)	662	(689)	662
Income tax (expense)/benefit					(975)	(2,111)
Minority interest					16	(182)
Net profit/(loss)					41	(6,222)
Other information						
Segment assets	424,573	360,752	15,523	12,376	440,096	373,128
Associates				4,335	–	4,335
Unallocated assets					(2,041)	405
Consolidated total assets					438,055	377,868
Segment liabilities	416,230	346,818	13,027	10,834	416,257	357,652
Unallocated liabilities					(1,893)	(3,174)
Consolidated total liabilities					414,364	354,478
Capital expenditure	3,163	1,359	128	200	3,291	1,559
Depreciation and amortisation	2,649	3,073	101	34	2,750	3,107
Provisions for loan losses	3,026	9,819	191	120	3,217	9,939

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

- Banking (retail, corporate and investment banking);
- 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 operations.

43. Concentration of Assets and Liabilities

The geographical concentration of assets and liabilities as at 31 December 2000 was as follows:

MCZK	OECD (1)	OECD (2) Government and central banks	Non-OECD (3)	Total
Assets				
Cash and balances with the CNB	13,215	7,929	–	21,144
Loans and advances to financial institutions	99,884	54,879	114	154,877
Loans and advances to customers	103,707	5,279	2,658	111,644
Trading securities	4,808	42,209	–	47,017
Securities available for sale	11,132	–	–	11,132
Investment securities	31,904	23,178	–	55,082
Other assets	31,213	5,946	–	37,159
Total assets	**295,863**	**139,420**	**2,772**	**438,055**
Liabilities				
Amounts owed to financial institutions	16,655	–	54	16,709
Amounts owed to customers	345,813	11,510	154	357,477
Bonds in issue	5,175	–	–	5,175
Subordinated debt	–	5,500	–	5,500
Other liabilities	28,308	1,195	–	29,503
Total liabilities	**395,951**	**18,205**	**208**	**414,364**
Net position	**(100,088)**	**121,215**	**2,564**	**23,691**

(1) Represents persons or entities located within Organisation for Economic Co-operation and Development ("OECD") countries, including the Czech Republic.
(2) Represents government bodies and central banks located within OECD countries, including the Czech Republic.
(3) Represents persons, entities or government bodies located outside OECD countries.

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

MCZK	OECD (1)	OECD (2) Government and central banks	Non-OECD (3)	Total
Assets				
Cash and balances with the CNB	12,890	6,874	–	19,764
Loans and advances to financial institutions	66,268	66,526	18	132,812
Loans and advances to customers	94,770	5,029	4,680	104,479
Trading securities	21,980	47,714	303	69,997
Investment securities	11,976	3,113	32	15,121
Other assets	28,512	7,183	–	35,695
Total assets	**236,396**	**136,439**	**5,033**	**377,868**
Liabilities				
Amounts owed to financial institutions	10,674	200	3	10,877
Amounts owed to customers	305,196	12,131	–	317,327
Bonds in issue	5,196	–	–	5,196
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	**(98,770)**	**117,130**	**5,030**	**23,390**

(1) Represents persons or entities located within Organisation for Economic Co-operation and Development ("OECD") countries, including the Czech Republic.
(2) Represents government bodies and central banks located within OECD countries, including the Czech Republic.
(3) Represents persons, entities or government bodies located outside OECD countries.

44. Assets under Administration

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.
The Group administered CZK 7,485 million and CZK 7,040 million of assets as at 31 December 2000 and 1999, respectively, representing securities and other valuables received from customers into its custody for administration.
Furthermore, the Group acts as a depositary for several investment funds, whose assets amounted to CZK 39,693 million and CZK 43,175 million as at 31 December 2000 and 1999, respectively.

45. 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 Erste Bank which holds 56.8% of the voting rights of the Bank's total votes.
The Bank has the following amounts due from/to receivables and payables with Erste Bank as at 31 December 2000.

MCZK	2000
Amounts due from Erste Bank	8,493
Amounts owed to Erste Bank	5,300

Amounts due from Erste Bank include CZK 4,970 million of bonds issued by Erste Bank as at 31 December 2000 (refer to Note 12).

(a) Directors and Officers

Loans and advances granted to the members of the Board of Directors and Supervisory Board were CZK 6,298 thousand and CZK nil as at 31 December 2000 and 1999, 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 as at 31 December 2000 and 1999, 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.

46. Post Balance Sheet Events

In connection with the purchase of a controlling interest in the Bank by Erste Bank, Erste Bank agreed, subject to certain conditions, to purchase from municipalities and local government non-traded priority shares of the Bank. On 4 April 2001 Erste Bank issued a press release confirming its intention to fulfil its obligations under this agreement and purchase 11,211,213 priority shares from municipalities. Details of these shares are given in Note 24 to the financial statements. Erste Bank has stated its intention to purchase the priority shares at a minimum purchase price of CZK 125 per share and has stated its intention to purchase at least 60% of the issued priority shares. Erste Bank is implementing a programme to fulfil this obligation in the year 2001.