

Financial Statements I

Unconsolidated Financial Statements
for the Year ended 31 December 2000
Prepared in Accordance with
Czech Accounting Standards



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& Touche**

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

We have audited the accompanying financial statements of Česká spořitelna, a.s. for the year ended 31 December 2000. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and equity of Česká spořitelna, a.s. as of 31 December 2000, the results of its operations and its financial position for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

Prague, 27. března 2001



Audit firm:
Deloitte & Touche spol. s r.o.
Certificate no. 79



Statutory auditor:
Michal Petrman
Certificate no. 1105

Deloitte
Touche
Tohmatsu

Unconsolidated Balance Sheet as at 31 December 2000

TCZK

	Note	Current accounting period			Previous accounting period
		Gross amount	Adjustment	Net amount	
A S S E T S					
1. Cash in hand, balances with central banks and post office banks		20,555,638	0	20,555,638	19,287,473
2. State treasury bills and other bills eligible for refinancing with CNB	10	85,815,324	0	85,815,324	59,330,784
a) state treasury bills and similar securities issued by the state		38,330,967	0	38,330,967	35,714,784
b) other treasury bills		47,484,357	0	47,484,357	23,616,000
3. Receivables from banks	11	138,636,787	(6,050)	138,630,737	118,519,169
a) repayable on demand		506,106	0	506,106	1,063,603
b) other receivables of which: subordinated assets		138,130,681 0	(6,050) 0	138,124,631 0	117,455,566 0
4. Receivables from clients	12	124,862,696	(17,716,022)	107,146,674	100,644,425
a) repayable on demand		4,629	0	4,629	4,880,306
b) other receivables of which: subordinated assets		124,858,067 0	(17,716,022) 0	107,142,045 0	95,764,119 0
5. Bonds and other fixed income securities for trading	13	1,403,911	(2,776)	1,401,135	28,254,693
a) issued by banks of which: own bonds		352,067 51,492	(289) (22)	351,778 51,470	8,609,862 107,816
b) issued by other entities		1,051,844	(2,487)	1,049,357	19,644,831
6. Shares and other variable yield securities for trading	14	7,532,303	(120,588)	7,411,715	759,034
7. Participation interests with substantial influence	15	3,041	(41)	3,000	176
a) in banks		0	0	0	0
b) in other entities		3,041	(41)	3,000	176
8. Participation interests with controlling influence	15	2,314,977	(1,100,117)	1,214,860	1,015,040
a) in banks		332,750	0	332,750	332,750
b) in other entities		1,982,227	(1,100,117)	882,110	682,290
9. Other financial investments	13, 14	54,446,780	(936,058)	53,510,722	10,217,407
10. Intangible fixed assets	16	3,429,543	(1,722,496)	1,707,047	1,247,152
a) establishment costs		0	0	0	0
b) goodwill		229,885	(14,368)	215,517	0
c) other		3,199,658	(1,708,128)	1,491,530	1,247,152
11. Tangible fixed assets	17	28,331,165	(12,379,050)	15,952,115	16,927,862
a) land and buildings for the purpose of banking activities		15,383,292	(2,873,820)	12,509,472	12,414,029
b) other		12,947,873	(9,505,230)	3,442,643	4,513,833
12. Treasury shares	14	0	0	0	0
13. Other assets	18	14,026,107	(138,413)	13,887,694	6,021,911
14. Shareholder receivables from capital subscribed but not paid		0	0	0	0
15. Prepayments and accrued income		2,082,626	0	2,082,626	2,044,355
TOTAL ASSETS		483,440,898	(34,121,611)	449,319,287	364,269,481

The notes set out on pages 50 to 76 form a part of these financial statements.

TCZK

	Note	Current accounting period	Previous accounting period
LIABILITIES			
1. Due to banks	19	67,709,951	31,976,115
a) repayable on demand		246,062	18,983
b) other payables		67,463,889	31,957,132
2. Due to clients	20	327,892,869	291,456,696
a) saving deposits		226,591,095	211,878,881
of which: repayable on demand		30,610,587	35,956,464
b) other payables		101,301,774	79,577,815
of which: repayable on demand		95,088,611	79,025,332
3. Certificates of deposit and similar debt securities	21, 22	5,509,825	5,531,497
a) certificates of deposits		9,825	31,497
b) other		5,500,000	5,500,000
4. Deferred income and accrued expenses		1,130,324	1,148,867
5. Reserves	24, 25	7,015,732	5,062,304
a) reserves for standard loans and guarantees		5,165,138	1,687,150
b) reserves for FX losses		0	0
c) reserves for other bank risks		570,108	3,262,943
d) other reserves		1,280,486	112,211
6. Subordinated liabilities	26	5,500,000	5,500,000
7. Other liabilities	28	14,177,232	8,001,245
8. Share capital	23	15,200,000	15,200,000
of which: registered share capital paid up		15,200,000	15,200,000
9. Share premium		0	0
10. Reserve funds	27	246,977	5,140,193
a) obligatory reserve funds		246,977	5,140,193
b) reserve fund for treasury shares		0	0
c) other reserve funds		0	0
11. Capital funds and other funds from profit	27	76,845	145,780
a) capital funds		2,024	1,854
b) other funds from profit		74,821	143,926
12. Retained earnings or accumulated losses from previous periods	27	0	0
13. Profit /(loss) for the accounting period	27	4,859,532	(4,893,216)
TOTAL LIABILITIES		449,319,287	364,269,481

OFF-BALANCE SHEET

1. Potential future liabilities arising from commitments	29	4,037,254	4,838,191
of which:			
a) acceptance and endorsements		37,972	81,134
b) payables resulting from guarantees		3,999,282	4,757,057
c) payables resulting from collateral		0	0
2. Other irrevocable liabilities	29	34,677,760	21,693,285
3. Receivables from spot, term and option transactions	29	237,425,359	75,132,300
4. Liabilities from spot, term and option transactions	29	235,746,676	75,327,205

The notes set out on pages 50 to 76 form part of these financial statements.

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

TCZK

	Note	Current accounting period	Previous accounting period
1. Interest income and similar income		22,764,498	27,796,410
of which: interest income from fixed income securities		5,437,884	5,259,429
2. Interest expense and similar expense		(11,748,478)	(15,130,148)
of which: interest expense from fixed income securities		(986,189)	(711,294)
A. Net interest income		11,016,020	12,666,262
3. Income from variable yield securities including		116,936	187,914
a) income from shares and other variable yield securities		6,946	114
b) income from participation interests with significant influence		0	0
c) income from participation interests with controlling influence		109,990	187,800
4. Commission and fee income		5,034,756	4,404,902
5. Commission and fee expense		(301,826)	(312,275)
6. Net profit/(loss) from financial operations		2,309,871	56,702
7. Other income	7	413,025	428,820
8. General operating expenses including:	6	(12,353,133)	(12,136,215)
a) employee expenses		(4,670,696)	(4,785,081)
aa) wages and salaries		(3,364,996)	(3,424,149)
ab) social insurance		(1,009,264)	(1,053,723)
ac) health insurance		(296,436)	(307,209)
b) other operating expenses		(7,682,437)	(7,351,134)
B.		(4,780,371)	(7,370,152)
C. Net operating income before provisions and reserves and other expenses		6,235,649	5,296,110
9. Creation of reserves and provisions for tangible and intangible fixed assets		(252,479)	(42,485)
a) creation of reserves for tangible fixed assets	24	(27,344)	(42,485)
b) creation of provisions for tangible fixed assets	24	(225,135)	0
c) creation of provisions for intangible fixed assets		0	0
10. Use of reserves and provisions for tangible and intangible fixed assets		24,989	18,210
a) use of reserves for tangible fixed assets	24	24,989	18,210
b) use of provisions for tangible fixed assets		0	0
c) use of provisions for intangible fixed assets		0	0
11. Other expenses	7	(1,760,434)	(15,879,699)
12. Creation of reserves and provisions for loans and guarantees	24	(3,955,312)	(10,840,179)
13. Use of reserves and provisions for loans and guarantees	24	3,431,917	14,793,081
14. Creation of reserves and provisions for participation interests and other financial investments		(3,712,984)	(2,404,351)
15. Use of reserves and provisions for participation interests and other financial investments		3,135,847	2,317,837
16. Creation of other reserves and provisions	24, 25	(3,235,079)	(1,694,050)
17. Use of other reserves and provisions	24	1,628,713	2,328,880
D.		(4,694,822)	(11,402,756)
E. Profit on ordinary activities before tax		1,540,827	(6,106,646)
18. Income tax on ordinary profit		4,564,680	(88)
19. Ordinary profit/(loss) for the accounting period after tax		6,105,507	(6,106,734)
20. Extraordinary income	8	637,416	1,476,405
21. Extraordinary expenses	8	(1,883,391)	(262,887)
22. Income tax on extraordinary profit		0	0
23. Extraordinary profit/(loss) after tax		(1,245,975)	1,213,518
24. Profit/(loss) for the accounting period		4,859,532	(4,893,216)

The notes set out on pages 50 to 76 form part of these financial statements.

Notes to the 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, was registered as a joint stock company in accordance with the Commercial Code and was entered into the Register of Companies held at the Regional Commercial Court in Prague 1, Czech Republic on 30 December 1991, Section B, Insert 1171. The Bank was incorporated by the National Property Fund pursuant to a Formation Plan of 27 December 1991 under S. 15 and subsequent sections of the Joint Stock Companies Act No. 104/1990 Coll. The Bank is a legal successor of Česká státní spořitelna (Czech State Savings Bank) and offers a broad range of commercial banking services on the territory of the Czech Republic.

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 (henceforth “Erste Bank”). 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 of the shares in the Securities Centre. The shareholding of 52.07% in the Bank is equivalent to 56.22% of the shareholders’ voting rights.

(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 25).

(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 carried 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, subject to prior consent of the Bank, 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 collected revenues plus interest earned by KOB.

(d) 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 Czech National Bank.

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 was recognised as goodwill amounting to CZK 230 million (refer to Note 16).

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

	MCZK
Total assets acquired from EBCR:	22,996
– Cash and balances with central banks	384
– Amounts due from banks	6,905
– Amounts due from clients	13,703
– Other financial investments	1,474
– Intangible and tangible assets	215
– Other assets, prepayments and accrued income	315
Total liabilities acquired from EBCR:	21,606
– Amounts owed to banks	12,009
– Amounts owed to clients	8,276
– Other liabilities, deferred income and accrued expenses	1,321
Purchase price	1,620
Resulting goodwill (refer to Note 16)	230

3. Basis of Preparation

(a) The financial statements have been prepared on the basis of underlying accounting records maintained in accordance with the Accounting Act and applicable regulations and decrees of the Czech Republic. These financial statements have been prepared under the historical cost convention and on an accruals basis of accounting.

The financial statements are presented in accordance with the Czech Finance Ministry Regulation No. 282/87 740/1998 of 9 December 1998, which sets out the overall framework for the presentation of financial statements of banks, guidelines for their structure and minimum requirements for the content of the financial statements of banks.

All figures are stated in thousands of Czech Crowns, unless stated otherwise. Figures in brackets represent negative amounts.

(b) These financial statements are unconsolidated financial statements and do not include the accounts and results of those companies over which the Bank has control or significant influence.

4. Summary of Significant Accounting Policies

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

(a) Treasury Bills and Other Eligible Bills

Treasury bills and other eligible bills and similar debt securities are carried at acquisition cost. Any discount/premium is capitalised and amortised on a straight-line basis through the profit and loss account over the period from the date of purchase to the date of maturity/sale.

Treasury bills and other eligible bills bought/sold under a commitment to resell/repurchase are recorded as stated below.

(b) Bonds and Other Fixed Income Securities and Shares and Other Variable Yield Securities

Bonds and other fixed income securities and shares and other variable yield securities are carried at acquisition cost less provisions for any temporary diminution in value or write-offs for any permanent diminution in value. Any discount/premium relating to bonds and other fixed income securities is capitalised and amortised on a straight-line basis.

Bonds and other fixed income securities where the Bank has the intent and ability to hold such securities to maturity and that are not classified as trading, and shares and other variable yield securities which were purchased with the intention to actively exercise the ownership right attached to them, are classified as "Other long-term financial investments" in the banking portfolio. Provisions against these securities are created across the entire banking portfolio by types of securities, that is, after netting positive and negative movements against the carrying value.

Bonds and other fixed income securities and shares and other variable yield securities held by the Bank with the intention of reselling them, thereby generating profits on price fluctuations in the short term, typically defined as one year, in such volumes that cannot substantially impact their prices obtained on the open market are classified as trading and included in the trading portfolio. Provisions against these securities are established as equal to the excess of the acquisition cost over the market value calculated on a specific identification basis.

The acquisition cost of disposed securities is determined using the weighted average method for the specific security.

The market values of bonds and other fixed income securities are determined using the published average reference prices reached on the Prague Stock Exchange (henceforth the "PSE"). The market values of securities traded on foreign markets are equal to the prices reached on the representative global markets. For other securities where the reference prices are not published, the prices of securities with similar characteristics are used, taking into consideration credit quality and liquidity of the respective security. The market values of securities that cannot be valued as outlined above are equal to the acquisition costs.

The market value of shares and variable yield securities included in the Bank's trading portfolio, and traded on the main and auxiliary markets of the PSE or public markets of the OECD member countries, is equal to the prices reached on those markets. The market price is discounted for the securities' liquidity in accordance with the Czech National Bank (henceforth the "CNB") Regulation No. 3 issued on 9 June 1997. The market value of tradable shares and other variable yield securities included in the Bank's banking portfolio is equal to the prices reached on the respective market. For non-tradable shares and other variable yield securities, the market value is determined as the acquisition cost or net assets value, based on a comparison of equity per share ratio to acquisition cost.

Expenses relating to the acquisition of tradable securities, such as commissions and brokerage fees, are expensed as incurred.

(c) Repo and Reverse Repo Transactions

Transactions where securities are sold under a commitment to repurchase (repurchase commitment) at a pre-determined price or purchased under a commitment to resell (resale commitment) are treated as collateralised borrowing and lending transactions. The legal title to securities subject to resale or repurchase commitments is transferred to the lender. Receivables from securities sold under a repurchase commitment are included in "Receivables from banks" or "Receivables from clients" while the borrowing is recorded in "Due to banks" or "Due to clients". Securities purchased under a resale commitment are recorded either as "State treasury bills and other bills eligible for refinancing with the CNB", "Bonds and other fixed income securities for trading" or "Shares and other variable yield securities for trading". Payables from securities purchased under a resale commitment are included in "Due to banks" or "Due to clients" whilst the lending is recorded in "Receivables from banks" or "Receivables from clients". Interest (income) on securities sold under a repurchase commitment is accrued and recorded in "Accrued income and deferred expense"; interest (income) is not accrued on securities recorded on the balance sheet purchased under a resale commitment.

Interest receivable or payable under resale or repurchase transactions, representing the difference between the sale and purchase amounts, is accrued over the term of the transaction and recorded in “Interest income and similar income” or “Interest expense and similar expense” in the profit and loss account.

(d) Participation Interests

Participation interests with controlling and substantial influence and other participation interests are recorded at acquisition cost less provision for any temporary diminution in value or write-offs for any permanent diminution in value.

A participation interest with controlling influence is an investment in a subsidiary, in which the Bank holds, directly or indirectly, more than 50% of the share capital of the company or in which the Bank can exercise more than 50% of the voting rights or where the Bank can appoint or dismiss a majority of the Board of Directors or Supervisory Board members.

A participation interest with substantial influence is an investment in an associate, in which the Bank holds, directly or indirectly, 20% to 50% of an organisation's share capital. These participations include participation interests where the Bank holds less than 20% of the company's share capital.

The market values of participation interests are based on the acquisition cost or net assets value, with a comparison of equity per share ratio to acquisition cost.

Provisions for participation interests with controlling and substantial influence are created for an amount equal to the excess of acquisition cost over market value, on an aggregate basis.

Dividends from participation interests held are recognised as income when received.

(e) Receivables from Banks and Clients

Receivables from banks and clients are carried net of provisions for classified loan receivables.

Receivables are reviewed regularly for recoverability. Based on such reviews, provisions are created against specific classified receivables as considered appropriate. Reserves are created to cover general risks inherent in the Bank's loan portfolio. Charges to the profit and loss account in respect of provisions and reserves created are recorded as “Creation of reserves and provisions for loans and guarantees”.

The tax deductible portion of the period charge for the creation of reserves and provisions for loan losses is calculated in accordance with the requirements of S. 5 (“Banking reserves and provisions”) and S. 8 (“Bankruptcy provisions”) of the Act on Reserves No. 593/1992, as amended.

The write-off of unrecoverable receivables is accounted for as “Other expenses” in the profit and loss account. Provisions or reserves are reduced by an amount equal to the amount written off with a corresponding credit to “Use of reserves and provision for loans and guarantees” in the profit and loss account. Recoveries on loans and advances previously written off are included in the profit and loss account in “Other income”.

Discounted bills of exchange are carried at their nominal value with related discounts being included in the balance sheet as “Deferred income and accrued expenses”. Discounts are amortised on a straight-line basis through the profit and loss account from the date of purchase to the date of maturity.

(f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in the local currency at the CNB exchange rates prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies, together with unmatured spot foreign exchange transactions, are translated into the local currency at the spot exchange rate prevailing on the balance sheet date. Foreign exchange rate gains and losses arising from the translation of assets and liabilities denominated in foreign currencies are recognised in the profit and loss account as “Net profit/(loss) from financial operations”.

(g) Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are recorded at historical cost net of accumulated depreciation and amortisation indicating the extent of wear and tear.

Donated tangible and intangible fixed assets are stated at replacement cost defined as the cost, for which the asset would be purchased at the point of time of the accounting entry.

Tangible fixed assets internally generated by the Bank are stated at own costs incurred to date. Intangible assets internally developed by the Bank are stated at the lower of own cost incurred or replacement costs.

Goodwill represents the difference between net assets value and fair market value of the Bank on its acquisition and is recorded as "Intangible assets" on the face of the balance sheet.

The tangible and intangible fixed assets are depreciated using the straight-line method over their estimated useful lives. The annual depreciation lives for each category of tangible and intangible fixed assets are as follows:

Intangible assets and goodwill	4 years
Furniture and fittings	4 to 6 years
Equipment and other facilities	4 to 12 years
Electric machines and equipment	6 to 12 years
Buildings and structures	20 to 30 years

Leasehold improvements are depreciated on a straight-line basis over the lease term.

Tangible assets costing less than CZK 40,000 and intangible assets costing less than CZK 60,000 are expensed to the profit and loss account in the year of acquisition.

(h) Income Tax

Non-tax deductible expenses are added to, and non-taxable income is deducted from, the profit for the period to arrive at the taxable income to which the current tax rate is applied. Current income tax is calculated at the end of the current reporting period in accordance with the Income Taxes Act No. 586/1992 Coll., as amended. The income tax rate effective for the year ended 31 December 2000 is 31% (1999: 35%).

Deferred taxation is calculated from differences between the tax base and the financial result before taxation, attributable to differences in depreciation charges on tangible and intangible assets in terms of the Income Taxes Act and the depreciation of these assets according to the depreciation plan of the Bank and all other temporary differences (such as creation of non-tax deductible reserves and provisions). The amount of deferred tax is calculated as equal to the difference between the tax depreciation and depreciation for financial reporting purposes multiplied by the income tax rate effective for the next accounting and taxable period (2001: 31%). As such, temporary differences are established from the differences on the balance sheet, not only from the cost and revenue change in the balance.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available.

(ch) Off-balance Sheet Instruments

Derivatives in the banking book

Derivatives in the banking book hedge instruments included in the banking book. Derivatives are carried at fair value on the balance sheet. In the off-balance sheet records derivatives are stated at the value of the underlying instrument and revalued to reflect fluctuations in the spot FX rates or prices of shares. Gains and losses arising on FX derivative instruments are recognised in the profit and loss account as Net profit/(loss) from financial operations. Changes in fair values of interest rate and equity derivatives are recognised as a component of the shareholders' equity accounts. Gains and losses from revaluation are recorded as income and expenses on a one-off basis when the hedge expires. Gains and losses from revaluation of interest rate derivatives without delivery or receipt of underlying instruments are recognised over time as the interest period of these derivatives progresses. These gains and losses are recognised in the profit and loss account as Net profit/(loss) from financial operations.

No provisions to reflect temporary diminution in value are recorded against assets that are carried at fair value or are included in the banking book and are hedged by forward or option contracts.

The hedging and hedged instruments are marked to market on a monthly basis as a minimum.

Derivatives in the trading book

Derivatives in the trading book are stated in the off-balance sheet records at the value of the underlying instrument and revalued to reflect fluctuations in the spot FX rates or prices of shares. These derivatives are carried at fair value on the balance sheet. Fair value is defined as the market value obtained under the conditions prevailing in the relevant market. If no market value is readily obtainable the Bank uses a qualified estimate to arrive at the valuation. Gains and losses from revaluation are recognised in the profit and loss account as Net profit/(loss) from financial operations.

With regard to credit swaps, the Bank has developed a methodology which is consistent with generally acceptable valuation techniques applicable to credit swaps. This methodology is based on the relationships between the probability of default of the underlying asset,

the volume being hedged, the fee collected for hedging, recoverability of the underlying asset and the probability spread in the case of default. The volume being hedged is based on contractual conditions and calculated as the maximum potential loss the Bank may incur in the event of default of the underlying asset without taking into account the residual value of the underlying asset as at the date of calculating the market value of the transaction.

Options

The Bank classifies options as either trading or banking based on its intent with respect to these options. Options are stated in the off-balance sheet at the value of the underlying instrument and are revalued to reflect fluctuations in spot rates. Options are carried at fair values on the balance sheet. Revaluation gains or losses are recognised in the profit and loss account as Profit/(loss) from financial operations. The acquisition cost of shares, interim certificates and other securities is increased by the price of the exercised call option. When the option is exercised or expires its fair value is recorded directly to expenses (options purchased) or income (options sold) in the profit and loss account.

(i) Prior Period Items

Prior period items that do not relate to the current year are recorded as extraordinary income or costs in the current year Profit and Loss account.

5. Changes in Accounting Policies

There have been no changes to the valuation policies applicable to assets, liabilities and off-balance sheet instruments for the year ended 31 December 2000, except as noted below.

The Czech Ministry of Finance issued Regulation No. 282/49 900/1999 dated 2 August 1999 and Regulation No. 282/83 709/1999 dated 22 December 1999 which updated and amended the Chart of Accounts and Accounting Procedures for Banks. In accordance with these Regulations, effective 1 January 2000, the Bank revised its valuation and accounting treatment for securities and derivatives (fixed-term forward transactions and options), provisions and deferred taxation as follows:

Securities

Securities held for trading and long-term financial investments are stated at cost on acquisition. Effective 1 January 2000, the cost of coupon debt securities consists of acquisition cost plus accrued coupon. The cost is increased/decreased over time to reflect accrued interest income/expense. The cost of zero-coupon debt securities is increased/decreased over time to reflect the accrued difference between nominal value and acquisition cost. The cost of coupon debt securities is adjusted to reflect the accrued difference between nominal value and net acquisition cost and accrued coupon. With regard to securities acquired prior to 1 January 2000, the Bank refers to the carrying amounts as at 31 December 1999 as a starting point.

The updated regulations have also provided more detailed guidance on the conditions for classifying securities as either banking or trading. Securities acquired under reverse repo transactions, securities taken as collateral for borrowed securities and securities received under repurchase agreements are recorded and maintained in a separate portfolio.

The amendments to the accounting procedures referred to above were accompanied by amendments to certain regulations issued by the CNB, specifically relating to capital adequacy ratio calculations reflecting market risk. Pursuant to these new regulations the Bank revised its strategy and classification of securities and derivatives into individual securities and effected transfers between individual portfolios. Securities included in the Ring Fencing Arrangement have been transferred to the banking portfolio. However, the Bank has continued to monitor this sub-portfolio separately reflecting the fact that the market value was equal to the value guaranteed by KOB.

In view of the altered strategy of the Bank and its intent to sell a portion of the portfolio, share certificates of open-ended mutual funds held by the Bank (Český OPF, Výnosový OPF, Všeobecný OPF) were re-allocated from the banking securities portfolio to the trading securities portfolio as at 31 July 2000.

Purchases and sales of securities between trade and settlement dates are recognised in the off-balance sheet.

Derivatives

The updated accounting regulations set out a strict definition of derivatives. Derivatives are classified as trading or banking in accordance with CNB Regulations and the updated accounting regulations and are stated at fair value effective 1 January 2001. Gains or losses from revaluation are recorded directly to the profit and loss account (in the case of derivatives in the trading book and FX derivatives in the banking book) or as a component of shareholders' equity (in the case of other derivatives included in the banking book). For details please refer to Note 8.

Provisions

Under the updated accounting procedures, the Bank has changed its provisioning policy applicable to assets. No provisions are recorded against assets that are carried at fair value or are included in the banking book and are hedged by forward or option contracts.

There is a new provisioning requirement relating to FX asset accounts.

Taxation

Czech Finance Ministry Regulation No. 282/83 709/1999, which became effective as at 1 January 2000, updated the treatment of deferred taxation. Deferred taxation is calculated based on all temporary differences (refer to Note 4 (h)). This updated regulation had a positive impact of CZK 4,590 million on the Bank's profit and loss account for the year ended 31 December 2000.

The corporate income tax rate decreased from 35% to 31% from 1999 to 2000 pursuant to amendment No. 129/1999 Coll. to the Income Tax Act.

Furthermore, the specific tax rate applicable to dividend income from shares, interim certificates and share certificates was revised downward from 25% to 15%. The effect of this change amounting to CZK 13.7 million was recognised in the profit and loss account as "Income from variable yield securities."

Pursuant to another amendment No. 170/1999 Coll. to the Income Tax Act, pension benefits provided by the employer in respect of state-supported employee pension schemes are considered deductible for tax purposes. This change amounting to CZK 38.5 million has impacted the income tax base for the year ended 31 December 2000.

6. General Operating Expenses

Analysis of General Operating Expenses

TCZK	2000	1999
Employee expenses	4,670,696	4,785,081
Wages and salaries	3,364,996	3,424,149
Social security and health insurance charges	1,305,700	1,360,932
Other general operating expenses	7,682,437	7,351,134
Other remuneration	45,667	35,696
Taxes and fees	61,893	115,572
Purchased consumables and services	5,055,510	4,621,102
Depreciation of tangible fixed assets	1,895,602	2,060,997
Amortisation of intangible fixed assets	623,765	517,767
Total general operating expenses	12,353,133	12,136,215

The average number of the Bank's staff is as follows:

	2000	1999
Employees	14,510	15,653
Members of the Supervisory Board	12	12
Members of the Board of Directors	6	5
Other management members	0	16

Remuneration paid to the members of the Board of Directors and Supervisory Board was CZK 66,648 thousand (1999: CZK 63,329 thousand), of which CZK 54,951 thousand (1999: CZK 51,872 thousand) related to the Board of Directors and CZK 11,697 thousand (1999: CZK 11,457 thousand) to the Supervisory Board.

7. Other Income and Expenses

TCZK	2000	1999
Income from transfer of participation interests	0	0
Income from transfer of other assets	132,784	115,883
Other	280,241	312,937
Total other income	413,025	428,820

TCZK	2000	1999
Receivables from banks written off and transferred	0	2,267
Receivables from clients written off and transferred	727,945	15,035,281
Costs of transfer of participation interests	0	3,000
Costs of transfer of other assets	149,559	172,743
Contribution to the Deposit Insurance Fund	869,684	651,002
Other	13,246	15,406
Total other expenses	1,760,434	15,879,699

8. Extraordinary Income and Expenses

TCZK	2000	1999
Corrections to prior year income	190,506	72,408
Compensation for damage, fines and penalties	17,167	13,050
Income from changes in accounting policies	384,588	0
Other income including out-of-court settlement proceeds	45,155	1,390,947
Total extraordinary income	637,416	1,476,405
Corrections to prior year expenses	53,766	63,289
Damage, fines and penalties	24,045	48,360
Costs of changes in accounting policies	1,801,985	0
Other expenses	3,595	151,238
Total extraordinary expenses	1,883,391	262,887

As a result of methodological changes effective as from 1 January 2000, the effect of the one-off restatement of financial derivatives amounting to CZK 385/(1,802) million was recognised as extraordinary income/expenses. As at 1 January 2000, the Bank additionally released a reserve of CZK 1,443 million previously charged through the profit and loss account as at 31 December 1999 for financial derivatives. This reserve was created in the year 1999 to cover losses arising from the market revaluation of hedging instruments to the value that exceeded unrealised gains from the market revaluation of the instrument being hedged.

9. Taxation

Income Tax

The below table sets out adjustments to the profit/(loss) on ordinary activities before tax to arrive at the income tax base:

MCZK	2000	1999
Profit/(loss) on ordinary activities before tax	1,541	(6,107)
Extraordinary income	637	1,477
Extraordinary expenses	(1,883)	(263)
Profit/(loss) before tax	295	(4,893)
Expenses not deductible for tax purposes	10,356	18,143
Income not taxable	(12,054)	(15,275)
Timing difference between accounting and tax depreciation	438	242
Income tax base	(965)	(1,783)
Tax liability (2000: 31%, 1999: 35%)	0	0
Tax reliefs	0	0
Income tax expense for the year	0	0
Income tax under additional tax returns	(25)	0
Income tax liability	(25)	0

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	

Deferred Taxation

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

MCZK	2000	1999
At the beginning of year	0	0
Profit and loss account (charge)/credit	4,590	0
At the end of year	4,590	0

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

MCZK	2000	1999
Deferred tax assets		
Tax losses carried forward let	10,805	0
Non-tax deductible reserves and provisions	6,638	0
Other deferred tax assets	1,668	0
Deferred tax liabilities		
Intangible and tangible assets	(985)	0
Total temporary differences	18,126	0
50% write-off of non-tax deductible provisions and reserves	(3,319)	0
Total	14,807	0
Tax rate	31%	
Deferred tax assets	4,590	0

The deferred tax credit in the profit and loss account comprises the following temporary differences:

MCZK	2000	1999
Tax losses carried forward	3,350	0
Provisions and reserves	1,029	0
Other temporary differences	211	0
Total	4,590	0

Czech Finance Ministry Regulation No. 282/83 709/1999, which became effective as at 1 January 2000, updated the treatment of deferred taxation. Deferred taxation is calculated based on all temporary differences. This updated regulation had a positive impact of CZK 4,590 million on the Bank's profit and loss account for the year ended 31 December 2000.

Management of the Bank consider that it is probable that the Bank will realise its deferred tax assets based on the current and expected future levels of taxable profits, the only exception being the amount of CZK 3,319 million which represents 50% of the reported non-tax deductible reserves and provisions as at 31 December 2000 and is equivalent to the deferred tax of CZK 1,029 million.

10. State Treasury Bills and Other Bills Eligible for Refinancing with the CNB

TCZK	2000	1999
State treasury bills	38,330,967	35,714,784
Other bills	47,484,357	23,616,000
Total	85,815,324	59,330,784

The balance of treasury bills includes bills of CZK 55,042,134 thousand (1999: CZK 23,886,451 thousand) held under resale commitments. As at 31 December 2000, these bills of CZK 7,557,778 thousand (1999: CZK nil) were sold under short sales arrangements.

No treasury bills were transferred as collateral for loans taken under repurchase transactions for the years ended 31 December 2000 and 1999, respectively.

11. Receivables from Banks

(a) Net Receivables from Banks

TCZK	2000	1999
Receivables from banks	36,201,316	37,504,298
Loans to banks	102,435,471	81,074,236
less: provisions against classified loans	(6,050)	(59,365)
Net loans to banks	102,429,421	81,014,871
Receivables from banks	138,636,787	118,578,534
Total net receivables from banks	138,630,737	118,519,169

Receivables from banks include receivables from securities taken as collateral for loans under repurchase transactions amounting to CZK 323,623 thousand (1999: CZK nil). In addition, this balance includes amounts due from credit derivatives, which constitute country and counterparty risk, totalling CZK 1,550,000 thousand.

(b) Analysis of Receivables from Banks by Remaining Maturity

TCZK	2000	1999
Repayable on demand	506,106	1,063,603
Up to 3 months	74,259,331	48,363,865
Less than 1 year	30,282,319	27,487,412
From 1 year to 2 years	600,000	11,707,566
From 2 years to 4 years	13,287,296	500,000
From 4 years to 5 years	3,700,000	11,078,842
Greater than 5 years	16,001,735	18,377,246
Total	138,636,787	118,578,534

The proportion of receivables due within one year is 75.77% (1999: 64.86%).

(c) Analysis of Receivables from Banks by Type of Collateral

TCZK	2000	1999
State guarantees and guarantees issued by the CNB	0	57,566
Receivables transfer agreement	0	0
Securities	0	0
Real estate collateral	0	0
Securities under reverse repo transactions	55,040,000	23,886,451
	55,040,000	23,944,017
Non-collateralised	83,596,787	94,634,517
Total	138,636,787	118,578,534

As at 31 December 2000, the collateral held by the Bank for loans advanced to banks totalled CZK 55,040,000 thousand (1999: CZK 23,944,017 thousand). As at 31 December 2000, the collateral for loans advanced to banks included securities underlying reverse repo transactions amounting to CZK 55,042,134 thousand (1999: CZK 23,886,451 thousand).

No loans were granted to subsidiary undertakings.

(d) Receivables from Banks Written off and Recoveries of Receivables from Banks Written off

TCZK	2000	1999
Write-offs	0	2,267
Recoveries	0	0

12. Receivables from Clients

(a) Receivables from Clients

TCZK	2000	1999
Corporate loans in CZK	74,032,008	70,483,733
Retail and retail private loans in CZK	31,639,325	30,968,510
Corporate and retail loans in foreign currencies	18,824,258	12,594,853
Short-term loans for trade receivables – in CZK	335,053	3,890,382
– in foreign currency	4,306	131,031
Total loans to clients	124,834,950	118,068,509
less: provisions against classified loans	(17,716,022)	(17,451,031)
Net loans to clients	107,118,928	100,617,478
Receivables from securities	4,148	0
Current accounts – overdrafts	23,598	26,947
Total receivables from clients	107,146,674	100,644,425

For the year ended 31 December 2000, receivables from clients included receivables from banks which have had their banking licences revoked. This amount totalled CZK 1,641,994 thousand (1999: CZK 1,711,623 thousand).

Loans granted to subsidiary and associated undertakings were as follows:

TCZK	2000	1999
Corfina, a.s.	587,456	1,653,934
Sindat ČS Consulting, a.s.	13,178	13,533
ČS-Factoring, a.s.	810,758	991,602
ČS-Živnostenská pojišťovna, a.s.	0	250,000
Hotelová společnost, s.r.o.	112,292	119,595
Total	1,523,684	3,028,664

(b) Receivables from Clients by Classification

	2000				1999			
	Total	Collateral	Adjusted value	Provisions and reserves	Total	Collateral	Adjusted value	Provisions and reserves
Standard	76,691,531	33,299,953	43,391,578	2,807,494	70,404,388	43,974,141	26,430,247	1,863,697
Watch	16,387,023	10,642,288	5,744,735	735,980	18,570,764	11,213,588	7,357,176	367,859
Substandard	8,490,071	7,442,126	1,047,945	777,998	7,658,429	5,499,167	2,159,262	431,853
Doubtful	2,724,485	2,212,667	511,818	490,005	1,785,438	671,148	1,114,290	557,145
Loss	20,569,586	5,827,040	14,742,546	17,622,576	19,676,437	6,527,222	13,149,215	16,094,174
Total	124,862,696	59,424,074	65,438,622	22,434,053	118,095,456	67,885,266	50,210,190	19,314,728

Collateral values are stated net of discount that indicates the recovery rate of the relevant type of collateral. Provisioning levels against loss loans include additional provisions in terms of CNB Regulation No. 193/1998 Coll. (refer to Note 24).

(c) Analysis of Receivables from Clients by Sector and Remaining Maturity as at 31 December 2000

TCZK	Up to 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Greater than 5 years	Total
Non-financial institutions	11,638,939	12,393,002	5,843,874	7,740,210	4,203,740	12,596,844	54,416,609
Financial institutions	4,020,980	1,706,573	2,158,771	1,101,697	54,259	5,032,070	14,074,350
Insurance companies	68,297	1,340	0	0	0	0	69,637
Government sector	363,310	980,295	992,744	1,498,862	506,552	972,289	5,314,052
Not-for-profit organisations	1,289,754	550,688	10,385	247,276	3,736	583,165	2,685,004
Self employed	1,463,588	991,937	666,182	778,943	246,183	6,565,508	10,712,341
Resident individuals	3,922,418	526,010	1,410,063	7,276,965	1,034,178	17,688,726	31,858,360
Non-resident individuals	470,999	1,559	223,226	202,296	449,078	106,305	1,453,463
Unallocated	155,817	478,771	426,981	1,484,962	122,390	1,609,959	4,278,880
Total	23,394,102	17,630,175	11,732,226	20,331,211	6,620,116	45,154,866	124,862,696

(c) Analysis of Receivables from Clients by Sector and Remaining Maturity as at 31 December 1999

TCZK	Up to 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Greater than 5 years	Total
Non-financial institutions	19,941,573	15,902,464	6,400,874	6,149,748	1,406,157	2,502,952	52,303,768
Financial institutions	894,029	75,897	63,900	53,612	1,724	11,419	1,100,581
Insurance companies	250,630	1,890	1,970	0	0	0	254,490
Government sector	307,863	879,297	999,032	1,401,448	552,360	926,604	5,066,604
Not-for-profit organisations	35,433	5,002	9,240	10,648	220	2,244	62,787
Self employed	9,415,085	1,245,420	993,584	1,184,943	344,530	1,051,214	14,234,776
Resident individuals	4,560,344	6,266,986	4,980,108	4,282,229	1,965,184	5,422,472	27,477,323
Loans in foreign currency	2,390,536	3,676,485	2,219,926	2,330,934	776,137	1,188,251	12,582,269
Non-resident individuals	107,635	0	0	0	250,000	35,979	393,614
Unallocated	2,122,841	1,701,973	284,824	321,231	99,325	89,050	4,619,244
Total	40,025,969	29,755,414	15,953,458	15,734,793	5,395,637	11,230,185	118,095,456

As at 31 December 2000, the proportion of receivables with remaining maturity less than 1 year to total receivables from clients was 32.86% (1999: 59.08%).

(d) Analysis of Receivables from Clients by Sector and Type of Collateral as at 31 December 2000

MCZK	Banking guarantees	Bills of exchange	Pledged real estate	Pledged movables	Third party guarantees	Cash collateral	Bonds and shares	Ceded receivables	Non-collateralised	Total
Non-financial institutions	9,549	3,881	16,267	237	4,715	804	1,596	3,280	14,087	54,416
Financial institutions	602	88	3,495	9	3,088	481	0	1,644	4,668	14,075
Insurance companies	0	0	2	0	0	0	0	0	68	70
Government sector	12	14	1,742	0	3,463	4	0	0	79	5,314
Not-for-profit organisations	17	8	158	0	50	3	7	1	2,441	2,685
Self employed	1,034	267	4,805	223	519	76	1	83	3,705	10,713
Resident individuals	1	5	7,914	1	5,520	15	0	6	18,396	31,858
Non-resident individuals	107	0	4	0	588	0	0	0	754	1,453
Unallocated	0	0	16	0	5	0	0	0	4,258	4,279
Total	11,322	4,263	34,403	470	17,948	1,383	1,604	5,014	48,456	124,863

(d) Analysis of Receivables from Clients by Sector and Type of Collateral as at 31 December 1999

MCZK	Banking guarantees	Bills of exchange	Pledged real estate	Pledged movables	Third party guarantees	Cash collateral	Bonds and shares	Ceded receivables	Non-collateralised	Total
Non-financial institutions	387	5,788	22,126	626	6,905	84	1,278	7,628	7,482	52,304
Financial institutions	0	126	24	0	7	0	0	72	871	1,100
Insurance companies	0	0	4	0	0	0	0	0	250	254
Government sector	0	10	1,926	0	3,114	2	0	0	15	5,067
Not-for-profit organisations	0	0	55	0	4	3	0	0	1	63
Self employed	86	219	10,399	385	662	36	2	130	2,316	14,235
Resident individuals	0	0	7,057	0	9,084	0	0	0	11,336	27,477
Loans in foreign currency	158	58	1,185	89	2,434	0	970	3,089	4,599	12,582
Non-resident individuals	0	0	0	0	0	0	0	0	394	394
Unallocated	0	115	12	0	494	0	1,723	0	2,248	4,592
Total	631	6,316	42,788	1,100	22,704	125	3,973	10,919	29,512	118,068

Collateral values are stated at nominal values. Provisions against loans to clients are established as equal to the nominal value net of discount that indicates the recovery rate of this type of collateral.

(e) Receivables from Clients Written off and Transferred and Recoveries

TCZK	2000	1999
Non-financial institutions	541,608	11,368,566
Financial institutions	27,294	1,143,234
Government sector	0	222,467
Not-for-profit organisations	0	4,626
Self employed	150,635	2,244,003
Resident individuals	8,236	26,182
Non-resident individuals	173	0
Unallocated	0	26,203
Total write-offs	727,945	15,035,281
Total recoveries	24,165	17,585

(f) Syndicated Loans

The Bank did not act as a lead bank in any syndicated loan arrangements for the years ended 31 December 2000 and 1999, respectively. Of the total balance of CZK 17,489,445 thousand of provided syndicated loans, where the Bank was a consortium member, CZK 7,190,112 thousand was advanced by the Bank. All consortium members share the interest receivable from the syndicated loan and attached risks in a ratio corresponding to the volume of the funds invested.

13. Bonds and Other Fixed Income Securities**(a) Analysis of Bonds and Other Fixed Income Securities Held for Trading Purposes**

TCZK	2000		1999	
	Cost	Market value	Cost	Market value
Issued by financial institutions				
Listed on the PSE – main market	153,536	152,996	5,147,488	5,130,311
Open market and auxiliary market of the PSE	147,273	147,125	1,174,832	1,173,851
Not listed on the PSE	30,121	30,099	2,778,402	2,012,754
	330,930	330,220	9,100,722	8,316,916

Issued by non-financial institutions

Listed on the PSE – main market	273,745	273,772	3,647,982	3,643,054
Open market and auxiliary market of the PSE	43,711	43,764	8,379,702	7,838,276
Not listed on the PSE	284,620	291,762	629,048	101,371
	602,076	609,298	12,656,732	11,582,701

Issued by government sector

Listed on the PSE – main market	409,796	410,118	7,230,462	7,232,216
Open market and auxiliary market of the PSE	0	0	0	0
Not listed on the PSE	0	0	0	0
	409,796	410,118	7,230,462	7,232,216

Total	1,342,802	1,349,636	28,987,916	27,131,833
less: provisions for securities	(2,776)		(1,877,623)	
Net book value of securities	1,340,026	1,349,636	27,110,293	27,131,833
Coupons of securities	61,109	61,109	1,272,885	1,144,400
less: provisions for coupons of securities	0		(128,485)	
Net book value of coupons	61,109	61,109	1,144,400	1,144,400
Total net value	1,401,135	1,410,745	28,254,693	28,276,233

For the year ended 31 December 2000, the net book value of bonds held for trading includes bonds subject to resale commitment at a cost of CZK 637,760 thousand and at a market value of CZK 637,760 thousand (1999: cost of CZK nil and market value of CZK nil). The Company transferred bonds of CZK 327,772 thousand as collateral for loans taken under repo transactions as at 31 December 2000 (1999: CZK nil). The proportion of bonds with remaining maturity less than one year to the total value of these assets is 48.99% as at 31 December 2000 (1999: 17.15%). The trading portfolio of bonds held by the Bank as at 31 December 2000 comprised bonds issued by a foreign issuer at a cost of CZK 85,637 thousand (1999: CZK 3,923,415 thousand). Pursuant to the CNB Regulation No. 3/1999 entitled "Bank Capital Adequacy including Credit and Market Risk" the Bank has re-allocated its securities into the trading and banking book as at 1 April 2000.

(b) Analysis of Bonds and Other Fixed Income Securities Held for Investment Purposes

TCZK	2000		1999	
	Cost	Market value	Cost	Market value
Issued by financial institutions				
Listed on the PSE – main market	2,242,255	2,240,294	0	0
Open market and auxiliary market of the PSE	6,300,192	6,217,091	0	0
Not listed on the PSE	10,276,333	10,093,006	6,385,563	5,989,969
	18,818,780	18,550,391	6,385,563	5,989,969
Issued by non-financial institutions				
Listed on the PSE – main market	2,379,670	2,478,710	0	0
Open market and auxiliary market of the PSE	3,578,504	3,672,413	0	0
Not listed on the PSE	10,060,408	9,779,020	0	0
	16,018,582	15,930,143	0	0
Issued by government sector				
Listed on the PSE – main market	17,351,606	17,373,365	0	0
Open market and auxiliary market of the PSE	0	0	0	0
Not listed on the PSE	0	0	0	0
	17,351,606	17,373,365	0	0
Total	52,188,968	51,853,899	6,385,563	5,989,969
less: provisions for securities	(833,759)		(395,594)	
Net book value of securities	51,355,209	51,853,899	5,989,969	5,989,969
Coupons	2,039,655	2,016,461	0	0
less: provisions for coupons	(23,194)		0	0
Net book value of coupons	2,016,461	2,016,461	0	0
Total net value	53,371,670	53,870,360	5,989,969	5,989,969

As at 31 December 1999, investment securities included two zero coupon bonds issued by Bankers Trust International (“BTI”) which yield 4.77% *per annum* and mature 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 allocated to other share certificates held by the Bank in the securities trading portfolio.

The banking book of debt securities held by the Bank as at 31 December 2000 consisted of bonds costing CZK 17,424,841 thousand (1999: CZK 6,385,563 thousand) issued by a foreign issuer. These debt securities are largely comprised of eurobonds denominated in CZK and foreign currencies and bonds issued by the parent company Erste Bank at a cost of CZK 4,970,377 thousand and at a market value of CZK 4,862,697 thousand. Of this balance, the loan exposure of the Bank to bonds issued by Zone B countries (excluding Slovakia) amounted to CZK 78,977 thousand (1999: CZK 1,002 million). This loan exposure principally relates to Russia (the Municipality of Moscow). The remaining bonds were issued by Czech entities.

(c) Total Bonds and Other Fixed Income Securities

TCZK	2000		1999	
	Cost	Market value	Cost	Market value
Bonds and other fixed income securities held for trading	1,401,135	1,410,745	28,254,693	28,276,233
Bonds and other fixed income securities held for investment purposes	53,371,670	53,870,360	5,989,969	5,989,969
Total	54,772,805	55,281,105	34,244,662	34,266,202

14. Shares and Share Certificates

a) Analysis of Shares and Share Certificates Held for Trading

TCZK	2000		1999	
	Cost	Market value	Cost	Market value
Issued by financial institutions				
Listed on the PSE – main market	10,926	11,208	0	0
Open market and auxiliary market of the PSE	0	0	0	0
Not listed on the PSE	0	0	0	0
	10,926	11,208	0	0
Issued by non-financial institutions				
Listed on the PSE – main market	49,585	52,923	183,258	190,589
Open market and auxiliary market of the PSE	32,472	32,011	85,815	88,333
Not listed on the PSE	7,439,320	8,546,310	493,391	495,050
	7,521,377	8,631,244	762,464	773,972
Total	7,532,303	8,642,452	762,464	773,972
less: provisions for securities	(120,588)		(3,430)	
Total net value	7,411,715	8,642,452	759,034	773,972

For the years ended 31 December 2000 and 1999, the net book value of shares and share certificates held for trading does not include shares that are subject to resale commitment. In addition, the Bank purchased no treasury shares for trading.

As at 31 December 2000, total shares and share certificates include share certificates of Český, Výnosový and Všeobecný OPF costing CZK 4,016,097 thousand which were re-allocated to the banking book during the year in accordance with the Bank’s investment strategy applicable to securities. As at 31 December 2000, the acquisition cost of these share certificates was CZK 7,298,783 thousand and the market value was CZK 8,525,146 thousand.

As at 31 December 2000, the level of shares and share certificates issued by subsidiary and associate undertakings was CZK 7,298,783 thousand at cost (1999: CZK 509,719 thousand) and CZK 8,525,146 thousand at market value (1999: CZK 515,154 thousand).

(b) Analysis of Shares and Share Certificates Held for Investment Purposes

TCZK	2000		1999	
	Cost	Market value	Cost	Market value
Issued by financial institutions				
Listed on the PSE – main market	0	0	0	0
Open market and auxiliary market of the PSE	0	0	0	0
Not listed on the PSE	162,911	90,300	162,912	90,300
	162,911	90,300	162,912	90,300
Issued by non-financial institutions				
Listed on the PSE – main market	0	0	0	0
Open market and auxiliary market of the PSE	14,138	11,338	801,468	1,076,250
Not listed on the PSE	41,108	37,414	3,263,058	3,530,731
	55,246	48,752	4,064,526	4,606,981
Total	218,157	139,052	4,227,438	4,697,281
less: provisions for securities	(79,105)		0	
Total net value	139,052	139,052	4,227,438	4,697,281

As at 31 December 2000, the balances detailed above include no shares and share certificates issued by subsidiary and associate undertakings (1999: CZK 4,016,097 thousand at cost and CZK 4,563,444 thousand at market value).

(c) Total Shares and Share Certificates

TCZK	2000		1999	
	Cost	Market value	Cost	Market value
Shares and share certificates held for trading	7,411,715	8,642,452	759,034	773,972
Shares and share certificates held for investment purposes	139,052	139,052	4,227,438	4,697,281
Total net value	7,550,767	8,781,504	4,986,472	5,471,253

15. Participation Interests with Substantial and Controlling Influence

Participation Interests with Substantial Influence

Name	Registered address	Amount (TCZK)		% capital held	
		2000	1999	2000	1999
ČS-Factoring, a.s.	Prague 8, Pobřežní 46	3,000	3,000	10%	10%
Hotelová společnost, s.r.o.	Prague 4, Marie Cibulkové 34	21	21	10%	10%
IC, s.r.o.	Prague 10, Pod strání 8/1262	20	20	10%	10%
		3,041	3,041		
less: provisions for participation interests		(41)	(2,865)		
Participation interests with substantial influence and other participation interests, net		3,000	176		

Substantial influence over these companies does not result from the Bank's equity interest in these companies (the share in the capital is only 10% in all cases referred to above). The Bank's substantial influence is particularly attributable to the Statutes of the companies and Articles of Association entered into with other shareholders.

Participation Interests with Controlling Influence

Name	Registered office	Amount (TCZK)		% capital held		Profit/ (loss) 1999	Equity 1999
		2000	1999	2000	1999		
Ceska Sporitelna-Finance, B.V.	Netherlands	637	656	100%	100%	(229)	128
Corfina, a.s.	Prague 8, Střelnická 8/1680	300,000	300,000	100%	100%	110,030	304,513
ČS-Informatika, a.s.	Prague 8, Bubenská 1	10,000	10,000	100%	100%	(877)	9,102
ČS-Spořitelní akademie, a.s.	Prague 1, Na Příkopě 29	1,000	1,000	100%	100%	(5)	1,025
ČS-Živnostenská pojišťovna, a.s.	Pardubice, Smilova 547	1,363,080	1,113,080	55.25%	100%	(47,978)	374,949
Spořitelní investiční společnost, a.s.	Prague 1, Řásnovka 12	77,000	77,000	100%	100%	129,493	593,337
Spořitelní penzijní fond, a.s.	Prague 4, Poláčkova 1976/2	230,000	230,000	92%	92%	123,025	212,506
ČS-Stavební spořitelna, a.s.	Prague 7, pplk. Sochora 40	332,750	332,750	60.5%	60.5%	363,179	1,451,978
SINDAT ČS Consulting, a.s.	Prague 10, Pod strání 8/1262	510	510	51%	51%	2,373	7,079
		2,314,977	2,064,996				
less: provisions for participation interests		(1,100,117)	(1,049,956)				
Participation interests with controlling influence, net		1,214,860	1,015,040				

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).

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 underwriter was decreased from CZK 816,000 thousand to CZK 367,200 thousand so as to cover accumulated losses. Subsequently, the Bank and Sparkasse Versicherung AG from the Erste Bank Group raised the share capital by subscribing for CZK 250,000 thousand and CZK 500,000 thousand in shares, respectively. As a result of these transactions, the share capital of ČS-Živnostenská pojišťovna, a.s. increased to CZK 1,117,200 thousand and the Bank's equity interest declined from 100% to 55.25%.

Total provisions against participation interests principally consisted of provisions against the shareholdings in ČS-Živnostenská pojišťovna, a.s. and Spořitelní penzijní fond, a.s. so as to cover the decrease in equity of these companies arising from the losses incurred in prior years.

16. Intangible Fixed Assets

Analysis of Intangible Fixed Assets

TCZK	Goodwill	Software and other intangible fixed assets	Fixed assets not yet in use	Total
Cost				
Balance at 1 January 2000	0	2,215,337	139,755	2,355,092
Additions	229,885	702,508	856,379	1,788,772
Disposals	0	(11,890)	(702,431)	(714,321)
Balance at 31 December 2000	229,885	2,905,955	293,703	3,429,543
Accumulated amortisation				
Balance at 1 January 2000	0	(1,107,940)	0	(1,107,940)
Additions	(14,368)	(609,397)	0	(623,765)
Disposals	0	9,209	0	9,209
Balance at 31 December 2000	(14,368)	(1,708,128)	0	(1,722,496)
Net book value				
Balance at 1 January 2000	0	1,107,397	139,755	1,247,152
Balance at 31 December 2000	215,517	1,197,827	293,703	1,707,047

Goodwill amounting to CZK 230 million was recognised in connection with the acquisition of the assets and liabilities of EBCR (refer to Note 2 (d)).

17. Tangible Fixed Assets

(a) Analysis of Tangible Fixed Assets

TCZK	Land and buildings for banking activities	Equipment, facilities and other	Fixed assets not yet in use	Total
Cost				
Balance at 1 January 2000	14,624,139	12,854,207	1,078,091	28,556,437
Additions	894,095	1,070,316	1,238,942	3,203,353
Disposals	(134,942)	(1,557,181)	(1,736,502)	(3,428,625)
Balance at 31 December 2000	15,383,292	12,367,342	580,531	28,331,165
Accumulated depreciation				
Balance at 1 January 2000	(2,210,110)	(9,418,465)	0	(11,628,575)
Additions	(560,610)	(1,334,992)	0	(1,895,602)
Disposals	39,063	1,331,199	0	1,370,262
Provisions	(142,163)	(82,972)	0	(225,135)
Balance at 31 December 2000	(2,873,820)	(9,505,230)	0	(12,379,050)
Net book value				
Balance at 1 January 2000	12,414,029	3,435,742	1,078,091	16,927,862
Balance at 31 December 2000	12,509,472	2,862,112	580,531	15,952,115

(b) Tangible Fixed Assets Held Under Lease Agreements

As at 31 December 2000, the Bank recorded tangible fixed assets with a carrying value of CZK 399 million (1999: CZK 1,433 million) which are subject to leasing agreements in which the Bank acts as a lessee. During 2000, the lease agreement entered into with Corfina, a.s. in 1997 in respect of the acquisition of banking equipment and computers totalling CZK 1,219 million expired.

(c) Non-operational Tangible Movable Fixed Assets Acquired by the Bank from Debtors as Loan Collateral (S. 553 of the Civil Code)

As at 31 December 2000, the Bank recorded non-operational tangible fixed assets totalling CZK 270 million (1999: CZK 213 million) acquired from debtors as loan collateral by way of transfer of pledged movable fixed assets. In these cases, the Bank, as a creditor, used the collateral instrument as set out in S. 553 of the Civil Code, that is, the Bank pledged the debtors' liabilities by the transfer of ownership of movable fixed assets and at the same time loaned the pledged assets to the debtor under a borrowing contract. As at 31 December 2000, the Bank's liabilities of CZK 270 million (1999: CZK 213 million) arising from the above stated collateral are included in the item "Other liabilities".

18. Other Assets

TCZK	2000	1999
Various debtors including prepayments	5,061,004	4,373,812
Deferred tax asset	4,590,187	0
Financial derivatives with positive fair value	2,241,585	0
Other	2,133,331	1,779,731
Total	14,026,107	6,153,543
less: provisions	(138,413)	(131,632)
Total other assets	13,887,694	6,021,911

As at 31 December 2000, total other assets reflect the effect of changed accounting policies principally in relation to the deferred tax asset and financial derivatives with positive fair value.

Various debtors include receivables from subsidiary undertakings amounting to CZK 67,319 thousand as at 31 December 2000 (1999: CZK 23,858 thousand). In addition, this account consists of a receivable from AB Banka totalling CZK 2,692,428 thousand (1999: CZK 2,692,428 thousand) arising from a cession of receivables from clients of this bank.

19. Due to Banks

Analysis of Amount Due to Banks by Remaining Maturity

TCZK	2000	1999
Repayable on demand	246,062	18,983
Up to 3 months	64,457,658	28,898,039
Less than 1 year	1,021,231	463,328
From 1 year to 2 years	520,000	2,248,529
From 2 years to 4 years	1,255,000	320,796
From 4 years to 5 years	210,000	10,576
Greater than 5 years	0	15,864
Total	67,709,951	31,976,115

Amounts due less than one year include CZK 55,042,135 thousand (1999: CZK 23,886,451 thousand) relating to commitments from securities collateralising loans advanced under reverse repo transactions.

20. Due to Clients

(a) Due to Clients

TCZK	2000	1999
Current accounts (credit balances)	84,656,378	68,373,356
Savings deposits (excluding government and municipal sector)		
Repayable on demand	30,610,587	35,956,464
Repayable at call	136,163,916	134,167,500
Term	58,740,348	40,278,307
Accounts with government bodies, municipalities – budgetary funding		
Repayable on demand	6,497,650	3,723,278
Term	248,310	1,179,522
Accounts with government bodies, municipalities – off-budgetary funding		
Repayable on demand	3,934,584	6,928,698
Term	827,933	297,088
Loans received from clients	720,431	120,033
Depository bills of exchange	4,854,972	432,450
Commitments from collateral	637,760	0
Total due to clients	327,892,869	291,456,696

(b) Analysis of Due to Clients by Sector and Remaining Maturity as at 31 December 2000

TCZK	Up to 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Greater than 5 years	Total
Non-financial institutions	20,008,720	553,841	11,133	3,450	0	100,000	20,677,144
Financial institutions	3,798,383	553	300,000	0	0	0	4,098,936
Insurance companies	278,196	0	0	0	0	0	278,196
Government sector	11,755,050	67,455	15,976	42,815	0	34,542	11,915,838
Not-for-profit organisations	5,228,141	38,741	0	0	0	0	5,266,882
Self employed	9,955,223	19,858	216	0	0	0	9,975,297
Resident individuals	160,121,722	31,977,476	54,325,236	26,927,696	0	0	273,352,130
Non-resident individuals	1,663,518	188,880	3,078	0	0	0	1,855,476
Unallocated	351,499	108,766	12,705	0	0	0	472,970
Total	213,160,452	32,955,570	54,668,344	26,973,961	0	134,542	327,892,869

(b) Analysis of Due to Clients by Sector and Remaining Maturity as at 31 December 1999

TCZK	Up to 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Greater than 5 years	Total
Non-financial institutions	12,806,411	408,857	9,898	526	2,884	0	13,228,576
Financial institutions	1,021,026	7,138	14,675	29,350	14,775	54,095	1,141,059
Insurance companies	1,039,807	0	0	0	0	0	1,039,807
Government sector	12,584,828	104,140	144	717	0	0	12,689,829
Not-for-profit organisations	4,641,493	122,609	2,627	1,832	0	0	4,768,561
Self employed	9,038,954	108,349	1,975	450	0	0	9,149,728
Resident individuals	130,480,325	32,787,068	58,118,294	27,175,308	4,461	0	248,565,456
Non-resident individuals	723,816	129,451	2,504	0	0	0	855,771
Unallocated	17,909	0	0	0	0	0	17,909
Total	172,354,569	33,667,612	58,150,117	27,208,183	22,120	54,095	291,456,696

21. Certificates of Deposit**Analysis of Certificates of Deposit by Sector and Remaining Maturity as at 31 December 2000**

TCZK	Up to 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Greater than 5 years	Total
Non-financial institutions	0	482	0	0	0	0	482
Financial institutions	0	0	0	0	0	0	0
Insurance companies	0	0	0	0	0	0	0
Government sector	0	0	0	0	0	0	0
Not-for-profit organisations	0	0	0	0	0	0	0
Self employed	0	0	0	0	0	0	0
Resident individuals	4,404	4,209	695	35	0	0	9,343
Non-resident individuals	0	0	0	0	0	0	0
Unallocated	0	0	0	0	0	0	0
Total	4,404	4,691	695	35	0	0	9,825

Analysis of Certificates of Deposit by Sector and Remaining Maturity as at 31 December 1999

TCZK	Up to 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Greater than 5 years	Total
Non-financial institutions	0	500	150	0	0	0	650
Financial institutions	0	0	0	0	0	0	0
Insurance companies	0	0	0	0	0	0	0
Government sector	0	0	0	0	0	0	0
Not-for-profit organisations	130	170	0	0	0	0	300
Self employed	0	0	0	0	0	0	0
Resident individuals	9,897	10,576	8,930	730	0	0	30,133
Non-resident individuals	0	399	15	0	0	0	414
Unallocated	0	0	0	0	0	0	0
Total	10,027	11,645	9,095	730	0	0	31,497

22. Debt Securities Issued

In February 1997, the Bank issued bonds with a nominal value of CZK 5,000,000 thousand with a fixed interest rate of 10.75% *per annum* and a maturity date of 27 February 2002. The bonds have been issued in certificate form and are traded on the main market of the Prague Stock Exchange.

In August 1998, the Bank launched an issue of mortgage certificates with a nominal value of CZK 500,000 thousand. These certificates have a fixed interest rate of 11.85% *per annum* and mature in the year 2003. They were issued in book form and are traded on the open market of the Prague Stock Exchange.

23. Share Capital

As at 31 December 2000, the issued share capital of the Bank amounted to CZK 15,200,000 thousand and consisted of 11,211,213 preference registered shares with a nominal value of CZK 100 each and 140,788,787 ordinary bearer shares with a nominal value of CZK 100 each.

The Shareholders of the Bank as at 31 December 2000 are as Follows:

Name	Address	Number of shares	% ownership
Erste Bank der Oesterreichischen Sparkassen AG	Austria, Vienna, Graben 21	79,976,565	52.62
Česká pojišťovna, a.s.	Prague 1, Spálená 16	13,139,166	8.64
EBRD	Great Britain, London, One Exchange Square	9,000,000	5.92
Other (less or equal to 3%)		49,884,269	32.82
Total		152,000,000	100.00
of which: shares held by related parties		2,530	0.002

In June 1996, the Bank issued 5,090,000 Global Depository Receipts (“GDRs”), representing 6.7% of the Bank’s share capital at that time. Holders of the GDRs have no voting rights. The depository of the GDRs is Bankers Trust Company, New York. As at 31 December 2000, 887,709 GDRs were administered by the depository (1999: 2,777,034 GDRs) representing 0.58% (1999: 1.8%) of the Bank’s share capital. GDRs are traded on the London Stock Exchange (LSE).

24. Provisions and Reserves

Provisions for loan losses are created in accordance with CNB Regulation No. 194/1998 Coll., which sets out the principles of classification of loan receivables and provisioning against these loan receivables. Tax deductible reserves for loan losses and reserves for repairs of tangible assets are created in compliance with Reserves Act No. 593/1992 Coll., as amended. Non-tax deductible reserves are created to cover general risks inherent in the loan portfolio at levels in excess of the limits determined by the Reserves Act. During 2000, the Bank recorded non-tax deductible restructuring reserves (refer to Note 25).

(a) Analysis of Provisions and Reserves from a Taxation and Accounting Viewpoint

TCZK	2000	1999
1. Tax deductible provisions for loan losses		
Balance at 1 January	13,541,996	17,675,787
Reclassification from other tax deductible provisions	–	0
Provisioning charge during the year		
Classified loans – watch	150,470	185,318
– substandard	381,856	163,582
– doubtful	272,449	178,322
– loss	1,262,257	1,174,201
Amounts due from debtors in bankruptcy and settlement	454,742	3,867,827
Use of provisions during the year	(1,141,460)	(9,703,041)
FX gains and losses from securities denominated in foreign currencies	35,944	0
Provisions for loan losses at 31 December	14,958,254	13,541,996
2. Non-tax deductible provisions for loan losses		
Balance at 1 January	3,968,400	5,140,826
Provisioning charge during the year		
Classified loans – watch	125	121,241
– substandard	29,892	184
– doubtful	118	373,520
– loss	1,261	2,048,717
Amounts due from debtors in bankruptcy and settlement	211,462	779,623
Use of provisions during the year	(1,451,264)	(4,495,711)
FX gains and losses from securities denominated in foreign currencies	3,824	0
Balance of non-tax deductible provisions at 31 December	2,763,818	3,968,400
3. Total provisions for loan losses at 31 December (1+2)	17,722,072	17,510,396
4. Other tax deductible provisions		
Balance at 1 January	129,742	109,902
Provisioning charge against		
Other amounts due from debtors in bankruptcy and settlement	3,287	16,411
Non-statute barred debts	12,898	6,908
Use of provisions during the year	(7,514)	(3,479)
Balance of other tax deductible provisions at 31 December	138,413	129,742
5. Other non-tax deductible provisions		
Balance at 1 January	1,890	1,890
Provisioning against tangible assets	225,135	0
Use of provisions for other risks	(1,890)	0
Balance of other non-tax deductible provisions at 31 December	225,135	1,890
6. Total provisions at 31 December (3+4+5)	18,085,620	17,642,028

TCZK	2000	1999
7. Tax deductible reserves for on-balance sheet and off-balance sheet loan losses		
Balance at 1 January	1,687,150	633,765
Creation of reserves during the year:		
For guarantees	58,945	85,569
For commercial loans	1,131,762	1,317,001
Use of reserves during the year	(18,695)	(349,185)
Balance of tax deductible reserves at 31 December	2,859,162	1,687,150
8. Non-tax deductible reserves for on-balance sheet and off-balance sheet loan losses		
Balance at 1 January	3,262,943	3,617,683
Creation of reserves during the year	2,022,948	2,215,804
Use of reserves during the year	(2,409,807)	(2,570,544)
Balance of non-tax deductible reserves at 31 December	2,876,084	3,262,943
9. Total reserves for on-balance sheet and off-balance sheet loan losses at 31 December (7+8)	5,735,246	4,950,093
10. Tax deductible reserves for repairs of tangible assets		
Balance at 1 January	82,211	57,936
Creation of reserves during the year	27,344	42,485
Use of reserves during the year	(24,988)	(18,210)
Balance of reserves for repairs of tangible assets at 31 December	84,567	82,211
11. Non-tax deductible other reserves		
Balance at 1 January	30,000	30,000
Creation of reserves during the year	1,195,919	0
Use of reserves during the year	(30,000)	0
Balance of other reserves at 31 December	1,195,919	30,000
12. Total reserves at 31 December (9+10+11)	7,015,732	5,062,304
13. Total provisions and reserves (6+12)	25,101,352	22,704,332

(b) Analysis of Provisions and Reserves for on and Off-balance Sheet Loan Risks

TCZK	2000	1999
Provisions (3.)	17,722,072	17,510,396
Reserves (9.)	5,735,246	4,950,093
Total	23,457,318	22,460,489

Czech National Bank Regulation No. 193/1998, which sets out the principles for classification of loan receivables and provisioning, makes it mandatory for banks to create additional provisions for loss loan receivables that are past due by greater than 361 days and that are fully or partially collateralised by real estate so as to ensure that, by no later than 31 December 2000, the total volume of additional provisions for loan receivables which are more than over 361 days past due covers 100% of the loss loan receivables value that is collateralised by real estate. Additional provisions of CZK 1,579,241 thousand have been recorded as at 31 December 2000 (1999: CZK 2,924,536 thousand) as a result of this requirement.

25. Restructuring Reserves

The Bank has a detailed formal plan for restructuring its business. The Bank has created restructuring reserves of CZK 1,776 million in the year 2000. The Bank has utilised a portion of these reserves during 2000 and the outstanding balance is CZK 1,421 million as at 31 December 2000.

The following table provides a summary of the restructuring reserves:

Reason for creating a restructuring reserve	Balance at 31 December 2000 (TCZK)
Costs of closure of branches	50,897
Costs of replacement of software	507,000
Costs of earlier termination of leases of buildings	150,000
Costs of severance and compensation associated with reducing staff numbers	488,022
Disposal of under-utilised assets (refer to Note 17 (a))	225,135
Total	1,421,054

The balance of restructuring reserves is reported on the face of the balance sheet under the caption "Reserves", the only exception being the amount of CZK 225,135 thousand that is recorded in the balance sheet under "Fixed assets." The profit and loss account reflects restructuring reserves under the heading "Creation of other reserves and provisions", the only exception being CZK 225,135 thousand that is charged through the item "Creation of provisions for tangible fixed assets". In addition, the Bank has developed a plan for using these restructuring charges over the coming two years. The restructuring process may result in other costs and expenses being incurred. These costs and expenses will be recorded as incurred in the profit and loss account on an accrual basis of accounting.

26. Subordinated Liabilities

In 1998, the Bank received a subordinated debt totalling CZK 5,500,000 thousand from KOB 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 Bank 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%. On 29 December 1998, the CNB issued a certificate confirming that this subordinated debt is compliant with all regulatory requirements and may be included in additional capital of the Bank for the purposes of calculating the capital adequacy ratio.

The terms underlying the subordinated debt are as follows:

- (a) In the event that the Bank is forced into bankruptcy (A) KOB is entitled to obtain performance under this agreement in relation to the loan by way of subordinate claim and this performance is conditional upon the aggregate recoveries from the sale of the Bank's assets being greater than the aggregate amount of claims of all bankrupt's creditors of the Bank (conditional claim), and furthermore subject to the condition set out in (A) being met then KOB is entitled to obtain performance under this agreement in relation to the loan solely up to the amount that would be obtained by it if the claims under this agreement in relation to the loan were satisfied proportionately and jointly with all subordinate claims that rank pari passu to the bank's claims under this agreement in relation to the loan, and solely from that portion of the recoveries from the sale of the Bank's bankruptcy assets that is greater than the aggregate amount of insubordinate claims of all bankrupt's creditors of the Bank; and
- (b) With the Bank being placed into liquidation (once the bankruptcy has been completed or in any other manner) KOB's entitlement to obtain performance under this agreement in relation to the loan is conditional upon all insubordinate claims of all the Bank's creditors being fully settled.

27. Retained Earnings, Reserve Funds and Other Funds from Profit

The Bank has covered its loss for the year ended 31 December 1999 as follows:

TCZK	Retained earnings	Statutory reserve fund	Other funds from profit	Capital funds
Balance at 31 December 1999	0	5,140,193	143,926	1,854
Loss for the year 1999	(4,893,216)	-	-	-
Other allocations	-	-	3,926	170
Use of funds to cover loss	4,893,216	(4,893,216)	-	-
Other use of funds	-	-	(73,031)	-
Balance after allocation	0	246,977	74,821	2,024

Other allocations include contributions to the Social Fund (other funds from profit) totalling CZK 3,926 thousand, which represents instalments of loans granted to employees from the Social Fund and profit from the running of the Bank's leisure and holiday facilities. The use of the Social Fund is consistent with the relevant provisions of the Collective Agreement. Other capital funds are created based on a free-of-charge acquisition of tangible assets.

The Board of Directors of the Bank has recommended to allocate the profit for the year ended 31 December 2000 as follows:

TCZK	Retained earnings	Statutory reserve fund	Other funds from profit	Capital funds
Balance at 31 December 2000	0	246,977	74,821	2,024
Profit for the year 2000	4,859,532	–	–	–
Allocations to funds	(342,977)	242,977	100,000	–
Dividends	(22,422)	–	–	–
Balance after allocation	4,494,133	489,954	174,821	2,024

28. Other Liabilities

TCZK	2000	1999
Various creditors including prepayments received	5,283,952	5,671,015
Financial derivatives with negative fair value	3,296,505	0
Estimated payables	2,277,984	953,917
Other short-term payables to clients	2,884,076	646,649
Other	434,715	729,664
Total other liabilities	14,177,232	8,001,245

As at 31 December 2000, various creditors include payables of CZK 127,085 thousand to subsidiary undertakings (1999: CZK 6,198 thousand). As at 31 December 2000, this account additionally consists of prepayments of CZK 2,800,000 thousand (1999: 2,800,000 thousand) received from the Czech National Bank and the Czech Finance Ministry to cover amounts due from AB Banka (refer to Note 18).

29. Off-balance Sheet Liabilities

(a) Irrevocable Contingent Liabilities from Acceptances and Endorsements of Bills of Exchange, Other Written Contingent Liabilities and Assets Pledged as Collateral

TCZK	2000	1999
Banks		
Acceptances and endorsements of bills of exchange	37,972	81,134
Guarantees issued	108,056	2,352,978
	146,028	2,434,112
Clients		
Guarantees issued	3,259,122	1,682,700
Assets pledged as guarantees	378,130	721,379
Other contingent liabilities	253,974	0
	3,891,226	2,404,079
Letters of credit, undrawn credit facilities and loan commitments	34,677,760	21,693,285

(b) Contingent Assets, Guarantees and Collateral at Nominal Value

TCZK	2000	1999
Guarantees received from other banks	17,793,657	16,663,561
Guarantees issued by the state and other entities	35,055,151	13,951,193
Assets taken as collateral	69,359,412	62,566,135
Total	122,208,220	93,180,889

(c) Off-balance Sheet FX, Interest Rate and Other Financial Derivatives

TCZK	2000		1999	
	Assets	Liabilities	Assets	Liabilities
<i>Hedging instruments</i>				
Forward FX transactions	0	0	686,100	719,580
Interest rate swaps	0	0	1,000,000	1,000,000
Total hedging instruments	0	0	1,686,100	1,719,580
<i>Trading instruments</i>				
FRA	102,382,520	102,382,520	40,639,160	40,639,160
Option contracts	5,024,710	5,029,835	0	0
Forward FX contracts	70,683,436	70,671,895	16,180,352	16,147,630
Spot interest rate transactions	306,616	420,763	0	0
Spot FX transactions	6,383,144	6,377,232	0	0
Forward interest rate transactions	13,437,367	11,656,865	3,348,545	3,348,545
Forward equities transactions	314,185	314,185	0	0
Interest rate swaps	38,889,843	38,889,843	13,233,603	13,427,750
Other derivative instruments	3,538	3,538	44,540	44,540
Total trading instruments	237,425,359	235,746,676	73,446,200	73,607,625
Total	237,425,359	235,746,676	75,132,300	75,327,205

The Bank recorded the total reserves of CZK 656,282 thousand (1999: CZK 2,175,508 thousand) for off-balance sheet risks. These reserves have been included in Note 24 b) in "Provisions and reserves for on and off balance sheet credit risks".

30. Assets under Administration

Assets under administration by the Bank amounted to CZK 7,475 million (1999: CZK 7,040 million) and represented the following types of products:

MCZK	2000	1999
Client securities under administration	4,009	3,844
Client securities in custody	202	466
Share certificates of Bondinvest	0	0
Client securities in the depository of the Prague Stock Exchange	3,274	2,730
Total	7,485	7,040

In addition, the Bank acts as a depository for investment, mutual and pension funds with the assets of CZK 39,693 million as at 31 December 2000 (1999: CZK 43,175 million).

31. Total Assets and Liabilities in Foreign Currencies

TCZK	2000	1999
Assets and liabilities in foreign currencies		
Assets		
Denominated in CZK	418,974,010	342,863,555
Denominated in foreign currencies	30,345,277	21,405,926
Total assets	449,319,287	364,269,481
Liabilities		
Denominated in CZK	430,405,627	350,243,779
Denominated in foreign currencies	18,913,660	14,025,702
Total liabilities	449,319,287	364,269,481
Foreign currency position		
Assets in foreign currencies		
On-balance sheet	30,345,277	21,405,926
Off-balance sheet	43,283,598	12,801,158
Total	73,628,875	34,207,084
Liabilities in foreign currencies		
On-balance sheet	18,913,660	14,025,702
Off-balance sheet	72,302,159	29,071,551
Total	91,215,819	43,097,253

32. Loans Advanced to the Members of the Board of Directors and Supervisory Board

As at 31 December 2000, the Bank advanced loans of CZK 4,668 thousand and CZK 1,630 thousand (1999: CZK nil) to the members of the Board of Directors and Supervisory Board, respectively. These loans were issued under normal market conditions.



Consolidated Group Performance Report

(Figures in the Performance Report are based on Consolidated Financial Statements prepared in accordance with International Accounting Standards)

Česká spořitelna and its financial group have returned to the black after two years of losses. The Bank posted a consolidated net profit of CZK 41 million after taxes and excluding minority shareholdings. In view of the size of the parent Bank, the consolidated results are to a large extent determined by the earnings posted by Česká spořitelna itself. The achieved net profit had a direct impact on the return on equity and return on assets numbers, which were 0.18% and 0.01%, respectively.

Strict cost management brought success in the form of minimal growth in general operating expenses, which climbed only 0.5% (by CZK 67 million) to CZK 13,508 million. On the other hand, a decline in net interest income in particular led to a four-percent drop in operating income to CZK 19,112 million in spite of the fact that non-interest operating income jumped 23% to CZK 7,114 million. For this reason, operating income fell year-on-year to CZK 5,604 million and the income/expense ratio edged up 2.90 percentage points to 70.68%. On the other hand, the share of non-interest income in operating income rose 8.04 percentage points to 37.23%.

Net Interest Income

Net interest income for the year 2000 was CZK 11,998 million, which in year-on-year terms represents a decline of CZK 2,045 million (15%). The entities that contribute the most to net interest income are Česká spořitelna (CZK 10,739 million, numbers for individual companies in the consolidation perimeter do not include the influence of elimination of intracorporate revenues and costs, or of receivables and payables), ČS-stavební spořitelna (CZK 648 million) and Corfina (CZK 426 million). The net income revenue figure is in line with the movement of interest rates in the market and results from the allocation of assets to treasury bills, treasury notes, and interbank loans, which implies a convergence of interest expenses and income. Compared to 1999, the net interest margin fell by 0.60 of a percentage point to 2.79%. The largest decline in interest income took place in transactions with clients, an area that was also affected negatively by a gradual decline in the volume of client loans provided in Česká spořitelna during the first eight months of 2000. This trend reversed itself in September in conjunction with the integration of the assets of Erste Bank ČR. A substantial factor in the lower interest income at Corfina was the termination of agreements in the leasing portfolios from the years 1997 and 1998.

Net Creation of Reserves and Provisions to Loans and Receivables

The dramatic year-on-year fall in net creation of reserves and provisions (by CZK 8,433 million to CZK 3,217 million) relates to the clean-up of the parent Bank's loan portfolio in late 1999 and the impact of the Ring Fencing Agreement executed by and among Česká spořitelna, Corfina and Konsolidační banka, by which Česká spořitelna and Corfina created CZK 2,982 million in reserves and provisions.

Net Fee and Commission Income

Net income from fees and commissions grew by CZK 894 million (21%) compared to 1999, to reach CZK 5,120 million. Česká spořitelna accounted for most of this amount, posting net fee and commission income of CZK 4,925, up CZK 832 million. The growth took place mainly in fees and commissions on payments (up CZK 332 million), on securities trades (up CZK 166 million), on loan business (up CZK 133 million) and on other business (up CZK 183 million). The growth in fee and commission income relates to growth in the Bank's transactional margins and the development of new client services. Net fee and commission income for Spořitelní investiční společnost and ČS-stavební spořitelna totaled CZK 269 million and CZK 59 million, respectively.

Net Income from Trading

Consolidated net income on trading transactions totaled CZK 1,994 million in 2000, up CZK 432 million (28%) from 1999. This favorable development was due in particular to securities trading, especially in the case of the parent Bank (growth of CZK 584 million to CZK 1,727 million). Spořitelní penzijní fond accounted for CZK 226 million of the consolidated number and its gains were affected by a decline in the market prices of stocks and bonds in the trading portfolio in the last quarter of 2000.

General Administration Expenses

Consolidated employee expense, which are the largest component in general administration expenses (41%), fell year-on-year by CZK 6 million to CZK 5,489 million. Wages and salaries account for CZK 3,983 million and social expenses (benefits) totaled CZK 1,506 million. The biggest decrease in employee expenses took place at Česká spořitelna, which posted a decline of CZK 128 million to CZK 4,693 million, mainly as a result of a year-on-year reduction in the number of employees. Employee expenses at ČS-Živnostenská pojišťovna and ČS-stavební spořitelna in 2000 were CZK 438 million and CZK 144 million, respectively.

Purchases of goods and services in 2000 reached CZK 5,269 million, which is CZK 499 million higher than in 1999. Significant components in this category include data processing expenses (CZK 1,507 million; 29%), the cost of office space (CZK 1,003 million; 19%), and trading costs (CZK 725 million; 14%). Purchases of goods and services were distributed within the consolidation perimeter as follows: Česká spořitelna, CZK 4,566 million, ČS-Živnostenská pojišťovna, CZK 280 million; ČS-stavební spořitelna, CZK 268 million. Depreciation charges declined by CZK 426 million to CZK 2,750 million. The decline was caused mainly by amortization of software assets acquired in the mid-1990s. Hardware depreciation in 2000 totaled CZK 1,012 million, or 37% of total depreciation. Other depreciation categories were as follows: furniture and fittings and other tangible fixed assets, CZK 956 million (35%); buildings, CZK 509 million (19%); software CZK 175 million (6%). Depreciation of tangible and intangible fixed assets at Česká spořitelna totaled CZK 2,595 million.

Other Operating Figures

Other operating results represented a loss of CZK 1,387 million in 2000 compared to a gain of CZK 1,332 million in 1999. The parent Bank reported a loss of CZK 1,474 million, due mainly to the creation of a CZK 1,776 million restructuring reserve relating to the Bank's extensive transition and restructuring program announced after its acquisition by Vienna-based Erste Bank. CZK 355 million of this reserve was used during 2000 to cover costs associated with the restructuring process. ČS-Živnostenská pojišťovna's contribution in this category was influenced by the creation of CZK 112 million in reserve for obligations to the Czech Insurers' Bureau. The 1999 number for other operating results includes a one-time income item relating to an out-of-court settlement.

Income Tax

Accounting for income taxes at Česká spořitelna includes a deferred tax receivable of CZK -600 million. This amount was influenced by the non-inclusion of 50% of the temporary differences formed by non-tax-deductible reserves and provisions in the computation of the deferred tax asset, in view of uncertainty as to whether the tax advantage of converting them into a tax-deductible item will continue to be available in the future. Spořitelní investiční společnost also provided for deferred tax, in the amount of CZK -160 million.

Balance Sheet

At 31 December 2000 total assets reached CZK 438.1 billion, up CZK 60.2 billion from the previous year. The total assets of various entities in the consolidation perimeter were as follows: parent Bank, CZK 397.6 billion; ČS-stavební spořitelna, CZK 29.3 billion; Corfina, CZK 6.1 billion; Spořitelní penzijní fond, CZK 4.5 billion.

Primary deposits grew by CZK 40.2 billion (13%) to CZK 357.5 billion, confirming the Bank's success in the retail market in the context of the various developments in the Czech banking market in 2000. The share of primary deposits in the total assets figure was 82%, and 54% of the deposits are savings. CZK 327.3 billion of the primary deposits were in Česká spořitelna, CZK 8.3 billion were in Erste Bank (CR), CZK 25.6 billion in primary deposits were managed by ČS-stavební spořitelna and Spořitelní penzijní fond had CZK 4.2 billion. Liabilities to banks grew 54% from 1999 to reach CZK 16.7 billion, mainly as a result of the inclusion of Erste Bank (CR)'s liabilities to banks, which totaled CZK 12.0 billion at the date of acquisition. Other liabilities rose by CZK 13.6 billion to CZK 25.7 billion. Here the growth can be attributed mainly to liabilities on short sales, which were up CZK 7.6 billion. Including the margin between the purchase price and total assets out of the purchase of Erste Bank (CR) in the accounting, the equity decreased year-to-year by CZK 0.2 billion to CZK 22.7 billion with respect to the fact that Česká spořitelna and Erste Bank (CR) now have the same owner.

Receivables from banks grew by CZK 22.0 billion (17%) year-on-year to CZK 155.1 billion (in gross terms), with most of the growth occurring in the inter-bank loans segment, which was up CZK 21.4 billion to end the year at CZK 102.4 billion, representing 66% of the receivables from banks total. The growth in inter-bank loans is related to the reallocation of new funds from the incremental growth in primary deposits and, no less importantly, the inclusion of Erste Bank (CR)'s inter-bank receivables. Česká spořitelna's receivables from banks totaled CZK 138.3 billion, and ČS-stavební spořitelna's were CZK 17.2 billion.

2000 saw a turnaround in client loan performance, with gross loan volume rising CZK 10.7 billion (9%) over 1999 to reach CZK 134.9 billion. This development was attributable mainly to the inclusion of Erste Bank (CR)'s client loans (CZK 13.7 billion) and an increase in lending in the last few months of the year, which outstripped the decline in client loans that resulted from the restriction of lending activity in the first half of 2000. Loans in foreign currencies total CZK 10.6 billion. Česká spořitelna accounts for CZK 124.8 billion of the receivables from clients, while Corfina and ČS-stavební spořitelna account for CZK 6.2 billion and CZK 3.8 billion, respectively.

The balance of reserves and provisions to loans and receivables grew by CZK 3.5 billion (17%) year-on-year to reach CZK 23.5 billion, of which CZK 23.2 billion corresponds to reserves and provisions related to client loans and receivables.

The overall portfolio of securities and other financial investments grew from 1999's levels by CZK 28.1 billion (33%) to reach CZK 113.2 billion. Česká spořitelna contributed CZK 104.1 billion to this sum, while ČS-stavební spořitelna and Spořitelní penzijní fond contributed CZK 4.7 billion and CZK 4.2 billion, respectively.

The volume of assets designated for trading fell by CZK 23.0 billion to CZK 47.0 billion, CZK 40.8 billion of which represents state treasury bills and purchased treasury notes. The year-on-year decline was caused by a partial sell-off of fixed income securities.

Investments in sale totaled CZK 11.1 billion. At 31 December 2001 this item includes open-end mutual funds and bonds included in the Ring Fencing arrangement. In conjunction with the open-ending of mutual funds and the plan to sell off a portion of their portfolio, unit certificates in open-end mutual funds were removed from the portfolio of financial investments.

In year-on-year terms, the volume of financial investments rose by CZK 40.0 billion to CZK 55.1 billion. Of this amount, investments in fixed income securities accounted for CZK 54.8 billion. The massive growth in financial investments is attributable mainly to the placement of cash surpluses acquired from the growth in liabilities.

The volume of tangible and intangible fixed assets, at CZK 18.2 billion, declined by CZK 0.9 billion (5%) with most of the declines being in the machines and equipment, land and buildings segments. Software, on the other hand, grew.

Other assets reached CZK 19.0 billion, including among other items the deferred tax asset of CZK 3.7 billion.

Net Profit after Tax of Česká spořitelna Financial Group Members Based on International Accounting Standards

MCZK	2000	1999
Česká spořitelna	447	(7,213)
ČS-stavební spořitelna	204	455
Spořitelní investiční společnost	388	131
Corfina	101	56
Spořitelní penzijní fond	80	226
ČS-Živnostenská pojišťovna	(218)	(42)
Sindat ČS Consulting	3	3