

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

14 278 001
-1 459 358

8 012 235 000
-598 125 876
3 270 156
1 523 565
-4 562 330
10 854 654
12 954 233
12 520 200
6 201 360
14 278 001
-1 459 358
49 500 000



ŽIVNOSTENSKÁ BANKA

	Page
■ Composition of the Supervisory Board and the Board of Directors	2
■ Supervisory Board Report	3
■ Introduction to the Directors' Report by the Vice-Chairman of the Board of Directors	4
■ Directors' Report	5
■ Report of independent auditors to the shareholders of Živnostenská banka, a.s.	9
■ Regular Financial Statements prepared according to Czech Accounting Standards	11
■ Report of independent auditors to the shareholders of Živnostenská banka, a.s.	74
■ Regular Financial Statements prepared according to International Accounting Standards	75
■ Supplementary data about Živnostenská banka, a.s. - registered security issuer	158
■ Report on Relations between Related Parties	167
■ Other top managers of Živnostenská banka, a.s.	172
■ Contacts	173

COMPOSITION OF THE SUPERVISORY BOARD AND THE BOARD OF DIRECTORS

VÝROČNÍ ZPRÁVA
ANNUAL REPORT

2 0 0 1

The Supervisory Board

Mr Thomas Kurze, Chairman (until 31 December 2001)
Mr Dirk Hoffmann, Vice-Chairman
Ms Ivana Burešová
Mr Vladimír Burian
Mr Heinz D. Gottschalk
Mr Vikas Thapar

The Board of Directors

Mr Jiří Kunert, Chairman (until 15 August 2001)
Mr Josef Pitra, Vice-Chairman
Mr Aleš Barabas
Mr Thomas Bürkle
Mr Martin Kryl (since 19 October 2001)
Mr Tomáš Zralý


ŽIVNOSTENSKÁ BANKA

In 2001, the Živnostenská banka Supervisory Board carried out its duties in accordance with the legal regulations of the Czech Republic, the Bank's Articles of Association, and the Supervisory Board's Rules of Procedure. Following his departure from Bankgesellschaft Berlin AG, Thomas Kurze resigned from his office of Chairman of the Živnostenská banka Supervisory Board with effect as of 31 December 2001. On 23 January 2002, the Supervisory Board elected Hubert Piel to succeed him.



The Supervisory Board oversaw the implementation of Živnostenská banka strategy and plans, financial performance, and cost control.

The Supervisory Board obtained from the Board of Directors of Živnostenská banka all the documentation and information it required to carry out its decision-making and supervisory activity. The Supervisory Board states that it found no grave shortcomings in the Bank's financial management.

The Supervisory Board discussed the results of Živnostenská banka's operations in 2001 as set out in the financial statements prepared in accordance with Czech and International Accounting Standards. It acknowledged the conclusion drawn by the independent auditor, PricewaterhouseCoopers Audit, s.r.o. that the financial statements clearly evidence the Bank's financial situation as at 31 December 2001 and its results for the year 2001 accounting period.

The Supervisory Board responsibly declares that Živnostenská banka was duly managed by its Board of Directors in 2001.

March 2002

Hubert Piel
Chairman of the Supervisory Board

INTRODUCTION TO THE DIRECTORS' REPORT BY THE VICE-CHAIRMAN OF THE BOARD OF DIRECTORS

VÝROČNÍ ZPRÁVA
ANNUAL REPORT

2 0 0 1



In 2001, Živnostenská banka, a.s. posted healthy earnings. The consolidated net profit of CZK 264.5 million, prepared according to International Accounting Standards, was 7% up on the year previous.

This result reflects the bank's increased operations in the field of personal and private banking, corporate banking, and transactions on financial markets on the one hand, and its effective systems of risk management and efficient operating expense control on the other.

By developing its direct banking facilities, Živnostenská banka maintained its focus on modern, efficient means of communication with clients and on enhancing client comfort when distributing the bank's products and services.

The bank handled the introduction of bank notes and coins in euros smoothly.

The Živnostenská banka group cemented its position among the most prominent companies involved in asset management, and expanded its share of the market of open-ended mutual funds.

The beginning of 2002 has also underscored the sound trends set in Živnostenská banka's finances in 2001, giving every reason to believe the bank will be able to meet its business and financial targets this year.

March 2002

Josef Pitra
Vice-Chairman of the Board of Directors


ŽIVNOSTENSKÁ BANKA



Economic growth in the Czech Republic accelerated even more in 2001, registering its highest momentum since 1996. Boasting an increase in GDP of 3.6%, the **Czech economy** outstripped the declining economies of the Eurozone, the United States, and most neighbouring emerging economies. Strong domestic investment demand again made the greatest contribution to economic growth, profiting from the solid influx of long-term foreign capital. Investments - primarily into buildings and structures on the one hand and plant and equipment on the other - intensified. The significant revival in consumer demand, reflecting the surging buying power of Czech

households, was a typical feature of the first half-year. The fast growth in wages, stable unemployment, and the ongoing trend of rising consumer credit were among the key factors behind the accelerating domestic consumption. In contrast, the external trade balance again had a negative impact on the growth of the economy. This can be attributed to the continuing high imports of machinery and technology accompanying foreign direct investments. Despite the diminishing demand from abroad, in tandem with a rise in the exchange rate of the crown to the euro to record levels, Czech exporters still managed to remain competitive on the world markets. Although the Czech economy peaked halfway through the year, it was still turning in a fairly sound performance at the end of the year in the face of the cooling in West Europe, with both consumers and investors in optimistic mood.

In its regular report on the Czech Republic's progress towards European Union accession, published in autumn 2001, the European Commission noted the considerable progress in the restructuring of the banking sector. At the end of June 2001, the **banking sector** comprised 40 commercial banks, of which 27 had a foreign majority owner. Nearly 90% of total banking assets are managed by foreign-controlled banks. According to the European Commission, the overall health of the banking sector in the Czech Republic has improved. But the high amount of non-performing loans continues to act as a drag on the banking sector, though the government financial aid has decreased the share of classified credits in the total credit volume.

German bank **Bankgesellschaft Berlin AG**, the majority shareholder in Živnostenská banka, drew in 2001 on support from its own main shareholder, the federal state of Berlin, to find solutions to serious problems caused by losses, primarily connected with funding real estate.

The total assets of the Živnostenská banka group fell 12.6% year-on-year in 2001 to CZK 51 billion (unless specified to the contrary, all figures in this and the following paragraph are prepared according to International Accounting Standards). After deducting CZK 11.3 billion of short-term credit for a first-class foreign client and secured with a cash pledge (of which CZK 1.1 billion had been drawn by 31 December 2000 and the difference invested into debentures issued by the government of an EU Member State) granted in 2000 and repaid in 2001, there was a rise in total assets by 8.4%. In the face of rising competition on the credit market, the bank managed to achieve growth of almost 19% in the volume of credit granted to clients (after the above-mentioned deduction), with a drop in the total volume of classified credit. The volume of credit awarded to natural persons more than doubled year-on-year, but its total share in the credit portfolio is still an insignificant 3.1%. In terms of liabilities, client deposits increased to CZK 40.3 billion, which is a rise of more than 20% in primary resources.

Last year, the Živnostenská banka group posted total consolidated **earnings** of CZK 264.5 million, a 7.7% rise in profit. It should be noted, however, that according to Czech Accounting Standards earnings fell 33% to CZK 155.9 million. This gaping difference in the bank's rate of profit according to the two different sets of accounting standards can be attributed in particular to the application of International Accounting Standard No. 39, with the change in the shareholders' equity on 1 January 2001, and the restrictions stemming from the chart of accounts and accounting principles for banks under the corresponding Measure of the Czech Finance Ministry applicable in 2001. The bank was able to make a moderate improvement to its earnings because of three main factors: a more than 16% year-on-year increase in net interest income, limited growth in operating costs, and a successful result in net additions to reserves and value adjustments of CZK 49 million. On the other hand, the bank failed to reach targeted fees and commissions, and net trading income also fell short of the 2000 result.

Živnostenská banka spent more than three years building up a new network of modern branches and agencies, a process which was completed in 2001 when the agency in Karlovy Vary was opened. During the year, the bank's outlets were supplied with extra equipment and state-of-the-art technology. In addition to the self-service zones, where clients can use new integrated bank terminals offering printed statements, automated teller systems appeared, giving clients greater convenience and the bank enhanced security for cash transactions.

The key project of the year in **personal and private banking** was the conversion of accounts maintained in the national currencies of Eurozone countries to euros. The bank ran this carefully prepared project without any hitches, and as of 1 October 2001 the bank's clients started receiving statements from new accounts maintained in euros. The bank also braced itself for the arrival of euros in cash form on 1 January 2002. Part of this process was a collection of small change in the

outgoing currencies for charity, which met with a warm response from the bank's clients and the general public alike.

Besides seeking to attract higher client numbers, the bank also focused on improved quality of service. One improvement was the introduction of a reservation system at the call centre and on the bank's website, making it easier for customers to make an appointment with account managers or product specialists at their local branch.

The Mortgage Banking Division carried out its standard activities related to the granting of mortgages to natural persons. Midway through the year, Živnostenská banka expanded its product line to include personal (consumer) credit for personal and private clients. Based on the high rise in the volume of credit granted to households in recent years and growing client demand, the bank decided to replace its Mortgage Banking Division with a special new section called the Personal Loans Division, and to improve the credit process for this client segment. Growth in mortgages and short-term personal loans granted to natural persons by Živnostenská banka in 2001 underlined the high market growth potential in this area. The bank also focused on identifying problem cases in good time and minimizing the volume of classified loans.

The cornerstone supporting the successful launch of personal credit was the introduction of CSS BONITA, a software scoring system designed to run automatic assessments of the credit risk posed by the applicants seeking this type of credit. The system was developed as an in-house project drawing on past experience in mortgage banking, the know-how of the bank's main shareholder, and assistance from an external consultant with experience and a proven track record in this field.

Most attention in the area of direct banking was channelled into re-installing the corporate electronic banking system following the emergence of the new Eltrans 2000 version. The new system offers clients a wide range of functions, greater security, and enhanced user friendliness. The same can be said of the new version of the bank's new NetBanka Internet banking system, which, besides its new design and changes in application control, now boasts the opportunity of making foreign payments. This general tact of extending system functions also encompassed the bank's self-service zones - we continue to be the only financial institution on the Czech market to accept cash deposits from clients for any account twenty-four hours a day, by means of our cash dispensers. Rising client interest in the bank's TeleBanka phonebanking services is underscored by the constantly growing number of calls at the call centre and helpdesk.

Although there was a global dip in dot-com interest, we decided to develop our e-business operations. In September, the bank redesigned its website (www.zivnobanka.cz), which included the addition of new sections, and just before the Christmas holidays put its NetBanka payment gateway into operation in the Czech Republic's first online flower shop www.flowers.cz.

The bank improved its range of saving and investment products. Extra notice periods and better terms of interest were applied to our traditional, popular savings accounts in foreign currencies. We opened the second of our voucher privatization funds, Živnobanka - podílový fond, which has been traded actively on the Prague Stock Exchange in recent years. Now this mutual fund has been transformed into an international equity fund called Živnobanka - mezinárodní akciový fond, clients can purchase share certificates from the whole family of Živnobanka funds at all the bank's outlets.

Živnostenská banka's private banking operations were hit by two major factors: the impact of world events and developments on foreign capital markets were reflected in a more sensitive grasp of investment risks by clients, and their lower demand for equity investments.

Despite these negative effects, there was still interest in our financial consulting services; with the addition of credit products, the opportunities of financing investments into real estate and covering other current financial requirements expanded. Demand also rose for less risky instruments with a fixed interest yield. When the bank and its subsidiaries introduced these deposit and investment products, they gave clients more room to select instruments in line with their current investment risk assessments.

Along with advancements in the bank's traditional personal consulting services, there was also greater interest last year among private banking clients in contacting the bank via modern systems of direct banking, especially our online NetBanka.

The key marketing project of the year was an integrated television and press campaign to highlight credit products for personal clients. The result was keener interest in mortgages and personal loans at the bank's outlets. In order to promote direct banking sales, the bank exhibited at Prague Internet World 2001 and Invex 2001, where it presented its new versions of electronic and Internet banking systems.

Živnostenská banka's 100%-owned subsidiaries **ŽB - Trust, investiční společnost, a.s.** and **ŽB - Asset Management, a.s.** were developed and managed successfully and according to plan. ŽB - Trust posted net earnings of CZK 7.8 million, while ŽB - Asset Management reported a loss of CZK 4 million.

ŽB - Trust, investiční společnost, a.s. maintained its status of fourth largest investment company in the Czech Republic by volume of assets under management in its investment and mutual funds; its share in the market of collective investment open-ended funds rose from 6% to 6.5%. The company manages seven funds: one voucher privatization investment fund, five open-ended mutual funds with varying investment specialization, intended for the general public, and one special open-ended fund designed for foundations and foundation funds.

The total value of assets in all the funds managed by ŽB - Trust came to CZK 6.004 billion at the end of 2001, a year-on-year decline of CZK 282 million caused by the opening of one of the voucher funds and subsequent repurchases from this fund. The assets in the open-ended mutual funds for the general public rose year-on-year by one billion crowns to CZK 3.24 billion, of which CZK 467 million can be attributed to new sales of share certificates and developments in prices, while the rest resulted from the opening of the voucher privatization fund.

The completion of the process to transform the fund from the first wave of voucher privatization, Živnobanka - 1. investiční fond, a. s., planned for 2001, was blocked by a minority shareholder action, which was also the fate of several other investment funds in the Czech Republic. The fund successfully improved the value of its assets and, just as in previous years, paid out a very handsome dividend of CZK 59 per share.

2001 was the third year of market operations for **ŽB - Asset Management, a.s.** The company continued building its infrastructure, and was one of the first to be granted a licence by the Czech Securities Commission to extend its registered activities to include individual portfolio management in accordance with the latest amendment to the Securities Act. The company offers investment consulting and manages client assets worth almost a billion crowns. At the end of the year, the company's sole shareholder, Živnostenská banka, decided to increase the registered capital to CZK 27 million.

The **corporate banking** division continued along the growth trajectory established at the end of the 1990s. This section targeted major industrial and commercial companies from all branches of the Czech economy. Credit in this segment came to CZK 18.8 billion in 2001, CZK 2.5 billion more than in 2000.

It is pleasing to observe that, although competition among banking and non-banking entities is becoming ever keener, our corporate banking section managed to secure an adequate rise in resources from its clients, which is clear confirmation of the fact that corporate clients place high confidence in Živnostenská banka and can draw on sound quality in the field of investment products and services. In 2001, liabilities rose to CZK 9.4 billion, i.e. CZK 1.2 billion more than in 2000.

All new outlets opened by the bank in the past three years have fully established themselves on the market of banking services in their geographical area and have taken up a significant position in relations with businesses and institutions engaged in activities in their regions.

The priority of the corporate banking sector will continue to be the provision of first-class services for top Czech and foreign corporations in the sphere of credit, deposit, and investment products, supported by an integrated system of cash management services. The work of the section's sale staff will focus on individually satisfying the requirements of the growing numbers of corporate clients at Živnostenská banka.

In the field of **structured financing**, Živnostenská banka continued to support real estate funding projects. The bank's assistance helped complete the construction of a bank building in Brno, built by the Unistav group. The shopping arcade Slunce, built by Dvořák on the square in České Budějovice, was successfully put into operation. Then a logistics centre for the Czech Republic's largest dairy group Jihočeské Mlékárny was opened. The bank also developed construction funding products for residential purposes. The Zelená Louka housing association in Brno built 50 flats in a quiet, smart part of the city for long-term tenants. The bank is also working in association with an investor to finance the construction of residential units for subsequent sale to natural persons - it is combining this construction funding product with personal mortgages. Živnostenská Banka also participates in the most important syndicated credit transactions (e.g. syndicated credit for Plzeňské Pivovary).

On the international **financial markets**, Živnostenská banka is an acclaimed and respected trading bank. Its main activities here are the provision of comprehensive treasury services, the arrangement of funding for the Živnostenská Banka group, and trading on wholesale currency and capital markets.

The Financial Markets Division works in close cooperation with its clients, and therefore it is able to offer a full range of structured and specifically tailored-made products. The division can boast a highly specialized team which works with other divisions within the bank, purposefully establishing and nurturing long-term relations with clients by providing services of the very highest quality. The range of products includes spot and forward foreign exchange operations, term deposits, interest-rate swaps, forward rate agreements, and securities transactions.

The main market risk is the short-term interest-rate risk on the domestic market and on the US and European markets. The bank's foreign exchange risk and equity risk are kept at low profile.

The Financial Market Division's highly professional team is striving to enhance the standard of its services by investing heavily into staff training.

With an eye to the conversion of EMU countries to the single currency, the **financial institutions** division completed preparations to optimize the network of correspondent banks in Eurozone countries. New arrangements for payments in euros should considerably reduce the direct costs of the payments incurred by Živnostenská banka and the cost to the client. Retail banking clients should enjoy the greatest cut in costs. During the year preparations were launched to optimize the structure of correspondent banks for the US dollar.

Živnostenská banka is an active player in syndicated credit focusing on selected countries in Central and Eastern Europe. Besides its traditional involvement in financing banks and governmental bodies, the bank has expanded its activities to encompass syndicated credit for municipalities and corporations.

The bank has cemented its position among clients from the ranks of non-bank financial institutions and confirmed its status as one of the top securities managers in the Czech Republic. The key feature of the bank's services is an individual approach to the client and flexible reactions to clients' specific needs.

Thanks to its high quality of service, Živnostenská banka is one of the top depositories for investment companies and investment and pension funds. We strive to find the optimum

solution for client requirements and supplement our range of services in this area with other suitable bank products, such as investment management and treasury services.

Živnostenská banka continues to devote special attention to the development of its **risk management** system and methods, with an accent on credit risks. During the year the capital requirement related to market risks stood at between six and nine per cent of the bank's total capital requirement, which evidences the paramount importance of quality credit risk management. Compared with the end of 2000, in 2001 the bank managed to reduce its volume of classified credit in absolute terms by a quarter. In relative terms, this is tantamount to 2% of classified credit in the total volume of credit, i.e. a drop by eight tenths of a percentage point compared with the end of 2000. This successful result was achieved in part by sound cooperation between the source sections (especially the corporate banking segment) and the credit department.

In respect of **information technology and organization**, it is worth mentioning the successful conversion of accounts to the euro, the preparation of the Public Key Infrastructure (PKI) strategy (the principle of digital signature and encoding systems), the launch of the new Management Information System (MIS), which presents data private and personal banking data to the management in a clear form, and the new improved Intranet.

In 2001, Živnostenská Banka came first in the banks category of the 5th annual **Rhodos competition for the best corporate image**. This prestigious prize is awarded to the top three companies in each of 19 branches of the national economy. Second-placed bank was GE Capital Bank, followed by Československá obchodní banka.

The prize is awarded on the basis of a survey run by GfK Praha where 500 top managers throughout the Czech Republic are questioned. Respondents are asked to give a spontaneous list of five companies in each branch. Respondents then assess how much the companies they named meet the individual specifications of image by giving them a rating of between one and five. The criteria for banks are reliability, creditworthiness, approach to customers, respectability, and solvency.



The Rhodos prize for corporate image is awarded by a consortium of Economia, a.s., GfK Praha, s.r.o., Kairos, s.r.o. and Oglivy CID, s.r.o.

In its **charity and sponsorship activities** Živnostenská banka did its best to help the needy and to support education, culture, and sport. It was one of the first institutions to respond to the Czech Red Cross's appeal to donate to a public collection in aid of the victims of the brutal terrorist attacks in New York and Washington on 11 September. The bank is now traditionally the main sponsor of two charity events in the run-up to Christmas: the Christmas Concert of sight-impaired soloists in the Spanish Hall at Prague Castle, organized by the Czech Blind United, and a performance of Antonín Dvořák's opera The Devil and Kate at the National Theatre in Prague for 600 physically handicapped children, organized by Friends of the National Theatre. The bank made financial donations to: Junior Achievement, an organization which arranges programmes at primary and secondary schools to inform students about the rudimentary features of economics and business; the Prague Foundation for the Support of Economics Tuition at Universities, which awards scholarships abroad to students of the University of Economics, Prague; and the Všehrd Association of Czech Lawyers. The bank provided funding for the organization of Berlin Days in Prague. In the world of culture, Živnostenská banka was exclusive sponsor of the Jaroslav Seifert Prize for the ninth year; this prize is awarded by Charter 77 and in 2001 was won by Zdeněk Rotrekl for his collection of poems 'Walled City'. The bank supported the advent concert of singing stars called 'Živnostenská Banka Harmony', the proceeds of which were distributed among several foundations, and was the main sponsor of the exhibition 'Jan Kotěra, 1871-1923, Founder of Modern Czech Architecture', hosted by Municipal House in Prague. Živnostenská banka was among the sponsors of the 10th Annual International Festival of Music in Český Krumlov, and supported the Prague Drama Festival of the German Language. In terms of sport, the bank featured as the eponymous sponsor of the international tennis tournament Živnobanka Czech Open 2001 in Prostějov, which is part of the ATP Tour, and a series of golf tournaments called Živnobanka Meridian Golf Tour 2001.

Živnostenská banka branches carried out charity and sponsorship activities in the regions. By way of example: the Brno branch made a donation to improve conditions for children undergoing radiation treatment at the Masaryk Oncology Institute; the Pardubice branch sponsored 'Fíšer's Bydžov', a festival of brass band music in Nový Bydžov, the international jazz festival 'Jazz Goes To Town' in Hradec Králové, and the Klicpera Theatre in Hradec, and presented gifts to the hospitals in Pardubice and Hradec Králové; the Ostrava branch is the general partner to the Janáček Chamber Orchestra; the Zlín branch made a contribution to the 29th Czecho-Slovak Neurovascular Symposium.

Our financial results and the satisfaction of our clients, manifested by their interest in our products and services, are a commitment for the Board of Directors and all employees at Živnostenská Banka and a prerequisite for the fulfilment of strategic goals.

March 2002

Five handwritten signatures in black ink, arranged horizontally.

The Board of Directors

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF ŽIVNOSTENSKÁ BANKA, a.s.

We have audited the balance sheet of Živnostenská banka, a.s. (“the Bank”) as at 31 December 2001 and the related income statement and notes for the year then ended presented in the annual report of the Bank on pages 11 to 73 (“the financial statements”). The financial statements and underlying accounting records are the responsibility of the Bank’s Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying financial statements present fairly, in all material respects, the assets, liabilities and equity of the Bank as at 31 December 2001, and the results of its operations for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Bank on pages 2 to 8 and 158 to 166, which does not form part of the financial statements for the year ended 31 December 2001, is consistent with the audited financial statements of the Bank. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying report on relations between the Bank and its controlling party Bankgesellschaft Berlin AG and between the Company and the other parties controlled by Bankgesellschaft Berlin AG on pages 167 to 171 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Director. Our responsibility is to review the accuracy of information included in the report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

10 May 2002



PricewaterhouseCoopers Audit, s.r.o.
represented by



Francois Mattelaer
Partner



Zdeněk Mojžíšek
Auditor, Licence No. 1813

BALANCE SHEET AS AT 31 DECEMBER 2001
(according to the Czech Accounting Standards)

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

	2001	2001	2001	2000
CZK'000	Gross amount	Provision	Net amount	Net amount
ASSETS				
1 Cash in hand, balances with central banks and post office accounts	1,482,755	-	1,482,755	1,421,725
2 State treasury bills and other bills eligible for refinancing with the ČNB	13,612,260	224	13,612,036	11,693,780
a) state treasury bills and similar securities issued by the state	2,823,260	224	2,823,036	541,780
b) other treasury bills	10,789,000	-	10,789,000	11,152,000
3 Receivables from banks	20,179,485	-	20,179,485	22,646,811
a) repayable on demand	274,538	-	274,538	190,309
b) other receivables including subordinated assets	19,904,947	-	19,904,947	22,456,502
Receivables from customers	-	-	-	-
4 Receivables from customers	19,092,341	204,151	18,888,190	16,618,642
a) repayable on demand	10,329	-	10,329	4,269
b) other receivables including subordinated assets	19,082,012	204,151	18,877,861	16,614,373
5 Bonds and other fixed income securities held for trading	5,526,556	106,855	5,419,701	11,560,329
a) issued by banks including own bonds	3,449,009	76,224	3,372,785	1,525,508
including own bonds	-	-	-	-
b) issued by other entities	2,077,547	30,631	2,046,916	10,034,821
6 Shares and other variable income securities held for trading	158,586	35,655	122,931	29
7 Participation interests with substantial influence	39,271	-	39,271	35,285
a) in banks	-	-	-	-
b) in other entities	39,271	-	39,271	35,285
8 Participation interests with controlling influence	16,420	432	15,988	16,477
a) in banks	-	-	-	-
b) in other entities	16,420	432	15,988	16,477
9 Other financial investments	-	-	-	3,327,797
10 Intangible fixed assets	546,369	452,783	93,586	123,711
a) establishment costs	-	-	-	-
b) goodwill	-	-	-	-
11 Tangible fixed assets	2,711,527	1,067,832	1,643,695	1,722,165
a) land and buildings for purpose of banking activities	1,608,392	363,892	1,244,500	1,285,974
b) other	1,103,135	703,940	399,195	436,191
12 Own shares	-	-	-	-
13 Other assets	413,823	-	413,823	343,293
14 Shareholder receivables from capital subscribed but not paid	-	-	-	-
15 Prepayments and accrued income	229,875	-	229,875	353,575

Total assets

64,009,268 1,867,932 62,141,336 69,863,619

Statutory representative:



Date: 8 February 2002

Responsible person for financial
statements:



Date: 8 February 2002

Responsible person for accounting:



Date: 8 February 2002


ŽIVNOSTENSKÁ BANKA

BALANCE SHEET AS AT 31 DECEMBER 2001
(according to the Czech Accounting Standards)

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

CZK'000	2001	2000
LIABILITIES		
1 Due to banks	16,540,413	30,776,319
a) repayable on demand	58,540	75,275
b) other payables	16,481,873	30,701,044
2 Due to customers	37,881,049	31,052,260
a) saving accounts	-	-
including repayable on demand	-	-
b) due to customers, other	37,881,049	31,052,260
including repayable on demand	12,810,621	8,925,693
3 Certificates of deposit and similar debentures	2,456,865	2,349,423
a) certificates of deposits	2,456,865	2,349,423
b) other	-	-
4 Deferred income and accrued expenses	163,456	350,809
5 Provisions	629,554	532,049
a) provisions for standard loans and guarantees	527,694	339,489
b) provisions for FX losses	-	-
c) provisions for other banking risks	27,721	120,750
d) other provisions	74,139	71,810
6 Subordinated liabilities	1,000,000	1,000,000
7 Other liabilities	832,947	1,314,953
8 Registered capital	1,360,410	1,360,410
including registered capital paid up	1,360,410	1,360,410
9 Share premium	-	-
10 Reserve funds	1 082,921	1,082,921
a) obligatory reserve funds	272,082	272,082
b) reserve fund to own shares	-	-
c) statutory reserve funds	-	-
d) other reserve funds	810,839	810,839
11 Capital funds and other funds from profit	-	-
a) capital funds	-	-
b) other funds from profit	-	-
12 Retained earnings or (losses) from previous periods	37,774	(186,741)
13 Profit or (loss) for the accounting period	155,947	231,216
Total liabilities	62,141,336	69,863,619
OFF-BALANCE SHEET		
1 Potential future liabilities arising from commitments	820,435	1,683,047
including:		
a) acceptances and endorsements	-	-
b) payables resulting from guarantees	820,435	1,683,047
c) payables resulting from collateral	-	-
2 Other irrevocable liabilities	7,417,801	15,739,796
3 Receivables from spot, term and option transaction	19,973,583	23,660,403
4 Liabilities from spot, term and option transaction	19,958,944	23,707,062

Statutory representative:

Date: 8 February 2002

Responsible person for financial statements:

Date: 8 February 2002

Responsible person for accounting:

Date: 8 February 2002

ŽIVNOSTENSKÁ BANKA

**PROFIT AND LOSS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001**

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

CZK'000	2001	2000
1 Interest income and similar income	3,278,808	2,720,620
including interest income from fixed income securities	678,296	448,911
2 Interest expense and similar expense	2,314,802	1,896,088
including interest expense from fixed yield securities	19,966	23,303
Net interest income	964,006	824,532
3 Income from variable income securities including:	33,346	22,913
a) income from shares and other variable income securities	33,346	22,913
b) income from participation interests with significant influence	-	-
c) income from participation interests with controlling influence	-	-
d) income from participation interests in other associated entities	-	-
4 Commission and fee income	269,349	290,680
5 Commission and fee expense	34,687	37,973
6 Net profit (loss) from financial operations	183,781	328,152
7 Other income	22,360	142,319
8 General operating expenses including	1,238,573	1,154,784
a) employee expenses	390,818	365,615
aa) wages and salaries	294,594	275,992
ab) social insurance	71,547	66,654
ac) health insurance	24,677	22,969
b) other operating expenses	847,755	789,169
9 Creation of provision for tangible and intangible fixed assets	-	-
a) creation of specific provision for tangible fixed assets	-	-
b) creation of other provision for tangible fixed assets	-	-
c) creation of specific provision for intangible fixed assets	-	-
10 Utilization of provisions for tangible and intangible fixed assets	-	-
majetku	-	-
a) utilization of specific provisions for tangible fixed assets	-	-
b) utilization of other provisions for tangible fixed assets	-	-
c) utilization of specific provision for intangible fixed assets	-	-
11 Other expenses	8,806	160,964
Net operating income before adjustments and reserves for loans and investments	190,776	254,875
12 Creation of provisions for loans and guarantees	239,140	379,429
13 Utilization of provisions for loans and guarantees	199,332	186,362
14 Creation of provisions for participation interests and other financial investments	436	344,671
15 Utilization of provisions for participation interests and other financial investments	3,986	630,036
16 Creation of other provisions	2,706	132,058
17 Utilization of other provisions	378	179
Profit on ordinary activities before tax	152,190	215,294
18 Income tax from ordinary activities	-	-
19 Profit or (loss) from ordinary activities after tax	152,190	215,294
20 Extraordinary income	4,020	16,490
21 Extraordinary expenses	263	568
Profit or (loss) from extraordinary activities	3,757	15,922
22 Income tax from extraordinary activities	-	-
23 Profit or (loss) from extraordinary activities after tax	3,757	15,922
24 Profit or (loss) for the accounting period	155,947	231,216

Statutory representative:



Date: 8 February 2002

Responsible person for financial
statements:



Date: 8 February 2002

Responsible person for accounting:



Date: 8 February 2002


ŽIVNOSTENSKÁ BANKA

1. GENERAL INFORMATION

Živnostenská banka was founded in 1868 for the purpose of financing small and medium-sized Czech companies. It was the first bank in the Austro-Hungarian Empire with only Czech capital. It was nationalized in 1945 as were the other banks in the Czech Republic. Živnostenská banka existed as a legal entity during the years 1950 - 1956 but its activities were very limited. Later Živnostenská banka started to provide special services to individuals which related to their income denominated in foreign currencies. The London branch of Živnostenská banka (closed in 1999) was involved in the financing of international business transactions in some countries associated in the Council for Mutual Economic Assistance.

Živnostenská banka, a.s. (hereinafter referred to as "the Bank") was incorporated on 1 March 1992. The Bank has its registered office at Praha 1, Na Příkopě 858/20, Post Code 113 80 and it is organised as eight domestic regional branches and representative office in Bratislava, Slovak Republic.

The Bank's operations primarily consist of:

- providing Czech and foreign currency loans and guarantees;
- accepting and placing deposits in Czech and foreign currency;
- accepting current and term accounts denominated in Czech and foreign currency;
- rendering of general banking services through a network of branches and agencies;
- executing foreign exchange transactions;
- providing foreign trade finance and related banking services;
- trading in securities and portfolio management.

The members of the Board of Directors as at 31 December 2001 were as follows:

	<u>Position</u>	<u>Appointed</u>
Mr Josef Pitra	Vice-Chairman	1 March 1992
Mr Aleš Barabas	Member	1 March 1992
Mr Thomas Bürkle	Member	15 June 1998
Mr Martin Kryl	Member	19 October 2001
Mr Tomáš Zralý	Member	1 March 1992

The following members of the Board of Directors resigned during the year 2001:

	<u>Position</u>	<u>Resigned</u>
Mr Jiří Kunert	Chairman	15 August 2001

A new Chairman of the Board of Directors had not yet been elected as at the date of preparation of these financial statements. The duties of the Chairman are currently performed by the Vice-Chairman.

The members of the Board of Directors as at 31 December 2000 were as follows:

	<u>Position</u>	<u>Appointed</u>
Mr Jiří Kunert	Chairman	1 March 1992
Mr Josef Pitra	Vice-Chairman	1 March 1992
Mr Aleš Barabas	Member	1 March 1992
Mr Thomas Bürkle	Member	15 June 1998
Mr Tomáš Zralý	Member	1 March 1992

The members of the Supervisory Board as at 31 December 2001 and 31 December 2000 were as follows:

	<u>Position</u>	<u>Appointed</u>
Mr Thomas Kurze	Chairman	22 June 2000
Mr Dirk Hoffman	Vice-Chairman	22 June 2000
Ms Ivana Burešová	Member	26 June 2000
Mr Vladimír Burian	Member	26 June 2000
Mr Heinz-Dieter Gottschalk	Member	22 June 2000
Mr Vikas Thapar	Member	22 June 2000

Mr Thomas Kurze resigned in November 2001 with effect from 1 January 2002. He was replaced by Mr Hubert Piel, who was appointed as the Chairman of the Supervisory Board on 23 January 2002.

The following members of the Supervisory Board resigned during the year 2000:

	<u>Position</u>	<u>Resigned</u>
Mr Vlastimil Uzel	Vice-Chairman	22 June 2000
Ms Eliška Hlavsová	Member	22 June 2000

The majority shareholder of the Bank is Bankgesellschaft Berlin AG (hereinafter "BGB") which holds 85.16% of the registered share capital of the Bank. BGB recorded a loss of EUR 1.6 billion for the year ended 31 December 2000. The annual meeting of shareholders of BGB on 29 August 2001 decided to cover the losses by subscription of new shares by the State of Berlin. The effect of the financial position of the major shareholder of the Bank cannot be directly estimated, except in that it has been more difficult for the Bank to attract money market deposits for periods over three months.

2. ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements comprising of the balance sheet and income statement are prepared in accordance with and comply with the Act on Accounting, the Chart of Accounts and accounting rules for banks prescribed by the Ministry of Finance of the Czech Republic. The financial statements are prepared under the historical cost convention as modified by the revaluation of all derivatives to fair values and are unconsolidated. The Bank presents consolidated financial statements separately.

The financial statements are rounded to thousands of Czech Crowns (CZK'000) unless otherwise stated.

(b) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank ("CNB") effective at the balance sheet date. All resulting realised and unrealised foreign exchange gains and losses are recognised in the income statement.

(c) Trading securities

Trading securities are securities, which were either acquired for generating profit from short-term fluctuations in price or dealer's margin, securities purchased in repo operations and securities acquired under borrowing contracts. Trading securities are valued at the lower of cost excluding expenses incurred in connection with their acquisition or at their market value based on quoted market prices. All related realised gains and losses are included in net results from financial transactions. For unrealised losses a provision is created on an individual basis. Spot purchases and sales are recognised on a trade date basis. Forward trades are recognised as derivatives on the trade date. Interest earned on trading securities is reported as interest income on securities.

(d) Available-for-sale investment securities

Available-for-sale investment securities are neither trading securities nor securities held-to-maturity. They comprise coupon bonds and shares in companies other than in subsidiaries and associates. Available-for-sale securities are valued at the lower of cost, market value based on quoted market prices or amounts derived from cash flow models. All related realised gains and losses are included in net result from financial transactions. For unrealised losses a provision is created on an individual basis. Unquoted equity investments are valued at the lower of cost and at equity value on an individual basis.

(e) Investment securities held-to-maturity

Investment securities held-to-maturity are securities with fixed maturity where the Bank has both the intention and the ability to hold them to maturity.

Investment securities held-to-maturity are valued at amortised cost less any provision for impairment.

(f) Investments in subsidiary and associated undertakings

A subsidiary is an enterprise that is controlled by the Bank, which means that the Bank has the power to govern the financial and operating policies so as to obtain benefits from its activities.

An associated undertaking is an enterprise where the Bank has significant influence, which is the power to participate in the financial and operating policy decisions, but does not represent control over those policies.

Investments in subsidiary and associated undertakings are valued at the lower of cost and "at equity" value on an individual basis.

(g) Securities financing arrangements

Securities purchased or borrowed under agreements to resell (resale or reverse repo agreements) are included within trading securities. These securities are recognised on the balance sheet at market value together with the corresponding liability, when the Bank is allowed to sell or pledged them to a third party. Securities sold or lent under agreements to repurchase (repo agreements) are retained in their original portfolio and valued under the same method of valuation as used before entering into repo agreements. These agreements are recorded on a settlement date basis, are carried at the amounts at which the securities were initially acquired or sold and generally do not include accrued interest.

(h) Derivative financial instruments

Derivative financial instruments, including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised on the balance sheet at cost and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are included in other assets or in other liabilities when their fair value is positive or negative, respectively.

Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the income statement.

Changes in the fair value of derivatives held for trading are included in net profit (loss) from financial operations.

Hedge accounting is used for derivatives used for hedging purposes provided certain criteria are met.

(h) Derivative financial instruments

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

- I. formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- II. the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- III. the hedge is effective on an ongoing basis;
- IV. the hedged item is not a security classified as held for trading.

Changes in the fair value of derivatives that are designated and qualify for hedge accounting, are recognised in the hedging reserve. Where a hedged forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in the hedging reserve are included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged item affects the income statement. The hedge reserve is presented in other liabilities.

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains and losses reported in the income statement.

(i) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the linear and effective yield method based on the actual purchase price and maturity. Interest income includes coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments.

Income on non-performing loans is also accrued and capitalised into the related loan balance. Such amounts are considered in estimating the provision amounts for non-performing loans.

(j) Penalty interest

Accrual of penalty interest income is suspended when collection of the penalty interest becomes doubtful. Such income is excluded from interest income and recorded in off-balance sheet until received.

(k) Fee and commission income

Fixed fee income for arrangement of loans, guarantees and other activities is recognised immediately, whereas commission is accrued over the period to maturity.

(l) Provisions and allowances

Specific provisions are recognised when the Bank has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. In addition, general provisions for banking risk are also recognised to the extent allowed by the law on provisions. Provisions are included in liabilities.

Allowances are deducted from the cost of each asset at risk. The amount of allowance for loans and other assets at risk is based on appraisals of the recoverable amount from these assets at the balance sheet date after taking into consideration the present forced sale value of collateral. The market in the Czech Republic for many of the types of collateral accepted is in an early stage of development and there is a low level of liquidity for certain types of assets. As a result, the realisable value on foreclosure may differ from the value ascribed in estimating allowances.

Tax-deductible provisions and allowances are computed at the limits allowed by the Czech taxation rules and form part of the total recognised allowances and provisions.

(m) Tangible and intangible fixed assets

Tangible and intangible fixed assets are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition.

Fixed assets are depreciated by applying the straight-line basis over their estimated useful lives. The accounting useful lives for particular groups of fixed assets are set according to the income tax law. Low value tangible assets with a unit cost of less than CZK 40,000 and low value intangible assets with a unit cost of less than CZK 60,000 are expensed upon consumption.

The depreciation periods used are as follows:

	<u>Depreciation period</u> (years)
Buildings and constructions	30
Technical improvement on buildings classified as historical monuments	10
Energy equipment	12
Machinery and equipment	6
Furniture and fittings	6
Motor vehicles	4
IT Equipment	4
Software	4

Repairs and maintenance expenditures are expensed as incurred. Improvement expenditures (i.e. expenditures enhancing the value of the property) are capitalised.

Assets held under finance lease agreements are not capitalised and are accounted for in the same way as operating leases, with rental charges being reflected in the income statement on a straight-line basis. The corresponding lease obligation is recorded as a liability.

Technical improvement on fixed assets, according to operating lease agreements, is included in operating fixed assets and depreciated over the time based on duration of these agreements.

(n) Value added tax

The Bank is registered for value added tax ("VAT"). Fixed tangible assets and intangible assets are valued at cost including the appropriate VAT amount. The Bank does not raise claims for input VAT, since the ratio of income subject to VAT is lower than 5% of the total income of the Bank. Other input VAT incurred is expensed immediately.

(o) Deferred taxation

Deferred tax is calculated using the full liability method. A deferred tax liability is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. A deferred tax asset is recognised if there is evidence beyond reasonable doubt, that future taxable profits will be available against which the deferred tax assets can be utilised.

(p) Pensions

During the year the Bank operated defined contribution schemes for its employees in the Czech Republic. Regular contributions are made to the state to fund the national pension plan. The contributions made to the pension fund for the period are charged against profit.

(q) Related parties

Related parties are defined in accordance with the Act on Banks as follows:

- Board members, senior management and their relatives;
- Shareholders controlling the Bank, their shareholders holding more than 10% of their capital and their senior management and their relatives;
- Corporates where board members, members of senior management or shareholders controlling the Bank own at least 10%;
- Shareholders holding more than 10% of the Bank and any other entities controlled by them;
- Subsidiaries of the Bank.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Notes 4, 5, 8, 11, 13, 16 and 21.

(r) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of signing the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to the signing of the financial statements, which are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

(s) Changes in accounting policy

The changes in accounting policies since 1 January 2001 are as follows:

- I. New definitions of securities portfolios, rules for movements between portfolios and valuations on an individual basis were introduced (trading securities, securities held-to-maturity and securities available-for-sale) (Note 7). The effect of this change is represented by reclassifications between captions in the financial statements and a charge to provision for securities of CZK 120,705,000.
- II. The derivative element embedded in a loan granted to a related party holding a portfolio of credit swaps (Note 26), has been separated out of the host contract and is included at fair value in other liabilities. The effect of the marking to market, as at 1 January 2001 of the derivative element embedded in the loan is a loss of CZK 78,183,000 included within the result for the year.
- III. New criteria for hedge accounting as listed in Note 2h were defined. Several derivatives classified as hedges in 2000 did not meet the new criteria. Consequently, an amount of CZK 1,725,000 previously recorded in the hedging reserve, was charged to profit and loss account as at 1 January 2001.
- IV. The Bank changed depreciation policy for technical improvements acquired by the end of the year 1999 on rented buildings from 1 January 2001. The technical improvement is depreciated over 10 years instead of 30 years. The Bank recorded extraordinary depreciation in accounting records related to previous periods of CZK 3,419,000.

These changes affected the income statement for the year 2001 as follows:

	<u>CZK'000</u>
I. The effect of new definitions of securities portfolios and their valuation as at 1 January 2001	(120,705)
II. The effect of marking to market the embedded element of credit derivatives as at 1 January 2001	(78,183)
III. Deferred fair value of derivatives charged to expenses as at 1 January 2001	(1,725)
IV. The effect of the change in depreciation policy for technical improvements on rented buildings as at 1 January 2001	<u>(3,419)</u>
Combined effect of changes in accounting policies on 2001 profit before tax	<u><u>(204,032)</u></u>

3. CASH AND DEPOSITS WITH CENTRAL BANK

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Cash on hand	592,689	398,466
Obligatory reserves	788,580	748,597
Other deposits with central banks	<u>101,486</u>	<u>274,662</u>
	<u>1,482,755</u>	<u>1,421,725</u>

Obligatory reserves

Obligatory reserves are mandatory deposits with the CNB and they are not available for use in the Bank's day-to-day operations. These deposits were interest-free until 11 July 2001. Since that date they bear interest at the CZK repo rate (4.75% p.a. as at 31 December 2001).

4. DUE FROM BANKS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Current accounts with banks	274,569	190,309
Term deposits with banks	8,734,584	10,834,248
Loans based on resale agreements	10,869,000	11,102,000
Standard loans granted to banks	<u>301,332</u>	<u>520,254</u>
	<u>20,179,485</u>	<u>22,646,811</u>

Loans provided in reverse repo transactions as at 31 December 2001 of CZK 10,869 million (31 December 2000: 11,102 million) are reverse repo operations with the CNB (Note 7a and 11).

At 31 December 2001

Actual residual maturities	Within 3 months CZK'000	3 - 12 months CZK'000	1 - 2 years CZK'000	2 - 4 years CZK'000	4 - 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Current accounts with banks	274,569	-	-	-	-	-	274,569
Term deposits with banks	6,315,784	2,418,800	-	-	-	-	8,734,584
Loans based on resale agreements	10,869,000	-	-	-	-	-	10,869,000
Standard loans granted to banks	<u>675</u>	<u>188,727</u>	<u>63,960</u>	<u>47,970</u>	<u>-</u>	<u>-</u>	<u>301,332</u>
	<u>17,460,028</u>	<u>2,607,527</u>	<u>63,960</u>	<u>47,970</u>	<u>-</u>	<u>-</u>	<u>20,179,485</u>

At 31 December 2000

Actual residual maturities	Within 3 months CZK'000	3 - 12 months CZK'000	1 - 2 years CZK'000	2 - 4 years CZK'000	4 - 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Current accounts with banks	190,309	-	-	-	-	-	190,309
Term deposits with banks	8,283,034	2,551,214	-	-	-	-	10,834,248
Loans based on resale agreements	11,102,000	-	-	-	-	-	11,102,000
Standard loans granted to banks	<u>75,163</u>	<u>287,186</u>	<u>87,725</u>	<u>70,180</u>	<u>-</u>	<u>-</u>	<u>520,254</u>
	<u>19,650,506</u>	<u>2,838,400</u>	<u>87,725</u>	<u>70,180</u>	<u>-</u>	<u>-</u>	<u>22,646,811</u>

Placements with related parties

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Placements with the holding company	378,269	754,473
Placements with other related parties	<u>424</u>	<u>406,081</u>
	<u><u>378,693</u></u>	<u><u>1,160,554</u></u>

5. LOANS TO CLIENTS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Standard loans to companies and individuals	18,670,907	16,375,398
Consumer loans	50,226	-
Impaired loans to companies and individuals	<u>371,208</u>	<u>513,207</u>
Loans granted to clients	19,092,341	16,888,605
Allowance for impaired loans (Note 13)	<u>(204,151)</u>	<u>(269,963)</u>
	<u><u>18,888,190</u></u>	<u><u>16,618,642</u></u>

Consumer lending was introduced during the year 2001.

The loan balances as at 31 December 2001 and 2000 include loans to subsidiaries, associates and related parties that are further described below.

During 2000, the Bank provided a credit line of CZK 11,299 million to a foreign company (EUR 320 million). As collateral for this loan, the Bank received a cash deposit of CZK 10,878 million (EUR 310 million) (Note 11). The foreign company repaid all obligations resulting from this loan in November 2001. As at 31 December 2000, CZK 1,123 million (EUR 32 million) was drawn from this facility and the unutilised amount of the credit line was CZK 10,106 million (EUR 288 million) (Note 17). A part of the difference between the cash deposit and the utilised amount of the credit line as at 31 December 2000 was invested in foreign government bonds with a nominal value of CZK 9,246 million (EUR 263.5 million) (Note 7a).

The Bank has provided to a related party incorporated abroad a 5 year loan of CZK 385 million (USD 11 million) due in 2005. Underlying this loan is a portfolio of credit default swaps on reference assets with aggregate nominal value of USD 43 million of which the Bank's investment is equal to the loan provided. The loan could terminate before the original maturity date in the event of a credit default of any one of the reference assets or if the mark to market loss on the portfolio exceeds 70% of the loan principal. The early redemption amount would be calculated as the loan principal and accrued interest as at termination date less the mark to market value of the portfolio. The market value of the portfolio is equivalent to the aggregate market values of the individual credit default swaps comprising the portfolio as provided to the Bank by BGB, which represents the portfolio's pricing agent. The derivative element embedded in this loan has been separated out of the host contract and is included at fair value under other liabilities with changes in fair value being included in earnings for the year (Note 20 and 26).

During the year to 31 December 2001, one of the reference assets in the portfolio (Railtrack plc) was substituted by another reference asset (GE Capital Corporation). As a result of this event, the Bank took delivery of Railtrack bonds which as at 31 December 2001 are included at fair value in securities available-for-sale (Note 7c).

In the opinion of the management of the Bank, as at 31 December 2001, the probability of occurrence of a credit default event is not significant and therefore the loan arrangement is expected to continue, subject to future unforeseen changes in market conditions.

Maturity of loans

The maturity of loans to clients can be summarised as follows:

At 31 December 2001

Actual remaining maturities	Within 3 months CZK'000	3 - 12 months CZK'000	1 - 2 years CZK'000	2 - 4 years CZK'000	4 - 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Standard loans to companies and individuals	5,013,778	4,323,734	1,983,815	4,124,727	974,829	2,250,024	18,670,907
Consumer loans	32,032	3,230	4,034	7,497	848	2,585	50,226
Impaired loans to companies and individuals	<u>57,477</u>	<u>54,923</u>	<u>58,040</u>	<u>1,992</u>	<u>930</u>	<u>197,846</u>	<u>371,208</u>
	<u>5,103,287</u>	<u>4,381,887</u>	<u>2,045,889</u>	<u>4,134,216</u>	<u>976,607</u>	<u>2,450,455</u>	<u>19,092,341</u>

At 31 December 2000

Actual remaining maturities	Within 3 months CZK'000	3 - 12 months CZK'000	1 - 2 years CZK'000	2 - 4 years CZK'000	4 - 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Standard loans to companies and individuals	3,626,999	4,970,243	1,602,536	2,993,469	1,255,391	1,926,760	16,375,398
Impaired loans to companies and individuals	<u>230,862</u>	<u>177,844</u>	<u>13,375</u>	<u>1,446</u>	<u>846</u>	<u>88,834</u>	<u>513,207</u>
	<u>3,857,861</u>	<u>5,148,087</u>	<u>1,615,911</u>	<u>2,994,915</u>	<u>1,256,237</u>	<u>2,015,594</u>	<u>16,888,605</u>

Impaired loans

Impaired loans are categorised in accordance with the definitions issued by the CNB in four categories (watch, substandard, doubtful, loss) and represent total outstanding principal and accrued interest receivable with service payments overdue or other defaults in contractual terms or financial performance.

In addition to the allowance for impaired loans, the Bank has reflected at 31 December 2001 a general provision for loans of CZK 555,415,000 (31 December 2000: CZK 460,238,000) as a liability, as required by Czech accounting regulations (Note 13).

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Watch	83,164	198,788
Substandard	59,763	136
Doubtful	72,404	35,735
Loss	<u>155,877</u>	<u>278,548</u>
Total impaired loans	<u>371,208</u>	<u>513,207</u>

The value ascribed to assets received as collateral for total loans to clients can be analysed as follows:

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Cash	314,840	11,232,759
Securities	240,948	41,403
Land and buildings	7,047,453	4,695,001
Other assets	<u>17,583,559</u>	<u>11,425,136</u>
	<u>25,186,800</u>	<u>27,394,299</u>

As at 31 December 2000, the item Cash in the table above includes the cash collateral of CZK 10,878 million for the loan described in Note 5.

Loans to related parties

Standard loans to companies and individuals include the following loans to subsidiary and associated undertakings, board members and other related parties as defined by the Act on Banks:

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
<u>Subsidiary undertakings</u>		
ŽB - Trust, investiční společnost, a.s.	256,202	-
ŽB - Asset Management, a.s.	<u>253,399</u>	<u>125,423</u>
	<u>509,601</u>	<u>125,423</u>
<u>Associated undertakings</u>		
ČESKÝ LEASING, spol. s r.o.	<u>517,849</u>	<u>439,012</u>
<u>Other related parties</u>		
Board of Directors	773	-
Supervisory Board	670	804
Management	8,485	4,437
Other related parties	<u>385,252</u>	<u>402,894</u>
	<u>395,180</u>	<u>408,135</u>

On 30 November 2001, the Bank sold its share in Živnobanka - 1. investiční fond, a.s. (Note 7c) (hereinafter "ŽIF") to its subsidiaries, ŽB - Trust, investiční společnost, a.s. and ŽB - Asset Management, a.s. The selling price was CZK 680 per share (market price per share as at 30 November 2001: CZK 665). The total sales contract value with ŽB - Trust, investiční společnost, a.s. was CZK 256,219,000 (total market price: CZK 250,567,000) and with ŽB - Asset Management, a.s. CZK 128,109,000 (total market price: CZK 125,283,000).

The Bank has provided short-term loans to both subsidiaries to fund the acquisition of shares of ŽIF. CZK 259,000,000 was provided to ŽB - Trust, investiční společnost, a.s. and CZK 130,000,000 was provided to ŽB - Asset Management, a.s. The interest rate for the short-term loans is 3 months PRIBOR + 0.2% p.a.

As at 31 December 2001 and 31 December 2000, the Bank had not granted any loans to its shareholders.

The Bank has granted loans to its directors, management and their related parties. These transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

6. SYNDICATED LOANS

At 31 December 2001 and at 31 December 2000, the Bank was an administrator of two syndicated loans provided to clients incorporated in the Czech Republic. The syndicated loans can be analysed as follows:

Members	Balance of the loan		Share of members	
	31 December 2001 CZK'000	31 December 2000 CZK'000	31 December 2001 %	31 December 2000 %
Facility 1				
Živnostenská banka, a.s. - manager	382,616	400,362	50.0	50.0
BHF BANK - member	<u>382,616</u>	<u>400,362</u>	<u>50.0</u>	<u>50.0</u>
	<u>765,232</u>	<u>800,724</u>	<u>100.0</u>	<u>100.0</u>

Facility 1 was originally denominated in DEM, but at 28 June 2001 restated to EUR.

Members	Balance of the loan		Share of members	
	31 December 2001 CZK'000	31 December 2000 CZK'000	31 December 2001 %	31 December 2000 %
Facility 2				
Živnostenská banka, a.s. - manager	250,000	250,000	31.0	31.0
Bankgesellschaft Berlin AG - member	200,000	200,000	25.0	25.0
ČSOB, a.s. - member	150,000	150,000	19.0	19.0
Česká spořitelna, a.s. - member	100,000	100,000	12.5	12.5
Dresdner Bank (ČR), a.s. - member	<u>100,000</u>	<u>100,000</u>	<u>12.5</u>	<u>12.5</u>
	<u>800,000</u>	<u>800,000</u>	<u>100.0</u>	<u>100.0</u>

Facility 2 is denominated in CZK.

7. SECURITIES

(a) Trading securities

	Balance of the loan		Share of members	
	Cost CZK'000	Market value CZK'000	Cost CZK'000	Market value CZK'000
Money market securities	13,612,260	13,617,714	11,693,780	11,693,836
Bonds and similar debt securities	3,491,091	3,489,271	11,565,248	11,560,730
Shares and similar equity securities	<u>9</u>	<u>4</u>	<u>29</u>	<u>29</u>
Total trading securities	17,103,360	<u>17,106,989</u>	23,259,057	<u>23,254,595</u>
Provisions (Note 13)	<u>(4,727)</u>		<u>(4,919)</u>	
Total trading securities (net)	<u>17,098,633</u>		<u>23 254 138</u>	

Money market securities

At 31 December 2001

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
State Treasury Bills	2,823,260	2,828,714
CNB Bills	<u>10,789,000</u>	<u>10,789,000</u>
	13,612,260	<u>13,617,714</u>
Provision (Note 13)	<u>(224)</u>	
Total money market securities (net)	<u>13,612,036</u>	

At 31 December 2000

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
State Treasury Bills	541,780	541,836
CNB Bills	<u>11,152,000</u>	<u>11,152,000</u>
	<u>11,693,780</u>	<u>11,693,836</u>
Provision (Note 13)	<u>-</u>	
Total money market securities (net)	<u>11,693,780</u>	

As at 31 December 2001, CNB bills of CZK 10,789 million (31 December 2000: CZK 11,152 million) were received in relation with reverse repo operations with the CNB (Notes 4 and 11).

Bonds and other similar debt securities

At 31 December 2001

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Traded on the main or auxiliary market of recognised stock exchanges	3,466,095	3,464,275
Accrued interest on bonds	<u>24,996</u>	<u>24,996</u>
	3,491,091	<u>3,489,271</u>
Provision (Note 13)	<u>(4,498)</u>	
Total bonds and other similar debt securities (net)	<u>3,486,593</u>	

At 31 December 2000

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Securities traded on recognised stock exchange	11,305,985	11,301,468
Securities not traded on a recognised stock exchange	105,270	105,270
Accrued interest on bonds	<u>153,993</u>	<u>153,992</u>
Total	11,565,248	<u>11,560,730</u>
Provision (Note 13)	<u>(4,919)</u>	
Total bonds and other similar debt securities (net)	<u>11,560,329</u>	

Bonds and similar debt securities in the trading portfolio at 31 December 2001 include CZK 269 million of securities bearing fixed interest to maturity, which represents 8% of the total balance (31 December 2000: CZK 533 million representing 5% of the total balance).

Shares and other similar equity securities

At 31 December 2001

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Not traded on a recognised stock exchange	9	<u>4</u>
Provision (Note 13)	(5)	
Total shares and other similar equity securities (net)	<u>4</u>	

At 31 December 2000

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Traded on the main or auxiliary market of recognised stock exchanges	<u>29</u>	<u>29</u>

As a result of the low liquidity of many securities and high market volatility, realisable prices may materially differ from the stated market value. As a result, discounts to quoted market values are applied for less liquid securities or for large volumes of securities held.

(b) Securities held-to-maturity

Based on new legislation requirements effective from 1 January 2001 a held-to-maturity portfolio may be created. During 2001, the bank decided to transfer the securities, which were included in its investment portfolio as at 31 December 2000 to the available-for-sale portfolio (Note 7c). For the movements in securities portfolios see Note 7d.

(c) Securities available-for-sale

	31 December 2001		31 December 2000	
	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Bonds and other similar debt securities	2,035,465	2,031,742	3,167,209	2,921,279
Shares and other similar equity securities	<u>158,577</u>	<u>123,490</u>	<u>331,617</u>	<u>409,400</u>
Total available-for-sale portfolio	2,194,042	<u>2,155,232</u>	3,498,826	<u>3,330,679</u>
Provisions (Note 13)	<u>(138,007)</u>		<u>(171,029)</u>	
Total available-for-sale portfolio (net)	<u>2,056,035</u>		<u>3,327,797</u>	

Bonds and other similar debt securities

At 31 December 2001

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Total traded on the main or auxiliary market of recognised stock exchanges	1,921,943	1,990,738
Not traded on the main or auxiliary market of recognised stock exchanges	72,518	-
Accrued interest	<u>41,004</u>	<u>41,004</u>
Total bonds and other similar debt securities	2,035,465	<u>2,031,742</u>
Provisions (Note 13)	<u>(102,357)</u>	
Total bonds and other similar debt securities (net)	<u>1,933,108</u>	

Included in Total bonds traded on the main or auxiliary market of recognised stock exchanges as at 31 December 2001 is a convertible bond of Railtrack plc, UK rail operator, denominated in GBP of CZK 91,256,000 (market value as at 31 December 2000: CZK 68,668,000) which was included in the portfolio in November 2001 as a result of the transaction described in Note 5. The Bank created a provision of CZK 22,588,000 against the Railtrack plc bonds as at 31 December 2001 to reflect the market value as quoted on the London Stock Exchange.

Railtrack plc is currently under administration. The future of the company, which affects the valuation of the bonds, depends on actions taken by the British Government and other stakeholders. As at the date of the Financial Statements the intentions of these parties were not definite.

At 31 December 2000

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Total traded on the main or auxiliary market of recognised stock exchanges	2,506,035	2,261,581
Not traded on the main or auxiliary market of recognised stock exchanges	608,278	606,801
Accrued interest	<u>52,896</u>	<u>52,897</u>
Bonds and other similar debt securities	<u>3,167,209</u>	<u>2,921,279</u>

CZK 171,029,000 of provisions for securities including both bonds and other debt securities and shares and other equity securities was in 2000 calculated on a portfolio basis and therefore it is not allocated to individual securities.

Where a market value was not available, cost less provision for permanent diminution was used.

Bonds and other debt securities in the available-for-sale portfolio at 31 December 2001 include CZK 1,853 million of securities bearing fixed interest until maturity, which represents 91% of the total balance (31 December 2000: CZK 3,153 million of securities bearing fixed interest till maturity, 89% of the total balance).

Shares and other similar equity securities

At 31 December 2001

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
<u>Traded on the main or auxiliary market of recognised stock exchanges</u>		
Živnobanka - korunový balancovaný fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	5,000	5,108
Živnobanka - akciový fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	10,000	8,150
Equity indices	<u>109,945</u>	<u>99,370</u>
Total traded shares and other similar equity securities	124,945	<u>112,628</u>
Provisions	<u>(12,426)</u>	
Total traded shares and other similar equity securities (net)	<u>112,519</u>	
<u>Not traded on the main or auxiliary market of recognised stock exchanges</u>		
Burza cenných papírů Praha, a.s.	14,355	9,858
BHF Zivnostenska Investment B.V.	18,727	-
S.W.I.F.T. Brussels S.C.	<u>550</u>	<u>1,004</u>
Total not traded shares and other similar equity securities	33,632	<u>10,862</u>
Provisions	<u>(23,224)</u>	
Total not traded shares and other similar equity securities (net)	<u>10,408</u>	
Total shares and other similar equity securities	158,577	<u>123,490</u>
Total provisions (Note 13)	<u>(35,650)</u>	
Total shares and other similar equity securities (net)	<u>122,927</u>	

At 31 December 2000

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
<u>Traded on the main or auxiliary market of recognised stock exchanges</u>		
Živnobanka - korunový balancovaný fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	5,000	5,752
Živnobanka - akciový fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	10,000	10,000
Živnobanka - 1. investiční fond, a.s. (Note 5)	<u>279,710</u>	<u>376,981</u>
Total traded shares and other similar equity securities	<u>294,710</u>	<u>392,733</u>
<u>Not traded on the main or auxiliary market of recognised stock exchanges</u>		
Burza cenných papírů Praha, a.s.	14,355	14,355
Bankovní institut, a.s.	1,400	815
BHF Živnostenska Investment B.V.	20,548	889
S.W.I.F.T. Brussels S.C.	<u>604</u>	<u>608</u>
Total not traded shares and other similar equity securities	<u>36,907</u>	<u>16,667</u>

CZK 171,029,000 of provisions for securities including both bonds and other debt securities and shares and other equity securities was in 2000 calculated on portfolio basis and therefore it is not allocated to individual securities.

(d) Movements in securities portfolios

The movements in the Bank's securities portfolios during 2001 are analysed in the table below (at cost less recorded provision):

	<u>Trading securities</u> CZK'000	<u>Investment</u> <u>securities</u> CZK'000	<u>Securities</u> <u>available-for-sale</u> CZK'000	<u>Total</u> <u>securities</u> CZK'000
31 December 2000	11,560,358	3,327,797	-	14,888,155
Addition	71,725,075	-	168,037	71,893,112
Disposal	(79,798,836)	-	(1,439,799)	(81,238,635)
Transfer	-	(3,327,797)	3,327,797	-
31 December 2001	<u>3,486,597</u>	<u>-</u>	<u>2,056,035</u>	<u>5,542,632</u>

The Bank decided to transfer the securities, which were included in its investment portfolio as at 31 December 2000 to the available-for-sale portfolio and not to create held to-maturity portfolio.

8. INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

(a) Investments in subsidiary undertakings

At 31 December 2001

<u>Name and registered office</u>	<u>At cost</u> CZK'000	<u>Nominal</u> <u>value</u> CZK'000	<u>Share</u> <u>capital</u> CZK'000	<u>Shareholding</u> %
ŽB - Trust, investiční společnost, a.s. Na Příkopě 15, 110 00 Praha 1	5,250	20,000	20,000	100
ŽB - Asset Management, a.s. Na Příkopě 15, 110 00 Praha 1	10,590	10,000	10,000	100
Zivnostenska Finance B.V. Haaksbergweg 27, 1101 BP Amsterdam Zuidoost, The Netherlands	<u>580</u>	NLG 40,000	NLG 40,000	100
	16,420			
Provision (Note 13)	<u>(432)</u>			
Investments in subsidiary undertakings (net)	<u>15,988</u>			

The Bank approved an increase of registered share capital in ŽB - Asset Management, a.s. from CZK 10,000,000 to CZK 27,000,000 in November 2001. The funds were transferred in February 2002 on an escrow account and will be transferred to ŽB - Asset Management, a.s. upon registration of the change in the Commercial Register.

At 31 December 2000

<u>Name and registered office</u>	<u>At cost</u> CZK'000	<u>Nominal</u> <u>value</u> CZK'000	<u>Share</u> <u>capital</u> CZK'000	<u>Shareholding</u> %
ŽB - Trust, investiční společnost, a.s. Na Příkopě 15, 110 00 Praha 1	5,250	20,000	20,000	100.0
ŽB - Asset Management, a.s. Na Příkopě 15, 110 00 Praha 1	10,590	10,000	10,000	100.0
Zivnostenska Finance B.V. Haaksbergweg 27, 1101 BP Amsterdam Zuidoost, The Netherlands	<u>637</u>	NLG 40,000	NLG 40,000	100.0
	16,477			
Provision (Note 13)	-			
Investments in subsidiary undertakings (net)	<u>16,477</u>			

The company Zivnostenska Finance B.V. did not carry out any activities during the years 2001 and 2000.

Subsidiary undertakings comprise solely investments in common stock.

Summary financial information on subsidiary undertakings

At 31 December 2001 and for the year then ended:

<u>Name</u>	<u>Unaudited subsidiary financial data</u>				
	<u>Net book amount</u> CZK'000	<u>Equity</u> CZK'000	<u>Total assets</u> CZK'000	<u>Revenues</u> CZK'000	<u>Profit/(loss) before tax</u> CZK'000
ŽB - Trust, investiční společnost, a.s.	5,250	126,229	397,677	255,178	14,699
ŽB - Asset Management, a.s.	10,590	32,091	293,137	23,256	(4,014)
Zivnostenska Finance B. V.	148	(96)	29	3	(244)

At 31 December 2000 and for the year then ended:

<u>Name</u>	<u>Audited subsidiary financial data</u>				
	<u>Net book amount</u> CZK'000	<u>Equity</u> CZK'000	<u>Total assets</u> CZK'000	<u>Revenues</u> CZK'000	<u>Profit/(loss) before tax</u> CZK'000
ŽB - Trust, investiční společnost, a.s.	5,250	118,894	137,277	497,899	18,997
ŽB - Asset Management, a.s.	10,590	19,188	150,201	20,971	1,951
Zivnostenska Finance B. V.	637	163	404	37	(201)

(b) Investments in associated undertakings

At 31 December 2001

<u>Name and registered office</u>	<u>At cost</u> CZK'000	<u>Nominal value</u> CZK'000	<u>Share capital</u> CZK'000	<u>Shareholding</u> %
ČESKÝ LEASING, spol. s r.o. Nádražní 23, 151 34 Praha 5	<u>39 271</u>	37,000	148,000	25.0
Provision (Note 13)	-			
Investments in associated undertakings (net)	<u><u>39,271</u></u>			

At 31 December 2000

<u>Name and registered office</u>	<u>At cost</u> CZK'000	<u>Nominal</u> <u>value</u> CZK'000	<u>Share</u> <u>capital</u> CZK'000	<u>Shareholding</u> %
ČESKÝ LEASING, spol. s r.o. Charkovská 24, 101 00 Praha 10	39,271	37,000	148,000	25.0
	39,271			
Provision (Note 13)	(3,986)			
Investments in associated undertakings (net)	<u>35,285</u>			

Summary financial information on associated undertakings

At 30 September 2001 and for the nine months then ended:

<u>Name</u>	<u>Audited financial data</u>					
	<u>Net book</u> <u>amount</u> CZK'000	<u>Share of</u> <u>net assets</u> CZK'000	<u>Equity</u> CZK'000	<u>Total</u> <u>assets</u> CZK'000	<u>Revenues</u> CZK'000	<u>Profit</u> <u>before tax</u> CZK'000
ČESKÝ LEASING, spol. s r.o. *	39,271	42,614	170,454	3,591,283	1,157,642	10,524

* Audited financial statements as at 30 September 2001, not yet approved by the General meeting, as at the date of these financial statements.

At 31 December 2000 and for the year then ended:

Name	Audited financial data					
	Net book amount CZK'000	Share of net assets CZK'000	Equity CZK'000	Total assets CZK'000	Revenues CZK'000	Profit before tax CZK'000
ČESKÝ LEASING, spol. s r.o.	35,285	40,791	163,162	3,174,599	1,165,473	34,763

(c) Movements in investments in subsidiary and associated undertakings

The movements in investment in subsidiary and associated undertakings during 2001 and 2000 can be analysed as follows:

	Subsidiary undertakings		Associated undertakings	
	At cost CZK'000	Nominal value CZK'000	At cost CZK'000	Nominal value CZK'000
Balance at 1 January 2000	16,496	30,656	109,250	64,000
Sale of share of Allianz penzijní fond, a.s.	-	-	(69,979)	(27,000)
Balance at 31 December 2000 and 31 December 2001	<u>16,496</u>	<u>30,656</u>	<u>39,271</u>	<u>37,000</u>

9. TANGIBLE AND INTANGIBLE FIXED ASSETS

Intangible fixed assets

	<u>31 December 2000</u> CZK'000	<u>Additions</u> CZK'000	<u>Disposals</u> CZK'000	<u>31 December 2001</u> CZK'000
<u>Cost</u>				
Software	499,804	32,672	-	532,476
Other intangible assets	8,595	1,657	-	10,252
Acquisition of intangible fixed assets	<u>2,217</u>	<u>36,315</u>	<u>34,891</u>	<u>3,641</u>
	<u>510,616</u>	<u>70,644</u>	<u>34,891</u>	<u>546,369</u>
<u>Accumulated amortisation</u>				
Software	384,601	63,108	-	447,709
Other intangible assets	<u>2,304</u>	<u>2,770</u>	<u>-</u>	<u>5,074</u>
	<u>386,905</u>	<u>65,878</u>	<u>-</u>	<u>452,783</u>
<u>Net book amount</u>	<u>123,711</u>			<u>93,586</u>

Operating tangible fixed assets

	<u>31 December 2000</u> CZK'000	<u>Additions</u> CZK'000	<u>Disposals</u> CZK'000	<u>31 December 2001</u> CZK'000
<u>Cost</u>				
Land	43,826	293	-	44,119
Buildings	1,544,585	48,515	13	1,593,087
Equipment	1,021,137	111,366	65,023	1,067,480
Assets in the course of construction and related advances	<u>26,780</u>	<u>140,236</u>	<u>160,175</u>	<u>6,841</u>
	<u>2,636,328</u>	<u>300,410</u>	<u>225,211</u>	<u>2,711,527</u>
<u>Accumulated depreciation</u>				
Buildings	286,309	72,166	-	358,475
Equipment	<u>627,854</u>	<u>146,522</u>	<u>65,019</u>	<u>709,357</u>
Total	<u>914,163</u>	<u>218,688</u>	<u>65,019</u>	<u>1,067,832</u>
<u>Net book amount</u>	<u>1,722,165</u>			<u>1,643,695</u>

Fixed assets under lease contracts

The Bank also uses assets under finance lease contracts, which are not recorded as fixed assets in the financial statements until the end of the lease. The leases can be analysed as follows:

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Amounts already paid on existing finance lease contracts	<u>259</u>	<u>505</u>
Outstanding amounts payable within one year	-	259
Outstanding amounts payable after more than one year	-	-
Total amounts payable on existing finance lease contracts	<u>-</u>	<u>259</u>

Assets under charge

At 31 December 2000 and 31 December 2001, the Bank had no fixed assets provided as security over its liabilities or liabilities of third parties, other than securities in repo transactions disclosed in Note 11.

10. OTHER ASSETS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Advances granted	66,478	85,526
Other receivables from clients	29,920	50,424
Derivative financial instruments (Note 26)	189,009	132,894
Deferred tax asset (Note 23)	-	-
Suspense accounts	1,337	439
Other receivables	119,539	64,771
Estimated accrued income	<u>7,540</u>	<u>9,239</u>
Total other assets	<u>413,823</u>	<u>343,293</u>
Prepayments	22,420	24,539
Accrued income	<u>207,455</u>	<u>329,036</u>
Total accruals	<u>229,875</u>	<u>353,575</u>
Total other assets and accruals	<u>643,698</u>	<u>696,868</u>

11. AMOUNTS OWED TO BANKS AND CLIENTS

	31 December 2001 CZK'000	31 December 2000 CZK'000
Amounts owed to central banks (Notes 4 and 7)	10,789,000	11,152,000
Amounts owed to other banks	5,751,413	19,624,319
Loans received based on repurchase agreements	1,114,453	-
Current deposits received from clients	13,143,229	8,925,693
Term deposits received from clients	<u>23,623,367</u>	<u>22,126,567</u>
	<u>54,421,462</u>	<u>61,828,579</u>

Amounts owed to banks and clients can be analysed as follows:

At 31 December 2001

Actual residual maturities	Within 3 months CZK'000	3 - 12 months CZK'000	1 - 2 years CZK'000	2 - 4 years CZK'000	4 - 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Amounts owed to central banks	10,789,000	-	-	-	-	-	10,789,000
Amounts owed to other banks	4,337,270	1,129,711	64,811	219,621	-	-	5,751,413
Loans received based on repurchase agreements	1,114,453	-	-	-	-	-	1,114,453
Current deposits received from clients	13,143,229	-	-	-	-	-	13,143,229
Term deposits received from clients	<u>22,802,498</u>	<u>806,792</u>	<u>13,714</u>	<u>363</u>	<u>-</u>	<u>-</u>	<u>23,623,367</u>
	<u>52,186,450</u>	<u>1,936,503</u>	<u>78,525</u>	<u>219,984</u>	<u>-</u>	<u>-</u>	<u>54,421,462</u>

At 31 December 2000

Actual residual maturities	Within 3 months CZK'000	3 - 12 months CZK'000	1 - 2 years CZK'000	2 - 4 years CZK'000	4 - 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Amounts owed to central banks	11,152,000	-	-	-	-	-	11,152,000
Amounts owed to other banks	1,900,067	17,395,075	32,294	64,589	232,294	-	19,624,319
Current deposits received from clients	8,925,693	-	-	-	-	-	8,925,693
Term deposits received from clients	<u>20,976,285</u>	<u>1,100,622</u>	<u>49,282</u>	<u>378</u>	<u>-</u>	<u>-</u>	<u>22,126,567</u>
	<u>42,954,045</u>	<u>18,495,697</u>	<u>81,576</u>	<u>64,967</u>	<u>232,294</u>	<u>-</u>	<u>61,828,579</u>

Deposits from related parties

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Deposits from subsidiary undertakings and other companies within the group including the holding company	59,143	10,993,235
Deposits from associated undertakings	317	-
Funds in custody of ŽB - Trust, investiční společnost, a.s.	340,500	148,563
Board of Directors	11,662	18,418
Supervisory Board	340	1,466
Management	<u>9,830</u>	<u>11,578</u>
	<u>421,792</u>	<u>11,173,260</u>

At 31 December 2000, "Deposits from subsidiary undertakings and other companies within the group including the holding company" includes CZK 10,878 million relating to the collateral received from the holding company in relation to the credit line described in Note 5.

The Bank has accepted deposits from related parties, including its management, shareholders and their affiliates. Management considers that such deposits were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal interest rate and liquidity risk or present other unfavourable features.

12. CERTIFICATES OF DEPOSITS AND BONDS ISSUED

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Promissory notes	<u>2,456,865</u>	<u>2,349,423</u>

13. ALLOWANCES, PROVISIONS AND WRITE OFFS

As at 31 December 2001 and 2000 the Bank had the following provisions and allowances for assets at risk:

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
<u>Loans</u>		
Allowance for impaired loans to clients (Note 5)	204,151	269,963
General provisions for loans	538,930	442,959
Specific provisions for guarantees	<u>16,485</u>	<u>17,280</u>
Total provisions (Note 5)	<u>555,415</u>	<u>460,239</u>
<u>Other allowances</u>		
Contingencies (Note 17)	40,000	40,000
Pension contributions (Note 22)	1,009	716
Liabilities written back	<u>33,130</u>	<u>31,094</u>
Total other allowances	<u>74,139</u>	<u>71,810</u>

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
<u>Securities</u>		
Trading securities (see below)	4,727	4,919
Available-for-sale securities (see below)	138,007	171,029
Investment in subsidiaries and associates (see below)	<u>432</u>	<u>3,986</u>
Total provisions for securities	<u>143,166</u>	<u>179,934</u>
Money market securities (Note 7a)	224	-
Bonds and other similar debt securities (Note 7a)	4,498	4,919
Shares and other similar equity securities (Note 7a)	<u>5</u>	-
Provision for trading securities (Note 7a)	<u>4,727</u>	<u>4,919</u>
Bonds and other similar debt securities (Note 7c)	102,357	*
Shares and other similar equity securities (Note 7c)	<u>35,650</u>	*
Provision for securities available-for-sale (Note 7c)	<u>138,007</u>	<u>171,029</u>
Investments in subsidiary undertakings (Note 8)	432	-
Investments in associated undertakings (Note 8)	-	<u>3,986</u>
Provision for investment in subsidiaries and associates	<u>432</u>	<u>3,986</u>

* CZK 171,029,000 of provisions for securities including both bonds and other debt securities and shares and other equity securities was calculated in 2000 on a portfolio basis and therefore it is not allocated to individual securities.

The movements in provisions for loans and allowances can be analysed as follows:

	Impaired loans CZK'000	General provision for receivables CZK'000	Provision for contingencies CZK'000	Allowance for pensions contribution CZK'000	General provision for liabilities written back CZK'000
At 1 January 2000	114,791	344,076	-	717	17,482
Addition	169,887	288,577	40,000	-	13,791
Usage	(13,947)	(172,415)	-	-	(179)
Foreign exchange adjustment	(768)	-	-	-	-
At 31 December 2000	<u>269,963</u>	<u>460,238</u>	<u>40,000</u>	<u>717</u>	<u>31,094</u>
Addition	47,109	192,031	-	292	2,414
Usage	(102,477)	(96,854)	-	-	(378)
Foreign exchange adjustment	(10,444)	-	-	-	-
At 31 December 2001	<u>204,151</u>	<u>555,415</u>	<u>40,000</u>	<u>1,009</u>	<u>33,130</u>

The movements in provisions for securities can be analysed as follows:

	Provision for investment securities CZK'000	Provision for trading securities CZK'000	Provision for available- for-sale securities CZK'000
At 1 January 2000	460,381	114,736	-
Addition	367,690	78,191	-
Usage	(630,036)	(188,405)	-
Foreign exchange adjustment	(23,020)	397	-
At 31 December 2000	<u>175,015</u>	<u>4,919</u>	<u>-</u>
Transfer	(171,029)	-	171,029
Addition	436	117,634	404,910
Usage	(3,986)	(117,638)	(427,860)
Foreign exchange adjustment	(4)	(188)	(10,072)
At 31 December 2001	<u>432</u>	<u>4,727</u>	<u>138,007</u>

Write-offs and recovery of amounts written off previously

	2001		2000	
	Amounts written off CZK'000	Recovery of amounts written off previously CZK'000	Amounts written off CZK'000	Recovery of amounts written off previously CZK'000
Non-banking clients	4,940	7,896	50,595	89,676

Bad debts are written off against established general provisions, specific allowances or directly expensed in the case that management asserts their recoverability as being remote. If a provision for a bad debt was created previously, it is released to income at the time of write-off.

14. SUBORDINATED DEBT

On 29 December 1999 the Bank received a subordinated debt of EUR 27.7 million from BGB, which was converted to CZK 1 billion on 29 March 2000. The subordinated debt bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2004 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2009, with no repayment being possible before 29 December 2004 without the consent of the CNB. The debt, which is unsecured, is subordinated to all other liabilities of the Bank and forms a part of the tier two capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy.

15. OTHER PAYABLES

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Payables from unsettled securities transactions	41,157	27,791
Other payables to clients	124,400	819,427
Derivative financial instruments (Note 26)	257,839	158,812
Suspense accounts	1,275	633
Deferred tax liability (Note 23)	-	-
Other payables	446,033	277,728
Differences from revaluation of hedging derivatives	(40 588)	29,305
Social fund (Note 16)	<u>2,831</u>	<u>1,257</u>
Miscellaneous payables	832,947	1,314,953
Accruals and deferred income	<u>163,456</u>	<u>350,809</u>
Total payables and accruals	<u>996,403</u>	<u>1,665,762</u>

16. EQUITY AND PROFIT DISTRIBUTION

Share capital

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Issued and paid	<u>1,360,410</u>	<u>1,360,410</u>

Issues of shares

<u>ISIN</u>	<u>Date of issue</u>	<u>Date of registration</u>	<u>Nominal value of share</u> CZK	<u>Number of shares</u>	<u>Nominal value</u> CZK'000
CZ0008002557	17 April 1992	24 May 1993	1,000	633,407	633,407
CZ0008002557	17 April 1992	30 August 1993	1,000	727,003	<u>727,003</u>
					<u>1,360,410</u>

Shareholders

	<u>31 December 2001</u>	<u>31 December 2000</u>
<u>Name and registered office</u>	<u>Holding</u> %	<u>Holding</u> %
Bankgesellschaft Berlin AG, Alexanderplatz 2, Berlin	85.16	85.16
Stroden Management Limited, Parou 1A, 6035 Larnaca, Cyprus	7.88	-
Other shareholders holding individually less than 5% of share capital	<u>6.96</u>	<u>14.84</u>
	<u>100.00</u>	<u>100.00</u>

At 31 December 2001 and 31 December 2000 all shares of the Bank's CZK 1,360,410,000 nominal value shares in issue were registered for trading and were traded on the public markets (i.e. Prague Stock Exchange and RM-System).

During 2000 the stake of BGB in the Bank increased as a consequence of two public purchase of the Bank's shares made through the RM-System.

The Bank's shares owned by members of the Board of Directors, Supervisory Board and management can be summarised as follows:

	<u>2001</u>	<u>2000</u>
	Number of shares held	Number of shares held
Board of Directors	13	15
Supervisory Board	-	-
Management	<u>42</u>	<u>42</u>
	<u>55</u>	<u>57</u>

Changes in equity

	Share capital CZK'000	Other reserve funds CZK'000	Reserve fund CZK'000	Accumulated losses CZK'000	Retained earnings CZK'000	Profit for the year CZK'000
Balance at 31 December 2000	1,360,410	810,839	272,082	(220,877)	34,135	231,216
Profit for the year 2001	-	-	-	-	-	155,947
Allocation of the 2000 profit to Accumulated losses	-	-	-	220,877	-	(220,877)
Allocation of the 2000 profit to Retained earnings	-	-	-	-	3,639	(3,639)
Contribution to Social fund (Note 15)	-	-	-	-	-	(6,700)
Balance at 31 December 2001	<u>1,360,410</u>	<u>810,839</u>	<u>272,082</u>	<u>-</u>	<u>37,774</u>	<u>155,947</u>

During 2001 the Bank used its profit for the period in accordance with the Commercial Code to reduce the accumulated losses.

Profit distribution

The proposal for allocation of the profit for the year 2001 of CZK 155,947,000 and the allocation of the profit for the year 2000 of CZK 231,216,000 is specified in the following table:

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Retained earnings	149,386	3,639
Social fund (Note 15)	6,561	6,700
Accumulated losses from previous years	-	220,877
Net profit	<u>155,947</u>	<u>231,216</u>

17. CONTINGENCIES AND COMMITMENTS

The Bank is the subject of several legal disputes. A provision of CZK 40 million (31 December 2000: CZK 40 million) was made on the basis of the Bank's assessment of the expected outcome of these legal disputes (Note 13).

Commitments to extend loans, loan guarantees and letters of credit represent an exposure to credit losses in the event of client default. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit risk, interest rate risk and liquidity risk.

Contingent assets can be analysed as follows:

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Irrevocable loan commitments	<u>7,417,801</u>	<u>15,739,796</u>
<u>Guarantees granted</u>		
On behalf of banks	-	1,000,000
On behalf of clients	814,376	652,193
Letters of credit	<u>6,059</u>	<u>30,854</u>
	<u>820,435</u>	<u>1,683,047</u>
Specific provision for guarantees granted (Note 13)	<u>(16,485)</u>	<u>(17,280)</u>
	<u>803,950</u>	<u>1,665,767</u>

Assets held in custody and depository

During 2001 the Bank acted as depository for certain mutual, investment and pension funds. The aggregate net asset value of these funds at 31 December 2001 was CZK 14,203 million (31 December 2000: CZK 13,102 million). Management considers that no present obligations were associated with these fiduciary duties at 31 December 2001.

Capital expenditures

At 31 December 2001, the Bank had contractual commitments for capital expenditure of CZK 880,000 (31 December 2000: CZK 28,000,000).

18. INTEREST INCOME

	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000
Interest on inter-bank transactions	1,271,690	1,350,590
Interest on loans to clients and state institutions	1,328,823	921,119
Interest and discount on debt securities	595,624	333,459
Interest and discount on other financial transactions	<u>82,671</u>	<u>115,452</u>
	<u>3,278,808</u>	<u>2,720,620</u>

Penalty interest of CZK 1,897,000 for the period ended 31 December 2001 was suspended and recorded to the off-balance sheet.

19. INTEREST EXPENSE

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Interest on inter-bank transactions	1,112,940	820,089
Interest on deposits from clients and state institutions	1,157,055	1,052,696
Interest and discount on debt securities	24,841	-
Interest and discount on other financial transactions	<u>19,966</u>	<u>23,303</u>
	<u>2,314,802</u>	<u>1,896,088</u>

20. GAINS LESS LOSSES FROM FINANCIAL OPERATIONS

Gains less losses from financial operations for the years ended 31 December 2001 and 2000 can be analysed as follows:

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Gains less losses from securities trading	10,459	38,745
Gains less losses from transactions with trading derivatives	331,453	87,437
Gains less losses from foreign currency transactions	<u>(158,131)</u>	<u>201,970</u>
	<u>183,781</u>	<u>328,152</u>

21. OTHER INCOME AND EXPENSES

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
<u>Other income</u>		
Commission and fee income	269,349	290,680
Dividend income	<u>33,346</u>	<u>22,913</u>
	302,695	313,593
Other operating income	<u>22,360</u>	<u>142,319</u>
	<u>325,055</u>	<u>455,912</u>

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
<u>Other operating expenses</u>		
Commission and fee expense	<u>34,687</u>	<u>37,973</u>
Rent and lease charges	43,510	38,109
General operating expenses	498,146	456,338
Depreciation and amortisation	284,277	271,504
Other operating expenses	<u>21,822</u>	<u>23,218</u>
	<u>847,755</u>	<u>789,169</u>

General operating expenses can be analysed as follows:

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Wages and salaries	283,958	264,542
Social security and other social costs	96,224	89,623
Emoluments of Board of Directors and Supervisory Board	<u>10,636</u>	<u>11,450</u>
	<u>390,818</u>	<u>365,615</u>

Emoluments of the Board of Directors include compensation for their board duties. Emoluments of the Board of Directors for management activities are included in wages and salaries.

Staff statistics

	<u>2001</u>	<u>2000</u>
Average number of employees	774	724
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	6	6

Expenses for statutory bodies and management

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Board of Directors	9,446	10,260
Supervisory Board	1,190	1,190
Management	57,309	48,969
	<u>67,945</u>	<u>60,419</u>

The management of the Bank consists of the general manager, 4 deputy general managers, 3 heads of section, 21 heads of division and branch directors.

Other expenses

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Bad debts written-off	7,972	117,253
Disposals of investments	263	42,364
Other expenses	<u>571</u>	<u>1,347</u>
	<u>8,806</u>	<u>160,964</u>

22. PENSION BENEFITS

The Bank contributes to a pension fund (Allianz penzijní fond, a.s.) on behalf of its employees in the Czech Republic. The fund is a defined contribution plan. The Bank makes fixed contributions to its employees for pension insurance. In addition, the Bank may contribute a percentage of annual net profit to the pension plan proportionally to each individual employee's annual income.

23. TAXATION

Due to tax losses carried forward from the years 2001 and 2000, the Bank has no tax obligation.

Deferred taxation

The deferred tax calculation is analysed as follows:

	<u>2001</u> CZK million	<u>2000</u> CZK million
Tax non-deductible provisions for loans	19	39
Tax non-deductible provisions for securities	44	56
Differences between tax and accounting depreciation	(21)	(23)
	<u>42</u>	<u>72</u>

The deferred tax asset has not been recognised, as the timing of the recoverability of the asset is uncertain.

24. EXTRAORDINARY ITEMS

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Extraordinary income	4,020	16,490
Extraordinary expense	(263)	(568)
Profit from extraordinary activities	<u>3,757</u>	<u>15,922</u>

Extraordinary income as at 31 December 2001 is mainly represented by written back liabilities to customers of CZK 2,554,000 (as at 31 December 2000: CZK 11,941,000). Extraordinary expenses as at 31 December 2001 are mainly represented by damages and shortages of CZK 259,000 (as at 31 December 2000: CZK 563,000).

25. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES

Balance sheet

	31 December 2001		31 December 2000	
	Assets CZK'000	Liabilities CZK'000	Assets CZK'000	Liabilities CZK'000
Residents	5,779,220	16,485,735	10,339,674	14,572,964
Non residents	<u>12,306,670</u>	<u>2,117,265</u>	<u>20,975,385</u>	<u>17,861,869</u>
	<u>18,085,890</u>	<u>18,603,000</u>	<u>31,315,059</u>	<u>32,434,833</u>

	31 December 2001			31 December 2000		
	Assets CZK'000	Liabilities CZK'000	Net asset/ (liability) CZK'000	Assets CZK'000	Liabilities CZK'000	Net asset/ (liability) CZK'000
USD	7,993,333	(9,183,770)	(1,190,437)	11,066,959	(12,242,905)	(1,175,946)
EUR	8,952,737	(8,203,271)	749,466	18,663,493	(19,021,676)	(358,183)
SKK	121,265	(23,065)	98,200	86,100	(11,954)	74,146
GBP	438,305	(482,035)	(43,730)	436,818	(440,558)	(3,740)
CHF	255,507	(471,860)	(216,353)	899,491	(533,867)	365,624
Other	<u>324,743</u>	<u>(238,999)</u>	<u>85,744</u>	<u>162,198</u>	<u>(183,873)</u>	<u>(21,675)</u>
	<u>18,085,890</u>	<u>(18,603,000)</u>	<u>(517,110)</u>	<u>31,315,059</u>	<u>(32,434,833)</u>	<u>(1,119,774)</u>

Off balance sheet

	31 December 2001		31 December 2000	
	Assets CZK'000	Liabilities CZK'000	Assets CZK'000	Liabilities CZK'000
Denominated in foreign currencies	<u>9,939,271</u>	<u>11,509,690</u>	<u>22,755,551</u>	<u>26,007,993</u>

26. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank has outstanding derivative contracts, which can be analysed as follows:

	31 December 2001			31 December 2000		
	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Hedging						
<u>Interest rate derivatives</u>						
Swaps	<u>1,770,552</u>	<u>839</u>	<u>(41,427)</u>	<u>3,606,341</u>	<u>38,578</u>	<u>(9,273)</u>
Trading						
<u>Interest rate derivatives</u>						
Forwards including FRA	6,441,110	10,121	(1,669)	2,532,700	967	(670)
Swaps	<u>1,998,091</u>	<u>57,672</u>	<u>(40,852)</u>	<u>1,765,966</u>	<u>21,263</u>	<u>(27,937)</u>
	<u>8,439,201</u>	<u>67,793</u>	<u>(42,521)</u>	<u>4,298,666</u>	<u>22,230</u>	<u>(28,607)</u>
<u>Foreign exchange derivatives</u>						
Forwards	867,997	16,330	(15,386)	1,235,640	11,846	(24,453)
Swaps	<u>5,084,616</u>	<u>104,047</u>	<u>(88,659)</u>	<u>5,400,769</u>	<u>60,240</u>	<u>(96,479)</u>
	<u>5,952,613</u>	<u>120,377</u>	<u>(104,045)</u>	<u>6,636,409</u>	<u>72,086</u>	<u>(120,932)</u>
Credit derivatives	<u>385,252</u>	<u>-</u>	<u>(69,846)</u>	<u>402,894*</u>	<u>-</u>	<u>(78,183)*</u>

* The derivative element embedded in the loan granted to a related party (Note 5) was not recognized as at 31 December 2000 in derivatives (Note 2s), it is presented as a comparative figure.

	31 December 2001			31 December 2000		
	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Total derivatives						
Total interest rate derivatives	10,209,753	68,632	(83,948)	7,905,007	60,808	(37,880)
Total foreign exchange derivatives	5,952,613	120,377	(104,045)	6,636,409	72,086	(120,932)
Credit derivatives	<u>385,252</u>	<u>-</u>	<u>(69,846)</u>	<u>402,894</u>	<u>-</u>	<u>(78,183)</u>
	<u>16,547,618</u>	<u>189,009</u>	<u>(257,839)</u>	<u>14,944,310</u>	<u>132,894</u>	<u>(236,995)</u>

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair value of the Bank's derivative financial instruments outstanding at 31 December 2001 and 2000.

These instruments, allow the Bank and its customers to transfer, modify or reduce their interest rate, foreign exchange and credit risks.

27. RESIDUAL MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

Due to their size, the tables are opened in a new window.

- Table - [Assets at 31 December 2001](#)
- Table - [Liabilities at 31 December 2001](#)
- Table - [Assets at 31 December 2000](#)
- Table - [Liabilities at 31 December 2000](#)

At 31 December 2001

Assets	<u>Within 3 months</u> CZK'000	<u>3 - 12</u> <u>months</u> CZK'000	<u>1 - 2</u> <u>years</u> CZK'000	<u>2 - 4</u> <u>years</u> CZK'000	<u>4 - 5</u> <u>years</u> CZK'000	<u>Over 5</u> <u>years</u> CZK'000	<u>Not</u> <u>specified</u> CZK'000	<u>Total</u> CZK'000
Cash in hand, balances with central banks	694,175	-	-	-	-	-	788,580	1,482,755
State treasury bills and other bills eligible for refinancing with the CNB *	12,350,531	1,261,505	-	-	-	-	-	13,612,036
Receivables from banks	17,460,028	2,607,527	63,960	47,970	-	-	-	20,179,485
Intragroup loans	587,060	146,684	135,657	153,975	4,074	-	-	1,027,450
Receivables from customers (except intragroup)	4,516,227	4,235,203	1,910,232	3,980,241	972,533	2,450,455	(204,151)	17,860,740
Bonds and other fixed income securities held for trading *	252,052	222,126	701,296	1,992,324	1,031,494	1,220,409	-	5,419,701
Shares and other variable income securities held for trading	-	-	-	-	-	-	122,931	122,931
Participation interest with substantial influence	-	-	-	-	-	-	39,271	39,271
Participation interest with controlling influence	-	-	-	-	-	-	15,988	15,988
Intangible fixed assets	-	-	-	-	-	-	93,586	93,586
Tangible fixed assets	-	-	-	-	-	-	1,643,695	1,643,695
Other assets	101,445	30,491	19,397	38,174	-	839	223,477	413,823
Prepayments and accrued income	<u>119,304</u>	<u>65,977</u>	<u>3,094</u>	<u>11,134</u>	<u>42</u>	<u>8,833</u>	<u>21,491</u>	<u>229,875</u>
Total assets	<u>36,080,822</u>	<u>8,569,513</u>	<u>2,833,636</u>	<u>6,223,818</u>	<u>2,008,143</u>	<u>3,680,536</u>	<u>2,744,868</u>	<u>62,141,336</u>

* Item is classified according to actual remaining maturity of individual securities. However, bonds and other fixed income securities are part of the trading and available for sale portfolios and therefore can be realised at any time.

At 31 December 2001

Liabilities	<u>Within 3 months</u> CZK'000	<u>3 - 12 months</u> CZK'000	<u>1 - 2 years</u> CZK'000	<u>2 - 4 years</u> CZK'000	<u>4 - 5 years</u> CZK'000	<u>Over 5 years</u> CZK'000	<u>Not specified</u> CZK'000	<u>Total</u> CZK'000
Due to banks	15,126,270	1,129,711	64,811	219,621	-	-	-	16,540,413
Due to customers *	37,060,180	806,792	13,714	363	-	-	-	37,881,049
Certificates of deposit and similar debentures	2,452,508	-	4,357	-	-	-	-	2,456,865
Deferred income and accrued expenses	85,431	43,634	2,291	12,648	-	7,290	12,162	163,456
Provisions	-	-	-	-	-	-	629,554	629,554
Subordinated liabilities	-	-	-	-	-	1,000,000	-	1,000,000
Other liabilities	86,831	22,079	11,510	116,279	2,280	20,136	573,832	832,947
Registered capital	-	-	-	-	-	-	1,360,410	1,360,410
Reserve funds	-	-	-	-	-	-	1,082,921	1,082,921
Retained earnings	-	-	-	-	-	-	37,774	37,774
Profit for the accounting period	-	-	-	-	-	-	155,947	155,947
Total liabilities	<u>54,811,220</u>	<u>2,002,216</u>	<u>96,683</u>	<u>348,911</u>	<u>2,280</u>	<u>1,027,426</u>	<u>3,852,600</u>	<u>62,141,336</u>

* The item Due to customers includes current accounts and deposits maturing within 3 months. The current accounts and deposits are generally rolled forward, thus effectively representing longer term funding. Residual maturity is however based on contractual terms.

At 31 December 2000

Assets	<u>Within 3 months</u> CZK'000	<u>3 - 12 months</u> CZK'000	<u>1 - 2 years</u> CZK'000	<u>2 - 4 years</u> CZK'000	<u>4 - 5 years</u> CZK'000	<u>Over 5 years</u> CZK'000	<u>Not specified</u> CZK'000	<u>Total</u> CZK'000
Cash in hand, balances with central banks	673,128	-	-	-	-	-	748,597	1,421,725
State treasury bills and other bills eligible for refinancing with the CNB	11,673,484	20,296	-	-	-	-	-	11,693,780
Receivables from banks	19,650,506	2,838,400	87,725	70,180	-	-	-	22,646,811
Intragroup loans	219,637	94,938	132,744	117,116	-	-	-	564,435
Receivables from customers (except intragroup)	3,638,224	5,053,149	1,483,167	2,877,799	1,256,237	2,015,594	(269,963)	16,054,207
Bonds and other fixed income securities held for trading	-	9,755,866	74,656	638,332	306,216	785,259	-	11,560,329
Shares and other variable income securities held for trading	-	-	-	-	-	-	29	29
Participation interest with substantial influence	-	-	-	-	-	-	35,285	35,285
Participation interest with controlling influence	-	-	-	-	-	-	16,477	16,477
Other financial investment	-	981,714	408,598	676,441	380,028	474,499	406,517	3,327,797
Intangible fixed assets	-	-	-	-	-	-	123,711	123,711
Tangible fixed assets	-	-	-	-	-	-	1,722,165	1,722,165
Other assets	32,854	52,292	708	22,271	13,342	11,864	209,962	343,293
Prepayments and accrued income	<u>190,596</u>	<u>98,362</u>	<u>3,045</u>	<u>18,660</u>	<u>3,319</u>	<u>15,834</u>	<u>23,759</u>	<u>353,575</u>
Total assets	<u><u>36,078,429</u></u>	<u><u>18,895,017</u></u>	<u><u>2,190,643</u></u>	<u><u>4,420,799</u></u>	<u><u>1,959,142</u></u>	<u><u>3,303,050</u></u>	<u><u>3,016,539</u></u>	<u><u>69,863,619</u></u>

At 31 December 2000




Liabilities	<u>Within 3 months</u> CZK'000	<u>3 - 12 months</u> CZK'000	<u>1 - 2 years</u> CZK'000	<u>2 - 4 years</u> CZK'000	<u>4 - 5 years</u> CZK'000	<u>Over 5 years</u> CZK'000	<u>Not specified</u> CZK'000	<u>Total</u> CZK'000
Due to banks	13,052,067	17,395,075	32,294	64,589	232,294	-	-	30,776,319
Due to customers	29,901,978	1,100,622	49,282	378	-	-	-	31,052,260
Certificates of deposit and similar debentures	2,314,705	30,501	4,217	-	-	-	-	2,349,423
Deferred income and accrued expenses	88,119	201,368	8,750	13,180	2,500	9,549	27,343	350,809
Provisions	-	-	-	-	-	-	532,049	532,049
Subordinated liabilities	-	-	-	-	-	1,000,000	-	1,000,000
Other liabilities	90,462	53,160	2,902	11,055	-	1,851	1,155,523	1,314,953
Registered capital	-	-	-	-	-	-	1,360,410	1,360,410
Reserve funds	-	-	-	-	-	-	1,082,921	1,082,921
Losses from previous period	-	-	-	-	-	-	(186,741)	(186,741)
Profit for the accounting period	-	-	-	-	-	-	231,216	231,216
Total liabilities	<u>45,447,331</u>	<u>18,780,726</u>	<u>97,445</u>	<u>89,202</u>	<u>234,794</u>	<u>1,011,400</u>	<u>4,202,721</u>	<u>69,863,619</u>

28. SUBSEQUENT EVENTS

On 6 February 2002 the Board of Directors of the Bank has been informed that a majority shareholder, BGB, is working together with Schroder Salomon Smith Barney on an assessment of the possible alternatives of the sale of its 85.16% share in the Bank.

The management of the Bank considers that there were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2001.

These financial statements including notes have been approved for submission to the general shareholders meeting by the Board of Directors of the Bank and have been signed on their behalf by:

<u>Date</u>	<u>Statutory signatures</u>	<u>Person responsible for accounting</u>	<u>Person responsible for the financial statements preparation</u>
8 February 2002			

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF ŽIVNOSTENSKÁ BANKA, A. S.

We have audited the accompanying consolidated balance sheet of Živnostenská banka, a. s. and its subsidiaries (hereinafter the “Group”) as at 31 December 2001, and the related consolidated statements of income, changes in equity and cash flows for the year then ended prepared according to the International Accounting Standards (hereinafter “consolidated financial statements”). These consolidated financial statements set out on pages 75 to 157 are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2001, and the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with International Accounting Standards.

14 March 2002



PricewaterhouseCoopers Audit, s.r.o.

CONSOLIDATED INCOME STATEMENT
(according to the International Accounting Standards)

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

		Year ended 31 December	
	Notes	2001 CZK'000	2000 CZK'000
Interest income	4	3,270,179	2,714,627
Interest expense	4	(2,314,047)	(1,895,820)
Net interest income		956,132	818,807
Fee and commission income	5	268,546	290,480
Fee and commission expense	5	(34,687)	(37,973)
Net fee and commission income		233,859	252,507
Dividend income	6	44,787	30,668
Net trading income	7	255,677	303,147
Gains less losses from investment securities	8	35,867	253,199
Other operating income	9	141,110	234,538
Operating income		1,667,432	1,892,866
Operating expenses	10	(1,347,367)	(1,329,881)
Bad and doubtful debts expense	11	(48,675)	(311,527)
Profit from operations		271,390	251,458
Income tax	12	(6,911)	(5,811)
Net profit	13	264,479	245,647
Earnings per share (expressed in CZK per share)	13	194.4	180.6
- basic and diluted			

The following notes form an integral part of these consolidated financial statements.


ŽIVNOSTENSKÁ BANKA

CONSOLIDATED BALANCE SHEET
(according to the International Accounting Standards)

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

		As at 31 December	
	Notes	2001 CZK'000	2000 CZK'000
ASSETS			
Cash and balances with central bank	14	1,482,917	1,421,798
Treasury bills and other eligible bills	15	2,828,714	541,780
Due from other banks	16	20,179,489	22,653,728
Trading securities	17	3,984,679	11,562,738
Derivative financial instruments	18	189,009	132,894
Loans and advances to customers	19	17,859,312	16,050,261
Investment securities - available-for-sale	20	2,199,452	3,362,634
Property and equipment	21	1,753,558	1,866,625
Other assets including current tax asset	22	566,786	784,024
Total assets		<u>51,043,916</u>	<u>58,376,482</u>
LIABILITIES			
Due to other banks	23	5,751,413	19,624,319
Other deposits	24	2,456,865	2,349,423
Derivative financial instruments	18	257,839	158,812
Due to customers	25	37,854,496	31,052,260
Other liabilities including current tax liability	26	893,625	1,583,003
Subordinated debt	27	1,000,000	1,000,000
Total liabilities		<u>48,214,238</u>	<u>55,767,817</u>
SHAREHOLDERS' EQUITY			
Ordinary shares	28	1,360,410	1,360,410
Reserves	29	1,087,494	1,087,402
Retained profit	29	381,774	160,853
Total shareholders' equity		<u>2,829,678</u>	<u>2,608,665</u>
Total shareholders' equity and liabilities		<u>51,043,916</u>	<u>58,376,482</u>

These financial statements have been approved for issue by the Board of Directors on 14 March 2002 and signed on its behalf by Mr Josef Pitra, Vice-Chairman of the Board of Directors and by Mr Aleš Barabas, Member of the Board of Directors.

The following notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

	Share capital CZK'000	Reserves CZK'000	Retained profit / (loss) CZK'000	Total equity CZK'000
Balance at 1 January 2000 (as previously reported)	1,360,410	1,087,012	(89,817)	2,357,605
Change in scope of consolidation adjustment	-	30	5,383	5,413
Restated balance at 1 January 2000	1,360,410	1,087,042	(84,434)	2,363,018
Increase of statutory reserve	-	360	(360)	-
Profit for the year 2000 (as previously reported)	-	-	243,803	243,803
Change in the profit as a result of the change in scope of consolidation	-	-	1,844	1,844
Restated balance at 31 December 2000	<u>1,360,410</u>	<u>1,087,402</u>	<u>160,853</u>	<u>2,608,665</u>
Balance at 1 January 2001	1,360,410	1,087,402	160,853	2,608,665
Effect of adopting IAS 39:				
- derivative instruments	-	-	(48,878)	(48,878)
- hedged items	-	-	4,954	4,954
- trading securities	-	-	458	458
Restated balance at 1 January 2001	1,360,410	1,087,402	117,387	2,565,199
Increase of statutory reserve	-	92	(92)	-
Profit for the year 2001	-	-	264,479	264,479
Balance at 31 December 2001	<u>1,360,410</u>	<u>1,087,494</u>	<u>381,774</u>	<u>2,829,678</u>

An analysis of movements in each category within "Reserves" and description of the nature and purpose of each reserve is presented in Note 29.

The following notes form an integral part of these consolidated financial statements.

[Handwritten signatures]

CONSOLIDATED CASH FLOW STATEMENT

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

		Year ended 31 December	
	Notes	2001 CZK'000	2000 CZK'000
Cash flows from operating activities			
Interest income receipts		3,381,187	2,717,379
Interest payments		(2,488,708)	(1,780,404)
Dividend receipts		44,787	30,668
Fee and commission receipts		233,859	252,507
Recoveries on loans previously written off		7,896	89,676
Net trading and other income received		848,278	279,537
Cash payments to employees and suppliers		(1,096,600)	(1,439,849)
Income taxes paid		(7,084)	(7,079)
Cash flows from operating profits before changes in operating assets and liabilities		<u>923,615</u>	<u>142,435</u>
Changes in operating assets and liabilities:			
Net decrease / (increase) in trading securities and treasury and other eligible bills		6,597,051	(10,577,468)
Net decrease / (increase) in loans and advances to banks		281,198	(355,503)
Net (increase) in loans and advances to customers	19	(1,809,051)	(5,716,651)
Net decrease / (increase) in other assets		106,230	(176,768)
Net (decrease) / increase in deposits and loans from other banks	23, 24	(13,765,464)	12,477,166
Net increase in amounts due to customers	25	6,802,236	6,764,463
Net (decrease) / increase in other liabilities		(514,717)	905,421
Net cash (used in) / from operating activities		<u>(1,378,902)</u>	<u>3,463,095</u>
Cash flows from investing activities			
Purchase of property and equipment		(132,817)	(714,001)
Proceeds from sale of property and equipment		1,317	38,611
Purchases of securities		(168,037)	(10,000)
Proceeds from sales and redemption of securities		<u>1,331,219</u>	<u>939,942</u>
Net cash from investing activities		<u>1,031,682</u>	<u>254,552</u>

		Year ended 31 December	
	Notes	2001 CZK'000	2000 CZK'000
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		-	-
Repayments of borrowed funds and debt securities		-	-
Subordinated debt received		-	-
Dividends paid		-	-
Net cash from financing activities		-	-
Effect of exchange rate changes on cash and cash equivalents		(523,109)	258,148
Net (decrease) / increase in cash and cash equivalents		(870,329)	3,975,795
Cash and cash equivalents at beginning of year	33	20,852,108	16,876,313
Cash and cash equivalents at end of year	33	19,981,779	20,852,108

The following notes form an integral part of these consolidated financial statements.

[Handwritten signatures]

INTRODUCTION

Živnostenská banka was founded in 1868 for the purpose of financing small and medium-sized Czech companies. It was the first bank in the Austro-Hungarian Empire with only Czech capital. It was nationalized in 1945 as were the other banks in the Czech Republic. Živnostenská banka existed as a legal entity during the years 1950 - 1956 but its activities were very limited. Later Živnostenská banka started to provide special services to individuals which related to their income denominated in foreign currencies. The London branch of Živnostenská banka (closed in 1999) was involved in the financing of international business transactions in some countries associated in the Council for Mutual Economic Assistance.

Živnostenská banka, a.s. (hereinafter referred to as "the Bank") was incorporated on 1 March 1992. The Bank has its registered office at Praha 1, Na Příkopě 858/20, Post Code 113 80 and it is organised as eight domestic regional branches and a representative office in Bratislava, Slovak Republic.

The Bank's operations primarily consist of:

- Providing Czech and foreign currency loans and guarantees;
- Accepting and placing deposits in Czech and foreign currency;
- Accepting current and term accounts denominated in Czech and foreign currency;
- Rendering of general banking services through a network of branches and agencies;
- Executing foreign exchange transactions;
- Providing foreign trade finance and related banking services;
- Trading in securities and portfolio management.

In addition to its banking activities, the Bank's activities include subsidiaries involved in fund and other assets management (ŽB - Trust, investiční společnost, a.s. and ŽB - Asset Management, a.s.), hereby referred to as "the Group".

The majority shareholder of the Bank is Bankgesellschaft Berlin AG (hereinafter "BGB") which is controlled by the State of Berlin (80.95%). BGB holds 85.16% of the registered share capital of the Bank. BGB recorded a loss of EUR 1.6 billion for the year 2000. The annual meeting of shareholders of BGB on 29 August 2001 decided to cover the losses by subscription of new shares by the State of Berlin. The effect of the financial position of the major shareholder of the Bank cannot be directly estimated, except in that it has been more difficult for the Bank to attract money market deposits for periods over three months.

1. ACCOUNTING POLICIES

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

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS"). The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative contracts.

In the notes all amounts are shown in thousands of Czech Crowns unless otherwise stated.

In 2001 the Group adopted IAS 39 Financial Instruments: Recognition and Measurement. The financial effects of adopting IAS 39 are reported in the Consolidated statement of changes in shareholders' equity. Further information is disclosed in accounting policies for Derivative financial instruments, Trading securities, Investment securities and Originated loans and the provisions for loan impairment and in related Notes.

Prior to adoption of IAS 39, all debt and equity securities, except for trading securities, were measured at amortised cost or cost respectively, providing only for permanent value impairments. IAS 39 has been applied prospectively in accordance with the requirements of this standard and therefore comparative financial information has not been restated.

(b) Consolidation

Subsidiary undertakings are those companies in which the Group, directly or indirectly, has power to exercise control over financial and operating policies. Subsidiaries, which are material to the fair presentation of the financial statements, have been consolidated. Subsidiaries, which are not material themselves and in aggregated effect to the fair presentation of the financial statements, have not been consolidated (Zivnostenska Finance B.V.) and have been classified as investments securities (Note 1(k), Note 20).

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The management of the Bank decided to change the scope of consolidation in 2001 and include ŽB - Asset Management, a.s. in the consolidated group. The balances as at and for the year ended 31 December 2000 were restated accordingly, so that the ŽB - Asset Management, a.s. was effectively consolidated since 1 January 2000. The resulting effect on previously reported figures is shown in the consolidated statement of movements in equity.

The consolidated financial statements for 2001 and 2000 therefore include the results and net assets of ŽB - Trust, investiční společnost, a.s., and ŽB - Asset Management, a.s. which are wholly owned subsidiaries of the Bank.

(c) Associated undertakings

Associated undertakings are those companies in which the Bank, directly or indirectly has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

Associated undertakings, which are not accounted for under the equity method (ČESKÝ LEASING, spol. s r.o.), are classified as available-for-sale securities and disclosed in Note 20.

(d) Foreign currencies

Foreign currency transactions are accounted for at the exchange rates at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

All translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses, whereas translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Thus, relating translation differences on available-for-sale equities are included in gain and loss within the income statement.

(e) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as credit linked derivatives in bank loans and deposits, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income statement.

Changes in the fair value of derivatives held for trading are included in net trading income.

On the date a derivative contract is entered into, the Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge); or, (2) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

- a. Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- b. The hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- c. The hedge is effective on an ongoing basis.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the income statement, along with the corresponding change in the fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedge reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement.

Prior to the adoption of IAS 39, except for derivative instruments held for trading or used for hedging of trading securities, derivative instruments were carried at cost (less impairment) and related gains and losses were recognised as income or expense at the same time as the corresponding expense or income on the hedged position.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 18. The effects of the adoption of IAS 39 on 1 January 2001 are shown in Note 18.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price.

Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection, when the borrower or securities' issuer defaults. Such income is excluded from interest income until received.

Income on non-performing loans is also accrued and capitalised into the related loan balance. Such amounts are considered in estimating the provision for non-performing loans and related interest. Interest income also includes coupons and accrued discount earned on fixed interest bearing securities. Interest expense includes discounts on all discounted fixed income instruments.

(h) Fee and commission income

Fees and commissions are generally recognised on an accrual basis. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

(i) Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Capital markets in the Czech Republic are not fully developed. Prices listed on the public markets do not always correspond to real conditions of supply and demand or to the economic situation of the issuer. Realised prices can therefore differ from listed prices.

(j) Sale and repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are retained in the financial statements as trading or investment securities and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method. Securities lent to counterparties are also retained in the financial statements.

(k) Investment securities

At 1 January 2001 the Group adopted IAS 39 and classified all its investment securities and purchased loans and receivables into the following two categories: held-to-maturity and available-for-sale assets. Investment securities and purchased loans and receivables with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities and purchased loans and receivables intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities and purchased loans and receivables are initially recognised at cost. Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Valuation for unquoted instruments is given either by fund managers or by market participants, which has the same title in its portfolio. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement.

In 2000, prior to the adoption of IAS 39, all investment securities were carried at cost or amortised cost, less any provision for impairment.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

It is not possible to classify any financial asset as held-to-maturity if the Group has, during the current financial year or during two preceding financial years, sold or transferred held-to-maturity investments before maturity (unless they met the specific exceptions in IAS 39).

Interest earned whilst holding investment securities is reported as interest income. Dividends receivable are included separately in dividend income when a dividend is declared.

All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

(I) Originated loans and the provisions for loan impairment

Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Group and are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

In the case of loans to borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the bad and doubtful debt expense in the income statement.

If the amount of the impairment subsequently decreases, the release of the provision is credited to the bad and doubtful debt expense.

(m) Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight line method to write off the cost of each tangible and intangible asset to its residual value over its estimated useful life as follows:

	<u>Depreciation period</u> (years)
Equipment	4 to 12
Software	2 to 6
Buildings	30

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their net book value and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

(n) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank, treasury bills and other eligible bills, amounts due from other banks and trading and available-for-sale securities except equities.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the net present value of the obligation can be made.

(p) Employee benefits

During the year the Group operated defined contribution schemes for its employees in the Czech Republic (Note 31). Regular contributions are made to the state to fund the national pension plan. The contributions made to the pension fund for the period are charged against profit.

(q) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(r) Operating leases

For operating leases, lease payments are recognised as an expense in the income statement over the lease term.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10 per cent or more of all the segments are reported separately.

2. USE OF FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

By its nature the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and performance.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Fair value hedges

The Group hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets using interest rate swaps. The net fair value of these swaps at 31 December 2001 was negative CZK 40,588,000 (31 December 2000: CZK 29,305,000), Note 18.

(b) Capital adequacy

To monitor the adequacy of its capital the Group uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS) by comparing the Group's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount.

Off-balance-sheet credit related commitments and forwards based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Tier 1 capital consists of shareholders' equity less goodwill. Tier 2 capital includes the Group's eligible long-term debt and general provisions.

The Group's capital adequacy level was as follows:

Capital Ratios - Regulatory requirements (Czech GAAP)

	Capital		Czech GAAP%	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000		
Tier 1 capital	2,481,420	2,477,488		
Tier 1 + Tier 2 capital	3,831,474	3,800,068	12.23	11.18

BIS Capital Ratios - IAS

	Capital		BIS%	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	CZK'000	CZK'000		
Tier 1 capital	2,587,894	2,569,756		
Tier 1 + Tier 2 capital	3,927,679	3,888,121	12.93	12.48

(c) Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and by country are approved monthly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Derivatives

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

Credit related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Geographical concentrations of assets, liabilities and off balance sheet items

As at 31 December 2001

	<u>Total assets</u> CZK'000	<u>Total liabilities</u> CZK'000	<u>Credit commitments</u> CZK'000	<u>Capital expenditure</u> CZK'000
Czech Republic	33,820,876	44,935,549	6,579,428	203,025
Other OECD countries	16,574,402	5,279,672	1,405,410	-
Non - OECD Central and Eastern Europe countries	648,638	642,949	320	-
Other countries	-	185,746	-	-
	<u>51,043,916</u>	<u>51,043,916</u>	<u>7,985,158</u>	<u>203,025</u>

As at 31 December 2000

	<u>Total assets</u> CZK'000	<u>Total liabilities</u> CZK'000	<u>Credit commitments</u> CZK'000	<u>Capital expenditure</u> CZK'000
Czech Republic	30,635,468	37,380,216	5,528,453	437,237
Other OECD countries	26,904,247	19,959,414	11,031,637	-
Non - OECD Central and Eastern Europe countries	261,243	746,295	89,706	-
Other countries	575,524	290,557	-	-
	<u>58,376,482</u>	<u>58,376,482</u>	<u>16,649,796</u>	<u>437,237</u>

The Czech Republic is the home country of the Group, which is also the main operating country. The areas of operation include all the primary business segments.

As an active participant in the international money markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions was CZK 20,311,552,000 at 31 December 2001 of which CZK 132,067,000 consisted of derivative financial instruments (31 December 2000: CZK 22,754,834,000 of which derivative financial instruments: CZK 105,456,000).

Interest and fee income, total assets, total liabilities and contingent liabilities are allocated based on the country in which the counterparty is located.

The following table presents the distribution of the Bank's gross credit exposure by geographical region for loans and advances to customers and debt securities.

As at 31 December 2001

	Loans and advances to customers CZK'000	Other credit risk bearing instruments CZK'000
Czech Republic	15,057,737	7,304,445
Other OECD countries	3,381,020	1,492,126
Non - OECD Central and Eastern Europe countries	143,983	15,494
Other countries	-	181
	<u>18,582,740</u>	<u>8,812,246</u>

As at 31 December 2000

	Loans and advances to customers CZK'000	Other credit risk bearing instruments CZK'000
Czech Republic	11,864,848	7,200,667
Other OECD countries	4,707,650	11,035,664
Non - OECD Central and Eastern Europe countries	176,112	96,512
Other countries	14,572	-
	<u>16,763,182</u>	<u>18,332,843</u>

Loans and advances are further analysed as a part of the balance sheet in Note 19 and Note 34.

Economic sector risk concentrations within the customer gross loan portfolio were as follows:

	31 December 2001		31 December 2000	
	CZK'000	%	CZK'000	%
Services	10,667,031	57	9,148,547	54
Manufacturing	6,859,838	37	6,796,697	41
Private individuals	546,253	3	265,600	2
Other	509,618	3	552,338	3
	<u>18,582,740</u>	<u>100</u>	<u>16,763,182</u>	<u>100</u>

(d) Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

(e) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2001 and 2000. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values.

Concentrations of assets, liabilities and off balance sheet items

The Group has the following significant currency positions:

As at 31 December 2001	CZK CZK'000	USD CZK'000	GBP CZK'000	EUR* CZK'000	Other CZK'000	Total CZK'000
Assets						
Cash and balances with central bank	1,181,187	46,512	8,032	225,378	21,808	1,482,917
Treasury bills and other eligible bills	2,828,714	-	-	-	-	2,828,714
Due from other banks	12,737,920	3,469,896	35,661	3,589,138	346,874	20,179,489
Trading securities	679,487	1,584,722	262,233	1,458,237	-	3,984,679
Derivative financial instruments	166,460	21,006	-	1,543	-	189,009
Loans and advances to customers	13,106,540	1,129,178	59,824	3,235,803	327,967	17,859,312
Investment securities - available-for-sale	108,187	1,755,406	67,763	268,091	5	2,199,452
Property and equipment	1,753,558	-	-	-	-	1,753,558
Other assets including current tax asset	<u>293,828</u>	<u>85,790</u>	<u>4,793</u>	<u>176,275</u>	<u>6,100</u>	<u>566,786</u>
Total assets	<u><u>32,855,881</u></u>	<u><u>8,092,510</u></u>	<u><u>438,306</u></u>	<u><u>8,954,465</u></u>	<u><u>702,754</u></u>	<u><u>51,043,916</u></u>
Liabilities						
Due to other banks	3,298,850	1,095,363	153	1,357,024	23	5,751,413
Other deposits	2,212,777	131,013	-	113,075	-	2,456,865
Derivative financial instruments	149,064	103,803	-	4,972	-	257,839
Due to customers	22,330,063	7,775,305	475,513	6,568,212	705,403	37,854,496
Other liabilities including current tax liability	619,251	78,286	6,370	159,989	29,729	893,625
Subordinated debt	<u>1,000,000</u>	-	-	-	-	<u>1,000,000</u>
Total liabilities	<u><u>29,610,005</u></u>	<u><u>9,183,770</u></u>	<u><u>482,036</u></u>	<u><u>8,203,272</u></u>	<u><u>735,155</u></u>	<u><u>48,214,238</u></u>
Net balance sheet position	<u><u>3,245,876</u></u>	<u><u>(1,091,260)</u></u>	<u><u>(43,730)</u></u>	<u><u>751,193</u></u>	<u><u>(32,401)</u></u>	<u><u>2,829,678</u></u>
Off balance sheet net notional position	(387,987)	1,118,830	40,794	(803,691)	46,693	14,639
Credit commitments	6,644,739	395,668	1,338	924,357	19,056	7,985,158

* Positions denominated in all currencies of the eurozone

The Group has the following significant currency positions:

As at 31 December 2000	CZK CZK'000	USD CZK'000	GBP CZK'000	EUR* CZK'000	Other CZK'000	Total CZK'000
Assets						
Cash and balances with central bank	1,290,010	44,185	5,095	66,244	16,264	1,421,798
Treasury bills and other eligible bills	541,780	-	-	-	-	541,780
Due from other banks	13,037,475	6,929,759	426,733	2,118,782	140,979	22,650,728
Trading securities	414,234	878,242	-	10,270,262	-	11,562,738
Derivative financial instruments	86,681	37,271	-	6,127	2,815	132,894
Loans and advances to customers	8,841,869	1,234,283	287	5,640,633	333,189	16,050,261
Investment securities - available-for-sale	636,479	1,778,458	-	339,419	608,278	3,362,634
Property and equipment	1,866,625	-	-	-	-	1,866,625
Other assets including current tax asset	<u>384,074</u>	<u>135,510</u>	<u>4,704</u>	<u>216,287</u>	<u>43,449</u>	<u>784,024</u>
Total assets	<u>27,099,227</u>	<u>11,037,708</u>	<u>436,819</u>	<u>18,657,754</u>	<u>1,144,974</u>	<u>58,376,482</u>
Liabilities						
Due to other banks	3,374,440	4,159,804	33	12,087,597	2,445	19,624,319
Other deposits	2,199,466	86,019	-	63,938	-	2,349,423
Derivative financial instruments	149,072	8,966	-	774	-	158,812
Due to customers	15,701,074	7,709,439	435,760	6,534,012	671,975	31,052,260
Other liabilities including current tax liability	911,558	276,825	4,765	334,581	55,274	1,583,003
Subordinated debt	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total liabilities	<u>23,335,610</u>	<u>12,241,053</u>	<u>440,558</u>	<u>19,020,902</u>	<u>729,694</u>	<u>55,767,817</u>
Net balance sheet position	<u>3,763,617</u>	<u>(1,203,345)</u>	<u>(3,739)</u>	<u>(363,148)</u>	<u>415,280</u>	<u>2,608,665</u>
Off balance sheet net notional position	(985,243)	1,115,753	8,148	247,416	(432,732)	(46,658)
Credit commitments	5,127,177	388,956	841	11,119,710	13,112	16,649,796

* Positions denominated in all currencies of the eurozone

(f) Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items - repricing analysis

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments which are principally used to reduce the Group's exposure to interest rate movements are included in "Other assets including current tax asset" and "Other liabilities including current tax liability" under the heading "Non-interest bearing". The off-balance sheet gap represents the net notional amounts of all interest-rate sensitive derivative financial instruments.

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of CZK 33,018,837,000 (31 December 2000: CZK 12,991,854,000) of Due to customers up to 1 month, of which 40% (31 December 2000: 69%) represent balances on current accounts considered by the Group as a relatively stable core source of funding of its operations.

As at 31 December 2001	Up to 1 month CZK'000	1 - 3 months CZK'000	3 - 12 months CZK'000	1 - 5 years CZK'000	Over 5 years CZK'000	Non-interest bearing CZK'000	Total CZK'000
Assets							
Cash and balances with central bank	1,482,17	-	-	-	-	-	1,482,917
Treasury bills and other eligible bills	549,775	1,012,249	1,266,690	-	-	-	2,828,714
Due from other banks	16,190,622	1,485,838	2,503,029	-	-	-	20,179,489
Trading securities	987,869	2,273,286	18,221	184,899	-	520,404	3,984,679
Derivative financial instruments	-	-	-	-	-	189,009	189,009
Loans and advances to customers	7,819,883	6,485,465	2,365,535	1,803,896	127,614	(743,081)	17,859,312
Investment securities - available-for- sale	174,043	181,975	197,547	867,259	569,914	208,714	2,199,452
Property and equipment	-	-	-	-	-	1,753,558	1,753,558
Other assets including current tax asset	-	-	-	-	-	566,786	566,786
Total assets	<u>27,205,109</u>	<u>11,438,813</u>	<u>6,351,022</u>	<u>2,856,054</u>	<u>697,528</u>	<u>2,495,390</u>	<u>51,043,916</u>

Liabilities

Due to other banks	1,241,540	3,095,730	1,129,711	284,432	-	-	5,751,413
Other deposits	2,446,958	5,549	-	4,358	-	-	2,456,865
Derivative financial instruments	-	-	-	-	-	257,839	257,839
Due to customers	33,018,837	4,014,790	806,793	14,076	-	-	37,854,496

Other liabilities including current tax liability	-	-	-	-	-	893,625	893,625
Subordinated debt	-	<u>1,000,000</u>	-	-	-	-	<u>1,000,000</u>
Total liabilities	<u>36,707,335</u>	<u>8,116,069</u>	<u>1,936,504</u>	<u>302,866</u>	<u>-</u>	<u>1,151,464</u>	<u>48,214,238</u>
On balance sheet interest sensitivity gap	(9,502,226)	3,322,744	4,414,518	2,553,188	697,528	1,343,926	2,829,678
Off balance sheet interest sensitivity gap	1,296,958	(65,146)	552,077	(1,059,156)	(724,733)	-	-

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December 2001	<u>CZK</u>	<u>USD</u>	<u>GBP</u>	<u>EUR¹⁾</u>
	%	%	%	%
Assets				
Balances with central bank	4.75	n/a	n/a	n/a
Treasury bills and other eligible bills	5.08	n/a	n/a	n/a
Due from other banks	4.79 ²⁾	2.67	3.55	3.80
Trading securities - debt securities	6.42	2.33	4.15	3.81
Loans and advances to customers	6.57	3.94	4.85	5.62
Investment securities - debt securities	n/a	6.93	3.50	4.15
Liabilities				
Due to other banks	5.23	2.90	n/a	3.76
Other deposits	4.34	1.32	n/a	2.83
Due to customers	3.36	0.78	2.03	1.48

1) Positions denominated in all currencies of the eurozone.

2) This rate is influenced by repo operations with Czech National Bank of CZK 10,869 million for the effective rate of 4.74%.

n/a - Not applicable

Assuming the financial assets and liabilities at 31 December 2001 were to remain until maturity or settlement without any action by the Group to alter the resulting interest rate risk exposure, an immediate and sustained increase of 1% in market interest rates across all maturities would reduce net income and the Group's equity for the following year by approximately CZK 58,075,000 (31 December 2000: CZK 34,756,000).

The calculation is made on the assumption that the change will take place simultaneously on both assets and liabilities sides, which would not be the case in reality. The Bank would make re-pricing decisions with a certain delay after the change of market conditions, thus limiting the effect on the overall net income and the Group equity.

As at 31 December 2000	Up to <u>1 month</u> CZK'000	1 - 3 <u>months</u> CZK'000	3 - 12 <u>months</u> CZK'000	1 - 5 <u>years</u> CZK'000	Over <u>5 years</u> CZK'000	Non-interest <u>bearing</u> CZK'000	<u>Total</u> CZK'000
Assets							
Cash and balances with central bank	673,201	-	-	-	-	748,597	1,421,798
Treasury bills and other eligible bills	541,780	-	-	-	-	-	541,780
Due from other banks	20,829,362	350,000	1,474,366	-	-	-	22,653,728
Trading securities	1,000,183	9,793,315	356,952	238,147	40,000	134,141	11,562,738
Derivative financial instruments	-	-	-	-	-	132,894	132,894
Loans and advances to customers	6,920,557	6,202,622	1,720,056	1,226,454	693,493	(712,921)	16 050 261
Investment securities - available-for- sale	-	192,341	927,764	1,281,380	485,950	475,199	3 362,634
Property and equipment	-	-	-	-	-	1,866,625	1,866,625
Other assets including current tax asset	-	-	-	-	-	784,024	784,024
Total assets	<u>29,965,083</u>	<u>16,538,278</u>	<u>4,479,138</u>	<u>2,745,981</u>	<u>1,219,443</u>	<u>3,428,559</u>	<u>58,376,482</u>

Liabilities

Due to other banks	13,951,416	300,000	5,172,903	200,000	-	-	19,624,319
Other deposits	23,284	2,291,421	30,501	4,217	-	-	2,349,423
Derivative financial instruments	-	-	-	-	-	158,812	158,812
Due to customers	12,991,854	16,921,708	1,089,038	49,660	-	-	31,052,260

Other liabilities including current tax liability	-	-	-	-	-	1,583,003	1,583,003
Subordinated debt	-	<u>1,000,000</u>	-	-	-	-	<u>1,000,000</u>
Total liabilities	<u>26,966,554</u>	<u>20,513,129</u>	<u>6,292,442</u>	<u>253,877</u>	<u>-</u>	<u>1,741,815</u>	<u>55,767,817</u>
On balance sheet interest sensitivity gap	2,998,529	(3,974,851)	(1,813,304)	2,492,104	1,219,443	1,686,744	2 608,665
Off balance sheet interest sensitivity gap	100,727	1,375,033	1,083,871	(1,763,935)	(795,696)	-	-

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

As at 31 December 2000	<u>CZK</u> %	<u>USD</u> %	<u>GBP</u> %	<u>EUR*</u> %
Assets				
Balances with central bank	0.00	n/a	n/a	n/a
Treasury bills and other eligible bills	5.33	n/a	n/a	n/a
Due from other banks	5.31	6.76	5.21	5.09
Trading securities - debt securities	6.79	6.80	n/a	5.03
Loans and advances to customers	7.18	7.76	7.18	6.70
Investment securities - debt securities	4.21	6.65	n/a	5.03
Liabilities				
Due to other banks	5.56	6.99	n/a	5.10
Due to customers	3.95	4.07	3.60	2.38

* Positions denominated in all currencies of the eurozone
n/a - Not applicable

(g) Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

With the exception of political risk, BGB ensures corresponding to its participation quota that its subsidiary companies - as define by section 290 subsections 1 and 2 German Commercial Code - and other consolidated companies (which are marked (P) in the List of Investment Holdings pursuant to section 313 subsection 3 German Commercial Code) are in a position to meet their commitments.

Maturities of assets and liabilities

As at 31 December 2001	Up to 1 month CZK'000	1 - 3 months CZK'000	3 - 12 months CZK'000	1 - 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets							
Cash and balances with central bank	694,337	-	-	-	-	788,580	1,482,917
Treasury bills and other eligible bills	549,775	1,012,249	1,266,690	-	-	-	2,828,714
Due from other banks	16,190,622	1,269,410	2,607,527	111,930	-	-	20,179,489
Trading securities	-	83,411	18,222	2,702,345	680,316	500,385	3,984,679
Derivative financial instruments	60,169	39,939	30,491	57,571	839	-	189,009
Loans and advances to customers	772,978	3,818,473	4,382,949	7,373,624	2,254,369	(743,081)	17,859,312
Investment securities - available-for-sale	-	181,975	197,547	1,041,302	569,914	208,714	2,199,452
Property and equipment	-	-	-	-	-	1,753,558	1,753,558
Other assets including current tax asset	<u>98,027</u>	<u>76,278</u>	<u>73,400</u>	<u>49,849</u>	<u>24,264</u>	<u>244,968</u>	<u>566,786</u>
Total assets	<u>18,365,908</u>	<u>6,481,735</u>	<u>8,576,826</u>	<u>11,336,621</u>	<u>3,529,702</u>	<u>2,753,124</u>	<u>51,043,916</u>
Liabilities							
Due to other banks	1,241,540	3,095,730	1,129,711	284,432	-	-	5,751,413
Other deposits	2,446,959	5,549	-	4,357	-	-	2,456,865
Derivative financial instruments	56,782	28,773	22,079	130,069	20,136	-	257,839
Due to customers	33,018,838	4,014,790	806,792	14,076	-	-	37,854,496
Other liabilities including current tax liability	66,962	42,108	43,634	14,939	7,290	718,692	893,625
Subordinated debt	-	-	-	-	1,000,000	-	1,000,000
Total liabilities	<u>36,831,081</u>	<u>7,186,950</u>	<u>2,002,216</u>	<u>447,873</u>	<u>1,027,426</u>	<u>718,692</u>	<u>48,214,238</u>
Net liquidity gap	(18,465,173)	(705,215)	6,574,610	10,888,748	2,502,276	2,034,432	2,829,678

As at 31 December 2000	Up to 1 month CZK'000	1 - 3 months CZK'000	3 - 12 months CZK'000	1 - 5 years CZK'000	Over 5 years CZK'000	Unspecified CZK'000	Total CZK'000
Assets							
Cash and balances with central bank	673,201	-	-	-	-	748,597	1,421,798
Treasury bills and other eligible bills	499,705	21,779	20,296	-	-	-	541,780
Due from other banks	16,182,169	3,475,254	2,838,400	157,905	-	-	22,653,728
Trading securities	-	-	9,601,872	1,041,065	785,259	134,542	11,562,738
Derivative financial instruments	-	-	-	-	-	132,894	132,894
Loans and advances to customers	1,011,061	2,721,377	5,148,087	5,867,063	2,015,594	(712,921)	16,050,261
Investment securities - available-for- sale	-	-	928,817	1,465,067	474,498	494,252	3,362,634
Property and equipment	-	-	-	-	-	1,866,625	1,866,625
Other assets including current tax asset	194,365	80,824	353,906	38,269	15,834	100,826	784,024
Total assets	18,560,501	6,299,234	18,891,378	8,569,369	3,291,185	2,764,815	58,376,482
Liabilities							
Due to other banks	1,534,611	365,457	17,395,074	329,177	-	-	19,624,319
Other deposits	2,291,421	23,284	30,501	4,217	-	-	2,349,423
Derivative financial instruments	43,401	46,443	53,160	13,957	1,851	-	158,812
Due to customers	25,906,017	3,996,724	1,099,859	49,660	-	-	31,052,260
Other liabilities including current tax liability	82,862	30,076	200,963	17,412	7,698	1,243,992	1,583,003
Subordinated debt	-	-	-	-	1,000,000	-	1,000,000
Total liabilities	29,858,312	4,461,984	18,779,557	414,423	1,009,549	1,243,992	55,767,817
Net liquidity gap	(11,297,811)	1 837,250	111,821	8,154,946	2,281,636	1,520,823	2,608,665

The nature of the retail deposits held by the Group is such that these have a short term contractual maturity, although in practice their effective maturity is longer term.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(h) Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying value		Fair value	
	31 December 2001 CZK'000	31 December 2000 CZK'000	31 December 2001 CZK'000	31 December 2000 CZK'000
Financial assets				
Due from other banks	20,179,489	22,653,728	20,179,489	22,653,728
Treasury bills and trading securities	6,813,393	12,104,518	6,813,393	12,104,919
Loans and advances to customers	17,839,659	16,050,261	17,859,312	16,050,261
Investment securities - available-for-sale	<u>2,199,452</u>	<u>3,362,634</u>	<u>2,199,452</u>	<u>3,362,634</u>
	<u>47,031,993</u>	<u>54,171,141</u>	<u>47,051,646</u>	<u>54,171,542</u>
Financial liabilities				
Due to other banks	5,751,413	19,624,319	5,751,413	19,624,319
Due to customers	37,854,496	31,052,260	37,854,496	31,052,260
Other deposits	<u>2,456,865</u>	<u>2,349,423</u>	<u>2,456,865</u>	<u>2,349,423</u>
	<u>46,062,774</u>	<u>53,026,002</u>	<u>46,062,774</u>	<u>53,026,002</u>

Due from other banks

Due from other banks includes short term placements and items in the course of collection at approximately their fair values. It also includes loans and advances to other banks, the majority of which reprice within relatively short time spans; therefore it is assumed their carrying values approximate their fair values.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Treasury bills and trading securities

Fair value is based on market prices quoted by brokers or dealers. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Loans and advances to customers

Loans and advances are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities

In 2001, investment securities include assets available-for-sale measured at fair value. Fair value for available-for-sale assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(i) Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of mal-administration or under-performance. At the balance sheet date the Group had investment custody and fund depository accounts amounting to approximately CZK 15.6 billion (31 December 2000: CZK 14.6 billion) and financial assets under management estimated to be CZK 0.8 billion (31 December 2000: CZK 1.04 billion).

3. SEGMENT REPORTING

The Group has two distinct industry segments, i.e. banking activities provided by Živnostenská banka, a.s. and asset management services provided by ŽB - Trust, investiční společnost, a.s. and ŽB - Asset Management, a.s.

Primary reporting format - business segments

Year ended 31 December 2001

	Banking CZK'000	Asset management CZK'000	Group CZK'000
Operating income	1,556,730	110,702	1,667,432
Segment result	263,076	8,314	271,390
Profit from operations before tax	263,076	8,314	271,390
Income tax	-	(6,911)	(6,911)
Net profit	<u>263,076</u>	<u>1,403</u>	<u>264,479</u>
Segment assets	50,415,172	628,744	51,043,916
Segment liabilities	47,677,341	536,897	48,214,238
Capital expenditure	194,502	8,523	203,025
Depreciation	218,399	8,204	226,603
Amortisation	65,878	2,498	68,376
Other non-cash expenses	48,574	-	48,574

Year ended 31 December 2000

	<u>Banking</u> CZK'000	<u>Asset management</u> CZK'000	<u>Group</u> CZK'000
Operating income	1,765,168	127,698	1,892,866
Segment result	222,322	29,136	251,458
Profit from operations before tax	222,322	29,136	251,458
Income tax	-	(5,811)	(5,811)
Net profit	<u>222,322</u>	<u>23,325</u>	<u>245,647</u>
Segment assets	58,088,820	287,662	58,376,482
Segment liabilities	55,586,854	180,963	55,767,817
Capital expenditure	427,353	9,884	437,237
Depreciation	209,473	6,839	216,312
Amortisation	62,031	1,467	63,498
Other non-cash expenses	311,527	-	311,527

Transactions between the business segments were on normal commercial terms and conditions. There are no material items of income or expense between the business segments.

Secondary reporting format - geographical segments

The majority of revenue from external customers originates from the Czech Republic (Note 2(c)). Subsequent to the closure of the London Branch in 1999, the majority of the assets are also allocated in the Czech Republic and there has been no significant capital expenditure outside the Czech Republic.

4. NET INTEREST INCOME

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Interest and discount income		
Cash and short term funds	1,271,695	1,351,093
Trading securities	427,548	106,899
Investment securities	169,413	226,560
Loans and advances	1,318,852	914,623
Other	<u>82,671</u>	<u>115,452</u>
	<u>3,270,179</u>	<u>2,714,627</u>
Interest expense		
Banks and customers	2,269,240	1,827,336
Other borrowed funds	24,841	45,181
Other	<u>19,966</u>	<u>23,303</u>
	<u>2,314,047</u>	<u>1,895,820</u>
Net interest income	<u>956,132</u>	<u>818,807</u>

5. NET FEE AND COMMISSION INCOME

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Commission income	202,941	212,015
Income from trading securities	29,095	40,597
Income from other operations	<u>36,510</u>	<u>37,868</u>
Total fee and commission income	<u>268,546</u>	<u>290,480</u>
Expense from interbank transactions	12,914	11,324
Expense from trading securities	224	263
Expense from other operations	<u>21,549</u>	<u>26,386</u>
Total fee and commission expense	<u>34,687</u>	<u>37,973</u>
Net fee and commission income	<u>233,859</u>	<u>252,507</u>

6. DIVIDEND INCOME

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Trading securities	11,441	7,755
Available-for-sale securities	<u>33,346</u>	<u>22,913</u>
	<u>44,787</u>	<u>30,668</u>

7. NET TRADING INCOME

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Currency trading	393,508	118,652
Interest rate instruments	37,680	(19,148)
Equities	(17,380)	1,673
Other foreign exchange (loss) / gains	<u>(158,131)</u>	<u>201,970</u>
	<u>255,677</u>	<u>303,147</u>

8. GAINS LESS LOSSES FROM INVESTMENT SECURITIES

Gains less losses from investment securities can be analysed as follows:

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Provisions created in the year	-	(30,058)
Provisions released for the year	-	199,276
Transfer from provisions for investment securities to provisions for credit risk	-	<u>137,520</u>
Net movement in provisions	-	306,738
Change in hedged bonds	89,086	-
Change in hedged bonds from available-for-sale portfolio	10,111	-
Change in hedging derivatives against bonds	(56,818)	-
Realised losses from sale of investment securities	<u>(6,512)</u>	<u>(53,539)</u>
Gains less losses from investment securities	<u>35,867</u>	<u>253,199</u>

9. OTHER OPERATING INCOME

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Recovery of loans written off previously	7,896	89,676
Other income	<u>133,214</u>	<u>144,862</u>
Total operating income	<u>141,110</u>	<u>234,538</u>

10. OPERATING EXPENSES

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
<u>Operating expenses</u>		
Staff costs (see below)	435,451	395,319
Depreciation	294,979	279,810
Administrative expenses	116,240	114,741
Communications	40,385	33,884
Advertising and marketing	97,145	98,831
Compulsory deposit insurance	99,624	71,525
Professional services	95,882	75,362
Office and car maintenance	64,876	61,580
Operating lease rentals	51,455	48,013
IT maintenance	18,786	25,257
Office equipment	10,462	15,203
Other expenses related to employees	8,259	7,903
Travel allowances	4,524	5,396
Additions to other provisions	2,706	71,071
Loss on sale of property and equipment	1,545	4,018
Other	<u>5,048</u>	<u>21,968</u>
Total operating expenses	<u>1,347,367</u>	<u>1,329,881</u>

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
<u>Staff costs</u>	320,124	295,803
Wages and salaries		
Social security costs and social fund	112,646	97,139
Pension costs	<u>2,681</u>	<u>2,377</u>
	<u>435,451</u>	<u>395,319</u>

The average number of persons employed by the Group during the year was 800 (2000: 747).

11. BAD AND DOUBTFUL DEBT EXPENSE

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Loans and advances to customers		
- Provision (release) / charge for individually identified credit risk impairment	(47,398)	212,645
- Provision based on overall credit analysis	95,972	98,882
- Change in hedged loans	(14,699)	-
- Change in hedging derivatives against loans	<u>14,800</u>	<u>-</u>
	<u>48,675</u>	<u>311,527</u>

12. INCOME TAX EXPENSE

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Current tax	<u>6,911</u>	<u>5,811</u>

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of the Czech Republic as follows:

<u>2001</u>	<u>Group</u> CZK'000
Profit before tax	<u>271,390</u>
Prima facie tax calculated at a tax rate of 31%	84,131
Income not assessable for tax purposes	(242,481)
Expenses not deductible for tax purposes	188,209
Tax effect of consolidation adjustments	(32,475)
Additions to unrecognised tax losses carried forward	<u>9,527</u>
	<u>6,911</u>
 <u>2000</u>	 <u>Group</u> CZK'000
Profit before tax	<u>251,458</u>
Prima facie tax calculated at a tax rate of 31%	77,952
Income not assessable for tax purposes	(288,749)
Expenses not deductible for tax purposes	242,158
Tax effect of consolidation adjustments	(15,922)
Tax effect of negative tax base of the Bank	<u>(9,628)</u>
	<u>5,811</u>

The effective tax rate for the Group is 2.5% (31 December 2000: 2.3%).

Deferred income taxes

31 December 2001 31 December 2000
CZK'000 CZK'000

Deferred income tax liabilities

Differences between accounting and tax depreciation	<u>20,814</u>	<u>23,111</u>
---	---------------	---------------

Deferred income tax assets

Tax non-deductible provisions for loans	19,346	39,268
Tax non-deductible provisions for securities	44,381	55,780
Unused tax losses	<u>27,547</u>	<u>21,777</u>
	<u>91,274</u>	<u>116,825</u>
Net unrecognised deferred income tax asset	<u>70,460</u>	<u>93,714</u>

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 31% (31 December 2000: 31%).

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

The deferred tax asset has not been recognised, as its recoverability is uncertain.

Deferred tax asset and deferred tax liability is offset in the financial statements, because they related to income taxes levied by the same taxation authority on the same taxable entity.

13. EARNINGS PER SHARE

A basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

	<u>2001</u> CZK'000	<u>2000</u> CZK'000
Net profit attributable to shareholders	264,479	245,647
Weighted average of shares in issue	1,360,410	1,360,410
Basic earnings per share (CZK per share)	<u>194.4</u>	<u>180.6</u>

As the Bank had no potentially dilutive instruments in issue in 2001 or 2000 the basic earnings per share equals the fully diluted earnings per share.

14. CASH AND BALANCES WITH CENTRAL BANK

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Cash in hand	592,851	398,539
Balances with central bank other than mandatory reserve deposits	<u>101,486</u>	<u>274,662</u>
Included in cash and cash equivalents (Note 33)	694,337	673,201
Mandatory reserve deposits with central bank	<u>788,580</u>	<u>748,597</u>
	<u>1,482,917</u>	<u>1,421,798</u>

Mandatory reserve deposits are not available for the Bank's day-to-day operations.

15. TREASURY BILLS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
State Treasury bills	<u>2 828 714</u>	<u>541 780</u>

The total amount of state treasury bills of CZK 2,828,714,000 (31 December 2000: CZK 541,780,000) includes an amount of CZK 1,562,024,000 (31 December 2000: CZK 521,484,000) related to state treasury bills with less than 90 days maturity (Note 33). Bills are categorised as assets held for trading and carried at their fair value.

16. DUE FROM OTHER BANKS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Items in course of collection from other banks	274,573	197,226
Placements with central bank	10,869,000	11,102,000
Placements with other banks	8,734,584	10,834,248
Loans to other banks	<u>301,332</u>	<u>520,254</u>
	<u>20,179,489</u>	<u>22,653,728</u>

The total amount of CZK 20,179,489,000 (31 December 2000: CZK 22,653,728,000) includes an amount of CZK 17,460,032,000 (31 December 2000: CZK 19,657,423,000) due from banks with less than 90 days maturity (Note 33).

17. TRADING SECURITIES

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Bonds included in cash equivalents (Note 33)	83,411	-
Other bonds and similar debt securities		
- Listed	3,400,884	11,322,926
- Unlisted	-	105,270
Equities		
- Listed	500,380	134,512
- Unlisted	<u>4</u>	<u>30</u>
	<u>3,984,679</u>	<u>11,562,738</u>

Out of the total amount of CZK 3,984,679,000 (31 December 2000: CZK 11,562,738,000), CZK 83,411,000 represents trading securities with less than 90 days maturity (31 December 2000: CZK nil) (Note 33).

Bonds and similar debt securities in the trading portfolio at 31 December 2001 include CZK 269 million of securities bearing fixed interest to maturity, which represents 8% of the total balance (31 December 2000: CZK 533 million representing 5% of the total balance).

During 2000, the Bank provided a credit line of CZK 11,299 million to a foreign company (EUR 320 million). As collateral for this loan, the Bank received a cash deposit of CZK 10,878 million (EUR 310 million). The foreign company repaid all obligations resulting from this loan in November 2001. As at 31 December 2000, CZK 1,123 million (EUR 32 million) was drawn from this facility and the unutilised amount of the credit line was CZK 10,106 million (EUR 288 million). A part of the difference between the cash deposit and the utilised amount of the credit line as at 31 December 2000 was invested in foreign government bonds with a nominal value of CZK 9,246 million (EUR 263.5 million) (Note 19).

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate). Except for certain currency swaps, no exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The nominal and fair values of derivative instruments held are set out in the following table.

	31 December 2001			1 December 2000		
	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000	Nominal value CZK'000	Fair value positive CZK'000	Fair value negative CZK'000
Derivatives held for hedging (designated as fair value hedge)						
<u>Interest rate derivatives</u>						
Swaps	<u>1,770,552</u>	<u>839</u>	<u>(41,427)</u>	<u>3,606,341</u>	<u>38,578*</u>	<u>(9,273)*</u>
Derivatives held for trading						
<u>Interest rate derivatives</u>						
Forwards including FRA	6,441,110	10,121	(1,669)	2,532,700	967	(670)
Swaps	<u>1,998,091</u>	<u>57,672</u>	<u>(40,852)</u>	<u>1,765,966</u>	<u>21,263</u>	<u>(27,937)</u>
	<u>8,439,201</u>	<u>67,793</u>	<u>(42,521)</u>	<u>4,298,666</u>	<u>22,230</u>	<u>(28,607)</u>
<u>Foreign exchange derivatives</u>						
Forwards	867,997	16,330	(15,386)	1,235,640	11,846	(24,453)
Swaps	<u>5,084,616</u>	<u>104,047</u>	<u>(88,659)</u>	<u>5,400,769</u>	<u>60,240</u>	<u>(96,479)</u>
	<u>5,952,613</u>	<u>120,377</u>	<u>(104,045)</u>	<u>6,636,409</u>	<u>72,086</u>	<u>(120,932)</u>
Credit derivatives	<u>385,252</u>	<u>-</u>	<u>(69,846)</u>	<u>402,894*</u>	<u>-</u>	<u>(78,183)*</u>
Total derivatives						
Total interest rate derivatives	10,209,753	68,632	(83,948)	7,905,007	60,808	(37,880)
Total foreign exchange derivatives	5,952,613	120,377	(104,045)	6,636,409	72,086	(120,932)
Credit derivatives	<u>385,252</u>	<u>-</u>	<u>(69,846)</u>	<u>402,894</u>	<u>-</u>	<u>(78,183)*</u>
	<u>16,547,618</u>	<u>189,009</u>	<u>(257,839)</u>	<u>14,944,310</u>	<u>132,894</u>	<u>(236,995)</u>

* The positive and negative value of hedging derivatives and the derivative element embedded in the loan granted to a related party (Note 19) were not recognized as at 31 December 2000 in derivatives. They are presented for comparison purposes only.

The previous table provides a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at 31 December 2001 and 2000.

These instruments, allow the Group and its customers to transfer, modify or reduce their foreign exchange, interest rate and credit risks.

As at 31 December 2001, the Group has hedged loans (at nominal value CZK 516,074,000) and available-for-sale securities (at nominal value CZK 1,300,074,000).

Following the adoption of IAS 39, the Group reassessed, reclassified and remeasured all derivatives following the policies described in Note 1. The impact of adopting IAS 39 at 1 January 2001 on derivative instruments and hedged assets is shown below:

	<u>Retained earnings</u> CZK'000
Derivatives held originally in off balance sheet and remeasured to fair value:	
- Non qualifying hedges	(1,725)
- Fair value hedges	31,030
- Fair value of hedged loans	4,954
- Credit derivative revaluation	<u>(78,183)</u>
Total	<u>(43,924)</u>

There were no non-derivative trading liabilities at 31 December 2001 and 2000.

The Group undertakes approximately 62% of its transactions in foreign exchange and interest rate contracts with other financial institutions. Management has established stop loss and maturity limits.

19. LOANS AND ADVANCES TO CUSTOMERS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Loans to individuals:		
- Overdrafts	8,876	5,683
- Term loans	120,712	78,817
- Mortgages	442,883	212,471
Loans to corporate entities:		
- Direct commercial loans	15,844,930	13,251,430
- Sub-participation loans	1,773,916	2,676,013
- Other	<u>391,423</u>	<u>538,768</u>
Gross loans and advances to customers	18,582,740	16,763,182
Revaluation of hedged loans	19,653	-
Less provision charge for individually identified credit risk impairment	(204,151)	(269,963)
Less provision charge for impairment	<u>(538,930)</u>	<u>(442,958)</u>
Net loans and advances to customers	<u><u>17,859,312</u></u>	<u><u>16,050,261</u></u>

The loan balances as at 31 December 2001 and 2000 include loans to associates and related parties that are described further below.

The amounts as at 31 December 2001 and 2000 best represent maximum credit risk exposure of the Group on these transactions without taking account of the fair value of any collateral.

During 2000, the Bank provided to a related party incorporated abroad a 5 year loan of CZK 385 million (USD 11 million) due in 2005 (Note 34). Underlying this loan is a portfolio of credit default swaps on reference assets with aggregate nominal value of USD 43 million of which the Bank's investment is equal to the loan provided. The loan could terminate before the original maturity date in the event of a credit default of any one of the reference assets or if the mark to market loss on the portfolio exceeds 70% of the loan principal. The early redemption amount would be calculated as the loan principal and accrued interest as at the termination date less the mark to market value of the portfolio. The market value of the portfolio is equivalent to the aggregate market values of the individual credit default swaps comprising the portfolio as provided to the Bank by BGB, which represents the portfolio's pricing agent. The derivative element embedded in this loan has been separated out of the host contract and is included at fair value under other liabilities with changes in fair value being included in earnings for the year (Note 18).

During the year to 31 December 2001, one of the reference assets in the portfolio (Railtrack Plc) was substituted by another reference asset (GE Capital Corporation). As a result of this event, the Bank took delivery of Railtrack bonds which as at 31 December 2001 are included at fair value in securities available-for-sale (Note 20(b)).

In the opinion of the management of the Bank, as at 31 December 2001, the probability of occurrence of a credit default event is not significant and therefore the loan arrangement is expected to continue, subject to future unforeseen changes in market conditions.

During 2000, the Bank provided a credit line of CZK 11,299 million to a foreign company (EUR 320 million). As collateral for this loan, the Bank received a cash deposit of CZK 10,878 million (EUR 310 million). The foreign company repaid all obligations resulting from this loan in November 2001. As at 31 December 2000, CZK 1,123 million (EUR 32 million) was drawn from this facility and the unutilised amount of the credit line was CZK 10,106 million (EUR 288 million). A part of the difference between the cash deposit and the utilised amount of the credit line as at 31 December 2000 was invested in foreign government bonds with a nominal value of CZK 9,246 million (EUR 263.5 million) (Note 17).

Movements in provisions for impairment are as follows:

	<u>Provision for impairment</u> CZK'000
Balance at 1 January 2000	458,867
Additions to provisions	311,527
Bad debts written off	<u>(57,473)</u>
Balance at 31 December 2000	712,921
Additions to provisions	48,574
Bad debts written off	(7,971)
Foreign exchange differences	<u>(10,443)</u>
Balance at 31 December 2001	<u><u>743,081</u></u>

20. INVESTMENT SECURITIES

(a) Securities held-to-maturity

The Bank decided not to create a held-to-maturity portfolio as at 1 January 2001.

(b) Securities available-for-sale

	<u>31 December 2001</u>		<u>31 December 2000</u>
	<u>Market value</u>	<u>Cost</u>	<u>Market value</u>
	CZK'000	CZK'000	CZK'000
Bonds and other similar debt securities	1,990,738	3,114,313	2,865,502
Shares and other similar equity securities	<u>208,714</u>	<u>424,984</u>	<u>497,132</u>
Total available-for-sale portfolio	<u>2,199,452</u>	3,539,297	<u>3,362,634</u>
Provisions		(176,663)	
Total available-for-sale portfolio (net)		<u>3,362,634</u>	

Amounts as at 31 December 2001 are disclosed at fair value. Amounts as at 31 December 2000 are disclosed at amortised cost (bonds and other similar securities) and at cost (shares and other similar equity securities). Market value in the year 2000 is presented for comparison purposes.

Out of the total amount of CZK 2,199,452,000 (31 December 2000: CZK 3,362,634,000), CZK 181,975,000 represents bonds with less than 90 days maturity (31 December 2000: CZK 3,362,634,000 with more than 90 days maturity) (Note 33.)

Bonds and other similar debt securities

At 31 December 2001

	<u>Market value</u>
	CZK'000
Total traded on the main or auxiliary market of recognised stock exchanges	1,990,738
Not traded on the main or auxiliary market of recognised stock exchanges	-
Total bonds and other similar debt securities	<u>1,990,738</u>

Included in total bonds traded on the main or auxiliary market of recognised stock exchanges as at 31 December 2001 is a convertible bond of Railtrack plc, the UK rail operator, denominated in GBP, which was included in the portfolio in November 2001 as a result of the transaction described in Note 19. Its market value as at 31 December 2001 was CZK 68,668,000 (cost: CZK 91,256,000).

Railtrack plc is currently under administration. The future of the company, which affects the valuation of the bonds, depends on actions taken by the British Government and other stakeholders. As at the date of approval of the financial statements the intentions of these parties were not definite.

At 31 December 2000

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
Total traded on the main or auxiliary market of recognised stock exchanges	2,506,035	2,258,701
Not traded on the main or auxiliary market of recognised stock exchanges	<u>608,278</u>	<u>606,801</u>
Bonds and other similar debt securities	<u>3,114,313</u>	<u>2,865,502</u>

Where a market value was not available, cost less provision for permanent diminution was used.

Bonds and other debt securities in the available-for-sale portfolio at 31 December 2001 include CZK 1,853 million of securities bearing fixed interest until maturity, which represents 91% of the total balance (31 December 2000: CZK 3,153 million of securities bearing fixed interest till maturity, 89% of the total balance).

Shares and other equity securities

At 31 December 2001

	MArket value CZK'000
<u>Traded on the main or auxiliary market of recognised stock exchanges</u>	
Živnobanka - korunový balancovaný fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	29,542
Živnobanka - akciový fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	24,606
Živnobanka - Interkonto investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	4,909
IIG Eurocapital	6
Equity indices	99,370
Total traded shares and other similar equity securities	<u>158,433</u>
<u>Not traded on the main or auxiliary market of recognised stock exchanges</u>	
Burza cenných papírů Praha, a.s.	9,858
BHF Zivnostenska Investment B.V.	-
S.W.I.F.T. Brussels S.C.	1,004
Zivnostenska Finance B.V.	148
ČESKÝ LEASING, spol. s r.o.	39,271
Total not traded shares and other equity securities	<u>50,281</u>
Total shares and other equity securities	<u>208,714</u>

At 31 December 2000

	<u>Cost</u> CZK'000	<u>Market value</u> CZK'000
<u>Traded on the main or auxiliary market of recognised stock exchanges</u>		
Živnobanka - korunový balancovaný fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	33,453	32,557
Živnobanka - akciový fond investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	30,000	30,000
Živnobanka - 1. investiční fond, a.s.	279,710	376,981
Živnobanka - Interkonto investiční společnosti ŽB - Trust, investiční společnost, a.s., otevřený podílový fond	5,000	5,000
IIG Eurocapital	<u>6</u>	<u>5</u>
Total traded shares and other similar equity securities	<u>348,169</u>	<u>444,543</u>
<u>Not traded on the main or auxiliary market of recognised stock exchanges</u>		
Burza cenných papírů Praha, a.s.	14,355	14,355
Bankovní institut, a.s.	1,400	815
BHF Zivnostenska Investment B.V.	20,548	889
S.W.I.F.T. Brussels S.C.	604	608
Zivnostenska Finance B.V.	637	637
ČESKÝ LEASING, spol. s r.o.	<u>39,271</u>	<u>35,285</u>
Total not traded shares and other equity securities	<u>76,815</u>	<u>52,589</u>
Total shares and other equity securities	<u>424,984</u>	<u>497,132</u>

Movements in investment portfolio

The movements in the Group's investment portfolio during 2001 are analysed in the table below (at cost less recorded provision):

	Investment securities CZK'000	Available-for-sale securities CZK'000	Total investment portfolio CZK'000
31 December 2000	3,362,634	-	3,362,634
Addition	-	168,037	168,037
Revaluation	-	99,197	99,197
Disposal	-	(1,430,416)	(1,430,416)
Transfer	(3,362,634)	3,362,634	-
31 December 2001	-	2,199,452	2,199,452

The Group decided to transfer the securities, which were included in its investment portfolio as at 31 December 2000 to the available-for-sale portfolio and not to create a held-to-maturity portfolio.

21. PROPERTY AND EQUIPMENT

	Land CZK'000	Buildings CZK'000	Equipment CZK'000	Software CZK'000	Assets in the course of construction CZK'000	Total CZK'000
At 31 December 2000						
Cost	43,826	1,544,585	1,049,990	515,605	28,997	3,183,003
Accumulated depreciation	-	286,309	640,193	389,876	-	1,316,378
Net book amount	<u>43,826</u>	<u>1,258,276</u>	<u>409,797</u>	<u>125,729</u>	<u>28,997</u>	<u>1,866,625</u>
Year ended 31 December 2001						
Opening net book amount	43,826	1,258,276	409,797	125,729	28,997	1,866,625
Additions	293	48,515	114,127	40,090	176,551	379,576
Disposals/transfers	-	13	67,150	1,168	195,066	263,397
Depreciation charge	-	72,166	88,523	68,557	-	229,246
Closing net book amount	<u>44,119</u>	<u>1,234,612</u>	<u>368,251</u>	<u>96,094</u>	<u>10,482</u>	<u>1,753,558</u>
At 31 December 2001						
Cost	44,119	1,593,087	1,096,967	554,527	10,482	3,299,182
Accumulated depreciation	-	358,475	728,716	458,433	-	1,545,624
Net book amount	<u>44,119</u>	<u>1,234,612</u>	<u>368,251</u>	<u>96,094</u>	<u>10,482</u>	<u>1,753,558</u>

22. OTHER ASSETS INCLUDING CURRENT TAX ASSET

	31 December 2001 CZK'000	31 December 2000 CZK'000
Accounts receivable and prepayments	75,222	138,809
Current taxation recoverable	3,189	7,135
Accrued and estimated items	337,602	570,526
Other debtors	6,312	5,444
Payments in transit	141,503	57,870
Other	<u>2,958</u>	<u>4,240</u>
	<u>566,786</u>	<u>784,024</u>

23. DUE TO OTHER BANKS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Deposits from other banks	<u>5,751,413</u>	<u>1,624,319</u>

A syndicated loan facility arranged during 1996 included in the balance of "Due to other banks" at 31 December 2000 of CZK 3,781,300,000 matured on 18 April 2001. The balance as at 31 December 2000 includes CZK 10,878 million relating to the transaction disclosed in Note 19.

24. OTHER DEPOSITS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Promissory notes	<u>2,456,865</u>	<u>2,349,423</u>

25. DUE TO CUSTOMERS

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Corporate customers:		
- Current / settlement accounts	7,816,448	4,160,381
- Term deposits	4,406,067	3,149,767
Retail customers:		
- Current / demand accounts	5,326,780	4,765,312
- Term deposits	<u>20,305,201</u>	<u>18,976,800</u>
	<u>37,854,496</u>	<u>31,052,260</u>

26. OTHER LIABILITIES INCLUDING CURRENT TAX LIABILITY

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Accruals and estimated items	289,872	469,221
Payments in transit	313,685	842,616
Other creditors	50,720	54,824
Current taxes	16,997	22,973
Unsettled securities in transit	41,163	31,136
Amounts payable to employees	64,065	63,646
Other	<u>117,123</u>	<u>98,587</u>
	<u>893,625</u>	<u>1,583,003</u>

The Bank is the subject of several legal disputes. A provision of CZK 40 million (31 December 2000: CZK 40 million) was made on the basis of the Bank's assessment of the expected outcome of these legal disputes. The management of the Bank expects that the legal proceedings for which the provision has been created would be completed within twelve months from the date of preparation of these financial statements. In the light of this expected timeframe, the provision was not discounted.

27. SUBORDINATED DEBT

On 29 December 1999 the Bank received a subordinated debt of EUR 27.7 million from BGB, which was converted to CZK 1 billion on 29 March 2000. The subordinated debt bears interest at the Prague Interbank Offered Rate ("PRIBOR") plus a margin of 60 basis points until 29 December 2004 and 120 basis points thereafter. The interest is payable quarterly in arrears. The principal is repayable by 29 December 2009, with no repayment being possible before 29 December 2004 without the consent of the CNB. The debt, which is unsecured, is subordinated to all other liabilities of the Bank and forms part of the tier two capital of the Bank as defined by the CNB for the purposes of determination of its capital adequacy.

28. ORDINARY SHARES

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
1,360,410 ordinary shares of CZK 1,000 per share issued at par and fully paid	<u>1,360,410</u>	<u>1,360,410</u>

29. RESERVES AND RETAINED PROFIT

	Statutory fund CZK'000	Other funds CZK'000	Retained earnings CZK'000	Total CZK'000
Balance at 1 January 2001 (restated, see Consolidated statement of changes in equity)	276,562	810,840	117,387	1,204,789
Increase of statutory reserve	92	-	(92)	-
Profit 2001	-	-	264,479	264,479
Balance at 31 December 2001	<u>276,654</u>	<u>810,840</u>	<u>381,774</u>	<u>1,469,268</u>

Other funds are created from retained profit as supplementary funds above the legal requirement of 20% of share capital. Utilisation of such funds is not a subject to Annual General Meeting decision. These funds can be used based on Board of Directors proposal approved by Supervisory Board.

30. DIVIDENDS PER SHARE

According to the decision of the General Meeting held in June 2001, no dividends were payable in 2001 (2000: no dividends were paid).

31. EMPLOYEE BENEFITS

The Group contributes to a pension fund (Allianz penzijní fond, a.s.) on behalf of its employees in the Czech Republic. The fund is a defined contribution plan. The Group makes fixed contributions to its employees for pension insurance. In addition, the Group may contribute a percentage of annual net profit (Note 10) to the pension plan proportionally to each individual employee's annual income.

32. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceeding. The Group is the subject of several legal disputes. A provision of CZK 40 million (31 December 2000: CZK 40 million) was made on the basis of the management's assessment of the expected outcome of these legal disputes.

Capital commitments. At 31 December 2001, the Bank had contractual commitments for capital expenditure of CZK 880,000 (31 December 2000: CZK 29,000,000).

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining commitments. The risk is viewed as modest, since it results from the possibility of unused portions of loan authorisation being drawn by the customer and, secondly, from these drawings subsequently not being repaid as due. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table indicates the contractual amounts of the Group's off-balance sheet financial instruments that commit the Group to extend credit to customers.

	<u>31 December 2001</u> CZK'000	<u>31 December 2000</u> CZK'000
Commitments to extend credit	7,417,801	15,739,796
Guarantees, acceptances and letters of credit	820,435	1,683,047

Fair value of such commitments is CZK nil, because they will be settled under market conditions.

Operating lease commitments. The future minimum lease payments for buildings entered into by the Group are as follows:

Year	31 December 2001 CZK'000	31 December 2000 CZK'000
Not later than 1 year	49,783	43,222
2 years	50,069	44,026
3 years	40,133	44,695
4 years	29,304	42,551
5 years	21,475	32,505
Later than five years	58,842	-
Total	<u>249,606</u>	<u>207,199</u>

33. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises the following balances with less than 90 days maturity:

	31 December 2001 CZK'000	31 December 2000 CZK'000
Cash and balances with central bank (Note 14)	694,337	673,201
Treasury bills and other eligible bills (Note 15)	1,562,024	521,484
Due from other banks (Note 16)	17,460,032	19,657,423
Trading securities (Note 17)	83,411	-
Investment securities - available-for-sale (Note 20)	181,975	-
	<u>19,981,779</u>	<u>20,852,108</u>

34. RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group, if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Bankgesellschaft Berlin AG, Alexanderplatz 2, Berlin, incorporated in Germany ("the parent company"), which owns 85.16% of the Bank's ordinary shares (Note 1).

A number of other banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates. The volumes of other related party transactions, outstanding balances at the year end, and relating expense and income for the year 2001 and 2000 are as follows:

	Parent company		Affiliated companies	
	31 December 2001 CZK'000	31 December 2000 CZK'000	31 December 2001 CZK'000	31 December 2000 CZK'000
Assets and income				
Loans				
Loans outstanding at the beginning of the year	-	-	841,906	309,985
Loans issued during the year	-	-	253,859	531,921
Loan repayments during the year	-	-	(174,945)	-
Foreign exchange difference	-	-	(17,720)	-
Loans outstanding at the year end	<u>-</u>	<u>-</u>	<u>903,100</u>	<u>841,906</u>
Deposits placed	<u>340,000</u>	<u>1,099,911</u>	<u>-</u>	<u>-</u>
Placements	<u>38,692</u>	<u>60,643</u>	<u>-</u>	<u>-</u>
Interest income earned	<u>83,085</u>	<u>41,548</u>	<u>54,561</u>	<u>54,766</u>
Other income	<u>56</u>	<u>-</u>	<u>230</u>	<u>420</u>

No provisions have been recognised in respect of loans provided to related parties.

	Parent company		Affiliated companies	
	31 December 2001 CZK'000	31 December 2000 CZK'000	31 December 2001 CZK'000	31 December 2000 CZK'000
Liabilities and expense				
Deposits accepted				
Deposits at the beginning of the year	10,986,223	32,226	-	-
Deposits at the year end	-	10,986,223	-	-
Placements	<u>32,575</u>	<u>48,611</u>	<u>332</u>	<u>94</u>
Subordinated debt	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>
Interest expense	<u>496,486</u>	<u>108,312</u>	<u>221</u>	<u>85</u>
Other expense	<u>16,486</u>	<u>17,806</u>	<u>-</u>	<u>-</u>
Guarantees issued by the Bank	<u>-</u>	<u>-</u>	<u>2,059</u>	<u>2,260</u>

As at 31 December 2001 directors and members of the Boards had loans of CZK 9,928,000 granted on an arm's length basis (31 December 2000: CZK 5,241,000).

A listing of the members of the Board of Directors is shown in the annual report. In 2001 the total remuneration of the Board of Directors and the Supervisory Board was CZK 18,496,000 (31 December 2000: CZK 18,602,000).

Related party transactions with the parent company during 2001, included foreign exchange trading, intermediation of sale and purchase of certificates of deposits and shares on an arm's length basis.

As at 31 December 2001 and 2000, the Bank had not granted any loans to its shareholders.

The Bank has granted loans to its directors, management and their related parties. These transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavourable features.

35. SUBSEQUENT EVENTS

On 6 February 2002 the Board of Directors of the Bank was informed that the majority shareholder, BGB, is working together with Schroder Salomon Smith Barney on an assessment of the possible alternatives of the sale of its 85.16% share in the Bank. It is not possible to establish at this stage the effects for the Group, if any.

The management of the Bank considers that there were no other events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2001.

RECONCILIATION OF FINANCIAL STATEMENTS

ŽIVNOSTENSKÁ BANKA, A. S.

RECONCILIATION OF THE INTERNATIONAL ACCOUNTING STANDARDS (IAS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IAS FORMAT

AS AT 31 DECEMBER 2001

	CAS	As at 31 December 2001 Bridge	IAS	Explanatory note
	CZK'000	CZK'000	CZK'000	
ASSETS				
Cash and balances with central bank	1,482,755	-	1,482,755	
Treasury bills and other eligible bills	13,612,036	(10,783,322)	2,828,714	(1), (2), (8), (13)
Due from other banks	20,179,485	-	20,179,485	
Trading securities *	5,542,632	(2,078,352)	3,464,280	(2), (3), (8), (13), (15)
Derivatives financial instruments	-	189,009	189,009	(10)
Loans and advances to customers	18,888,190	(519,277)	18,368,913	(4), (6), (8)
Investment securities - available-for-sale	-	2,153,647	2,153,647	(3), (7), (9), (15), (17)
Investments in unconsolidated subsidiary and associated undertakings	55,259	(39,419)	15,840	(17)
Property and equipment	1,737,281	-	1,737,281	
Other assets including current tax asset	643,698	(123,009)	520,689	(10), (15)
Total assets	<u>62,141,336</u>	<u>(11,200,723)</u>	<u>50,940,613</u>	
LIABILITIES				
Due to other banks	16,540,413	(10,789,000)	5,751,413	(1)
Other deposits	2,456,865	-	2,456,865	
Derivative financial instruments	-	257,839	257,839	(2), (8), (11), (12), (14)
Other liabilities including current tax liability	1,625,957	(756,181)	869,776	(4), (5), (8), (11)
Due to customers	37,881,049	-	37,881,049	
Subordinated debt	1,000,000	-	1,000,000	
Total liabilities	<u>59,504,284</u>	<u>(11,287,342)</u>	<u>48,216,942</u>	

	As at 31 December 2001			Explanatory
	CAS CZK'000	Bridge CZK'000	IAS CZK'000	note
SHAREHOLDERS' EQUITY				
Ordinary shares	1,360,410	-	1,360,410	
Reserves and retained profit	<u>1,276,642</u>	<u>86,619</u>	<u>1,363,261</u>	(8), (16), (18)
Total shareholders' equity	<u>2,637,052</u>	<u>86,619</u>	<u>2,723,671</u>	
Total equity and liabilities	<u>62,141,336</u>	<u>(11,200,723)</u>	<u>50,940,613</u>	

* This amount includes the sum of balances recorded under "Bonds and other fixed interest bearing securities held for trading", "Shares, bonds and other variable interest bearing securities held for trading" in CAS.

- (1) (1) The amount of CZK 10,789,000,000 payable for securities received as collateral for reverse repurchase commitments included in "Treasury bills and other eligible bills" has been recorded as part of "due to other banks" under CAS. For IAS purposes, the securities received as collateral and the liability were not included in the balance sheet.
- (2) (2) Positive revaluation of the trading portfolio and trading derivatives of CZK 15,365,000, was not recognised under CAS but is recognized for IAS purposes in "Net trading income" against the following items: "Treasury bills and other eligible bills" CZK 5,678,000; "Trading securities" CZK 2,589,000; and "Derivative financial instruments" CZK 7,098,000 negative.
- (3) (3) Reclassification of available-for-sale securities of CZK 2,056,035,000 into "Investment securities - available-for-sale" from "Trading securities", for IAS purposes.
- (4) Under CAS, provision of CZK 538,930,000 was included in general provision in the item "Other liabilities including current tax liability". Under IAS this was included within "Loans and advances to customers".

- (5) Reclassification of fair value of hedging derivatives of CZK 71,618,000 recorded in hedging reserves and reported within "Other liabilities including current tax liability", under CAS, the profit and loss statement within "Net trading income", under IAS.
- (6) Under IAS, positive revaluation of hedged loans of CZK 14,699,000 was included in the item "Loans and advances to customers".
- (7) Under IAS, positive revaluation of hedged investment securities of CZK 89,086,000 was included in the item "Investment securities - available-for-sale".
- (8) Restatement of opening balance of equity, refuting the impact of IAS 39 implementation, of CZK 43,466,000 negative in "Reserves and retained profit" against the following items: "Treasury bills and other eligible bills" CZK 56,000; "Trading securities" CZK 402,000; "Loans and advances to customers" CZK 4,954,000; "Derivative financial instruments" CZK 79,908,000 negative; and "Other liabilities including current tax liability" CZK 31,030,000.
- (9) Under IAS, positive revaluation of investment securities of CZK 10,111,000 was included in the item "Investment securities - available-for-sale".
- (10) Reclassification of derivative financial instruments amounting to CZK 189,009,000 within the separate caption "Derivative financial instruments" for IAS purposes from item "Other assets including current tax asset", where derivatives were recorded under CAS.
- (11) Reclassification of derivative financial instruments of CZK 257,839,000 within the separate line "Derivative financial instruments" for IAS purposes from item "Other liabilities including current tax liability", where derivatives were recorded under CAS.
- (12) Due to restatement of equity as at 1 January 2001 according to IAS 39 reclassification of the fair value of derivatives not meeting the hedging criteria set by IAS 39 of CZK 1,725,000 from "Derivative financial instruments" in the balance sheet to the profit and loss statement within "Net trading income".

- (13) Due to restatement of equity as at 1 January 2001 according to IAS 39 revaluation of the trading portfolio amounting to CZK 368,000 was included in the profit and loss statement within "Net trading income" against the following balance sheet items: "Treasury bills and other eligible bills" of CZK 56,000 negative; and, "Trading securities" CZK 312,000 negative.
- (14) Due to restatement of equity as at 1 January 2001 according to IAS 39 revaluation of the credit derivative of CZK 71,085,000 was included in the profit and loss statement within "Net trading income" against the balance sheet item "Derivative financial instruments".
- (15) Under IAS, accrued interest on bonds of CZK 66,000,000 was reclassified to "Other assets including current tax asset" from items "Trading securities" CZK 24,996,000 and "Investment securities - available-for-sale" CZK 41,004,000.
- (16) Profit for the current period is included in the item "Reserves and retained profit" and the increase of the profit due to IAS adjustments of CZK 123,385,000 creates the part of the movement.
- (17) Under IAS, reclassification of CZK 39,419,000 from "Investments in unconsolidated subsidiary and associated undertakings" ČESKÝ LEASING, spol. s r.o. and Živnostenská Finance B.V. to "Investment securities - available-for-sale".
- (18) Under IAS, reclassification of payment to social fund of CZK 6,700,000 from "Reserves and retained profit" to "Other operating expenses".

ŽIVNOSTENSKÁ BANKA, A. S.

RECONCILIATION OF THE INTERNATIONAL ACCOUNTING STANDARDS (IAS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IAS FORMAT

FOR THE YEAR ENDED 31 DECEMBER 2001

	For the year ended 31 December 2001			Explanatory
	CAS CZK'000	Bridge CZK'000	IAS CZK'000	note
Net interest income	964,006	-	964,006	
Net fee and commission income	234,662	-	234,662	
Dividend income	33,346	-	33,346	
Net trading income	183,781	90,217	273,998	(1), (7), (9), (10), (11)
Gains less losses from investment securities	-	43,519	43,519	(1), (4), (6), (8), (13)
Other operating income	<u>22,360</u>	<u>4,815</u>	<u>27,175</u>	(3), (12)
Operating income	1,438,155	138,551	1,576,706	
Other operating expenses	(1,249,707)	1,008	(1,248,699)	(2), (3), (14)
Income from associates	3,550	(3,550)	-	(13)
Bad and doubtful debts (expense) / release	<u>(39,808)</u>	<u>(8,867)</u>	<u>(48,675)</u>	(2), (4), (5), (12)
Profit from operations before tax	152,190	127,142	279,332	
Income tax	-	-	-	
Results from extraordinary activities	<u>3,757</u>	<u>(3,757)</u>	<u>-</u>	(3)
Net profit	<u><u>155,947</u></u>	<u><u>123,385</u></u>	<u><u>279,332</u></u>	

- (1) Under IAS, the amount of CZK 2,410,000 representing net losses from investment securities was reclassified from "Net trading income" to "Gains less losses from investment securities".
- (2) Under IAS, the total amount of CZK 7,971,000 representing write-off of receivables (CZK 4,940,000) and expenses for used receivables (CZK 3,031,000) was reclassified to "Bad and doubtful debt expense" from item "Other operating expenses."
- (3) Items totalling CZK 3,757,000 recorded under "Results from extraordinary activities" under CAS do not qualify for such classification under IAS, and have therefore been reclassified as follows: CZK 4,020,000 included within "Other operating income" and CZK 263,000 included within "Other operating expense".
- (4) Reclassification of fair value of hedging derivatives of total amount of CZK 71,618,000 recorded in hedging reserves and reported within "Other liabilities including current tax liability", under CAS, the profit and loss statement within "Gain less losses from investment securities" (CZK 56,818,000) and "Bad and doubtful debts (expense) / release" (CZK 14,800,000), under IAS.
- (5) Under IAS, positive revaluation of hedged loans of CZK 14,699,000 was included in the profit and loss statement within "Bad and doubtful debts expense".
- (6) Under IAS, positive revaluation of hedged investment securities of CZK 89,086,000 was included in the profit and loss statement within "Gains less losses from investment securities".
- (7) Under IAS, positive revaluation on the trading portfolio and trading derivatives amounting to CZK 15,365,000, was included within "Net trading income" against the following items: "Treasury bills and other eligible bills" CZK 5,678,000; "Trading securities" CZK 2,589,000; and "Derivative financial instruments" CZK 7,098,000 negative. This was not recognized under CAS.
- (8) Under IAS, positive revaluation investment securities of CZK 10,111,000 was included in the profit and loss statement within "Gains less losses from investment securities".

- (9) Due to restatement of equity as at 1 January 2001 according to IAS 39 reclassification of the fair value of derivatives not complying with the hedging criteria set by IAS 39 of CZK 1,725,000 from "Derivatives financial instruments" in the balance sheet to the profit and loss statement within "Net trading income".
- (10) Due to restatement of equity as at 1 January 2001 according to IAS 39, revaluation of the trading portfolio amounting to CZK 368,000 included in the profit and loss statement within "Net trading income" against the following items: "Treasury bills and other eligible bills" CZK 56,000 negative; and "Trading securities" CZK 312,000 negative, under IAS.
- (11) Due to restatement of equity as at 1 January 2001 according to IAS 39 revaluation of the credit derivative amounting to CZK 71,085,000 included in the profit and loss statement within "Net trading income" against the balance sheet item "Derivative financial instruments", under IAS.
- (12) Reclassification of utilisation of reserve for off-balance sheet risks of CZK 795,000 from "Bad and doubtful debts" to "Other operating income", under IAS.
- (13) Under IAS, reclassification of CZK 3,550,000 from "Income from associates" to "Gains less losses from investment securities".
- (14) Under IAS, reclassification of payment to social fund of CZK 6,700,000 from "Reserves and retained profit" to "Other operating expenses".

ŽB - TRUST, INVESTIČNÍ SPOLEČNOST, A. S.

RECONCILIATION OF THE INTERNATIONAL ACCOUNTING STANDARDS (IAS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IAS FORMAT

AS AT 31 DECEMBER 2001

	As at 31 December 2001			Explanatory
	CAS CZK'000	Bridge CZK'000	IAS CZK'000	note
ASSETS				
Cash and balances with central bank	101	-	101	
Due from other banks	24,358	-	24,358	
Trading securities	285,507	(7,888)	277,619	(1), (2)
Investment securities - available-for-sale	45,805	-	45,805	
Property and equipment	9,703	-	9,703	
Other assets including current tax asset	<u>32,087</u>	<u>283</u>	<u>32,370</u>	(1)
Total assets	<u>397,561</u>	<u>(7,605)</u>	<u>389,956</u>	
LIABILITIES				
Other liabilities including current tax liability	<u>271,448</u>	<u>845</u>	<u>272,293</u>	(3)
Total liabilities	<u>271,448</u>	<u>845</u>	<u>272,293</u>	
SHAREHOLDERS' EQUITY				
Ordinary shares	20,000	-	20,000	
Reserves and retained profit	<u>106,113</u>	<u>(8,450)</u>	<u>97,663</u>	(2), (3), (4)
Total shareholders' equity	<u>126,113</u>	<u>(8,450)</u>	<u>117,663</u>	
Total equity and liabilities	<u>397,561</u>	<u>(7,605)</u>	<u>389,956</u>	

(1) Accrued interest on bonds of CZK 283,000 including in "Trading securities" was reclassified as "Other assets including current tax asset" for IAS purposes.

(2) Negative revaluation of "Trading securities" of CZK 7,605,000 included under IAS in the profit and loss statement within "Net trading income". The transaction affects equity because profit for the year is reported under the item "Reserves and retained profit". This was not recognized under CAS.

- (3) The social fund of CZK 845,000 was reclassified from "Reserves and retained profit" to "Other liabilities including current tax liability" for IAS purposes.
- (4) Net effect of CZK 126,000 represents movements in equity under CAS (transfer to social fund, payment of tantiems and difference of consolidated and reported profit for the year 2000), which should be under IAS part of the profit and loss statement within "Operating expenses".

ŽB - TRUST, INVESTIČNÍ SPOLEČNOST, A. S.

RECONCILIATION OF THE INTERNATIONAL ACCOUNTING STANDARDS (IAS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IAS FORMAT

AS AT 31 DECEMBER 2001

	For the year ended 31 December 2001			Explanatory
	CAS CZK'000	Bridge CZK'000	IAS CZK'000	note
Net interest income	(362)	1,336	974	(3)
Dividend income	-	820	820	(3)
Net trading income	-	(7,568)	(7,568)	(1), (2), (5)
Gains less losses from investment securities	-	(7,652)	(7,652)	(6)
Other operating income	<u>259,443</u>	<u>(140,590)</u>	<u>118,853</u>	(1), (3), (4)
Operating income	259,081	(153,654)	105,427	
Operating expenses	<u>(244,390)</u>	<u>145,931</u>	<u>(98,459)</u>	(1), (5), (6), (7)
Profit from operations before tax	14,691	(7,723)	6,968	
Income tax	(6,911)	-	(6,911)	
Results from extraordinary activities	<u>8</u>	<u>(8)</u>	<u>-</u>	(4)
Net profit	<u><u>7,788</u></u>	<u><u>(7,731)</u></u>	<u><u>57</u></u>	

- (1) A total of CZK 138,442,000 related to sales of trading securities was recorded under CAS within "Other operating income" with a related amount of CZK 138,159,000 included within "Operating expenses". For IAS purposes the amounts have been offset and the net effect of CZK 283,000 was included within "Net trading income".
- (2) Negative revaluation of "Trading securities" of CZK 7,605,000 included under IAS in the profit and loss statement within "Net trading income". The transaction affects equity because profit for the year is reported under the item "Reserves and retained profit". This was not recognized under CAS.
- (3) Dividend income of CZK 820,000 and interest income of CZK 1,336,000 classified under CAS as "Other operating income" was reclassified to "Dividend income" and "Net interest income" respectively under IAS.

- (4) Extraordinary income of CZK 8,000 classified under CAS as "Results from extraordinary activities" was reclassified to "Other operating income" under IAS.
- (5) A total of CZK 246,000 related to losses from trading securities was recorded under CAS within "Operating expenses". For IAS purposes the amount was classified under "Net trading income".
- (6) A total of CZK 7,652,000 related to losses from investment securities was recorded under CAS within "Operating expenses". For IAS purposes the amount was classified under "Gains less losses from investment securities".
- (7) Net effect of CZK 126,000 represents movements in equity under CAS (transfer to social fund, payment of tantiems and difference of consolidated and reported profit for the year 2000), which should be under IAS part of the profit and loss statement within "Operating expenses".

ŽB - ASSET MANAGEMENT, A.S.

RECONCILIATION OF THE INTERNATIONAL ACCOUNTING STANDARDS (IAS) BALANCE SHEET WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IAS FORMAT

AS AT 31 DECEMBER 2001

	As at 31 December 2001			Explanatory
	CAS CZK'000	Bridge CZK'000	IAS CZK'000	note CZK'000
ASSETS				
Cash and balances with central bank	61	-	61	
Due from other banks	2,199	-	2,199	
Trading securities	253,576	(10,796)	242,780	(1)
Investment securities - available-for-sale	-	-	-	
Property and equipment	6,574	-	6,574	
Other assets including current tax asset	<u>30,727</u>	<u>(17,000)</u>	<u>13,727</u>	(2)
Total assets	<u>293,137</u>	<u>(27,796)</u>	<u>265,341</u>	
LIABILITIES				
Other liabilities including current tax liability	<u>261,046</u>	<u>111</u>	<u>261,157</u>	(3)
Total liabilities	<u>261,046</u>	<u>111</u>	<u>261,157</u>	
SHAREHOLDERS' EQUITY				
Ordinary shares	10,000	-	10,000	
Reserves and retained profit	<u>22,091</u>	<u>(27,907)</u>	<u>(5,816)</u>	(1), (2), (3), (4)
Total shareholders' equity	<u>32,091</u>	<u>(27,907)</u>	<u>4,184</u>	
Total equity and liabilities	<u>293,137</u>	<u>(27,796)</u>	<u>265,341</u>	

- (1) Negative revaluation of "Trading securities" of CZK 10,796,000 was included in the profit and loss statement within "Net trading income" under IAS. This was not recognized under CAS.
- (2) Decrease of other capital funds within "Reserves and retained profit" and decrease of "Other assets including current tax asset" of CZK 17,000,000 reflecting the increase of the Bank's share in ŽB - Asset Management, a.s.
- (3) The social fund of CZK 111,000 was reclassified from "Reserves and retained profit" to "Other liabilities including current tax liability" for IAS purposes.
- (4) Transfer of CZK 100,000 to social fund was reclassified from "Reserves and retained profit" to "Operating expenses" for IAS purposes.

ŽB - ASSET MANAGEMENT, A.S.

RECONCILIATION OF THE INTERNATIONAL ACCOUNTING STANDARDS (IAS) INCOME STATEMENT WITH THE CZECH ACCOUNTING STANDARDS (CAS) USING THE IAS FORMAT

FOR THE YEAR ENDED 31 DECEMBER 2001

	For the year ended 31 December 2001			Explanatory note
	CAS CZK'000	Bridge CZK'000	IAS CZK'000	
Net interest income	(8,848)	-	(8,848)	
Dividend income	-	10,621	10,621	(2)
Net trading income	-	(10,753)	(10,753)	(1), (3)
Other operating income	<u>36,332</u>	<u>(13,026)</u>	<u>23,306</u>	(2), (3)
Operating income	27,484	(13,158)	14,326	
Operating expenses	<u>(31,498)</u>	<u>2,262</u>	<u>(29,236)</u>	(3), (4)
Profit from operations before tax	(4,014)	(10,896)	(14,910)	
Income tax	-	-	-	
Results from extraordinary activities	<u>-</u>	<u>-</u>	<u>-</u>	
Net profit	<u>(4,014)</u>	<u>(10,896)</u>	<u>(14,910)</u>	

- (1) Under IAS, negative revaluation of "Trading securities" of CZK 10,796,000 is included within the profit and loss statement within "Net trading income". This was not recognized under CAS.
- (2) (2) Reclassification of "Dividend income" of CZK 10,621,000 from "Other operating income".
- (3) (3) Under CAS, total of CZK 2,405,000 related to sales of trading securities was recorded within "Other operating income" with a related amount of CZK 2,362,000 included within "Operating expenses". For IAS purposes the amounts have been offset and the net effect of CZK 43,000 was included within "Net trading income".
- (4) (4) Transfer of CZK 100,000 to social fund was reclassified from "Reserves and retained profit" to "Operating expenses" for IAS purposes.

SUPPLEMENTARY INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS

Due to their size, the tables are opened in a new window.

- Table - [Consolidated balance sheet as at 31 December 2001](#)
- Table - [Consolidated income statement for the year ended 31 December 2001](#)
- Table - [Consolidated balance sheet as at 31 December 2000](#)
- Table - [Consolidated income statement for the year ended 31 December 2000](#)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2001

	Živnostenská banka, a.s.	ŽB - Trust, investiční společnost, a.s.	ŽB - Asset Management, a.s.	Eliminations	Group	Group
	As at 31 December					
	<u>2001</u> CZK'000	<u>2001</u> CZK'000	<u>2001</u> CZK'000	<u>2001</u> CZK'000	<u>2001</u> CZK'000	<u>2000</u> CZK'000
ASSETS						
Cash and balances with central bank	1,482,755	101	61	-	1,482,917	1,421,798
Treasury bills and other eligible bills	2,828,714	-	-	-	2,828,714	541,780
Due from other banks	20,179,485	24,358	2,199	(26,553)	20,179,489	22,653,728
Trading securities 1)	3,464,280	277,619	242,780	-	3,984,679	11,562,738
Derivative financial instruments	189,009	-	-	-	189,009	132,894
Loans and advances to customers	18,368,913	-	-	(509,601)	17,859,312	16,050,261
Investment securities - available-for-sale	2,153,647	45,805	-	-	2,199,452	3,362,634
Investments in unconsolidated subsidiary and associated undertakings	15,840	-	-	(15,840)	-	-
Property and equipment	1,737,281	9,703	6,574	-	1,753,558	1,866,625
Other assets including current tax asset	<u>520,689</u>	<u>32,370</u>	<u>13,727</u>	<u>-</u>	<u>566,786</u>	<u>784,024</u>
Total assets	<u><u>50,940,613</u></u>	<u><u>389,956</u></u>	<u><u>265,341</u></u>	<u><u>(551,994)</u></u>	<u><u>51,043,916</u></u>	<u><u>58,376,482</u></u>
LIABILITIES						
Due to other banks	5,751,413	-	-	-	5,751,413	19,624,319
Other deposits	2,456,865	-	-	-	2,456,865	2,349,423
Derivative financial instruments	257,839	-	-	-	257,839	158,812
Due to customers	37,881,049	-	-	(26,553)	37,854,496	31,052,260
Other liabilities including current tax liability	869,776	272,293	261,157	(509,601)	893,625	1,583,003
Subordinated debt	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
	<u><u>48,216,942</u></u>	<u><u>272,293</u></u>	<u><u>261,157</u></u>	<u><u>(536,154)</u></u>	<u><u>48,214,238</u></u>	<u><u>55,767,817</u></u>
SHAREHOLDERS' EQUITY						
Ordinary shares	1,360,410	20,000	10,000	(30,000)	1,360,410	1,360,410
Reserves and retained profit	<u>1,363,261</u>	<u>97,663</u>	<u>(5,816)</u>	<u>14,160</u>	<u>1,469,268</u>	<u>1,248,255</u>
Total shareholders' equity	<u><u>2,723,671</u></u>	<u><u>117,663</u></u>	<u><u>4,184</u></u>	<u><u>(15,840)</u></u>	<u><u>2 829,678</u></u>	<u><u>2,608,665</u></u>
Total equity and liabilities	<u><u>50,940,613</u></u>	<u><u>389,956</u></u>	<u><u>265,341</u></u>	<u><u>(551,994)</u></u>	<u><u>51,043,916</u></u>	<u><u>58,376,482</u></u>

1) This amount includes the sum of balances recorded under "Bonds and other fixed interest bearing securities held for trading", "Shares, bonds and other variable interest bearing securities held for trading" in CAS.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

	<u>Živnostenská banka, a.s.</u>	<u>ŽB - Trust, investiční společnost, a.s.</u>	<u>ŽB - Asset Management, a.s.</u>	<u>Eliminations</u>	<u>Group</u>	<u>Group</u>
	<u>For the year ended 31 December</u>					
	<u>2001</u> <u>CZK'000</u>	<u>2001</u> <u>CZK'000</u>	<u>2001</u> <u>CZK'000</u>	<u>2001</u> <u>CZK'000</u>	<u>2001</u> <u>CZK'000</u>	<u>2000</u> <u>CZK'000</u>
Interest and discount income	3,278,808	1,911	186	(10,726)	3,270,179	2,714,627
Interest expense	<u>(2,314,802)</u>	<u>(937)</u>	<u>(9,034)</u>	<u>10,726</u>	<u>(2,314,047)</u>	<u>(1,895,820)</u>
Net interest income	964,006	974	(8,848)	-	956,132	818,807
Fee and commission income	269,349	-	-	(803)	268,546	290,480
Fee and commission expense	<u>(34,687)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,687)</u>	<u>(37,973)</u>
Net fee and commission income	234,662	-	-	(803)	233,859	252,507
Dividend income	33,346	820	10,621	-	44,787	30,668
Net trading income/(expense)	273,998	(7,568)	(10,753)	-	255,677	303,147
Gains less losses from investment securities	43,519	(7,652)	-	-	35,867	253,199
Other operating income	<u>27,175</u>	<u>118,853</u>	<u>23,306</u>	<u>(28,224)</u>	<u>141,110</u>	<u>234,538</u>
Operating income	1,576,706	105,427	14,326	(29,027)	1,667,432	1,892,866
Operating expenses	(1,248,699)	(98,459)	(29,236)	29,027	(1,347,367)	(1,329,881)
Bad and doubtful debts expense	<u>(48,675)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,675)</u>	<u>(311,527)</u>
Profit / (loss) from operations before tax	279,332	6,968	(14,910)	-	271,390	251,458
Income tax	<u>-</u>	<u>(6,911)</u>	<u>-</u>	<u>-</u>	<u>(6,911)</u>	<u>(5,811)</u>
Net profit / (loss)	<u>279,332</u>	<u>57</u>	<u>(14,910)</u>	<u>-</u>	<u>264,479</u>	<u>245,647</u>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2000

	Živnostenská banka, a.s.	ŽB - Trust, investiční společnost, a.s.	ŽB - Asset Management, a.s.	Eliminations	Group	Group ³⁾
	As at 31 December					
	<u>2000</u> CZK'000	<u>2000</u> CZK'000	<u>2000</u> CZK'000	<u>2000</u> CZK'000	<u>2000</u> CZK'000	<u>1999</u> CZK'000
ASSETS						
Cash and balances with central bank	1,421,725	37	36	-	1,421,798	944,950
Treasury bills	541,780	-	-	-	541,780	2,364,592
Due from other banks	22,646,811	2,567	4,350	-	22,653,728	16,931,542
Trading securities ¹⁾	11,406,366	30,905	125,467	-	11,562,738	342,813
Derivative financial instruments	132,894	-	-	-	132,894	- ²⁾
Loans and advances to customers	16,175,684	-	-	(125,423)	16,050,261	10,144,545
Investment securities	3,310,822	51,812	-	-	3,362,634	4,411,003
Investments in unconsolidated subsidiary and associated undertakings	15,840	-	-	(15,840)	-	114,333
Property and equipment	1,845,876	12,786	7,963	-	1,866,625	1,877,234
Other assets including current tax asset	<u>732,285</u>	<u>39,355</u>	<u>12,384</u>	<u>-</u>	<u>784,024</u>	<u>725,014</u>
Total assets	<u><u>58,230,083</u></u>	<u><u>137,462</u></u>	<u><u>150,200</u></u>	<u><u>(141,263)</u></u>	<u><u>58,376,482</u></u>	<u><u>37,856,026</u></u>
LIABILITIES						
Due to other banks	19,624,319	-	-	-	19,624,319	7,147,153
Other deposits	2,349,423	-	-	-	2,349,423	-
Derivative financial instruments	158,812	-	-	-	158,812	- ²⁾
Due to customers	31,052,260	-	-	-	31,052,260	26,637,220
Other liabilities including current tax liability	1,557,463	19,856	131,107	(125,423)	1,583,003	714,048
Subordinated debt	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities	<u><u>55,742,277</u></u>	<u><u>19,856</u></u>	<u><u>131,107</u></u>	<u><u>(125,423)</u></u>	<u><u>55,767,817</u></u>	<u><u>35,498,421</u></u>
SHAREHOLDERS' EQUITY						
Ordinary shares	1,360,410	20,000	10,000	(30,000)	1,360,410	1,360,410
Reserves	<u>1,127,396</u>	<u>97,606</u>	<u>9,093</u>	<u>14,160</u>	<u>1,248,255</u>	<u>997,195</u>
Total shareholders' equity	<u><u>2,487,806</u></u>	<u><u>117,606</u></u>	<u><u>19,093</u></u>	<u><u>(15,840)</u></u>	<u><u>2,608,665</u></u>	<u><u>2,357,605</u></u>
Total equity and liabilities	<u><u>58,230,083</u></u>	<u><u>137,462</u></u>	<u><u>150,200</u></u>	<u><u>(141,263)</u></u>	<u><u>58,376,482</u></u>	<u><u>37,856,026</u></u>

¹⁾ This amount includes the sum of balances recorded under "Bonds and other fixed interest bearing securities held for trading", "Shares, bonds and other variable interest bearing securities held for trading" in CAS.

²⁾ In 1999, the derivative financial instruments were recognised only in off balance sheet.

³⁾ In 1999, ŽB - Asset Management, a.s. was not consolidated and therefore it is not included in the disclosed figures (Note 1(b)).

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000

	<u>Živnostenská banka, a.s.</u>	<u>ŽB - Trust, investiční společnost, a.s.</u>	<u>ŽB - Asset Management, a.s.</u>	<u>Eliminations</u>	<u>Group</u>	<u>Group¹⁾</u>
	<u>Year ended 31 December</u>					
	<u>2000</u> <u>CZK'000</u>	<u>2000</u> <u>CZK'000</u>	<u>2000</u> <u>CZK'000</u>	<u>2000</u> <u>CZK'000</u>	<u>2000</u> <u>CZK'000</u>	<u>1999</u> <u>CZK'000</u>
Interest and discount income	2,720,620	503	277	(6,773)	2,714,627	2,436,951
Interest expense	<u>(1,896,088)</u>	<u>(9)</u>	<u>(6,496)</u>	<u>6,773</u>	<u>(1,895,820)</u>	<u>(1,655,369)</u>
Net interest income	824,532	494	(6,219)	-	818,807	781,582
Fee and commission income	290,680	-	-	(200)	290,480	262,300
Fee and commission expense	<u>(37,973)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(37,973)</u>	<u>(20,738)</u>
Net fee and commission income	252,707	-	-	(200)	252,507	241,562
Dividend income	22,913	555	7,200	-	30,668	14,135
Net trading income	300,787	2,360	-	-	303,147	160,754
Gains less losses from investment securities	252,949	250	-	-	253,199	2,594
Other operating income	<u>120,174</u>	<u>109,731</u>	<u>22,276</u>	<u>(17,643)</u>	<u>234,538</u>	<u>146,175</u>
Operating income	1,774,062	113,390	23,257	(17,843)	1,892,866	1,346,802
Operating expenses	<u>(1,231,319)</u>	<u>(95,099)</u>	<u>(21,306)</u>	<u>17,843</u>	<u>(1,329,881)</u>	<u>(1,301,353)</u>
Bad and doubtful debts expense	<u>(311,527)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(311,527)</u>	<u>(282,333)</u>
Profit / (loss) from operations	231,216	18,291	1,951	-	251,458	(236,884)
Income tax (expense) / refund	<u>-</u>	<u>(5,704)</u>	<u>(107)</u>	<u>-</u>	<u>(5,811)</u>	<u>32,061</u>
Net profit / (loss)	<u>231,216</u>	<u>12,587</u>	<u>1,844</u>	<u>-</u>	<u>245,647</u>	<u>(204,823)</u>

1) In 1999, ŽB - Asset Management, a.s. was not consolidated and therefore it is not included in the disclosed figures (Note 1(b)).

1. Data about the registered security issuer

Securities issued:

Type:	ordinary shares
Form:	bearer, dematerialized
Number of shares:	1,360,410
Total amount of issue:	CZK 1,360,410,000
ISIN:	CZ 0008002557

In 1993 the shares were accepted for trading on the following public markets:

- RM-Systém, a.s.
- Burza cenných papírů Praha, a.s.

2. Information about activities of the registered security issuer

Description of real estate owned by Živnostenská banka, a.s.:

Praha 1, Na Příkopě 858/20

- Praha 1, Nekázanka 822/7
- Praha 1, Politických vězňů 1511/5
- Brno, Divadelní 2/545
- České Budějovice, nám. Přemysla Otakara 35
- Karlovy Vary, Tržiště 9/29
- Liberec, Široká 5/28

and non-banking buildings:

- mountain chalet Horní Malá Úpa 2, district Trutnov
- apartments Praha 4, Libuš, Zbudovská 761 and part of Zbudovská 764

Information about the issuer's dependence on patents or licences, industrial, commercial or financial contracts of fundamental importance for the issuer's business:

None.

3. Information about financial situation of the registered security issuer

Financial statements (balance sheet and profit and loss account) in the form of comparative chart for the last three accounting years:

Balance Sheet for the accounting years 1999 - 2001
(according to the Czech Accounting Standards)

CZK'000		2001	2000	1999
		Net amount	Net amount	Net amount
ASSETS				
1	Cash in hand, balances with central banks and post office accounts	1,482,755	1,421,725	944,944
2	State treasury bills and other bills eligible for refinancing with the CNB	13,612,036	11,693,780	3,744,592
	a) state treasury bills and similar securities issued by the state	2,823,036	541,780	2,364,592
	b) other treasury bills	10,789,000	11,152 000	1,380,000
3	Receivables from banks	20,179,485	22,646,811	16,929,746
	a) repayable on demand	274,538	190,309	278,373
	b) other receivables	19,904,947	22,456,502	16,651,373
	including subordinated assets	-	-	-
4	Receivables from customers	18,888,190	16,618,642	10,488,621
	a) repayable on demand	10,329	4,269	2,828
	b) other receivables	18,877,861	16,614,373	10,485,793
	including subordinated assets	-	-	-
5	Bonds and other fixed income securities held for trading	5,419,701	11,560,329	325,317
	a) issued by banks	3,372,785	1,525,508	20,337
	including own bonds	-	-	-
	b) issued by other entities	2,046,916	10,034,821	304,980
6	Shares and other variable income securities held for trading	122,931	29	882
7	Participation interests with substantial influence	39,271	35,285	103,721
	a) in banks	-	-	-
	b) in other entities	39,271	35,285	103,721
8	Participation interests with controlling influence	15,988	16,477	15,862
	a) in banks	-	-	-
	b) in other entities	15,988	16,477	15,862
9	Other financial investments	-	3,327,797	4,465,670
10	Intangible fixed assets	93,586	123,711	132,222
	a) establishment costs	-	-	-
	b) goodwill	-	-	-
11	Tangible fixed assets	1,643,695	1,722,165	1,734,907
	a) land and buildings for purpose of banking activities	1,244,500	1,285,974	1,306,391
	b) other	399,195	436,191	428,516

12	Own shares	-	-	-
13	Other assets	413,823	343,293	240,188
14	Shareholder receivables from capital subscribed but not paid	-	-	-
15	Prepayments and accrued income	229,875	353,575	340,311
	Total assets	62,141,336	69,863,619	39,466,983

CZK'000		2001	2000	1999
	LIABILITIES			
1	Due to banks	16,540,413	30,776,319	8,527,153
	a) repayable on demand	58,540	75,275	35,385
	b) other payables	16,481,873	30,701,044	8,491,768
2	Due to customers	37,881,049	31,052,260	26,637,220
	a) saving accounts	-	-	-
	including repayable on demand	-	-	-
	b) due to customers, other	37,881,049	31,052,260	26,637,220
	including repayable on demand	12,810,621	8,925,693	7,588,890
3	Certificates of deposit and similar debentures	2,456,865	2,349,423	-
	a) certificates of deposits	2,456,865	2,349,423	-
	b) other	-	-	-
4	Deferred income and accrued expenses	163,456	350,809	219,376
5	Provisions	629,554	532,049	362,275
	a) provisions for standard loans and guarantees	527,694	339,489	191,616
	b) provisions for FX losses	-	-	-
	c) provisions for other banking risks	27,721	120,750	152,460
	d) other provisions	74,139	71,810	18,199
6	Subordinated liabilities	1,000,000	1,000,000	1,000,000
7	Other liabilities	832,947	1,314,953	464,370
8	Registered capital	1,360,410	1,360,410	1,360,410
	including registered capital paid up	1,360,410	1,360,410	1,360,410
9	Share premium	-	-	-
10	Reserve funds	1,082,921	1,082,921	1,082,921
	a) obligatory reserve funds	272,082	272,082	272,082
	b) reserve fund to own shares	-	-	-
	c) statutory reserve funds	-	-	-
	d) other reserve funds	810,839	810,839	810,839
11	Capital funds and other funds from profit	-	-	-
	a) capital funds	-	-	-
	b) other funds from profit	-	-	-
12	Retained earnings or (losses) from previous periods	37,774	(186,741)	34,135
13	Profit or (loss) for the accounting period	155,947	231,216	(220,877)

Total liabilities	62,141,336	69,863,619	39,466,983
--------------------------	-------------------	-------------------	-------------------

OFF-BALANCE SHEET

1	Potential future liabilities arising from commitments	820,435	1,683,047	581,127
	including:			
	a) acceptances and endorsements	-	-	-
	b) payables resulting from guarantees	820,435	1,683,047	581,127
	c) payables resulting from collateral	-	-	-
2	Other irrevocable liabilities	7,417,801	15,739,796	5,260,922
3	Receivables from spot, term and option transaction	19,973,583	23,660,403	21,141,118
4	Liabilities from spot, term and option transaction	19,958,944	23,707,062	21,134,865

**Profit and Loss Statement
for the accounting years 1999 - 2001
(according to the Czech Accounting Standards)**

VÝROČNÍ ZPRÁVA
ANNUAL REPORT
2 0 0 1

CZK'000		2001	2000	1999
1	Interest income and similar income	3,278,808	2,720,620	2,436,386
	including interest income from fixed income securities	678,296	448,911	437,412
2	Interest expense and similar expense	2,314,802	1,896,088	1,656,099
	including interest expense from fixed yield securities	19,966	23,303	5,905
	Net interest income	964,006	824,532	780,287
3	Income from variable income securities including:	33,346	22,913	14,102
	a) income from shares and other variable income securities	33,346	22,913	14,102
	b) income from participation interests with significant influence	-	-	-
	c) income from participation interests with controlling influence	-	-	-
	d) income from participation interests in other associated entities	-	-	-
4	Commission and fee income	269,349	290,680	262,300
5	Commission and fee expense	34,687	37,973	20,738
6	Net profit (loss) from financial operations	183,781	328,152	161,972
7	Other income	22,360	142,319	15,062
8	General operating expenses including	1,238,573	1,154,784	1,209,557
	a) employee expenses	390,818	365,615	403,696
	aa) wages and salaries	294,594	275,992	331,261
	ab) social insurance	71,547	66,654	55,113
	ac) health insurance	24,677	22,969	17,322
	b) other operating expenses	847,755	789,169	805,861
9	Creation of provision for tangible and intangible fixed assets	-	-	-
	a) creation of specific provision for tangible fixed assets	-	-	-
	b) creation of other provision for tangible fixed assets	-	-	-
	c) creation of specific provision for intangible fixed assets	-	-	-
10	Utilization of provisions for tangible and intangible fixed assets	-	-	-
	a) utilization of specific provisions for tangible fixed assets	-	-	-
	b) utilization of other provisions for tangible fixed assets	-	-	-
	c) utilization of specific provision for intangible fixed assets	-	-	-
11	Other expenses	8,806	160,964	342,947
	Net operating income before adjustments and reserves for loans and investments	190,776	254,875	(339,519)
12	Creation of provisions for loans and guarantees	239,140	379,429	330,472

13	Utilization of provisions for loans and guarantees	199,332	186,362	389,428
14	Creation of provisions for participation interests and other financial investments	436	344,671	645,279
15	Utilization of provisions for participation interests and other financial investments	3,986	630,036	643,323
16	Creation of other provisions	2,706	132,058	9,313
17	Utilization of other provisions	378	179	3,484
	Profit on ordinary activities before tax	152,190	215,294	(288,348)
18	Income tax from ordinary activities	-	-	(40,733)
19	Profit or(loss) from ordinary activities after tax	152,190	215,294	(247,615)
20	Extraordinary income	4,020	16,490	27,367
21	Extraordinary expenses	263	568	629
	Profit or (loss) from extraordinary activities	3,757	15,922	26,738
22	Income tax from extraordinary activities	-	-	-
23	Profit or (loss) from extraordinary activities after tax	3,757	15,922	26,738
24	Profit or (loss) for the accounting period	155,947	231,216	(220,877)

Company in which issuer has an indirect stake in the register capital amounting to at least 10% of the issuer's own capital:

Company: **Živnobanka -1. investiční fond, a.s.**
Seat: Na Příkopě 15, 110 00 Praha 1
Identification number: 45245665
Subject of business: collective investment
Subscribed equity: 1,962,102,000 Kč
Stake in %: 19,34

Companies in which the issuer directly owns more than 10% of the registered capital:

Company: **ŽB - Trust, investiční společnost, a.s.**
Seat: Na Příkopě 15, 110 00 Praha 1
Identification number: 63080273
Subscribed equity: CZK 20,000,000
Stake in %: 100

Company: **ŽB - Asset Management, a.s.**
Seat: Na Příkopě 15, 110 00 Praha 1
Identification number: 25684558
Subscribed equity: CZK 10,000,000
Stake in %: 100

Company: **Zivnostenska Finance B.V.**
Seat: Haaksbergweg 27, 1101 BP Amsterdam Zuidoost, The Netherlands
Identification number: 33290480 (register of Chamber of Commerce and Industry for Amsterdam)
Subscribed equity: CZK 580,469 (EUR 18,151)
Stake in %: 100

Company: **Český leasing, spol. s r.o.**
Seat: Nádražní 23, 151 34 Praha 5
Identification number: 62417541
Subscribed equity: CZK 148,000,000
Stake in %: 25

Company: **BHF Živnostenska Investment B.V.**
 Seat: Diamantlaan 1-A, 2132 WV Hoofdoorp,
 The Netherlands
 Identification number: 90029797
 Subscribed equity: CZK 87,687 (EUR 27,226)
 Stake in %: 16,67

Companies in which the issuer indirectly owns more than 10% of the registered capital:

Company: **Živnobanka - 1. investiční fond, a.s.**
 Seat: Na Příkopě 15, 110 00 Praha 1
 Identification number: 45245665
 collective investment
 Subscribed equity: CZK 1,962,103,000
 Stake in %: 19,34 %

Information about the economic and financial situation expected in the next year:

Planned developments in income, costs, and profit or loss in 2002

		2001	2002
Cost	CZK '000	1,285,965	1,483,093
Income	CZK '000	1,441,912	1,596,467
Profit before tax	CZK '000	155,947	113,374

4. Information about persons responsible for annual report and verification of financial statements:

Mr Josef Pitra, Vice-Chairman of the Board of Directors of Živnostenská banka, a.s.
 Mr Aleš Barabas, Member of the Board of Directors of Živnostenská banka, a.s.

declare that the information given in this Annual Report is truthful and that no significant circumstances have been omitted that could affect a precise, accurate assessment of the securities issuer.

March 2002



Josef Pitra
Vice-Chairman of the Board of Directors



Aleš Barabas
Member of the Board of Directors

REPORT ON RELATIONS BETWEEN RELATED PARTIES

Pursuant to Section 66a (9) of Act No. 513/1991 Sb, the Commercial Code, in the wording of later regulations, the Board of Directors of **Živnostenská banka, a.s.**, registered office: Praha 1, Na Příkopě 858/20, registration number: 00001368, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 1350 ('Živnostenská Banka'), has produced this **Report on Relations** for the **2001 accounting period**.

Živnostenská banka is controlled by **Bankgesellschaft Berlin AG** ('BGB'), registered office: Alexanderplatz 2, D-10178 Berlin, Germany, Reg. No. 527, Sort Code BLZ 100 222 00, also including Berliner Bank, registered office: Hardenbergstr. 32, D-10890 Berlin, Germany. BGB has established and controls **Magrathea 3 Limited**, registered office: Normandy House, Grenville Street, St Helier, Jersey, JE2 4UF, Channel Islands ('Magrathea 3'). BGB is directly controlled by **Land Berlin** (the Federal State of Berlin).

Živnostenská banka controls **ŽB - Trust, investiční společnost, a.s.**, registered office: Praha 1, Na Příkopě 15, registration number: 63080273, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 3277 ('ŽB - Trust, investiční společnost') and **ŽB - Asset Management, a.s.**, registered office: Praha 1, Na Příkopě 15, PSČ: 110 00, registration number: 25684558, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 5483 ('ŽB - Asset Management').

The Board of Directors of Živnostenská banka declares that between Živnostenská banka and persons interconnected with it in the 2001 accounting period, there were only relations with BGB, Magrathea 3, ŽB - Trust, investiční společnost, and ŽB - Asset Management.

Agreements concluded between Živnostenská banka and BGB, Magrathea 3, ŽB - Trust, investiční společnost, and ŽB - Asset Management in the 2001 accounting period

- 1.1. The following three-party agreement was concluded between Živnostenská banka, **Magrathea 3**, and BGB in the 2001 accounting period:

Name of Agreement	Subject of Agreement	Date of Conclusion
Amendment to USD 10,625,000 facility agreement	Cancellation of the Second Schedule and its replacement with the Amended Second Schedule, pursuant to which the Railtrack plc foundation convertible bond was exchanged for a GE Capital Corporation bond.	27 November 2001

- 1.2. No agreements were concluded between Živnostenská banka and BGB in the 2001 accounting period, with the exception of the three-party agreement specified above in paragraph 1.1.

- 1.3. The following two-party agreements were concluded between Živnostenská banka and ŽB - Trust, investiční společnost in the 2001 accounting period:

Name of Agreement	Subject of Agreement	Date of Conclusion
Agreement on the Transfer of Securities	Transfer of shares in Živnobanka - 1. investiční fond ('ŽB-1.IF')	30 November 2001
Credit Agreement	Overdraft facility	30 November 2001
Licensing Agreement	Assignment of rights to use a trademark	15 February 2001
Agreement on a Collection for Shareholders in the Balanced Fund of Foundations	Cooperation in the organization of a collection for shareholders in the Balanced Fund of Foundations	30 November 2001
Agreement on the Distribution of Participation Certificates of Open-Ended Živnobanka Mutual Funds and Related Services	Terms and conditions for the distribution of the participation certificates of open-ended Živnobanka mutual funds and related services	19 December 2001

Agreement on the
Provision of
Advertising Services

Terms and conditions for contributing to advertising
in public transport vehicles

23 May 2001,
20 November
2001

Agreement on
Personal Data
Processing

Terms and conditions for the processing of personal
data related to the distribution of Živnobanka fund
participation certificates

19 December
2001


ŽIVNOSTENSKÁ BANKA

- 1.4. The following agreements were concluded between Živnostenská banka and **ŽB - Asset Management**:

Name of Agreement	Subject of Agreement	Date of Conclusion
Agreement on the Transfer of Securities	Transfer of shares in Živnobanka - 1. investiční fond ('ŽB-1.IF')	30 November 2001
Credit Agreement	Overdraft facility	30 November 2001
Share Subscription Agreement	Share subscription - increase in the registered capital of ŽB - Asset Management	8 November 2001
Agreement on an Account Opened to Increase Company Registered Capital	Opening of a special account - increase in the registered capital of ŽB - Asset Management	1 November 2001
Agreement on the Deposit and Management of Securities	Deposit and management of securities	29 June 2001
Agreement on the Use of the System ELTRANS 2000	Provision of bank services via ELTRANS 2000	10 May 2001
Licensing Agreement	Provision of rights to the use of a trademark	15 February 2001
Agreement on Trading in Foreign Securities	Agreement on trading in foreign securities	20 April 2001

Considerations provided in 2001 by Živnostenská banka to BGB, ŽB - Trust, investiční společnost, and ŽB - Asset Management and **their counter-considerations**

- 2.1. Considerations provided in 2001 by Živnostenská banka to **BGB** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided in the scope of normal commercial relations or under normal terms and conditions of business.

Considerations to BGB - Živnostenská banka expense	<u>Consideration</u> (CZK'000)
Financial and management consulting services	16,486
Interest on loro accounts	605
Interest on time deposits	437,059
Interest on subordinated debt	58,822
Interest on IRS transactions	114,994
	<u>627,996</u>
Considerations from BGB - Živnostenská banka revenues	
Interest on nostro accounts	1,655
Interest on time deposits	81,430
Interest on IRS transactions	101,169
Bank charges	56
	<u>184,310</u>

- 2.2. Considerations provided in 2001 by Živnostenská banka to **Magrathea 3** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided in the scope of normal commercial relations or under normal terms and conditions of business.

Considerations from Magrathea 3 - Živnostenská banka revenues	Consideration (CZK'000)
Interest on credit	21,015
	<u>21,015</u>

- 2.3. Considerations provided in 2001 by Živnostenská banka to **ŽB - Trust, investiční společnost** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided in the scope of normal commercial relations or under normal terms and conditions of business.

Considerations to ŽB - Trust - Živnostenská banka expense	Consideration (CZK'000)
Interest on current and time deposits	575
Considerations from ŽB - Trust - Živnostenská banka revenues	<u>575</u>
Commission from the sale of participation certificates	2,596
Lease of the Živnostenská banka group logo	2,000
Issue, custody, deposit, and management of securities, settlement of securities transactions and related services	1,158
Interest on credit	937
Bank charges	129
Other services	<u>1,774</u>
	<u>8,594</u>

- 2.4. Considerations provided in 2001 by Živnostenská banka to **ŽB - Asset Management** and their counter-considerations are listed in the table below. All considerations and counter-considerations were provided in the scope of normal commercial relations or under normal terms and conditions of business.

Considerations to ŽB - Asset Management - Živnostenská banka expense	Consideration (CZK'000)
Interest on current and time deposits	180
Investment consulting services	<u>3,720</u>
	<u>3,900</u>
Considerations from ŽB - Asset Management - Živnostenská banka revenues	
Lease of the Živnostenská banka group logo	952
Issue, custody, deposit, and management of securities, settlement of securities transactions and related services	387
Interest on credit	9,034
Bank charges	195
Other services	<u>1,569</u>
	<u>12,137</u>

Other legal transactions executed by Živnostenská banka in the interests of BGB, Magrathea 3, ŽB - Trust, investiční společnost, and ŽB - Asset Management

The Board of Directors of Živnostenská banka declares that Živnostenská banka executed no other legal transactions in the interests of BGB, Magrathea 3, ŽB - Trust, investiční společnost, and ŽB - Asset Management in the 2001 accounting period outside the scope of ordinary legal transactions in normal business relations or ordinary legal transactions carried out by Živnostenská banka in the normal exercise of the rights of BGB as the majority shareholder in Živnostenská banka, or in the normal exercise of rights of Živnostenská banka as the sole shareholder in ŽB - Trust, investiční společnost and ŽB - Asset Management.

Other measures adopted or implemented by Živnostenská banka in the interests or on the initiative of BGB, ŽB - Trust, investiční společnost, and ŽB - Asset Management, and their benefits and drawbacks

The Board of Directors of Živnostenská banka declares that Živnostenská banka adopted or implemented no measures in the interests of BGB, Magrathea 3, ŽB - Trust, investiční společnost, and ŽB - Asset Management in the 2001 accounting period outside the scope of normal business relations, or outside the scope of the exercise of the rights of BGB as the majority shareholder in Živnostenská banka, or in the normal exercise of rights of Živnostenská banka as the sole shareholder in ŽB - Trust, investiční společnost and ŽB - Asset Management.

Damage to Živnostenská banka arising from agreements concluded and measures taken or implemented

The Board of Directors of Živnostenská banka declares that Živnostenská banka suffered no damage arising from the agreements concluded and measures adopted or implemented.

March 2002

On behalf of the Board of Directors of Živnostenská banka



Josef Pitra
Vice-Chairman of the Board of Directors



Aleš Barabas
Member of the Board of Directors

Managing Directors

Mr Pavel Chlumský - Corporate Banking
 Mr Martin Kryl - Private and Personal Banking (until 19 October 2001)
 Mr Peter Kenneth Medlock - Investment Banking

Directors

Mr Miloš Bádál - Mortgage Loans
 Ms Ivana Burešová - Legal Division
 Mr Vladimír Burian - Prague Branch
 Mr Josef Cíglanský - Karlovy Vary Branch
 Ms Anna Čápková - privátní bankovníctví
 Mr Dieter Fennel - Credits
 Mr Michael Dománek - Liberec Branch
 Mr Vladimír Chudárek - Zlín Branch
 Mr Vlastislav Klimeš - České Budějovice Branch
 Mr Michal Lörincz - Representative Office Bratislava
 Mr Miroslav Matoušek - Operations
 Mr Petr Merežko - Structured Finance
 Mr Miloslav Mencl - Corporate Banking
 Mr Aleš Novák - Brno Branch
 Mr Petr Novák - Support Division
 Ms Jaroslava Pelechová - Internal Audit
 Mr Michal Provazník - Information Technology and Organisation
 Mr Ladislav Řehák - Pardubice Branch
 Mr Jaroslav Řezníček - Personnel Division
 Ms Anna Smutná - Financial Division
 Mr Jan Uhlík - Financial Institutions
 Mr Jiří Uklein - Ostrava Branch

Head Office

Na Příkopě 858/20
P.O.Box 421
113 80 Praha 1
Czech Republic
Tel: +420 2 2412 1111
Fax: +420 2 2412 5555
Web page: www.zivnobanka.cz
Central E-mail Address: info@zivnobanka.cz

Branches

Na Příkopě 858/20
P.O.Box 421
113 80 Praha 1
Czech Republic
Tel: +420 2 2412 1111
Fax: +420 2 2412 5555
E-mail: praha@zivnobanka.cz

nám. Přemysla Otakara II. č.122/35
P.O.Box 178
370 21 České Budějovice
Tel: +420 38 7711 111
Fax: +420 38 7711 777
E-mail: ceske.budejovice@zivnobanka.cz

Široká 5
P.O.Box 24
460 01 Liberec
Czech Republic
Tel: +420 48 5395 111
Fax: +420 48 5395 555
E-mail: liberec@zivnobanka.cz

Třída míru 1400
P.O.Box D21
530 01 Pardubice
Czech Republic
Tel: +420 40 6861 111
Fax: +420 40 6861 102
E-mail: pardubice@zivnobanka.cz

Representative office for Slovak Republic

Ventúrska 12
815 16 Bratislava 1
Slovak Republic
Tel: +421 2 5441 8470
Fax: +421 2 5441 9385

Divadelní 2
P.O.Box 57
601 57 Brno
Czech Republic
Tel: +420 5 4251 5111
Fax: +420 5 4251 5150
E-mail: brno@zivnobanka.cz

Tržiště 9
P.O.Box 185
360 01 Karlovy Vary
Czech Republic
Tel: +420 17 3108 111
Fax: +420 17 3108 108
E-mail: karlovy.vary@zivnobanka.cz

Kostelní 13
P.O.Box 57
701 57 Ostrava 1
Czech Republic
Tel: +420 69 6275 111
Fax: +420 69 6275 112
E-mail: ostrava@zivnobanka.cz

Rašínova 68
P.O.Box 275
760 01 Zlín
Czech Republic
Tel: +420 67 7697 111
Fax: +420 67 7697 555
E-mail: zlin@zivnobanka.cz