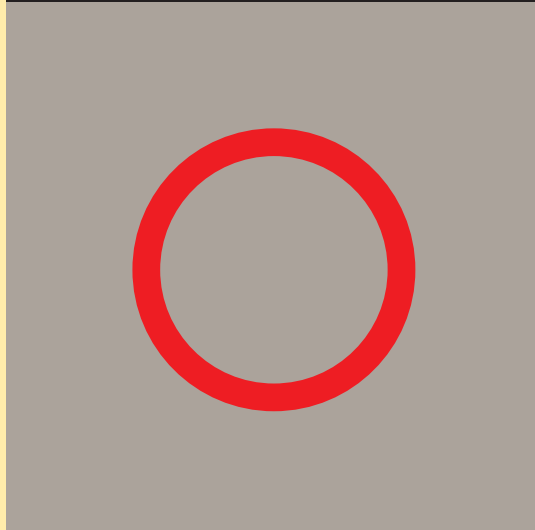




**Annual Report 1999**



**ČESKÁ SPOŘITELNA a.s.**



**Basic features of Česká spořitelna Financial Group**



- 1/ Perfection
- 2/ Flexibility
- 3/ Openness
- 4/ Growth
- 5/ Bright Future
- 6/ Professionalism
- 7/ Strength

**We have something to offer each and every one of you.**

**We want to remain your reliable partner.**

**We're your bank for life.**

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## Česká spořitelna – profile

*We are the largest retail bank in the Czech Republic. We have long been one of the most reputed Czech banks. We provide universal banking services. We recognize traditional savings bank traditions, while at the same time endeavoring to be a modern, efficient, client-friendly bank with fast, high-quality services. We have a large network of branches. Together with our specialized subsidiaries, we offer a complete range of financial products and related services.*

### ■ BUILDING ON THE RICH CZECH SAVINGS BANK TRADITION

In our country, savings banks have always played an important role in fostering the growth of business, industry, agriculture and craftsmanship. Our predecessor – Spořitelna česká – was established in 1825 and during its long history it built up considerable prestige. Over time, the savings bank industry became an important and integral part of the Czechoslovak and, later, Czech banking sector. As of 30 December 1991 we became a joint stock company. We've joined a number of international institutions, such as the World Savings Banks Institute, the European Savings Bank Group, and the Institute of International Finance, Inc. We are a founding member of Bankovní asociace (the Czech Banking Association), in which we play an active role.

### ■ A BANK FOR LIFE

In terms of total assets and registered capital, we are currently the second largest bank in the Czech Republic. Our principal client groups include households, tradesmen, small and medium sized businesses, as well as cities and towns. We hold a 33% share of the household deposits market, while our share of the overall primary deposits market is 25%. In household loans our share is 39%. We have over 12.5 million accounts, of which 2.6 million are *sporožiro* accounts. Every second household in the Czech Republic uses a *sporožiro* account. We have a long tradition of good relations with the municipal sector; 34% of Czech cities and towns have their budget management accounts with us. We are the largest lender in the country with 50% of the lending market by volume. Even after privatization, cities and towns continue to hold a significant stake in our equity.

### ■ THE BIGGEST BANK CARD ISSUER

We issue 60% of all bank card products in the Czech Republic. Our clients hold approximately 1.7 million active cards. Of this number, over 1.5 million are debit cards. 1999 saw a 55% increase in both the volume and number of card transactions. In 1996 we became the first bank in the Czech Republic to offer clients credit cards.

### ■ A MAJOR PLAYER IN SECURITIES MARKETS

We are a major securities trader, especially in the Czech primary bond issue market. Thanks to our strength in primary deposits, we remain a market maker in the inter-bank deposit market. Our share of the inter-bank lending market is 17%. We are also an active lender to corporations and other legal entities. Our share of client loans in this area is 11%.

### ■ LOOKING FOR NEW WAYS TO REACH CLIENTS

More and more, we are providing services using alternative distribution channels. As we work further in this area, our priority will be to take a differentiated approach to various target customer groups. This will allow us to improve client service.

### ■ CARING FOR OUR EMPLOYEES

We take an active interest in our employees' ongoing professional growth. Our Spořitelna Academy has developed and offers a number of educational programs. We are aware that well-trained employees are the key to further growth and increasing competitiveness.



## Introduction by the Chairman of the Board and CEO

*Dear shareholders, business friends, clients and employees,*



*Without any exaggeration, I would call 1999 the most important year in the history of Česká spořitelna and at the same time I would call it a successful year. The primary goal of the new management was to make quality preparations for the entire privatization process while at the same time preparing the bank for the arrival of a strategic partner. Although a considerable portion of management's efforts was clearly focused on meeting this goal, we were also able to realize a number of strategic changes necessary to develop our business activities including changing our approach to clients, improving the risk management system, and improving the efficiency of Česká spořitelna. As we did so, we were often asked: Why is management making so many changes before privatization? Why not simply wait and see what the new owner has in store? Our answer was always very clear: There are steps that must be taken no matter what, steps that any new owner would have to take. There was no reason to postpone them any longer. At the same time, taking these steps puts the bank in a better starting position for completing the privatization process this year.*

*1999 saw a number of events that were of fundamental importance. An extraordinary General Meeting held in March reorganized the bank's senior management and approved a plan to increase Česká spořitelna's registered capital. This took place in late July and early August. In three successful rounds, all the new shares were fully subscribed and in September the Commercial Court registered the increase in the bank's registered capital from CZK 7.6 billion to CZK 15.2 billion.*

*Česká spořitelna has always enjoyed a privileged position in the Czech financial markets. The advertisement that ran in April calling on investors to submit bids and declare their interest in purchasing the State's share in Česká spořitelna can be considered the most significant event of last year, both in terms of the history of Czech banking and, of course, in terms of the development of the Bank itself. Since that moment, most of the processes that have been put in motion are part of the preparations for privatization.*

*After the Czech Government granted exclusive negotiating rights in the privatization of Česká spořitelna to the leading Austrian financial institution Erste Bank der oesterreichischen Sparkassen AG in September 1999, the due diligence process began in earnest, with over 100 Czech Government specialists, consultants and Erste Bank employees involved. As part of Česká spořitelna's preparations for privatization, the Government decided in November to transfer selected low-quality assets to Konsolidační banka. This transaction had a number of positive effects that improved Česká spořitelna's financial position.*

*In addition to preparations for privatization, we also put intensive efforts into developing the bank and its sales activities. The guiding principal behind all the changes was to focus across the board on the clients and their needs. The branch network optimization process was completed, 13 new regional sales centers were opened to service the mid-sized client segment and we introduced new procedures for assessing and monitoring credit risks. The pressure for greater efficiency was felt in the 8% decline in the number of employees in 1999 and in the commencement of restructuring processes at the bank's central organizational units.*

*As far as business successes are concerned, allow me to mention here at least those that demonstrate that Česká spořitelna is launching new products and developing modern channels and alternative means of distribution. We launched our GSM Banking service in June 1999, while the number of clients using our Sporotel phone banking service grew dynamically all year long. We strongly reinforced Česká spořitelna's dominant position in the bank card trade by achieving over 100% growth in aggregate transaction volume on cards issued by the bank.*

*The efforts and strong commitment shown by all Česká spořitelna employees in 1999 were of great benefit in the seller-buyer negotiations between the National Property Fund and Erste Bank. I am aware that the Government's decision to sell the State's holding in the bank came relatively soon, on a remarkably original date: 2. 2. 2000. I am pleased that the privatization process was brought to a successful conclusion so that from now on, we can again dedicate all our efforts to developing the bank in the presence of a strong strategic partner.*

*In the framework of medium-term strategy, our goal for the 2000–2002 period is to increase the quality of the products and services we provide to our clients and to complete the bank restructuring process using the know-how of our new majority owner. The result will be long-term growth in shareholder value measured in terms of return on capital and the achievement of a minimum 15% return no later than 2002. In support of these goals, we will create an environment that will motivate our employees and management to strive for success and self-realization.*

*In conclusion, allow me to express my sincere thanks above all to my colleagues and employees of the Bank, for whom 1999 was an extremely demanding year. It was only thanks to them that Česká spořitelna came through it all so well. We are now a stronger bank than we were. Although we posted negative earnings for 1999, our starting position for the year 2000 is stable and fills me with optimism and the conviction that the future development of Česká spořitelna will bring value and benefit to clients and shareholders alike. Friends, thanks to your long-term support and appreciation, we are now gaining the energy so much needed for the work of gradually improving the Bank's service quality. We are confident that we will demonstrate, through concrete results, that Česká spořitelna is a modern financial institution.*

April, 2000



Dušan BARAN  
Chairman of the Board and CEO

### January

- The bank introduces accounts and transactions in Euro
- Phase One of implementing StarBank system

### February

- First questions answered over newly launched Green Line service
- Commenced issuance and acceptance of Europay bank cards

### March

- Extraordinary General Meeting approves plan to increase share capital of Česká spořitelna
- New Chairman of the Board and CEO: Dušan Baran

### April

- Advertisement runs calling on investors to submit indications of interest in buying government's stake in Česká spořitelna
- Roman Mentlík becomes Member of the Board and Deputy CEO

### May

- Annual General Meeting approves 1998 year-end financial statements
- In trading on the Prague Stock Exchange, Česká spořitelna shares reach their maximum for 1999: CZK 200.20

### June

- GSM Banking commences operation
- Petr Hlaváček becomes Member of the Board and Deputy CEO

### July, August

- Registered capital of Česká spořitelna is successfully increased from CZK 7.6 billion to CZK 15.2 billion in three rounds
- Final phase of optimizing district branch network completed, bringing the number of this branch type to 33
- Česká spořitelna begins offering foreign currency mortgage loans

### September

- Government of the Czech Republic grants Erste Bank exclusive negotiating rights concerning acquisition of Česká spořitelna
- Phase One of headquarters reorganization begins with goal of forming a client-focused bank using process management principles

### October

- Investor due diligence takes place at Česká spořitelna
- Erste Bank submits preliminary bid for Česká spořitelna
- Martin Škopek becomes Member of the Board and Deputy CEO
- New product launched: Children's Saving Book

### November

- Under a Government resolution, Česká spořitelna transfers selected assets to Konsolidační banka

### December

- KLIENT project launched with aim of differentiating approach to various market segments and client groups
- Česká spořitelna successfully navigates Y2K date roll-over

### NOVEMBER 1997

November 19: Government of Czech Republic approves sale of majority stake in Česká spořitelna by National Property Fund to a strategic investor.

### MARCH 1998

National Property Fund names investment bank Merrill Lynch International as its financial advisor for the Česká spořitelna privatization.

### JUNE 1998

Investment in Česká spořitelna by European Bank for Reconstruction and Development (EBRD) sends strong signal to foreign investors. EBRD obtained nearly 12% of the bank's share voting rights.

### DECEMBER 1998

In 1998, against a background of deteriorating macroeconomic performance, the declining quality of the bank's loan portfolio began to be a factor. It became necessary to stabilize the bank's financial situation and at the same time put it in a better position for privatization. In December 1998 the bank accepted subordinated debt of CZK 5.5 billion and transferred, pursuant to a Resolution of the Czech Government dated 9 December 1998, a CZK 10.4 billion portion of its non-performing loans to Konsolidační banka.

### MARCH 1999

March 10: The Government of the Czech Republic approved an increase in the bank's capital. An extraordinary General Meeting held the same day approved the capital increase and made major changes to the management of Česká spořitelna. During 1999, the new management made a number of fundamental changes with the aim of improving the bank's financial performance. In addition to a change in the bank's business strategy, the Board of Directors decided to implement a clear focus on retail banking. It also took a number of important measures in other areas, including improvements in risk management, loan portfolio administration, and debt collection.

### APRIL 1999

The Czech Government ran an advertisement in the Financial Times and Hospodářské noviny calling on investors to submit indications of interest in purchasing the Government's stake in Česká spořitelna.

### AUGUST 1999

CZK 7.6 billion rights issue successfully completed, giving the National Property Fund an outright majority of voting rights and an over 52% stake in the bank's registered capital.

### SEPTEMBER 1999

A short list was prepared from among the preliminary bids submitted and Merrill Lynch subsequently recommended that the Czech Government grant exclusive negotiating rights to Austria-based Erste Bank der oesterreichischen Sparkassen AG.

### OCTOBER 1999

Phase One of the investor's due diligence completed. The goal of the due diligence was to prepare a detailed legal and financial analysis of Česká spořitelna and its subsidiaries. In accordance with the approved privatization timeline, immediately after Phase One of the due diligence was completed Erste Bank submitted a revised preliminary bid for the Government's equity stake.

### NOVEMBER 1999

November 8: The Czech Government passes a resolution transferring CZK 32.7 billion of Česká spořitelna's non-performing assets to Konsolidační banka. This transaction had a positive impact on Česká spořitelna's financial position. The investor was allowed to conduct another phase of due diligence.

### FEBRUARY 2000

February 2: The Czech Government passes a resolution selling a majority (52.07%) of the shares of Česká spořitelna to Erste Bank.



## The Board of Directors as of 31 December 1999



**Dušan Baran** /\* 6 April 1965/  
*Chairman of the Board of Directors  
and CEO*

After graduating from the Mathematics and Physics Faculty of the Charles University, Prague, Mr. Dušan Baran completed post-graduate studies in banking at the University of Colorado's Graduate School of Banking in 1997. From 1991 to 1993 he worked for Agrobanka, a.s. in the Treasury Department. He joined Česká spořitelna in November 1993, where he held various positions including head of loan risk management department, head of assets and liabilities management section, Director Treasury Division, and Director Risk Management Division. On 20 May 1998 he was named Member of the Board and Deputy CEO of Česká spořitelna, and was elected Chairman of the Board and CEO of Česká spořitelna by the extraordinary General Meeting of 10 March 1999. Mr. Dušan Baran is Chairman of the Supervisory Board of ČS-Živnostenská pojišťovna, a.s., Chairman of the Supervisory Board of Corfina, a.s., Member of the Stock Exchange Chamber of the Prague Stock Exchange, and Chairman of the Supervisory Committee of the Czech Banking Association. He represents Česká spořitelna in the European Savings Bank Group, the World Savings Banks Institute, and the Institute of International Finance, Inc.

- *"I respect people who are decent and tolerant. Unfortunately, these are the qualities that are most lacking in interpersonal relationships these days. The qualities I value the most in my colleagues are professionalism and positive thinking."*



**Petr Hlaváček** /\* 19 November 1955/  
*Member of the Board of Directors  
and Deputy CEO*

Graduated from the Prague University of Economics Faculty of Foreign Trade in 1979 and from the University of Toronto School of Graduate Studies in 1984. In 1993 he completed the Canadian Securities Course at the Canadian Securities Institute and subsequently passed his broker's exams. From 1984 to 1993 he worked for the Canadian Imperial Bank of Commerce in Toronto in areas relating to risk management and investment banking. Starting in July 1993 he was advisor to a member of the Czech National Bank's Banking Council, and since 1994 he has been with Česká spořitelna. In August 1998 he was named Director Investment Banking Division. On 1 July 1999 he became a Member of the Board and Deputy CEO. He is also Vice Chairman of the Supervisory Board of Corfina, a.s.

- *"I have much respect for people who are able to maintain overall integrity of character. This is extremely important for interpersonal relationships and is showing itself to be the most effective way to do business, too. In keeping with this, I highly value professional ethics, honesty and sense of fair play."*



**Roman Mentlík** /\* 6 April 1964/  
Member of the Board of Directors  
and Deputy CEO

Mr. Roman Mentlík is a graduate of the Prague University of Economics, where he majored in foreign trade. He has worked in the banking sector since 1990, first at Komerční banka (from 1990 to 1994), and later for Westdeutsche Landesbank (from 1994 to 1997) in Düsseldorf, Vienna, and Prague. He joined Česká spořitelna in February 1997, till 6 April 1999 he was director of the money market and FX trading section. He was named Deputy CEO on 6 April 1999 and joined the Board of Directors on 28 April 1999. He is Chairman of the Supervisory Board of Sindat ČS Consulting, a.s. and a Member of the Supervisory Board of ČS-Živnostenská pojišťovna, a.s.

- *"I value people who are principled, who are direct in communications, who maintain the continuity of their opinions and who don't suffer from 'memory loss', people who never stop learning, both in theory and practice, and who know how to listen to others and learn from mistakes. At the same time, these qualities are the building blocks of successful team work."*



**Martin Škopek** /\* 24 April 1967/  
Member of the Board of Directors  
and Deputy CEO

A graduate of the Prague University of Economics, from 1993 to 1995 Mr. Martin Škopek attended the Oklahoma City University's Jack T. Conn Graduate School of Community Banking. From 1990 to 1999 he was employed by Komerční banka in various positions, the last of which being Director of Sales, Banking Division for Households and Small Businesses. On 18 October 1999, the Supervisory Board of Česká spořitelna elected him Member of the Board of Directors and Deputy CEO. Mr. Martin Škopek is also a Member of the Supervisory Board of ČS-Živnostenská pojišťovna, a.s., and a member of the Regional Board of VISA International for Central and Eastern Europe, the Middle East, and Africa.

- *"There are many human traits that I respect. One of them is a sense of humor. As the old saying goes, everything goes better when you smile. And I like to smile and I like to work with fun people."*

### **Effective 1 March 2000, Česká spořitelna's Board of Directors has a fifth member.**

#### **Mr. John James Stack was elected Vice Chairman of the Board.**



**John James Stack** /\* 4 August 1946/  
Vice Chairman of the Board

Mr. John James Stack is a US citizen. He studied Mathematics and Economics and graduated from Iona College (BA), then continued at Harvard Graduate School of Business Administration with Finance and Management (MBA). He held numerous positions at Chase Manhattan Bank and its predecessor Chemical Bank in a 22 year career. Before joining Česká spořitelna he worked as an Executive Vice President of Chase Bank.

In his new position as the fifth member of Česká spořitelna's Board of Directors, Mr. John Stack is the co-ordinator of activities between Erste Bank and Česká spořitelna.

- *"I most respect colleagues who are honest, hard working, and not afraid to express opinions which may be controversial. I find these colleagues very effective in their work and great fun to be around."*



## The Supervisory Board as of 31 December 1999

### **Karel Kotrba**

/\* 16 October 1934/

*Chairman of the Supervisory Board*

Mr. Karel Kotrba graduated from the Charles University Law Faculty, where he specialized in financial law. Starting in 1958 he worked in the former Státní spořitelna, later at the Directorate General of Česká státní spořitelna, and from 1992 to 1998 he was Deputy chairman of the Board and First Deputy CEO of Česká spořitelna. Since 1998 he has been Chairman of the Supervisory Board of Česká spořitelna. He also chairs the Supervisory Board of ČS-stavební spořitelna, a.s.

### **Karel Zeman**

/\* 14 January 1956/

*Vice Chairman of the Supervisory Board*

Mr. Karel Zeman graduated from the College of Economics in 1980. From 1980 to 1986 he worked in research, and in 1986 he joined the Ministry of Agriculture, where he worked in the department of management and organization and, later, in the privatization department. In 1990 he started to work for the Ministry for the Administration and Privatization of National Property as deputy director of the auction sales department, and later as deputy director of the regional privatization and trade department. In 1994 he was charged with establishing a National Property Fund team to collect overdue receivables. From December 1998 to January 2000 he was Deputy Chairman of the National Property Fund's Executive Committee.

### **Milan Bakeš**

/\* 11 October 1939/

*Member of the Supervisory Board*

A graduate of the Charles University Law Faculty, Prague, Bakeš worked for the Transakta Foreign Trade Organization and as a Graduate Assistant at the Financial Law Department of the Charles University Law Faculty. Currently he is a financial law professor at the same institution, and a member of its Academic Council. He is also a partner of the law office Bakeš and partners. He is a member of

a number of international organizations, including the International Fiscal Association, the International Bar Association, the International Institute of Public Finance, and others. Since 1988 Bakeš has been a visiting professor at the University of California, Los Angeles (UCLA). He has been a member of the Česká spořitelna Supervisory Board since 1993, and was elected to the position by the Bank's employees in 1999. From 1996 to 1998 he was Chairman of the Supervisory Board, and from 1998 to 1999 Vice Chairman. Bakeš is also a member of the Supervisory Board of IPS Praha.

### **Ivan Černý**

/\* 2 October 1947/

*Member of the Supervisory Board*

Mr. Ivan Černý graduated from the Czech Technical University's Faculty of Civil Engineering. After completing his studies he worked at the Road Management Institute. He has been Mayor of Úvaly since 1990, and since 1996 has been on the Board of the State Environmental Fund, focusing primarily on municipal financing, especially in the infrastructure area. He has done internships in this area in the USA and France. Since 1998, Mr. Ivan Černý has been Chairman of the Financial Committee of the Association of Cities and Towns. In 1999 he was elected to the Supervisory Board of Česká spořitelna by the Bank's employees.

### **Kurt Geiger**

/\* 17 March 1946/

*Member of the Supervisory Board*

A graduate of the Innsbruck University, where he obtained a Doctor of Law degree, Mr. Kurt Geiger also studied International Finance in Brugge (MA). From 1975 to 1989 he was Chief Corporate Finance Director at Chase Manhattan Bank, with responsibility for advisory activities in mergers and acquisitions, project financing, privatization and shares. He also worked in New York in the European Liaison Group and in Frankfurt and Vienna – Credit Trainee. Mr. Geiger currently works for the EBRD in London and has been a Member of the Supervisory Board of Česká spořitelna since 1998.

**Jiří Havel**

/\* 20 August 1957/

*Member of the Supervisory Board*

Mr. Jiří Havel graduated from the University of Economics, Prague, National Economics Faculty. From 1982 to 1991 he worked at the University of Economics. Since 1991 he has been with the Charles University Faculty of Social Sciences (from 1997 to 1999 he chaired the Department of Finance and Capital Markets). From 1993 to 1997 he was a Member of the Board of Directors of 2. SPIF, a.s. In 1999, Havel was appointed First Deputy Director of the National Property Fund's Executive Committee, and currently is Chairman of the Executive Committee. He has been on Česká spořitelna's Supervisory Board since 1999.

**Miloslav Hejnák**

/\* 5 February 1957/

*Member of the Supervisory Board*

A graduate of the Prague University of Economics, from 1980 to 1993 Mr. Miloslav Hejnák worked at the former Institute of Economics of the Czechoslovak Academy of Sciences. From 1993 to 1998 he was an independent financial and business consultant. Since 1998 he has been Deputy Minister of Finance. Mr. Hejnák was elected to the Supervisory Board of Česká spořitelna in 1999.

**Livia Klausová**

/\* 10 November 1943/

*Member of the Supervisory Board*

Mrs. Livia Klausová graduated from the Prague University of Economics Faculty of Trade, where she specialized in foreign trade. She also attended UISC in Luxembourg and the European Institute at the University of Amsterdam. From 1966 to 1967 she worked at the Centrotex Foreign Trade Organization, and from 1967 to 1993 she was with the Institute of Economics of the Czechoslovak Academy of Sciences. From 1994 to 31 December 2000 Mrs. Klausová was Executive Secretary of the Czech Economic Society. She was a member of the Supervisory Board of ČEZ, a.s. from 1994 to 1998 and has been a member of the Supervisory Board of Milevsko-based ZVVZ, a.s. since 1995. She has been a member of Česká spořitelna's Supervisory Board since 1992.

**Petr Liška**

/\* 4 September 1959/

*Member of the Supervisory Board*

After graduating from the Charles University Law Faculty, Mr. Petr Liška commenced a career that took him from the Institute of State Administration, through the Federal Ministry of Agriculture to the Office of the Government of the CSFR. He has been with Česká spořitelna since 1993, as director of the legal section. Currently he is also a legal expert in the Legislative Council of the Government of the Czech Republic. Mr. Petr Liška was elected to the Supervisory Board by the employees of Česká spořitelna in 1999.

**Jaroslav Novotný**

/\* 31 July 1940/

*Substitute member of the Supervisory Board*

After graduating from the Prague University of Economics in 1962, Mr. Jaroslav Novotný worked as an economist in the Somet Teplice national enterprise until 1966, when he transferred to the newly established regional planning department of the North Bohemian Regional Government in Ústí n. Labem. Starting in 1977 he was a social scientist at the Czechoslovak Academy of Sciences, Institute of Philosophy and Sociology, later the Social-Economic Institute. In 1989 he moved to Prague, where began to work at the Prague Lord Mayor's Office as advisor to the First Deputy Lord Mayor, and later as head of the municipal development department. From 1992 to 1996 he was head of the regional policy department of the Ministry of Economy. Starting in mid-1996 he was advisor to the Chairman of the Chamber of Deputies of the Czech Parliament and subsequently an advisor at the Office of the Government, a position he held until the end of October, 1999. Mr. Jaroslav Novotný has been a substitute member of the Supervisory Board of Česká spořitelna since 1999.

**Miloslava Opletalová**

/\* 6 September 1938/

*Member of the Supervisory Board*

A graduate of the High School of Economics, where she specialized in finance and national-economy statistics, Mrs. Miloslava Opletalová worked for the Státní spořitelna in Olomouc from 1957 to 1996. When she retired, she was District Branch Director. Mrs. Miloslava Opletalová was elected to the Supervisory Board by the employees of Česká spořitelna in 1997.

**Zdeněk Zajíček**

/\* 10 May 1967/

*Member of the Supervisory Board*

Mr. Zdeněk Zajíček is a graduate of the Charles University Law Faculty. From 1991 to 1992 he worked at the City Prosecutor's Office in Prague. From 1992 to 1993 he was an advisor to the Deputy Minister for the Administration and Privatization of National Property and a department director at the Ministry. From 1993 to 1995 he was a member of the Executive Committee of the Czech Republic Land Fund. From 1995 to 1996 he was a commercial lawyer and from 1996 to 1998 he was a Member of Parliament. He joined the Board of Directors of RIF, a.s. in 1994 and was made Deputy Chairman of that body in 1998. Prior to becoming Secretary of the Prague Lord Mayor's Office in 1999, he worked as an advocate in Prague. Mr. Zdeněk Zajíček was elected to the Supervisory Board of Česká spořitelna in 1999.

- Karel Zeman was Vice Chairman of the Supervisory Board until 26 January 2000. Livia Klausová has been Vice Chairwoman of the Supervisory Board since 23 February 2000.
- Jiří Havel resigned from the Supervisory Board on 23 February 2000. As of this date the Supervisory Board of Česká spořitelna named Mr. Manfred Wimmer a substitute member.
- Miloslav Hejnák resigned from the Supervisory Board on 13 March 2000. As of this date the Supervisory Board of Česká spořitelna named Ernst-Gideon Loudon a substitute member.
- On May 17, the General Meeting of Česká spořitelna confirmed in office three members of the Supervisory Board whose terms as substitute members had ended. These members are: Jaroslav Novotný, Ernst-Gideon Loudon, and Manfred Wimmer. Miloslav Hejnák was newly elected to the Supervisory Board to replace Karel Zeman, who had resigned shortly before the General Meeting.

#### **Manfred Wimmer**

*/\* 31 January 1956/*

*Member of the Supervisory Board*

Manfred Wimmer graduated from the Law Faculty of the University of Innsbruck where he was awarded the title of Doctor of Law. From 1978 to 1982 he worked as an academic assistant in private law. From 1982 to 1998 he worked in the International Division of Creditanstalt in Vienna where he held posts in international project financing, financial institutions and marketing. Since 1998 he has been on the staff of the International Division of Erste Bank der oesterreichischen Sparkassen AG, where since September 1999 he has headed up the Česká spořitelna acquisition team.

#### **Ernst-Gideon Loudon**

*/\* 22 May 1949/*

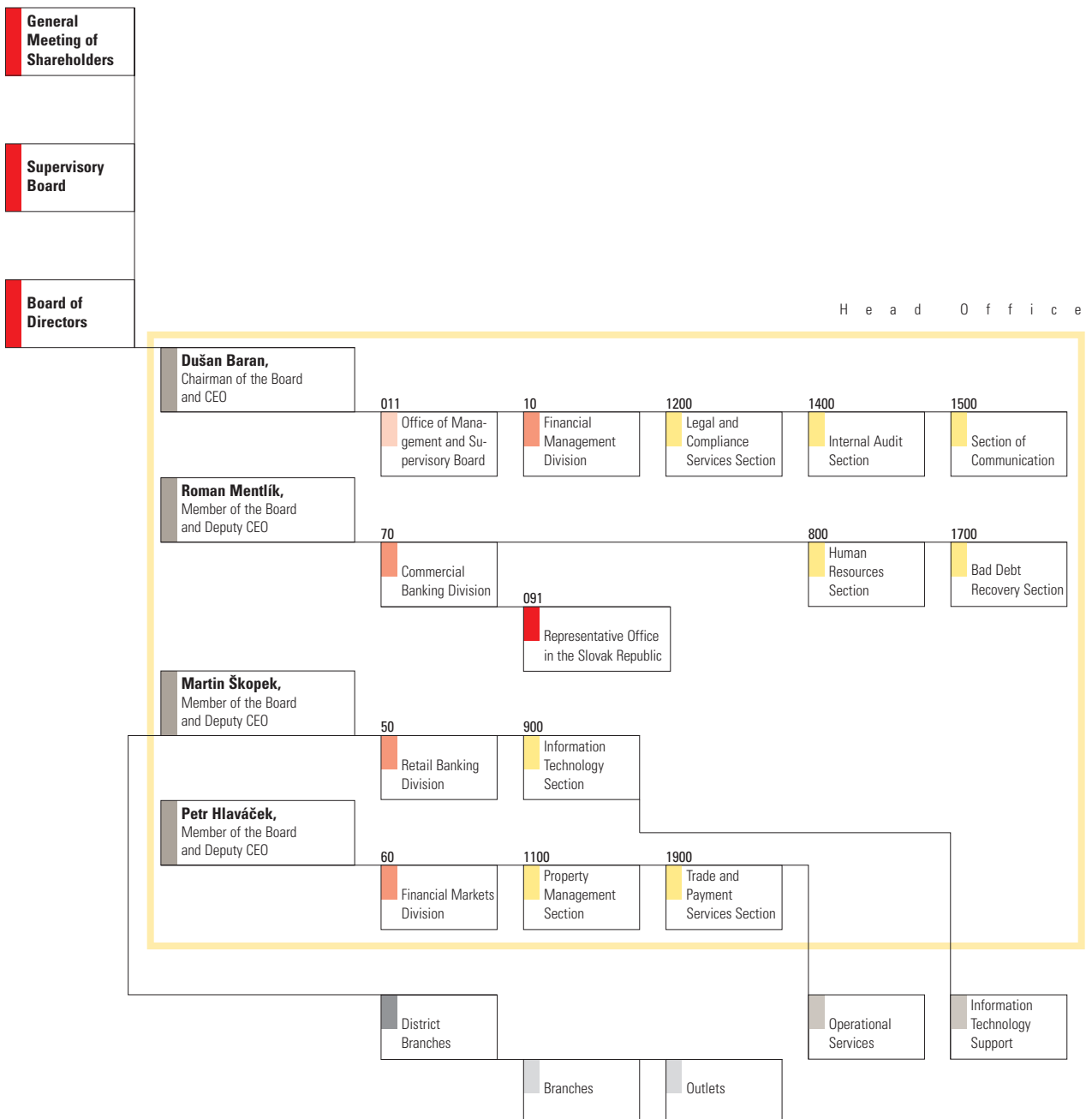
*Member of the Supervisory Board*

In 1972, Ernst-Gideon Loudon completed his studies of law at the University of Vienna where he was awarded the title of Doctor of Law. He later continued with his studies in the USA and completed an AMA Managerial Course. He also completed a number of training courses in Austria, Germany and Switzerland in personnel and strategic management and financial accounting. From 1972 to 1975 he was employed by the Federation of Austrian Industrialists. From 1975 to 1976 he worked as an assistant manager and secretary for the publisher of the second largest Austrian newspaper, Kurier, and from 1976 to 1981 as Divisional Head at the Federation of Austrian Industrialists. From 1981 to 1990 he was a member of Kurier Board of Directors, then manager at consulting company CEBOC Vienna and from 1994 to 1997, executive manager at Creditanstalt Investment Bank. Starting in January 1998 he has been director of CEBOC.





## Organization chart as of 31 December 1999





## Czech Republic macroeconomic development in 1999

### First signals of recovery amid ongoing stagnation

In early 1999, the economic development of the Czech Republic was still under the influence of the recession of past years. However, the first signs of a recovery emerged in the second quarter. Retail sales, an indicator of consumer demand, began to show growth over the previous 12 months, and the decline in industrial and construction output began to slow. Gross domestic product figures confirmed that a mild recovery was underway. In the first quarter, GDP was 4.1% lower than one year before, while in the second quarter it grew 0.4% on the same period in 1998, in the third quarter it grew by 0.8%, and by the fourth quarter the rate of growth had accelerated to 1.0%. Over the entire year 1999, GDP fell slightly – by 0.2% – in comparison with 1998.

The long-term structural problems which were the underlying cause of the financial difficulties many companies found themselves in, were also one of the main causes of the growth in unemployment. In 1999, the unemployment rate grew by 1.9% to 9.4% at the end of December. There continued to be significant regional differences in unemployment.

The economic recoveries experienced by the Czech Republic's main trading partners led to a relatively good trade result. The trade deficit was trimmed to CZK 69.9 billion from CZK 78.6 billion in 1998.

In exchange rates, the Czech Crown lost ground to the Euro in the first quarter of 1999. However, in March, boosted by a large influx of capital from abroad, especially in the form of foreign direct investment

(FDI), the exchange rate saw a reversal in its direction of movement. The Czech Crown posted gains against the Euro for the rest of the year.

Inflation remained very low in the first half of 1999. By July consumer prices had risen by a mere 1.1% year-on-year. "Adjusted", or "core" inflation was actually negative for the first nine months of the year, except January. In general, movements in consumer prices were dominated by a decline in food prices, and not even rising oil prices on world markets made much of a difference. However, late in the year food prices stopped falling and oil prices continued to grow at a brisk pace. This development was reflected in producer prices and gradually began to take its toll on consumer prices as well. The industrial producer price index was up 3.4% for 1999, while the consumer price index grew 2.5%. Core inflation was 1.5% for the year ended 31 December 1999.

The Czech National Bank reacted to declining inflation by gradually lowering its key interest rates. The discount rate was cut by 2.5 percentage points, and stood at 5% at year-end 1999. Five whole percentage points were cut off the lombard rate, bringing it to a year-end 1999 figure of 7.5%. This narrowed the band for the movement of commercial interest rates. The two-week repo rate, which is the CNB's principal monetary policy tool, was lowered eleven times during 1999. Having started the year at 9.5%, by the end of the year it had fallen to nearly 5.3%. The rate of mandatory minimum reserves was also commensurately reduced, from 5% to 2%.





## Key financial figures

### Non consolidated according to Czech Accounting Standards

#### BALANCE SHEET INDICATORS

MCZK	1999	1998	1997	1996	1995
Total assets	364,269	380,283	389,287	358,718	367,848
Receivables from banks	118,519	93,799	94,011	76,775	130,042
Receivables from customers	100,644	143,651	169,191	145,523	119,828
Securities	99,577	80,567	67,893	63,491	62,798
Primary deposits	291,488	298,257	301,735	295,675	295,618
Due to banks	31,976	41,695	48,193	30,723	37,809
Own bonds	5,500	5,500	5,000	0	0
Shareholders' equity	15,449	12,830	19,946	19,617	18,196
Registered capital	15,200	7,600	7,600	7,600	7,600

#### PROFIT AND LOSS ACCOUNT INDICATORS

MCZK	1999	1998	1997	1996	1995
Net interest income	12,666	15,002	15,894	13,389	13,645
Net fee and commission income	4,093	3,029	2,786	1,985	1,823
Operating income	20,722	20,299	20,938	17,762	17,578
Operating expenses	14,946	13,021	12,240	11,299	10,496
Operating profit	5,776	7,278	8,698	6,463	7,082
Net creation of reserves and adjustments	10,669	14,217	7,501	4,577	7,044
Net profit/(loss) after tax	(4,893)	(6,940)	1,203	1,886	263



**BASIC FINANCIAL RATIOS**

%	1999	1998	1997	1996	1995
Net interest margin	4.05	4.70	5.28	4.61	4.44
Capital adequacy	13.62	9.20	8.97	8.86	10.98
Expenses/income	72.13	64.15	58.32	63.61	59.71
Non-interest income/operating income	38.88	26.09	24.09	24.62	22.37
Classified loans/loans	27.38	25.71	20.69	24.73	20.86
ROE	x	x	6.16	10.04	1.86
ROA	x	x	0.32	0.52	0.07
Profit per employee (TCZK)	x	x	68.70	97.60	13.50
Assets per share (TCZK)	2.40	5.00	5.10	4.70	4.80
Dividend (CZK per share)	0	0	5.00*	10.00	5.00

\*priority shares

**KEY OPERATING INDICATORS**

Number	1999	1998	1997	1996	1995
Employees (physical number)	15,277	16,580	17,522	19,319	19,460
Organizational units	876	1,033	1,127	1,738	1,864
ATM machines	870	845	822	695	583
Electronic banking clients	117,566	10,230	991	471	0
Active bank cards	1,728,940	1,334,372	1,069,352	887,813	680,504
Locations accepting ČS cards	13,213	12,323	9,679	7,433	2,156
Sporožiro accounts	2,585,487	2,582,976	2,495,325	2,385,963	2,338,011

**Česká spořitelna's rating as of 31 December 1999**

Rating Agency	Long-term	Short-term	Individual	Support	Intra-country issuer	Outlook
Fitch IBCA	BBB	F2	D/E	2		
Moody's	BAA2	Prime – 2	E+			
Thomson Bankwatch	BBB	LC – 1			IC – C	
Standard & Poor's	BB	B				Negative





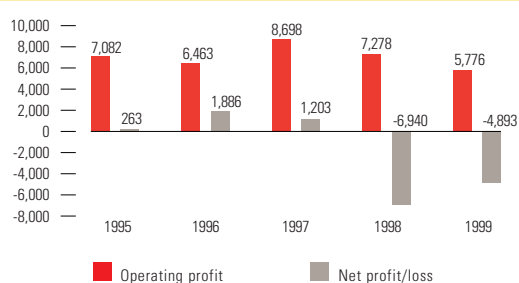
## Management report

Under Czech accounting standards, Česká spořitelna reported a loss of MCZK 4,893 as at the end of 1999. The financial result was strongly influenced by the financial situation in the corporate sector, which has been affected by the continued stagnation in the Czech economy. The low repayment morales of some clients of the Bank resulted in a further deterioration in the quality of the loan portfolio and were a major factor in the high creation of reserves and adjustments (hereinafter "R&A") during 1999. The net creation of R&A for market and credit risks, including written-off receivables covered by the use of R&A previously created, totaled MCZK 10,669.

The financial performance was positively influenced by the framework agreement on the transfer of selected receivables between Česká spořitelna and Konsolidační banka. Another factor, which had a positive effect on the financial results, was the Restructuring and Guarantee Agreement (ring fencing), which gives the Bank the possibility to sell selected loans to Konsolidační banka, according to a predetermined formula. This resulted in lower creation of R&A.

The operating profit for 1999, which represents the Bank's operating result excluding the impact of the creation of R&A for market and credit risks, and including the write-off of receivables covered by the use of R&A previously created, was MCZK 5,776. This result, which was lower by 20.6% than the previous year, was influenced by a MCZK 2,336 decrease in the Bank's net interest income, connected with the overall decrease in interest rates in the economy, and by the loss from the write-off of receivables not fully covered by the use of adjustments, totalling MCZK 1,634, as a result of transfer of these assets to Konsolidační banka. Conversely, operating profit was positively influenced by an increase in fee and commission income by MCZK 1,063, an increase in extraordinary income by MCZK 1,299 and a decrease in costs of services purchased in the volume of MCZK 308. The operating expense/operating income ratio was 72.12%.

### Operating profit and net profit (MCZK)

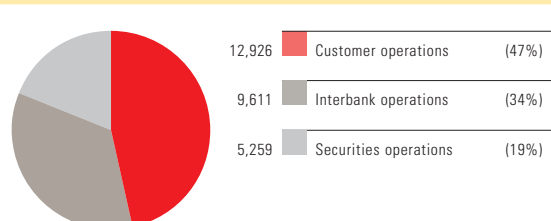


## FINANCIAL RESULTS

### Lower interest income and expense

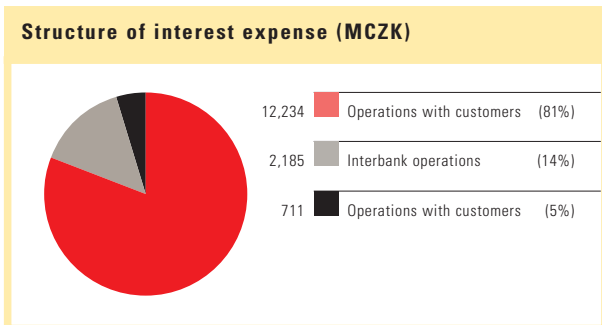
The low inflation level of 1999, which resulted in an overall decrease in interest rates was reflected in the significant decrease in interest income of Česká spořitelna (by 30.9%). Interest income decreased to MCZK 27,796 (by MCZK 12,426), mainly as a result of the decrease in interest income from customer transactions by MCZK 9,501. On the other hand, interest income from bonds increased by MCZK 127. This

### Structure of interest income (MCZK)



development was reflected in the percentage structure of interest income, where the share of interest income from customer transactions decreased from 56% to 47% due to a decrease in the volume of customer loans granted.

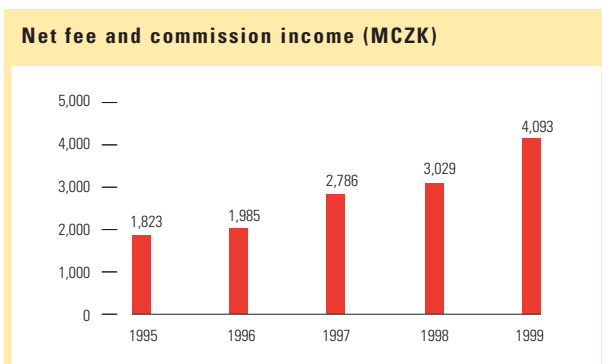
Analogously with interest income, interest expense decreased, (by MCZK 10,090). The largest decrease occurred in interest expense on customer transactions (by MCZK 8,895), which plays a dominant role in the structure of interest expense. Interest expense from fixed income securities transactions decreased by MCZK 572, while the volume of interest paid on own bonds issued and mortgage bonds increased by MCZK 35 (to MCZK 598).



Net interest income decreased in a year-to-year comparison by 15.6% achieving the level of MCZK 12,666. Compared to 1998, net interest margin decreased by 0.65 percentage point (to 4.05%). The most significant item affecting the total volume of net interest income is the net balance of interest income and expense from interbank operations (i.e. 58% of the net interest income), which is primarily a result of the prevalence of asset transactions over liability transactions. The net balance of interest income and expense from securities transactions represents 37% and the net balance of interest income and expense from customer transactions represents 5% of net interest income.

**■ Dominant items of non-interest income**

A year-to-year increase in non-interest income to the level of MCZK 8,056 (by 52.1%) was caused by an increase in income from fees and commission, as well as by an increase in extraordinary income.



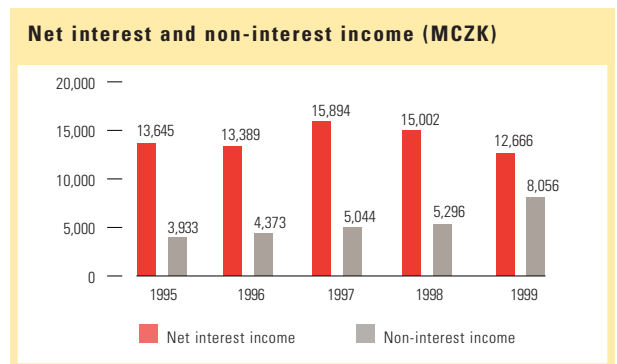
Net income from fees and commissions increased by 35.1% and achieved the amount of MCZK 4,093. The fee and commission margin thus represents more than one half of all non-interest income. The long-term trend of continuous growth in this income has a positive effect on the Bank's results, as fees and commissions stabilize its income. Income from fees and commissions on customer operations represented 88% (MCZK 3,610) of the total volume of net income from fees and commissions. The highest share in this volume is represented by fees and commissions on spořicí accounts (MCZK 1,322); current accounts of legal entities (MCZK 684); loans to individuals (MCZK 337); fees for non-observance of notice of termination (MCZK 259); and fees and commissions on cards (MCZK 175). The net balance of fees and commissions from other transactions totals MCZK 526; from foreign exchange transactions MCZK 82; from securities transactions MCZK -17; and from inter-bank transactions MCZK -109.

The second most significant item (MCZK 1,852) of non-interest income is net income from financial operations – which excludes the net balance of creation and use of R&A to securities and losses covered by R&A previously created, and includes the net balance of creation of R&A to participation interests (investments). Profit from financial operations increased by 44.3%

Dividends received represent MCZK 188 of non-interest income. Their year-to-year growth by MCZK 20 is caused by an increase in dividends received from ČS-stavební spořitelna, a.s. (building society) (MCZK 182). Spořitelni investiční společnost (investment company) contributed MCZK 6.

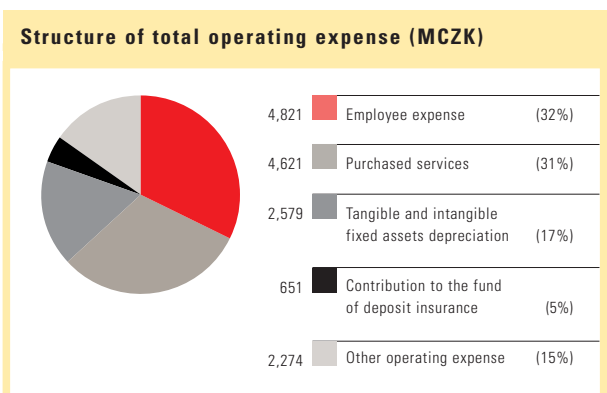
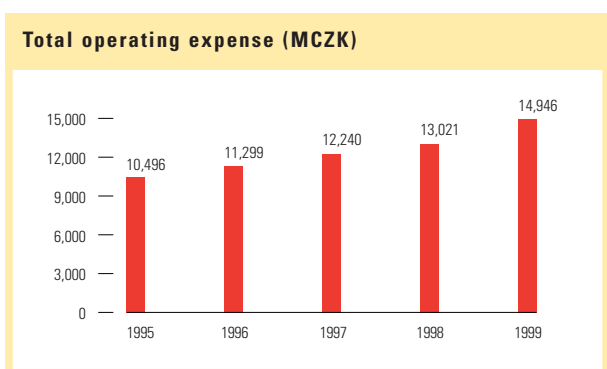
Other operating income, including extraordinary income and use of R&A to tangible and intangible fixed assets, was MCZK 1,923. This income increased by 135.9% mainly due to income received from an out-of-court settlement. Income from transfer of other assets (primarily sale of tangible and intangible fixed assets) represented MCZK 116, income from written-off receivables from customers MCZK 18 and other operating income MCZK 295.

Total operating income of the Bank, including extraordinary income, increased by 2.1% compared to 1998, and totalled MCZK 20,722. Net interest income represents MCZK 12,666, non-interest income MCZK 8,056. The share of non-interest income to total income increased by 13 percentage points in a year-to-year comparison, to 39%.



**Positive trend in general operating expenses**

Total operating expenses of the Bank for the year 1999 amounted to MCZK 14,946, a year-to-year growth of 14.8%. The growth was caused primarily by the cession of receivables not covered by R&A previously created to Konsolidační banka, in the amount of MCZK 1,634. General operating expenses, the most significant part of operating expenses, increased by MCZK 111, which represents a growth of 0.9%, to MCZK 12,136. Total employee expenses, including social security and health insurance charges were MCZK 4,821, an increase of 6.4%, out of which wages represent MCZK 3,460 and social security and health insurance charges MCZK 1,361.



A favorable result was achieved by the Bank in the area of services purchased, which decreased by 6.2%, to MCZK 4,621. Within services purchased, the most significant items are: rental payments of MCZK 938 (35.6% increase); other services of non-tangible character of MCZK 710 (15.0% decrease); services and performances of tangible character of MCZK 495 (0.2% increase); lease expenses of MCZK 486 (1.3% increase); raw material consumption of MCZK 408 (3.3% decrease); communication expenses of MCZK 337 (38.9% decrease); fuel and power consumption of MCZK 233 (2.1% decrease); expenses on running building operations of MCZK 201 (9.8% increase); and expenses for consulting services of MCZK 173 (56.1% decrease).

Depreciation of tangible and intangible assets increased in a year-to-year comparison by MCZK 137 to MCZK 2,579. The depreciation of intangible assets increased by MCZK 165. Depreciation of tangible assets decreased by MCZK 28. Depreciation was influenced by the

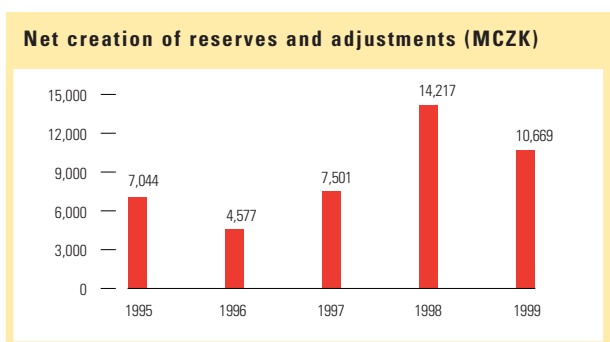
gradual reduction in the level of fixed assets but as a reverse impact also by the decrease of the minimal depreciation period in accordance with the new Income tax Act. Creation of reserves to fixed assets amounted MCZK 42.

A remarkable change compared with 1998 is the increase in written-off receivables that were not covered by the use of R&A, to MCZK 1,838 (an increase of MCZK 1,668). This fact is related to the loss from cession of receivables not covered by R&A to Konsolidační banka (MCZK 1,634) and expenses on the transfer of other assets (MCZK 173). A cost item showing continuous growth, is the Bank's allocation to the Deposit Insurance Fund, in the volume of MCZK 651, an 11.4% increase. A slight 7.1% decrease occurred in taxes and duties paid, in the amount of MCZK 116, whilst 79% of this item comprised legal/court fees (MCZK 91). Extraordinary expenses increased by 34.9% to MCZK 263. Other expense items amounted to MCZK 15.

**Creation of reserves and adjustments worsens the Bank's financial results**

The net balance of creation of reserves and adjustments to cover market and credit risks, including securities and write-off of receivables covered by the use of R&A decreased the Bank's financial results by MCZK -10,669 (in 1998: MCZK -14,217). Within this total amount, the net creation of R&A to risk assets represents MCZK 3,376, written-off receivables covered by use of R&A MCZK -13,375, and net balance of creation of R&A to securities MCZK -670.

The amount of net creation of R&A was influenced primarily by the unfavorable financial situation in the corporate sector, as well as long-term low repayment morals of a significant portion of Česká spořitelna's clients. More strict classifications of loans granted in the past had a certain effect as well.



Similarly as in 1998, RA amount was also influenced by the effect of CNB Notice No. 193/1998 regarding loss loans secured by real estate collateral. The notice requires banks to create gradually, and following a stipulated methodology, additional adjustments for loss receivables that are more than 361 days past due and that are, fully or in part, secured by real estate. As a result of complying with this notice, additional adjustments totaling MCZK 2,924 were recorded (in 1998: MCZK 2,910).

Another aspect that influenced the amount of R&A was the necessity to further secure transactions relating to the territories of Russia and Ukraine. These transactions were concluded in the years 1997–1998, however the increased risk level of both territories resulted in a further increase in the level of R&A. The total effect on the Bank's financial results for the year 1999 was MCZK 806.

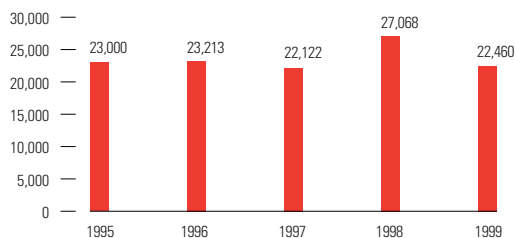
As part of the privatization process of Česká spořitelna, certain assets were transferred to Konsolidační banka and certain ring fenced arrangements were entered to ensure that a significant portion of the Bank's credit risks were eliminated and that potential future problems with respect to the quality of the loan portfolio were minimised.

Based on the decision of the Government of the Czech Republic, a portion of classified receivables in the total nominal amount of MCZK 32,715 was transferred to Konsolidační banka as at 30 November 1999, for the price of MCZK 19,885. The difference, totalling MCZK 12,830 was written off as a loss from the ceded receivables to clients. To partially cover such expenses, reserves and provisions in the amount of MCZK 11,195 were used as at 31 December 1999.

On 1 March 2000, Česká spořitelna, Corfina and Konsolidační banka signed a Restructuring and Guarantee Agreement (ring fencing). The ring-fenced arrangements include listed loans due from corporate clients (legal entities), classified as substandard, doubtful or loss in accordance with the ČNB rating principles as at 31 December 1999. During the term of the Agreement (not beyond 2005), the ring fenced arrangements remain in the Bank's balance sheet and are subject to certain conditions and managed by the Bank under specific rules. As a result, ČS did not create provisions to cover any potential credit risks associated with these arrangements in the amount of MCZK 1,142.

The total balance of reserves and adjustments as at 31 December 1999 was MCZK 26,162 out of which MCZK 22,460 is attributable to reserves and adjustments to balance sheet and off-balance sheet credit risks.

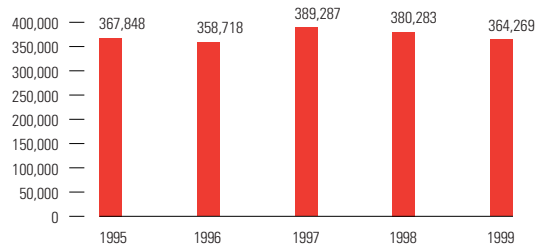
#### Total reserves and adjustments for credit losses (MCZK)



## BALANCE SHEET

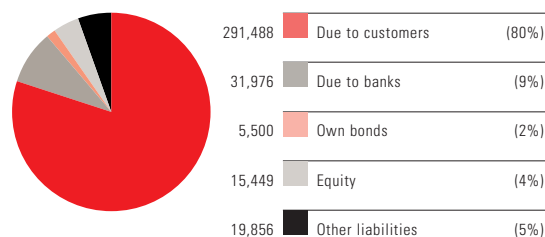
The balance sheet total of Česká spořitelna as at 31 December 1999 amounted to CZK 364.3 billion. Compared to 1998, it decreased by CZK 16.0 billion, which represents a 4.2% decrease. On the liability side, the balance sheet amount was influenced primarily by a decrease in primary and inter-bank deposits by CZK 16.5 billion. On the asset side, customer loans decreased by CZK 43.0 billion and statutory minimum reserves by CZK 16.2 billion. Conversely, the volume of inter-bank loans increased by CZK 24.7 billion and assets placed in securities by CZK 19.0 billion.

#### Total balance sheet (MCZK)



## LIABILITIES

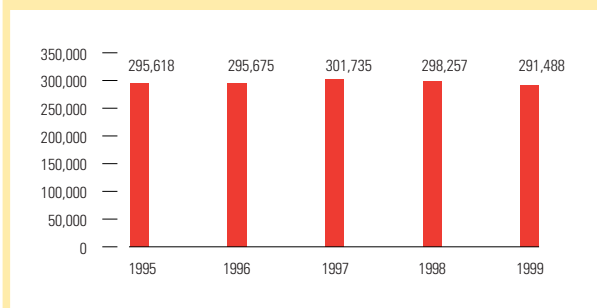
#### Structure of liabilities (MCZK)



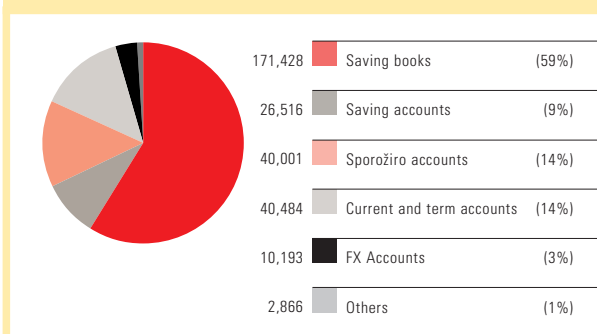
## Saving books as a core of primary deposits

The share of primary deposits, a basic source of funding asset trades of the Bank, increased in relative values by 1.6 percentage points, to 80.0% of total liabilities, despite 2.3% decrease in absolute values (by CZK 6.8 billion to CZK 291.5 billion). The decrease affected mainly deposits of individuals, which decreased by CZK 9.2 billion to CZK 249.5 billion, while deposits of organizations and business companies increased by CZK 2.4 billion to CZK 42.0 billion and their share in total primary deposits grew to 14.4%. Foreign currency deposits decreased by CZK 0.5 billion to CZK 10.2 billion, which represents 3.5% of primary deposits.

### Development of primary deposits (MCZK)



### Structure of primary deposits (MCZK)



Saving books, with their CZK 171.4 billion volume of deposits, still represent a decisive and popular form of individual savings. Despite a total decrease by 7.1%, which related primarily to saving books with 12 and 24 months termination notice (volume of deposits CZK 127.0 billion, decrease by 9.1%), the new types of saving books, namely those with a shorter termination notice of 1 and 3 months increased in volume in 1999, to CZK 2.9 billion. 8.2% growth occurred also for saving books with 6 month termination notice, where the volume of deposits is CZK 10.9 billion. To increase customers' comfort in accessing the deposits on saving books, the possibility of joint accounts (a joint right to handle the deposit on passbook) was introduced in 1999. A new product to be mentioned is the children's savings book.

A savings deposit, another type of term account, confirmed its popularity with a 6.2% increase in the balance, and with its total volume of CZK 26.5 billion, increasing its share of total primary deposits to 9.1%.

#### ■ Current and sporožiro accounts with extended services

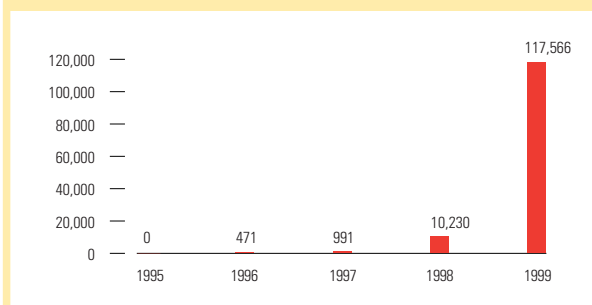
Česká spořitelna administered more than 270 thousand current accounts of legal entities and individuals at the year end for whom a new service – GSM Banking was prepared, which makes manipulation with an account faster and easier. As at 31 December 1999, homebanking and GSM Banking services were used by nearly 6 thousand customers (in 1998: nearly 2 thousand), with 2.5 million payment orders executed through these services in 1999. The total

volume of balances in the current and term deposit accounts increased as well, by CZK 2.7 billion (7.2%), to CZK 40.5 billion. Out of this amount, balances in current accounts of municipalities are CZK 11.6 billion; the Bank maintains budget accounts for 2,091 cities and municipalities of the Czech Republic.

The volume of balances in current accounts increased, in a year-to-year comparison, by CZK 4.6 billion (13.1%) to CZK 40.0 billion. The number of sporožiro accounts (2,585,487), services linked to sporožiro accounts, transaction income and the entire client database of sporožiro accounts represent a major asset of the Bank. As for newly introduced services, a remarkable increase occurred for Sporotel, from 8 thousand to more than 111 thousand customers, as well as for Sporostudent and Sporojunior – accounts intended for young customers, which exceeded the level of 80 thousand accounts. A new PLUS sporožiro account was introduced, intended for demanding customers, and Sporoeфекt service – automated transfer of account balance exceeding a set limit, and the possibility of withdrawals from sporožiro account at any branch of Česká spořitelna, etc.

In the long-term, Česká spořitelna is oriented toward the development of electronic banking and the continued improvement and extension of products and services, which can be provided without a customer personally visiting a branch, using alternative distribution channels.

### Number of users of e-banking



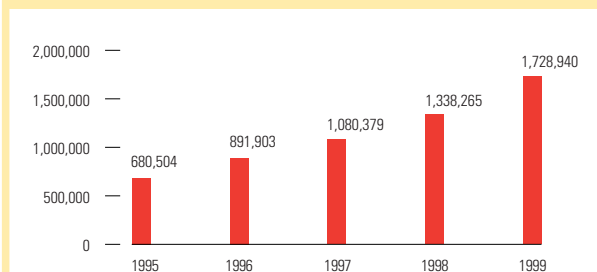
#### ■ Significant increase in number of international payment cards

A number of additional services are linked to sporožiro and current accounts, primarily card products. The number of active cards increased in a year-to-year comparison by 29.2%, to 1,728,940 cards. Out of this number, 88.1% are payment cards (increase of 10.4 percentage points). Česká spořitelna reached the leading position amongst Czech banks in the area of credit cards with the approximately 5,500 issued cards at the end of 1999.

A significant increase also occurred in international payment cards, with a fifteen-fold increase in their number to 242,962 cards, representing 14.1% of all active cards. During 1999, Maestro and Diners Club international payment cards were issued, and conversion

of Variant cards to EC/MC Variant started. The number of points of sale where payments cards are accepted for non – cash payment increased by nearly 1 thousand, to 13,213. The number of the Bank's own ATMs increased to 870. A dynamic development occurred in the number and the volume of transactions executed through ČS's cards. During the year 1999, 53.8 million ATM withdrawals were executed, in the volume of CZK 89.5 billion (in 1998: 44.6 million in the volume of CZK 60.4 billion), and 2.0 million of business transactions were performed using payment cards, in the volume of CZK 4.6 billion (in 1998: 1.3 million and CZK 3.0 billion respectively). The Bank therefore provides maximum support in order to increase the number and volume of non-cash payments in business/retail network. The main target groups are large shopping chains (hypermarkets, supermarkets, hobbymarkets, hotels, restaurants, etc.) The bank obtained a license from Europay International to establish a network of points of sale accepting EuroCard/MasterCard payment cards.

#### Number of issued cards



#### Development in payments

The establishment of correspondent relationships with other banks worldwide creates possibilities for subsequent commercial cooperation and business opportunities. As at the end of 1999, Česká spořitelna has established 435 correspondent relationships with banks in 87 countries worldwide. The number of Nostro accounts opened with correspondent banks was 32. Accounts were maintained in territories and currencies in which international exchange took place, and in which the volume of payments was significant. The introduction of the Euro currency in international payments effective from 1 January 1999 was reflected in the existence of 7 Nostro accounts of the Bank maintained in this currency.

During 1999, Česká spořitelna performed 729 documentary payments (letters of credits and collections), totalling CZK 1.4 billion, which represents a decrease of 20.3% compared to 1998. The drop in the number as well as in the volume of letters of credit opened and processed was caused by the overall economic situation, market saturation and limited sources of loan funding.

During 1999, more than 195 thousand foreign payment transactions were processed in the total volume of CZK 79.0 billion, which

represents an increase of 67.4%. As for the composition of currencies in which foreign payments are performed, the Euro represents almost one half of the total volume, US dollar one quarter, and Czech Crown, as the third major currency, one tenth. A significant share of Euro is caused by the fact that a number of foreign banks started to use the Euro for international payments, starting from 1 January 1999. A relatively high share of CZK foreign payments is due to the fact that transactions with the Slovak Republic take place mostly in national currencies of both countries.

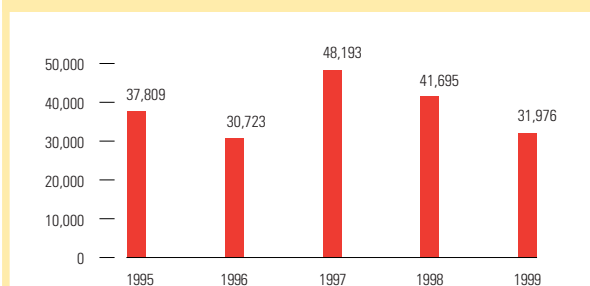
As for domestic payments, the number of payments from spořizo and current accounts in the form of standing orders and single payment orders totalled more than 110 million in 1999, with a total volume of nearly CZK 1.2 billion.

#### Due to banks – a significant item

Despite a drop by CZK 9.7 billion (23.3%), due to banks, with their volume of CZK 32.0 billion are the second most significant liability item. The decrease in volume is caused primarily by a decrease in interbank accounts and deposits by CZK 13.5 billion to CZK 5.2 billion. On the other hand, the volume of payables from securities serving as a security under reverse repurchase transactions increased by CZK 6.8 billion to CZK 23.9 billion. The remaining portion of due to banks in the volume of CZK 2.9 billion consists of foreign currency inter-bank loans accepted.

In 1998, spořitelna accepted a subordinated debt from Konsolidační banka, in the amount of CZK 5.5 billion, and maturing in the year 2008, and which can be included in the spořitelna's supplementary capital for the purposes of calculating the capital adequacy ratio.

#### Due to banks (MCZK)



#### Increase in the registered capital

The equity of Česká spořitelna increased, in a year-to-year comparison, by CZK 2.6 billion, and achieved the amount of CZK 15.4 billion. Its share in total liabilities increased to 4.2%. Based on the decision of the Extraordinary General Meeting of Shareholders of Česká spořitelna held in March 1999, the registered capital of the

Bank was increased from CZK 7.6 billion to CZK 15.2 billion. According to the terms and conditions set, three rounds of new share subscription took place in the third quarter of the year. The subscription was realized in the nominal value of CZK 100.00 per share, i.e. without a share premium. The capital subscribed was fully paid and registered in the Companies Register. The National Property Fund's ownership increased from 45.00% to 52.07%.

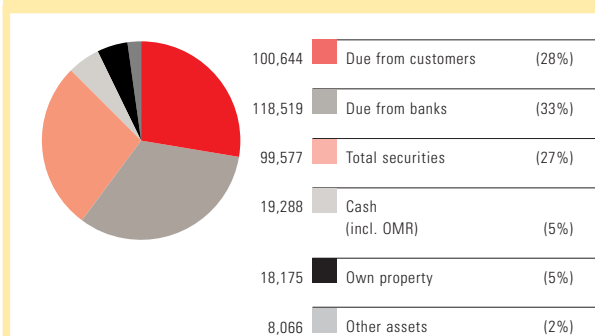
Based on a decision of the regular General Meeting of Shareholders of Česká spořitelna held in May 1999, the loss from the 1998 year of MCZK 6,940 was covered from the share premium funds and a part of the statutory reserve funds.

Development of the Bank's capital adequacy ratio during 1999 was significantly influenced by the financial performance of Česká spořitelna. The transfer of a part of the Bank's classified loans to Konsolidační banka in November 1999 had a positive effect in reducing the expected loss and strengthened the capital adequacy as well. As at 31 December 1999, the net capital adequacy ratio was 13.62%, which represents an improvement by 4.42 percentage points compared to 1998.

## ASSETS

During 1999, a significant twofold decrease in the rate of statutory minimum reserves from 7.5% to 2% was introduced. Therefore, funds in the volume of approximately CZK 16 billion were made available to be used for other asset trades of Česká spořitelna.

### Structure of assets (MCZK)



## Different development in loans to customers and loans to banks

Loans to customers and interbank loans and placements totalling CZK 219.2 billion represent 61% of total assets, despite a decrease of CZK 18.3 billion. However, each of these segments showed different development in 1999.

Interbank loans and placements (receivables from banks) increased by 26.4% compared to 1998, achieving CZK 118.5 billion, and became, for

the first time since 1995, the most significant asset item. Of the total amount of receivables from banks, deposits placed with banks represent CZK 37.5 billion (8.1% increase), loans granted to banks and secured by securities under reverse repurchase transactions represent CZK 23.9 billion (39.8% increase), and interbank loans represent CZK 57.1 billion (36.3% increase). An increase in receivables from banks was caused by the transfer of free funds from customer loans, the reduction in the statutory minimum reserves, as well as by refinancing the transfer of selected receivables to Konsolidační banka in the form of a loan totalling CZK 19.9 billion.

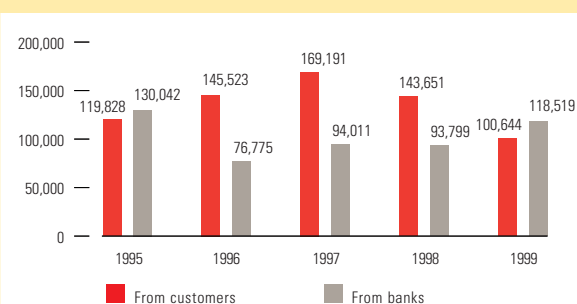
Loans to customers (receivables from customers) decreased, in a year-to-year comparison, by CZK 43.0 billion to CZK 100.6 billion. This decrease was primarily caused by the above-mentioned transfer of part of the Bank's classified receivables to Konsolidační banka, in the total nominal value of CZK 32.7 billion, and from the write-off of unrecoverable receivables of CZK 15.0 billion (out of which CZK 12.8 billion is connected with the transfer to Konsolidační banka). A significant influence was the intentional restriction of loans extended by Česká spořitelna due to the long-term unfavorable situation in the corporate sector, together with strict requirements for new loans, with emphasis on the quality of the projects involved.

The gross value of total loans to customers totalled to CZK 118.1 billion, with a year-to-year decrease of 29.0%. Adjustments have been created totalling CZK 17.5 billion (in 1998, the balance of adjustments to customer loans was CZK 22.8 billion).

Foreign currency loans decreased by CZK 5.9 billion to CZK 12.7 billion, and represents 10.8% of total customer loans.

Loans granted to individuals decreased by CZK 0.6 billion, to CZK 30.6 billion. However in relative terms, their share in total customer loans increased to 25.9%. The decrease in loans to individuals, occurred with respect to "social" loans, which are a legacy of the directive management of monetary and financial relations before the year 1990. In the case of social loans, the interest rates are non-market interest rates, and the state refunds to Česká spořitelna the interest on these loans only up to the level of the CNB discount rate. The volume of these loans is constantly decreasing, as they are gradually being

### Receivables from customers and from banks (MCZK)



repaid. For 1999, this decrease represented CZK 2.0 billion (by 12.8%), to CZK 13.5 billion. An opposite trend occurred in commercial loans to individuals, including mortgage loans, which, in accordance with the Bank's strategy, showed a year-to-year increase of 9.0% (by CZK 1.4 billion) to CZK 17.1 billion. The Bank's offensive approach in the area of loans to individuals, is based on the promising perspective of this relatively lower-risk segment of credit market, with the objective to partly re-allocate the Bank's assets into this area, to distribute risks among a large number of customers, and to support risk management by developing the "credit scoring" method. The most significant part of loans to individuals consists of consumer loans and cash loans, the total volume of which increased by 3.9% to CZK 9.1 billion. A substantial increase (by 63.5%) occurred in overdraft loans linked to sporožiro accounts, with a volume of CZK 1.5 billion.

Loans for real estate dropped by 14.5% (CZK 0.5 billion) to CZK 3.0 billion, while, on the other hand, mortgage loans to individuals increased significantly, by 40.7% to CZK 3.5 billion. Mortgage loans to legal entities decreased by 23.4%, to CZK 1.4 billion. In total, mortgage loans increased by 13.1% to CZK 4.9 billion. To improve the condition of granting mortgage loans, the Bank extended the possible repayment period to 25 years.

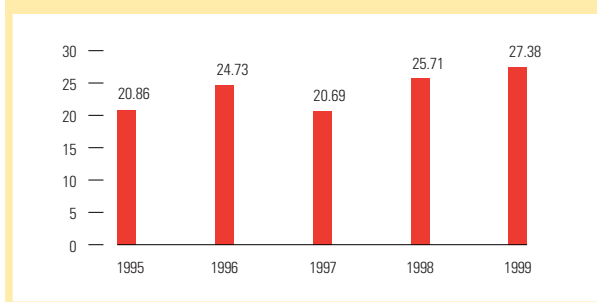
Lending to the municipal sector in 1999, was influenced by a significant increase in income in municipal budgets, resulting from the sale of shares (voting rights) in power distribution companies. For this reason, the volume of loans to the municipal sector decreased by CZK 1.0 billion (16.6%) to CZK 5.0 billion.

Loans to legal entities, excluding mortgage, municipal and foreign exchange loans, represented, in gross value, CZK 69.4 billion as at the end of 1999, a year-to-year decrease of 36.5%. In the area of commercial loans to legal entities, the Bank has endeavored to approach small-sized corporate customers, and, as a part of a change in its lending process management, it has also significantly changed its approach to its loan portfolio. Customers were divided into large and medium-sized, which are serviced by the Head Office and Head Office sales groups operating at 13 locations in the Czech Republic (the new regions), and into small-sized customers with sales up to MCZK 30, which are serviced by individual district branches. The loan acquisition activity of the Bank's district branches and the Head Office has been organized in accordance with this division. The objective of these efforts is to establish optimum conditions for full client service, both in terms of funding their needs, and, in taking care of their free funds.

Real estate collateral is the major form of collateral for loans to clients. 36.2% of loans are secured by real estate (a decrease of 1.8 percentage points). The percentage of loans secured by third party guarantees increased by 1.5 percentage points and reached 19.2%. Bill of exchange guarantees increased by 1.7 percentage points (9.2% of loans). Other collateral represents 10.4% with 25.0% of loans being unsecured.

Despite the transfer of selected receivables to Konsolidační banka, the ratio of classified loans to total loans to clients deteriorated by 8.3 percentage points and reached 40.4%. As a result of the strict classification, loans totalling 12.7 billion CZK were transferred from standard to inspected categories as at 31 December 1999. The ratio was influenced also by standard loans repayments which were higher than the increase in the total volume of the new loans granted. Interbank loans kept their historical low ratio of classified loans (0.66%). In total, the ratio of classified loans to total loans increased by 1.67 percentage points to 27.38%.

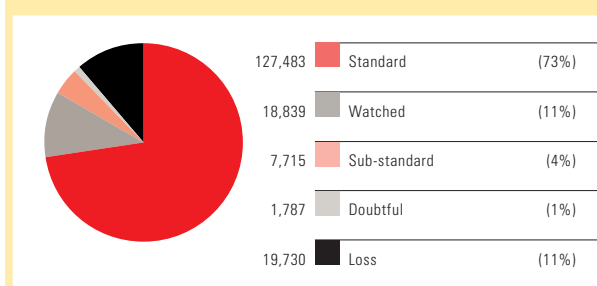
Share of classified loans to total loans (%)



As for the share of classified loans in total loans in individual sectors of industry, in 1999 the sectors with the lowest risk included communications, chemicals and pharmaceuticals, agriculture and leasing of machinery and equipment. Conversely, the worst sectors in terms of risk included transport, restaurants and accommodation, metal production, construction and textiles.

The break down of total gross customer and inter-bank loans (CZK 175.6 billion) according to CNB classifications, resulted in the share of standard loans decreasing in a year-to-year comparison, by 1.7 percentage points to 72.6%, the share of watched loans increasing by 7.4 percentage points to 10.7%, the share of sub-standard loans increasing by 0.7 percentage points to 4.4%, the share of doubtful loans decreasing by 3.9 percentage points to 1.1% and the share of loss loans decreasing by 2.5 percentage points to 11.2%.

Structure of loan portfolio (MCZK)



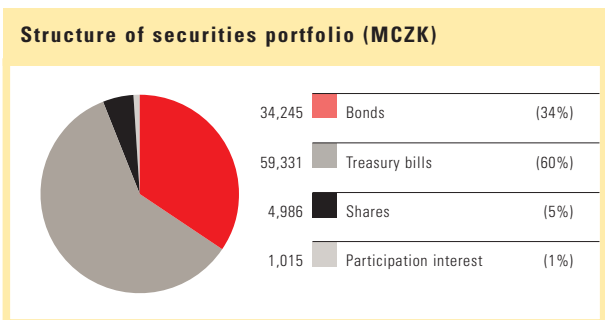
In connection with the need to improve the quality of the lending processes, a project was implemented which involved all units and focused on the redesign of the lending process. The objective of the

changes is to improve the level of services provided to customers and to increase the Bank's profit. Within the project, the issue of a centralized collection of receivables was also addressed. Organizational changes were made, resulting in the establishment of the Departments of Receivables Administration and Collection, within relevant sections at five locations in the Czech Republic. Further, a significant portion of low-quality receivables was transferred to these departments from district branches. The role and significance of these units is primarily the centralization of the administration and collection of receivables by specialized personnel which will also assist in a more efficient and effective process.

**Strong position in financial markets**

The portfolio of securities held by the Bank increased in 1999 by CZK 19.0 billion, to CZK 99.6 billion. Its share of total assets was 27.3%, an increase by 6.1 percentage points. The main reason for this development is the structural transfer of free funds from the area of loans to legal entities to securities, primarily treasury bills. Interest-bearing securities increased by 24.3% to CZK 93.6 billion, representing 94.0% of the portfolio. This increase took place mostly in treasury bills, which increased by 73.8% to CZK 59.3 billion. On the other hand, the volume of bonds decreased by 16.7% to CZK 34.2 billion. The volume of shares held by the Bank increased by 15.0% to CZK 5.0 billion, while the volume of ownership participations remained relatively unchanged, at the level of CZK 1.0 billion. Equity securities represent CZK 6.0 billion in the Bank's portfolio as at year end.

In terms of the split of securities into the trading and investment portfolios, the increase occurred only in the trading portfolio, which increased by CZK 19.2 billion to CZK 88.4 billion. The investment portfolio decreased by CZK 0.2 billion to CZK 11.2 billion.



During 1999, Česká spořitelna strengthened its position as a key player in the Czech financial market, namely in the fixed-interest securities, primary and secondary and money markets.

In the prior year, Česká spořitelna was a lead manager or a co-manager in bond issues of ČEZ, a.s., Unipetrol, a.s. and RadioMobil, a.s. in the total volume of CZK 10 billion. In the secondary market, it was, with its turnover of CZK 165 billion, one of the largest bond traders and acted as a reference market maker for all classes of bonds.

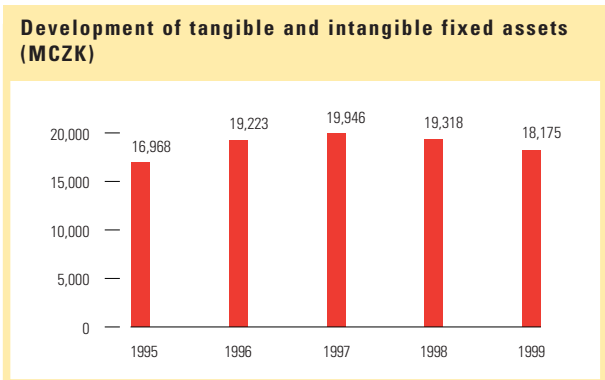
Furthermore, with its volume of trades in shares achieving CZK 12 billion in 1999, and being market maker for the most frequently traded shares, the Bank is one of the key players in the share market.

In the area of Czech crown trades in treasury bills, the Bank maintained its dominant money market position, both in primary auctions and in the secondary market, where it covers almost one third of the average daily turnover of secondary trading. For a couple of years, the Bank has maintained a similar position also in the Czech crown deposit market, including reverse repurchase transactions. With its estimated market share on the the Czech crown deposit market of 11%, the Bank is an important market maker in this segment. In the derivatives market, the Bank has a dominant position in Czech crown FRAs, where its share in the Czech market is nearly 20%. In the area of currency swaps, Česká spořitelna has been gradually strengthening its position, and with a daily turnover exceeding CZK 2 billion, it currently covers approximately one fifteenth of the Czech swap market.

Within the services of a custodian, which the Bank provides to investment companies and share funds, investment funds and pension funds, the Bank administered assets with a total net asset value of CZK 43.2 billion, which represents a 49.1% increase compared to the balance as at the end of 1998.

**Decrease in tangible and intangible fixed assets**

A positive decreasing trend in the balance of tangible and intangible fixed assets continued in 1999, when its volume dropped by 5.9% to CZK 18.2 billion. A significant portion of this amount are tangible fixed asset with a volume of CZK 16.9 billion (decrease by CZK 1.0 billion), out of which land and buildings used for banking activity represent CZK 12.4 billion, assets under construction CZK 1.1 billion, other operating tangible fixed assets CZK 2.6 billion and non-operating tangible fixed assets CZK 0.8 billion. Intangible fixed assets represent CZK 1.3 billion with a decrease of CZK 0.1 billion. Software is CZK 1.1 billion and assets under construction CZK 0.2 billion.



## SMOOTH TRANSITION OF INFORMATION TECHNOLOGIES TO THE YEAR 2000

Activities performed by Česká spořitelna in the area of information technologies (IT) resulted in further integration and standardization of the Bank's information systems, increasing its reliability and optimizing processes in order to reduce costs. IT development in 1999 took place in several areas. These involved the implementation of the StarBank system, which supports operations and functions of business units of the Head Office, functions of the back-office on a district and centralized level, decentralized functions of the front office in business units of the Head Office. The functionality of the system has established the conditions for the redesign of the Bank's lending processes in the year 2000.

During 1999, further progress was achieved, in the development of data network and communication, in ensuring the back-up of another part of the information system (SWIFT), in providing support to the sale of retail banking products, IT support to on-line sale of securities, and in securing the stability of processing in the case of unexpected changes in the external environment. The year 2000 problem was approached by the Bank as a comprehensive issue, not only as an information technology problem, but as a business issue (customer behavior in connection with the fear of failure of computer networks, as well as readiness of the Bank's external partners and clients). Preparations for the transition to the year 2000 were started as early as 1997.

To provide for the successful close out of 1999 and for a problem-free transition of technologies to the year 2000, a management committee was established to manage the solution in the case of non-standard situations arising during the mentioned period. These involved the course of balance-sheet works, functioning of the Card Center system, and impacts of the year 2000 in the Czech republic as well as abroad. Immediately after the end of the year, starting from the first minutes of the new year, the functionality of the Bank's information systems and infrastructure in the entire branch network was tested.

A successful transition of all information systems as well as non-information technology into the year 2000 concluded a crucial stage of the Bank's preparation to solve the Y2K problem.

## RISK MANAGEMENT

Customer transactions are, unavoidably, exposed to certain risks, such as credit, market, liquidity, operation or legal risk. The main objective of the Bank in this area is to optimize the ratio of revenues to risks in on balance sheet and off-balance sheet operations. Thus, ČS's efforts are focused on the identification and analysis of the risk, the setting of appropriate limits and continuous monitoring of open risk exposures.

The risk related to lending activities is one of the basic banking risks and its management has a crucial significance to the Bank's success. It is the risk that a specific business partner (client) fails to repay a debt, whilst in the case of operations with foreign clients, the sovereign (country) risk of the given country is evaluated as well.

A basic element in the lending process in Česká spořitelna is the evaluation of the clients' solvency using the Bank's internal rating system. The rating is focused on the evaluation of fundamental financial indicators of a client, the expected development of the client's future ability to repay the loans granted, the client's communication and repayment morals, and ends with the inclusion of the client in one of eight solvency categories. Simultaneously with the above internal classification, the Bank also uses the risk rating classification prescribed by the CNB. Prudence and objectivity are of key importance in this system. The level of the risk assumed is evaluated depending on the type of operations.

For evaluation of country credit risk, an internal classification system has been established, which classifies the countries into 10 categories. When assessing the country risks, factors such as macro-economic situation and internal and external indebtedness are taken into account, as well as structural factors.

For large customers or territories, the Bank uses a system of credit limits. The amount of the credit limits and the maximum maturity is derived from the credit rating of the customer and from the type of business transaction.

With respect to the different character in lending to retail clients, the Bank has been successfully using a Credit Scoring system to manage credit risk of loans to individuals. The method takes into consideration the individual client's characteristics and statistically assigns weightings to these characteristics. This method has increased objectivity in evaluating clients, and above all, has made the entire process of credit analysis faster, simpler and more cost effective.

During 1999, Česká spořitelna further developed its statistical models for managing its credit portfolio on an aggregate basis. To measure credit risk, the Credit Risk model was used, which, based on the credit Value At Risk (VAR), allows concentration risk to be monitored and assists in predicting the future development of the credit portfolio. The model also allows an active approach to credit portfolio management and risk-determined loan pricing.

The Bank's strategy in the area of credit risk management is based on the segregation of business functions from credit risk management functions, a hierarchical structure of approval authorities, an approval process in which any loan transaction is always approved by at least two independent officers, and in particular, on integrity and uniformity of credit analysis. A decisive step taken in this area during 1999 is the project of lending process redesign, which resulted in the establishment of regional business centers for servicing medium-sized

corporate customers. Within the project, the role of independent analysis of credit transactions by the Risk Management unit was further enhanced. Any specific transaction over a certain size can be approved only based on a recommendation by this unit.

Česká spořitelna manages foreign currency risk on an aggregate basis, using Value At Risk methodology, with limits set for the bank's open FX position applicable on any business day and using 95 – 99% probability level. Observance of all applicable limits is monitored on a daily basis.

To assess and manage interest rate risk, a combination of static and dynamic methods is used. These involve gap analysis and simulation of various scenarios using possible future developments in interest rates and the resulting impact on Česká spořitelna's net income. The current interest position of Česká spořitelna and its strategy for the future are evaluated at regular sessions of ALCO. The Value at Risk approach is not applied on an aggregate basis, though the Bank uses this method in certain selected areas, such as operations on the inter-bank market and securities trading.

Operation risk is the risk of defects in an information system or in the internal control system, which results in an unexpected loss. This risk occurs as a result of human errors, system failures and inadequate controls and processes. There are various types of operation risk. In this area, the risks faced by the Bank have been identified and in 1999, work started on an internal statistical model that will serve to measure and manage these risks. Actions to eliminate these risks and steps to be taken in the case of an emergency have been prepared. All organizational units of the Bank participate in operation risk management.

**FUNDAMENTAL ORGANISATIONAL AND PERSONNEL CHANGES**

During 1999, the process of optimizing the branch network continued. During the last stage, the total number of district branches was reduced as at 1 August 1999, from the original 69 at the beginning of 1999, to a final 33 district branches. In accordance with the Bank's strategy, the total number of branches decreased in a year-to-year comparison by 157 to 876 branches. At the same time, the scope and extent of alternative distribution channels increased, including branches and agencies, ATMs, points of sale accepting cards issued by Spořitelna, electronic banking in the form of Sporotel, GSM Banking and homebanking. The total number of distribution elements increased from 24,431 to 129,428.

Fundamental changes have occurred in the organization of the Head Office (among other changes, three business divisions were established – retail banking, financial markets and commercial banking) and in the structure of management levels. The split of management authorities of individual members of the Board of

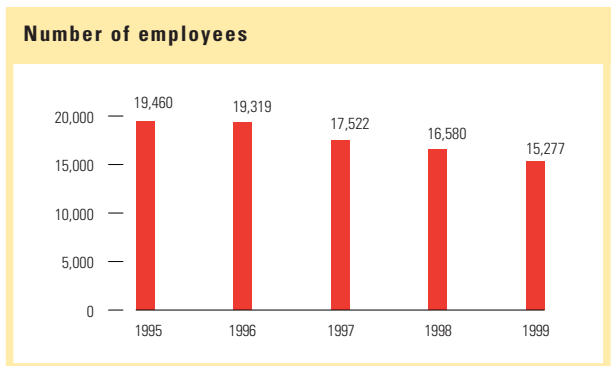
Directors of Česká spořitelna towards organizational units of the Bank was modified. In August, the activity of regional divisions of Head Office was terminated, and, in accordance with a change in business strategy, also the activity of representation offices in Moscow and Shanghai.

Due to cost-cutting and rationalization measures, and in connection with the optimization of the branch network and transformation of the Head Office, it was possible to reduce the number of staff of Česká spořitelna by 1,303 (7.9%), to 15,277. For the last 5 years, the number of employees has decreased by 21.5%. The Bank prepared an assistance program for the redundant employees, offering language courses and computer skills training, consulting on jobs available, help of a psychologist, labor-law advice and some financial advantages.

Of the total number of employees, men represent 21.6%, university graduates 15.8%, the percentage of women in the Bank's management is 61.4%, and the average age of employees is 38.5 years. The aggregate average monthly wage of the Bank's employees was CZK 17,781 in 1999, which is 11.1% more than in 1998.

The composition of the Board of Directors of Česká spořitelna has changed significantly during the year: the Chairman of the Board of Directors and Managing Director Jaroslav Klapal, Vice-Chairman of the Board of Directors Rudolf Hanus, and members of the Board of Directors Josef Kotrba, Kamil Ziegler, Vladimír Kotlář and Jaroslav Svoboda left their offices. Dušan Baran remained on the Board, and on 10 March 1999 became the new Chairman of the Board of Directors and Managing Director of Česká spořitelna. The following new members joined the Board of Directors in 1999: Roman Mentlík, Petr Hlaváček and Martin Škopek, all of whom also became Deputy Managing Directors. John James Stack was appointed as a member of the Board of Directors and deputy Chairman on 1 March 2000 in connection with the privatisation of Spořitelna. Significant changes also took place in the Bank's Supervisory Board, whilst Karel Kotrba remained its Chairman.

The Spořitelna Academy developed and implemented training programs in 1999 in the form of 186 courses, which were based on the needs and requirements of its clients and on an analysis of the qualification profiles of the employees of the Bank and its



subsidiaries, as well as on trends in banking. Training programs are supported by the Bank's own intensive publishing activity. During 1999, the Bank published 86 titles, including a final theses of participants in the "Bank Manager" program, which focused on solutions to fundamental problems in the Bank's activity.

To further increase the level of its staff, and to give a positive signal to potential investors, the bank introduced a system of certification of work activities in relation to jobs and positions.

#### INTERNAL AUDIT AS AN INDEPENDENT SERVICE

Internal audit in Česká spořitelna operates as an independent service for the Bank's management and for its owners, that are represented by the Supervisory Board, and is an integral part of the internal control system. Internal audit is an independent, objective, assurance and consulting activity focused on adding value to the Bank. It applies a systematic, methodical approach in assessing and improving the efficiency of risk management, management and control processes. Independence of internal audit is provided for by internal guidelines of the Bank, and by the unrestricted access of internal audit staff to all activities performed in the Bank.

#### ENVIRONMENTAL PROTECTION

During 1999, the new principles of the environmental policy were set, which Česká spořitelna is obliged to comply with and adopt ecological aspects in its business policy, which reflects the following basic rules:

- Implementation of obligatory care of the environment within the credit process,
- Support clients who meet the requirements of certificates EMAS and ISO 14001,
- Participation in financing direct and indirect ecological investments in municipalities,
- Supporting ecological investments within current credit worthy clients.

During 1999, Česká spořitelna's share of credits with an ecological character increased to 81.7% of the total volume of credits provided to municipalities, compared to 76.9% in 1998. These credits include the provision of finance for projects concerning the building of infrastructure and contributing to improvements in the environment.

In the process of providing credits to clients which operate in areas which have a middle to higher impact on the environment, it is clear that these clients spend a significant portion of the financial resources on ecological purposes (equipment). There is a closer integration of procedures in the area of environmental policy to the business of the bank. For example, the preparation of a bond issue also includes the assessment of the environmental risks of clients, especially those that have a higher risk of negatively impacting the environment. Česká

spořitelna intends, by influencing its clients, to decrease the volume of clients' funds spent on covering ecological losses and to set a target to support ecological investments.

#### COMMUNICATION SUPPORT BUSINESS ACTIVITIES

Change in the Bank's public relations strategy in 1999 was reflected in the systematic development of good relations with the media. Česká spořitelna actively responded to their interest in the privatization of the Bank, and, at the same time, used this interest to present steps it had taken to improve customer service. The internet was a very helpful tool in this respect, as the Bank used it as a means of communication regarding the progress of privatization, new services in electronic banking, global network of EuroCard/MasterCard and Visa cards and the development in the financial markets. The website with the model calculator of interest received was very popular with Internet users.

The advertisements of Česká spořitelna in 1999 were dynamic, easy to remember, understandable and commercially successful. As for campaigns promoting individual products, attention was paid to the promotion of products for young customers – Sporojunior and Sporostudent, and on the promotion of customer loans. Advertising that occurred in October 1999 was focused on the commercial utilization of October being a month of savings. The bank paid significant attention to the selection of a new advertising agency, which would reflect the idea of efficient advertising in all promotional activities of the Bank.

In 1999, the Bank continued to sponsor its key projects in the cultural and health-care areas, such as the International Opera Festival of Smetanova Litomyšl, and ČS-Srdce foundation, which provides funds to buy ambulance cars for five ambulance services. At the same time, the Bank made efforts to gain a higher response from its customers and to make sponsoring more efficient. For this reason, it reconsidered a number of projects, and many of them were terminated for the reason of their high financial demands and low commercial and social effect. In its new sponsoring strategy, the Bank has clearly identified a target group on which it will focus in the years to come – families with children and young people. The objective is the visible and long-term support of the Bank's customers.

In the area of internal communication, the Bank concentrated on efficient and open communication with its employees, to make it possible for them to understand the changes taking place in the Bank as a consequence of the planned privatization. This effort is documented by issuing a manual of questions and answers, answering the most important questions asked by Česká spořitelna's employees regarding privatization and security of Česká spořitelna's information technology in terms of transition to the year 2000.

### Focus on earnings and client satisfaction

*In both ownership and financial terms, 1999 and the transition into 2000 were a major watershed in the history of Česká spořitelna. The process of privatizing the government's stake culminated on 2 February 2000 with a resolution of the Czech Government concerning the sale of this stake directly to Austria-based Erste Bank.*

#### ■ SPRINGBOARD INTO 2000

Prior to privatization, the Bank received a capital injection. An extraordinary General Meeting held in March 1999 approved an increase in Česká spořitelna's registered capital. At the same time, a number of measures were taken to streamline the Bank's internal organization and its management processes. During 1999 the number of district branches was reduced and the branch network as a whole was optimized with the aim of making its operation more economical. The organization chart of the Bank's headquarters was simplified in order to clearly define the powers, responsibility and internal structure of the various commercial and financial units. Major changes were made in the organization of the lending process with emphasis placed on improving the Bank's system for managing risks, loan risks in particular.

Of fundamental importance for underpinning the Bank's financial stability was the transfer of certain poor-quality assets from its balance sheet to Konsolidační banka late in 1999 in conjunction with the Bank's privatization. This measure reduced exposure to loss-making and other classified assets.

In conjunction with the preparation of the Business and Financial Plan for 2000, a number of measures were taken in financial management and employee incentive systems. These measures all have one primary trait in common: they emphasize profit criteria in setting goals and evaluating results with the aim of increasing the Bank's commercial and financial effectiveness.

Overall, the internal environment at the Bank saw major changes, which formed the basis for realizing the Bank's strategic goals in the various areas of commercial and financial policy. At the same time, these changes set the stage for meeting the number-one goal for 2000: to bring the Bank out of the red (1998 and 1999) and into the black with an eye toward accelerating earnings growth in the years to follow and growing the Bank's shareholder value. From a commercial perspective, this goal will require us to concentrate our attention on clients, and on improving and modernizing the services the Bank offers.

#### ■ A MODERN, EFFICIENT BANK

It is absolutely certain that the arrival of the new majority owner and strategic partner will influence the formation of the Bank's strategy in the future. However, it can be assumed that, even in the future, Česká spořitelna will be primarily a retail bank, providing universal banking services. Together with our specialized subsidiaries in the Česká

spořitelna Financial Group, this positioning will enable us to offer clients a wide range of financial products and related services. By taking advantage of synergies within the Česká spořitelna Financial Group, the Bank will be able to increase both the comfort and scope of its client services, as well as the effectiveness with which the Bank spends money to provide those services.

In the retail banking area, Česká spořitelna will continue to build and preserve its dominant market position. In addition to traditional products and services, the Bank will focus on accelerating the development of products and services associated with modern forms of electronic banking.

The focus on increasing per-transaction performance is directed towards achieving dynamic growth in non-interest revenues – especially fee and commission margins – and an overall increase in the ratio of non-interest revenues to the Bank's total revenues. Great emphasis is laid on developing alternative channels of distribution such as bank cards, Telephone Banking, GSM Banking, and Home Banking. We are also working on further developing our mortgage lending, consumer lending, and municipal lending businesses.

The clean-up of the Bank's loan portfolio has freed up resources enabling the Bank to energize its activities in commercial banking, where the Bank will focus on winning new clients while being careful to minimize risk. We will also seize business opportunities that are appearing in conjunction with the government's industry revitalization programs and support for small and mid-sized businesses.

Česká spořitelna will also focus on maintaining its position as a market maker in the domestic financial and capital markets. At the same time, it will pay more attention to financial consulting services and offering investment banking services to preferred clients through Private Banking.

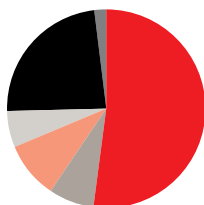
As Česká spořitelna continues to develop its IT resources, the highest priority will be given to completing the comprehensive information system. We will gradually provide more and more services by electronic means, enabling clients to choose among various alternative channels and means of access as they take advantage of the wide range of financial services offered.

All of these changes and new trends form a good starting point for achieving further, high-quality growth as a modern, client-oriented, and transactionally efficient bank. They are also a good foundation for returning the Bank to posting positive earnings figures.



## Shareholder structure as of 31 December 1999

### Shareholder structure in %



National Property Fund	52.07%
Municipalities in the Czech Republic*	7.38%
Česká pojišťovna, a.s.	9.24%
European Bank for Reconstruction and Development	5.92%
Other legal entities and institutional investors	23.44%
Individual shareholders	1.95%

\*priority shares with no voting rights

In March 1999 an extraordinary General Meeting of Shareholders of Česká spořitelna passed a resolution increasing the Bank's registered capital. This resolution brought the National Property Fund's shareholding in the Bank from 45.00% to 52.07%.

On 2 February 2000, the Government of the Czech Republic made the decision to sell the State's 52.07% shareholding in Česká spořitelna to Erste Bank. On 1 March 2000, the representatives of the National Property Fund and Erste Bank signed an agreement closing the sale.





## Introducing the principal shareholder

### Equal partnership with Erste Bank

*In early 2000, the Czech Government chose Erste Bank, the second largest Austrian financial group, to become the strategic partner of Česká spořitelna. This is a partnership that is not only logical, but mutually beneficial as well. Erste Bank is similar to Česká spořitelna in many ways. Both banks focus on retail customers and small and mid-sized businesses. They both also play a crucial role in financing larger corporations. Given its character, Erste Bank is a perfect match for the business focus of Česká spořitelna.*

Erste Bank der oesterreichischen Sparkassen AG is the oldest savings bank in Austria and the largest purely-private bank traded on the Vienna Stock Exchange. With total assets of 52.4 billion euros, Erste is the second largest banking group in Austria. In its original form, Erste Bank opened its doors to clients on 4 October 1819. Since that time, its business has been characterized by financial and political independence and its policies have been focused above all else on maintaining stability. In the 1980s, and especially after 1991, Erste Bank crossed over the boundaries of its base market in Vienna and obtained shares in 19 regional savings banks. The bank was taken public in 1993 and in 1997 it successfully merged with the Austrian bank Giro Credit.

Today, Erste Bank has roughly 310 branches in Austria. Most of its clients come from households with above-average income and are employed in the service industry or run their own businesses. Thanks to this client profile, Erste Bank holds over 30% of the Austrian market in areas such as retail investment funds, mortgages, finance and insurance products. Erste Bank's position in financing small and mid-sized businesses is also strong. It is also a "home" bank for nearly a quarter of the 500 largest Austrian corporations.

Erste Bank has a very strong position in real estate and leasing finance. Together with S-Bausparkasse – a 100% subsidiary – Erste Bank has a 30% market share in the financing of residential buildings and a substantial market share in financing publicly subsidised housing projects. The Erste Bank financial group includes over 30 subsidiaries and more than 100 companies in which the bank's stake is less than 50%.

Erste Bank has concentrated on three core strategies. The first is to improve earnings by focusing on its core business potentials and cost reductions and achieve a return on equity of 12% in 2000. However, this goal was already achieved in 1999: return on equity (ROE) for 1999 was 12.1%. The second strategic goal of Erste Bank is to make full use of its position as the lead bank in the savings bank sector. Altogether, there are approximately 880 savings bank branches throughout Austria. The closest possible cooperation should lead to an increasing market share, reducing costs and increasing revenues. The fundamental underpinnings of this strategy are product centralization, consolidating back-office operations and coordinated market action. The third key goal of Erste Bank's strategy is to build a significant presence in its extended home market in Central Europe. Here, Erste Bank is focusing on the Czech Republic, Hungary, Croatia, Slovenia and Slovakia.



## Report of the Supervisory Board

During the 1999 business year, the Supervisory Board of Česká spořitelna regularly discharged its duties under the law and the company's Articles of Association. As the company's oversight body, the Supervisory Board monitored the Board of Directors' exercise of its powers as well as the Bank's operations, finances, and the realization of its strategic plans.

The Supervisory Board was kept up to date on the bank's operations, its financial situation, the progress being made towards privatization, and all other material and important Bank matters. The Supervisory Board also gave management a number of suggestions and recommendations aimed at improving the situation at the Bank.

The Supervisory Board reviewed the submitted financial statements for the year ended 31 December 1999 and concluded that the books and accounting records were kept in a transparent manner, in accordance with accounting regulations, and that the accounts and year-end financial statements correctly present the Bank's financial situation as of 31 December 1999.

The audit of the year-end financial statements was performed by KPMG Česká republika, who confirmed that the Bank's accounts present fairly, in all material respects, the assets, shareholders' equity and financial situation of the company as of 31 December 1999 and its earnings for the year then ended. The Supervisory Board noted and agreed with the opinion expressed by the auditors.

In view of all the above facts, the Supervisory Board recommended that the General Meeting approve the financial statements of Česká spořitelna for the year ended 31 December 1999 and the proposed loss settlement as put forward by the Board of Directors.

Karel KOTRBA  
Chairman of the Supervisory Board





## Key financial figures

Consolidated according to International Accounting Standards  
in comparison with non consolidated

### BALANCE SHEET INDICATORS

<b>MCZK</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
Total assets	<b>377,868</b>	<b>407,372</b>	<b>390,788</b>	<b>357,581</b>	<b>351,568</b>
	344,056	381,876	373,751	350,589	346,518
Loans and advances to credit institutions	<b>132,812</b>	<b>103,483</b>	<b>99,485</b>	<b>77,036</b>	<b>128,783</b>
	118,222	93,351	92,420	72,987	126,623
Loans and advances to customers	<b>104,479</b>	<b>146,584</b>	<b>168,274</b>	<b>143,533</b>	<b>118,715</b>
	97,901	142,395	166,934	143,417	116,957
Total securities	<b>84,920</b>	<b>82,612</b>	<b>54,772</b>	<b>61,117</b>	<b>45,994</b>
	76,420	75,403	49,745	59,578	46,108
Amounts owed to customers	<b>317,358</b>	<b>330,536</b>	<b>312,678</b>	<b>300,320</b>	<b>296,802</b>
	291,488	311,046	301,730	294,796	294,659
Amounts owed to credit institutions	<b>10,877</b>	<b>27,442</b>	<b>30,698</b>	<b>26,103</b>	<b>21,730</b>
	8,090	24,498	29,409	26,083	19,498
Own bonds	<b>5,165</b>	<b>5,165</b>	<b>5,000</b>	<b>0</b>	<b>0</b>
	5,500	5,500	5,000	0	0
Equity, including minority interests	<b>23,390</b>	<b>21,866</b>	<b>26,779</b>	<b>20,958</b>	<b>18,983</b>
	21,851	21,464	25,977	19,903	18,882
Share capital	<b>15,200</b>	<b>7,600</b>	<b>7,600</b>	<b>7,600</b>	<b>7,600</b>
	15,200	7,600	7,600	7,600	7,600



## PROFIT AND LOSS ACCOUNT INDICATORS

MCZK	1999	1998	1997	1996	1995
Net interest income	<b>14,189</b>	<b>16,757</b>	<b>16,656</b>	<b>13,717</b>	<b>13,722</b>
	12,316	14,935	15,892	13,389	13,582
Net commission and fee income	<b>4,236</b>	<b>3,094</b>	<b>3,133</b>	<b>2,495</b>	<b>2,239</b>
	4,093	3,029	2,786	1,985	1,823
Operating income	<b>24,111</b>	<b>22,717</b>	<b>21,801</b>	<b>19,453</b>	<b>18,160</b>
	19,493	19,842	19,328	17,747	17,679
Operating expenses	<b>18,101</b>	<b>16,099</b>	<b>14,659</b>	<b>12,084</b>	<b>10,809</b>
	15,043	13,170	12,299	11,448	10,002
Operating profit	<b>6,010</b>	<b>6,618</b>	<b>7,142</b>	<b>7,369</b>	<b>7,351</b>
	4,450	6,672	7,029	6,299	7,677
Creation of reserves and adjustments to loans	<b>9,939</b>	<b>12,558</b>	<b>5,939</b>	<b>4,589</b>	<b>3,411</b>
	9,649	12,732	5,674	4,172	3,411
Net profit/(loss) after tax	<b>(6,040)</b>	<b>(3,944)</b>	<b>2,597</b>	<b>2,739</b>	<b>1,442</b>
	(7,213)	(3,779)	2,830	1,709	1,820

## BASIC FINANCIAL RATIOS

%	1999	1998	1997	1996	1995
Net interest margin	<b>4.33</b>	<b>5.17</b>	<b>5.66</b>	<b>4.91</b>	<b>4.76</b>
	4.17	4.92	5.58	4.88	4.75
Capital adequacy	<b>17.70</b>	<b>13.86</b>	<b>12.46</b>	<b>11.39</b>	–
	17.47	13.61	12.08	10.70	–
Expenses/income	<b>75.07</b>	<b>70.87</b>	<b>67.24</b>	<b>62.12</b>	<b>59.52</b>
	77.17	66.37	63.63	64.51	56.58
Non-interest income/operating income	<b>41.15</b>	<b>26.24</b>	<b>23.60</b>	<b>29.49</b>	<b>24.44</b>
	36.82	24.73	17.78	24.56	23.17
ROE	<b>x</b>	<b>x</b>	<b>11.02</b>	<b>13.88</b>	<b>7.91</b>
	x	x	12.34	8.81	10.00
ROA	<b>x</b>	<b>x</b>	<b>0.69</b>	<b>0.77</b>	<b>0.42</b>
	x	x	0.78	0.47	0.49

Note: The years 1995 through 1997 are not reclassified in accordance with the version of IAS applicable to the years 1998 and 1999.



According to International Accounting Standards (IAS), as of 31 December 1999 Česká spořitelna reported an accounting loss for the consolidated group, after tax but before taking into account minority interests, of MCZK 6,040. This result is MCZK 2,096 worse than the previous year's comparable earnings figure. Expressed in terms of the difference between operating income and operating expenses, the performance of the consolidated group fell by MCZK 608 (9.2%) to MCZK 6,010.

The Česká spořitelna consolidated group includes ČS-stavební spořitelna, a.s., Corfina, a.s., Spořitelní investiční společnost, a.s., Spořitelní penzijní fond, a.s., ČS-Živnostenská pojišťovna, a.s., První česká zajišťovna, a.s., Sindat ČS Consulting, a.s., and ČS-Informatika, a.s. The affiliates Výnosový OPF (open-end mutual fund), Český OPF, 2. SPIF, a.s., and ČS-Factoring, a.s. were consolidated under the equity method.

The largest component in the final consolidated loss of MCZK 7,213 is the parent bank. Other material components in the earnings result of the consolidated group were the following: ČS-stavební spořitelna MCZK 242; Výnosový OPF MCZK 307; 2. SPIF MCZK 232; Český OPF MCZK 189; Spořitelní penzijní fond MCZK 129, Spořitelní investiční společnost MCZK 123; ČS-Živnostenská pojišťovna MCZK -42.

## INCOME

Net interest income declined by MCZK 2,568 (15.3%) to MCZK 14,189. Česká spořitelna generated 87% of the net interest income, while ČS-stavební spořitelna and Corfina contributed 8% and 3%, respectively. Interest received totaling MCZK 30,339 consists of client transactions (45%), inter-bank transactions (35%), and securities transactions (20%). Interest paid, totaling MCZK 16,150 million, is comprised as follows: client transactions (80%), inter-bank transactions (15%), and securities transactions (5%). The net interest rate margin fell 0.84 of a percentage point to 4.33%.

Non-interest income grew year-on-year by MCZK 3,962 (66.5%) to MCZK 9,922. The primary component in non-interest income was net fee and commission income of MCZK 4,236, which is MCZK 1,142 (36.9%) greater than the previous year. Of the consolidated group companies, the parent bank accounts for 92% of fee and commission income, while SIS makes up the remaining 8%.

Net profit from financial operations of MCZK 1,255, up MCZK 331 (35.8%) from the previous year, had a positive impact on total operating income. Gains on foreign currency operations of MCZK 979 (1998: MCZK 663) and gains on securities operations of MCZK 318 (up MCZK 114) played the largest role in this result. Other financial operations, on the other hand, saw net earnings decline MCZK 99 to a loss of MCZK 42. Česká spořitelna itself accounted for 78% of the net profit from financial operations, and Spořitelní penzijní fond accounted for 12%. Net profit of affiliated companies (Výnosový and Český open-end mutual funds and 2. SPIF) was MCZK 662, compared with a loss of MCZK 425 in 1998.

Other operating income rose MCZK 1,481 (64.8%) to MCZK 3,765, of which MCZK 1,285 (38%) comprised premiums written by ČS-Živnostenská pojišťovna. The Bank's share, including extraordinary income, is 51%.

Compared with the previous year, operating income of the consolidated group was 6.1% (MCZK 1,394) higher, ending the year at MCZK 24,111.

## EXPENSES

Total operating expenses grew 12.4% (MCZK 2,002) on 1998 to end at MCZK 18,101. However, most of the growth was attributable to debt write-offs not covered by reserves and adjustments as part of the transfer of selected Česká spořitelna receivables to Konsolidační banka.

General operating expenses were lower by 1.0% (MCZK 132), ending the year at MCZK 13,574. Personnel expenses grew by MCZK 324 (6.3%) to MCZK 5,478. Purchases of goods and services fell by MCZK 169 (3.4%) to MCZK 4,871, depreciation and amortization charges declined by MCZK 281 (8.3%) to MCZK 3,107 and taxes and fees were lower by MCZK 6 million to end at MCZK 118. While Česká spořitelna accounts for 89% of general operating expenses, ČS-Živnostenská pojišťovna and ČS-stavební spořitelna make up 5% and 3%, respectively. Other operating expenses were higher than the previous year, due mainly to write-offs of debts not covered by reserves and adjustments, which were higher by 89.2% (MCZK 2,134) at MCZK 4,527. Česká spořitelna's share of these write-offs was 65%, while ČS-Živnostenská pojišťovna and Corfina accounted for 14% and 11%, respectively.

Creation of reserves and adjustments fell substantially, by MCZK 2,619 (20.9%) to MCZK 9,939 (MCZK 8,839 of which were reserves and adjustments to client receivables). The total amount of reserves and adjustments at year-end 1999 was MCZK 22,326 (MCZK 19,731 of which were reserves and adjustments to client receivables).

The impact of income tax on 1999 earnings was MCZK -2,111 (1998: MCZK 1,996). Of this amount, current income tax payable accounts for MCZK -142 (1998: MCZK -276), and deferred tax payable represents MCZK -1,969 (1998: MCZK 2,272). Most of this amount consists of a deferred tax payable resulting from the temporary differences between the carrying amounts of assets and liabilities for tax and accounting purposes in the amount of MCZK -931 (1998: MCZK 2,272), which results mainly from a decline in non-tax-deductible reserves and adjustments to loans. Other impacts include the lowering of the corporate income tax rate from 35% to 31% (MCZK -714) and the write-off of a deferred tax receivable that Česká spořitelna assumes will not be realized (MCZK -324).

## ■ BALANCE SHEET

As of year-end 1999 the total assets on the balance sheets of the Česká spořitelna consolidated group fell by 7.2% (CZK 29.5 billion) to CZK 377.9 billion. This total assets figure was distributed as follows: Česká spořitelna, 91%; ČS-stavební spořitelna 7%; and the remaining 2% was attributable to the other members of the consolidated group.

## ■ Liabilities and Equity

The bulk (84%) of the liabilities and equity side of the balance sheet consists of primary deposits, which fell by CZK 13.2 billion to CZK 317.4 billion. 92% of the liabilities are deposits at the parent bank and 7% are deposits at ČS-stavební spořitelna. Deposits of private individuals comprise 87% of primary deposits. Term deposits totaled CZK 206.5 billion, or 65% of total primary deposits. Included in amounts owed to clients are reclassified Supplemental Pension Insurance contributions of Spořitelní penzijní fond totaling CZK 3.4 billion.

At CZK 10.9 billion, amounts owed to banks are the second largest item on the liabilities and equity side of the balance sheet. They are CZK 16.6 billion lower than in the previous year. Both subordinated debt (CZK 5.5 billion) and outstanding bonds (CZK 5.2 billion) remained unchanged for the year. Other liabilities (CZK 10.2 billion) declined by CZK 0.4 billion.

Provisions for liabilities and charges fell by CZK 0.9 billion from the previous year to end at CZK 5.3 billion. The largest item (CZK 2.2 billion) is provisions for off-balance sheet credit risks. Another material component is insurance reserves totaling CZK 1.1 billion attributable to ČS-Živnostenská pojišťovna.

Shareholders' equity of Česká spořitelna increased by CZK 1.4 billion to CZK 22.8 billion as a result of an increase in registered share capital from CZK 7.6 billion to CZK 15.2 billion. This increase was partially offset by the accounting loss. Shareholders' equity comprises 6% of overall liabilities and equity.

## ■ Assets

The largest component in total assets is comprised of loans and advances to customers and credit institutions in an aggregate amount of CZK 237.3 billion. Their share in total assets increased by 2 percentage points to 63%. Loans and advances to customers fell CZK 42.1 billion to CZK 104.5 billion with 94% of this amount being attributable to the parent bank. Among the factors contributing to the decline in amounts owed by clients was the transfer of selected receivables to Konsolidační banka and the lower availability of new, quality loan-financed projects in the Czech economy. Loans and advances to credit institutions rose CZK 29.3 billion to CZK 132.8 billion. Česká spořitelna and ČS-stavební spořitelna accounted for 89% and 11% of this amount, respectively.

At CZK 84.9 billion, the aggregate securities portfolio rose CZK 2.3 billion and comprised 22% of the total assets figure, primarily as a result of the growth in treasury bills by CZK 3.9 billion to CZK 38.5 billion. The bulk of the total securities amount consists of fixed-income securities (bonds, etc.) in a total amount of CZK 77.9 billion (1998: 76.9 billion). Equities and similar securities rose by CZK 1.3 billion to CZK 7.0 billion.

The item "Cash and balances with the CNB" fell CZK 13.0 billion to CZK 19.8 billion, primarily as a result of the decline in mandatory minimum reserves (MMR) by CZK 17.1 billion to CZK 5.9 billion made possible by a cut in the MMR rate.

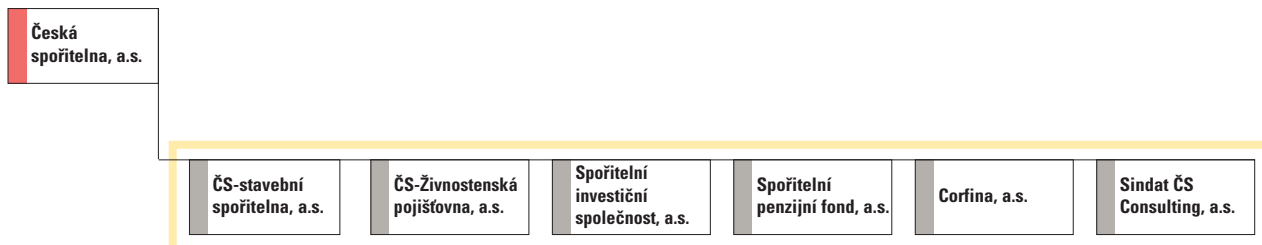
Tangible assets declined by CZK 1.8 billion to CZK 18.0 billion, the greatest portion of which (CZK 12.7 billion) consists of land and buildings. Other assets declined by CZK 2.3 billion to CZK 13.6 billion. After being reduced by CZK 2.0 billion, the balance of the deferred tax receivable was CZK 4.3 billion.



## Česká spořitelna Financial Group

*The Česká spořitelna Financial Group is one of the most highly capitalized holding groups in the Czech Republic and is composed of highly vibrant and competitive businesses. It represents the effective combination of the parent bank with its specialized subsidiaries providing clients a universal range of financial products and services.*

### ■ ORGANIZATIONAL STRUCTURE OF ČESKÁ SPOŘITELNA FINANCIAL GROUP AS OF 17 MAY 2000



ČS-stavební spořitelna, a.s. ("ČSST") was established on 22 June 1994. It is 60.5% owned by Česká spořitelna and the remaining 39.5% is owned by Germany-based Bayerische Landesbank Girozentrale. ČSST offers clients building savings programs with state contributions, giving them the right to receive a 6% p.a. building loan. In terms of the number of clients, ČSST is the second largest building society in the Czech Republic.

	1999	1998	1997	1996	1995
Registered capital (MCZK)	750	500	500	500	500
Total assets (MCZK)	26,006	20,403	13,182	6,630	2,754
Receivables from customers (MCZK)	2,996	1,571	316	21	0
Client deposits (MCZK)	22,402	17,277	11,060	5,834	2,181
Earnings (MCZK)	363	700	307	110	(9)
Number of clients ('000)	606	465	375	298	175
Number of own branches	56	44	13	11	10

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**ČS-ŽIVNOSTENSKÁ POJIŠŤOVNA, A.S.**

Established on 1 October 1992, the company commenced insurance activities on 1 January 1993. In 1995 it was acquired by Česká spořitelna, leading to a name-change to ČS-Živnostenská pojišťovna, a.s. ("ČSŽP"). As of 4 March 1998, ČSŽP is 100% owned by Česká spořitelna. In terms of premiums written in 1999, ČSŽP is the sixth biggest insurance company in the Czech Republic. The company offers the following basic classes of insurance: insurance for industry and business, property and casualty insurance for individuals, life and accident insurance, travel insurance, motor damage insurance, and third-party motor liability insurance. ČSŽP also offers insurance policies for businesses, tradesmen, professional associations and chambers, for municipalities and selected client groups.

	1999	1998	1997	1996	1995
Registered capital (MCZK)	816	616	216	216	106
Total assets (MCZK)	2,853	2,203	1,365	951	609
Premiums written (MCZK)	2,169	1,771	1,318	942	714
Earnings (MCZK)	(48)	2	(366)	15	26
Number of insurance policies ('000)	394	287	204	118	68
Number of own branches	130	130	145	134	106

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Spořitelní investiční společnost, a.s. ("SIS") was established on 27 December 1991 as a 100% subsidiary of Česká spořitelna. At the end of 1999, SIS reaffirmed its number-one position among investment companies in the Czech Republic in terms of assets under management. After the recent conversion of two investment funds (Český and Výnosový) into open-end mutual funds and after the merger of the Čechoinvest and Moravoinvest open-end funds with Sporotrend and the merger of Rentinvest with Sporobond, SIS now manages two investment funds and six open-end mutual funds.

	1999	1998	1997	1996	1995
Registered capital (MCZK)	70	70	70	70	70
Total assets (MCZK)	685	543	483	442	428
Earnings (MCZK)	129	41	41	42	76
Assets under management (CZK billions)	38	24	22	22	21

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**Fax:** (+420 2) 2482 6649, 2482 6654

**Internet:** <http://www.sis.cz>

**E-mail:** [sis@sis.cz](mailto:sis@sis.cz)

Spořitelní penzijní fond, a.s. ("SPF") was established on 23 December 1994. Česká spořitelna's share in its registered capital is 92%. In terms of number of contracts, SPF is the fourth largest pension fund in the Czech Republic and occupies third place in Supplementary Pension Insurance. Spořitelní penzijní fond offers all classes of Supplementary Pension Insurance with State Contribution.

	1999	1998	1997	1996	1995
Registered capital (MCZK)	100	250	250	250	50
Total assets (MCZK)	3,570	2,547	1,813	4,412	186
Capital funds (MCZK)	3,024	2,162	1,525	737	140
Earnings (MCZK)	123	132	90	11	(138)
Number of clients ('000)	255	214	177	155	105

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**Telephone:** (+420 2) 6107 5100

**Fax:** (+420 2) 6107 5189

**Internet:** <http://www.finance.cz/prezent/spf>

**E-mail:** [spf@spf.cz](mailto:spf@spf.cz)

The leasing company Corfina, a.s. was established on 1 January 1996. It has been 100% owned by Česká spořitelna since December, 1996. In terms of outstanding lease amounts, Corfina is one of the four biggest leasing companies in the Czech market. The company focuses on finance leases in a wide range of commodities, with the largest classes being cars and trucks (in the vehicles category) and mechanical and power engineering plant and equipment (in the technology category).

	1999	1998	1997	1996	1995
Registered capital (MCZK)	300	300	300	300	0
Total assets (MCZK)	7,922	7,920	6,290	2,453	0
Outstanding lease amount (MCZK)	3,682	4,038	5,082	2,056	0
Earnings (MCZK)	110	3	(74)	(34)	0
Number of new leases	13,666	7,227	5,719	2,679	0
Number of own branches	4	5	4	3	0

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**Internet:** <http://www.corfina.cz>

The company was founded on 8 June 1995. Česká spořitelna owns a 51% majority in the company's equity. The other shareholders are Sindat, s.r.o Praha with 47% and Prodak-96, s.r.o. Praha with 2%. The company has had an implemented and certified ISO 9001 compliant quality system since 1999. Its primary businesses are strategic corporate consulting, financial consulting and financial project management, corporate restructurings and crisis management, accounting consultancy, organizational management of third-party assets, and market appraisals of assets, including entire companies.

	1999	1998	1997	1996	1995
Registered capital (MCZK)	1	1	1	1	1
Total assets (MCZK)	28	36	32	34	13
Earnings (MCZK)	2	3	1	(1)	1
Number of clients	400	412	228	190	130
Number of own branches	3	3	3	3	3

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**Internet:** <http://www.sindat.cz>



## Share prices and the PX 50 index

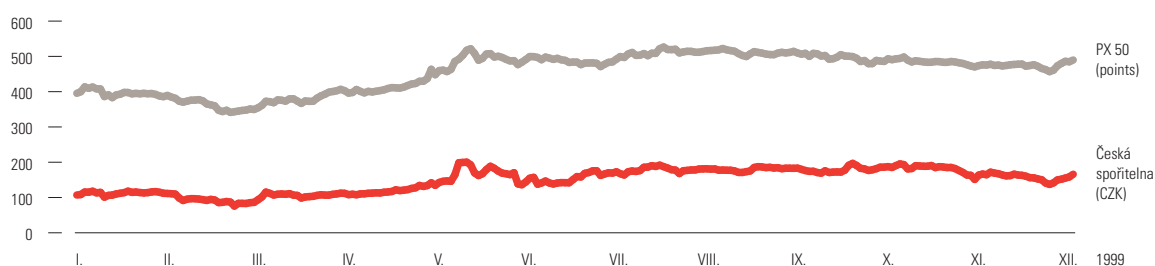
### INTEREST IN ČESKÁ SPOŘITELNA SHARES STIMULATED BY PRIVATIZATION

After a period of flat market performance early in the year, investor interest in the shares of Česká spořitelna was piqued by the Government's decision to accelerate the Bank's privatization. The shares of Česká spořitelna reached their maximum for the year on 24 May 1999, when they broke the CZK 200 barrier to close at CZK 200.20. Also contributing were the planned lowering of the minimum reserve requirement and in particular the capital increase in which the State, as the Bank's largest shareholder, had a major part. In view of the EBRD's decision not to participate in the subscription of new shares, the National Property Fund increased its stake, putting it in a better position for privatization negotiations. For the remainder of the year, the shares traded in the CZK 180 – 200 range, with small fluctuations. The sheer number of shares in the market as a result of the doubling of the Bank's registered capital caused the share price to fall somewhat late in the year.

### ECONOMIC RECOVERY REFLECTED IN DEVELOPMENT OF PX 50 INDEX

Following the market's decline early in the year caused by the crisis in Brazil and general investor flight from emerging markets, the trend switched in March and Czech shares began to pick up. With small fluctuations, the growth continued practically uninterrupted until mid-June, when the PX 50 index was near its high for the year. It reached its absolute maximum on August 4, when it closed at 526.4 points. Afterwards, it fluctuated around 500 points all autumn, only to dip slightly in the winter, ending the year at 489.7 points. Investor interest was focused mainly on the stocks trading in the SPAD system, and bank shares posted especially good gains as investors were encouraged by news of the Government's decision to accelerate bank privatization. Telecommunication companies also saw their shares grow in value, benefiting from global demand for stocks in this sector due to the explosive growth of new technologies and mobile telephone networks. However, these shares were also affected by Y2K worries causing their values to fall somewhat late in the year. The Government's decision to complete the construction of the Temelín Nuclear Power Station helped the shares of ČEZ to grow as well. Unipetrol, on the other hand, did not fare too well as oil prices climbed to their highest levels in years.

Česká spořitelna share price and the PX 50 index





## Česká spořitelna financial performance in first quarter 2000

Česká spořitelna's earnings performance took a turn for the better in the first quarter of 2000. As of 31 March 2000, the Bank recorded nonconsolidated after-tax earnings according to International Accounting Standards of MCZK 603, while operating earnings (i.e. before accounting for reserves and adjustments) reached MCZK 1,504.

These results are in line with our initial expectations for 2000. This first quarter 2000 earnings result represents a positive change from the performance of first quarter 1999, when the Bank recorded a loss of MCZK -578.

### SELECTED UNAUDITED, NON CONSOLIDATED FIGURES

MCZK	Czech Accounting Standards	International Accounting Standards
Total assets	385,441	356,144
Receivables from customers and banks	222,552	219,188
Due to customers	296,253	296,225
Shareholders' equity	15,860	22,454
of which: Registered capital	15,200	15,200
Profit for the period	410	603
Capital adequacy (%)	14.28	18.43
Classified loans as % of total loans (%)	27.86	27.86
Number of employees (head count)	15,109	15,109





## Conclusions of the Annual General Meeting

At the Annual General Meeting of Česká spořitelna held on 17 May 2000 in Prague, the shareholders approved the Board of Directors report on the company's business activity and the state of its assets in 1999 and the report concerning the business and financial plan of Česká spořitelna for the year 2000.

The shareholders present at the General Meeting heard the Supervisory Board report for 1999 and approved the year-end financial statements and loss settlement proposal for the past year. The accounting loss of MCZK 4,893 was fully settled out of the reserve fund, which contained MCZK 5,140 at 31 December 1999.

In view of the posted loss, the General Meeting decided not to pay any dividends on common or preferred stock, nor will any board member bonuses be paid.

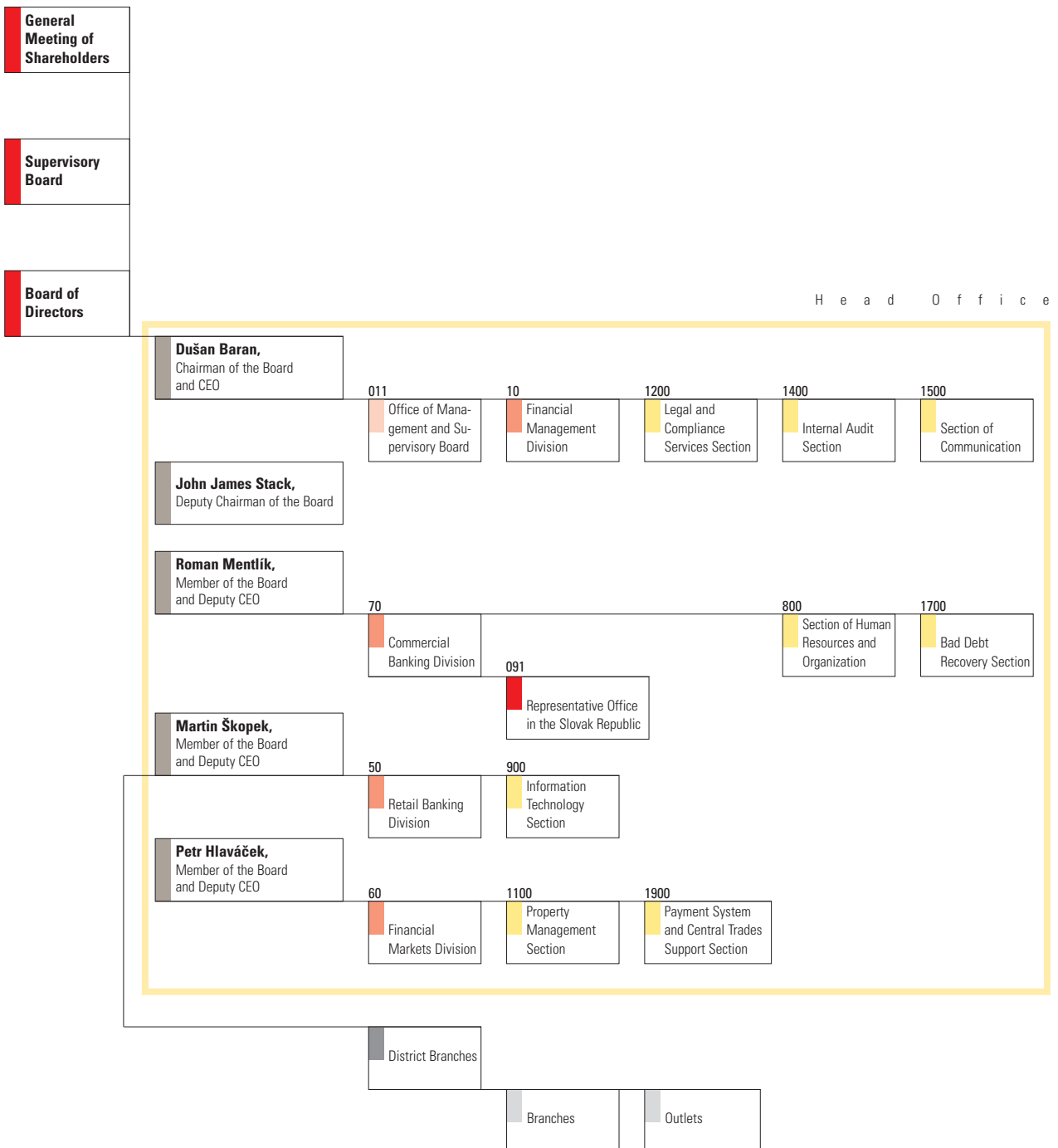
The shareholders passed an amendment to the Bank's Articles of Association. The most significant change is an enlargement of the Board of Directors from the current five members to seven members.

The General Meeting confirmed as full members of the Supervisory Board Jaroslav Novotný, Ernst-Gideon Loudon and Manfred Wimmer, whose terms of office as substitute Supervisory Board members had ended. Miloslav Hejnák was newly elected to the Supervisory Board to replace Karel Zeman, who had resigned shortly before the General Meeting.





## Organization chart as of 17 May 2000





## Glossary of terms

**A.S.**

joint-stock company

**ATM (Automatic Teller Machine)**

computerized machine used for cash withdrawal, operated by card and personal identification number (PIN).

**Bank rating**

a classification of a bank by a reputed independent agency.

**Capital adequacy**

ratio of capital to risk-weighted assets; the CNB requires that banks have a minimum capital adequacy ratio of 8%.

**CAS**

Czech Accounting Standards.

**CNB**

Czech National Bank.

**Consolidation**

the method of consolidating the financial statements of a parent company with those of its subsidiaries.

**Credit scoring**

a quantitative method for assessing a client's credit using a system in which points are awarded for various criteria.

**Due diligence**

comprehensive inquiry into all operational, legal, and financial aspects of the Bank's business, the results of which help consultants and shareholders in their assessment of merger and acquisition transactions and preparation of detailed bids.

**Duration**

the measure of change in the price of a bond against the change in its yield to maturity.

**environmental policy**

a declaration by an organization on its plans and principles concerning the environment.

**EMAS (Environmental Management and Audit Scheme)**

ECC Council Directive No. 1836/93, a tool used to objectively assess an organization's operations, management system and the procedures it has put in place to protect the environment.

**Expense/income ratio**

ratio of operating expense and operating income.

**Forward**

a transaction in which one currency is purchased or sold for an amount in another currency at a specified future date, i.e. at least 3 working days after the transaction is made; once the transaction closed, it cannot be revoked.

**FRA (Forward Rate Agreement)**

contract concluded between two parties concerning an exchange of short-term interest rate payments for a specific, agreed-upon time period in the future.

**Gap analysis**

comparison of the Bank's assets, on the one hand, and equity and liabilities, on the other hand (including off-balance-sheet items) at intervals according to re-valuation periods

**Goodwill**

the value by which the cost of acquiring a shareholding exceeds the realistic value of its associated net assets as of the date of acquisition.

**Hedging**

procedures designed to minimize the potential loss to a seller or buyer as a result of future fluctuations in prices, exchange rates or other factors.

**IAS**

International Accounting Standards.

**ISO 14001**

a Czech standard used to objectively verify whether an organization's operations adhere to environmental criteria set forth by the organization's management.



**Mandatory minimum reserves**

reserves maintained by a bank at a set percentage of primary liabilities to non-bank clients; these funds are kept on a non-interest-bearing account at the CNB.

**Market maker**

a dealer in securities or other assets, an entity that buys and sells for its own account; in order to be successful, a market maker must ensure liquidity by maintaining a sufficiently large supply of securities or other assets at all times.

**Net creation of reserves and adjustments (under CAS)**

total creation of reserves and adjustments to doubtful assets less use of adjustments and reserves to doubtful assets and write-offs of unrecoverable debt; does not include creation and use of reserves and adjustments to tangible and intangible fixed assets.

**Net interest margin**

ratio of net interest income to average balance of interest earning assets.

**Non-interest income/operating income ratio**

non-interest income is the difference between operating income and net interest income.

**Operating income and operating expense (under CAS)**

includes all income and expenses relating to the Bank's operations, including extraordinary income and expenses as well as creation/use of reserves and adjustments to tangible and intangible assets; does not include creation/use of reserves and adjustments, or write-offs, of doubtful receivables.

**Operating profit (under CAS)**

the difference between operating income and operating expenses.

**Option**

a contract giving the holder the right, but not the obligation, to buy or sell a particular asset at a specific price during a specified period and at the specified quality; the price paid for the option is called the premium.

**POS (Point Of Sale) terminal**

a terminal allowing a vendor to accept bank cards for payment purposes.

**Primary deposits**

deposits placed with the bank by natural persons and legal entities.

**Preference stock**

Česká spořitelna preferred stock is comprised of non-voting shares with guaranteed dividends; preferred stock may only be transferred to municipalities in the Czech Republic.

**Repo transactions**

transactions in which securities are sold under a promise that they will be repurchased at a specified date and price.

**Reserves and adjustments**

provisions set aside to cover potential losses on doubtful assets.

**Reverse repo transactions**

transactions in which securities are purchased under a promise that they will be resold at a specified date and price.

**Ring fencing**

the earmarking of problematic assets in a bank's balance sheet

**ROA (Return On Assets)**

an indicator that expresses how much profit the bank generated per CZK 100 of assets.

**ROE (Return On Equity)**

an indicator that expresses how much profit the bank generated per CZK 100 of shareholders' equity.

**Shareholders' equity**

the difference between the bank's total assets and its true liabilities.

**Share Premium Fund**

a special equity fund consisting of the positive difference between the issue price of shares and their par value.

**Spot**

a transaction in which one currency is purchased or sold for an amount in another currency at an agreed exchange rate with settlement two working days after the transaction closes; the exchange rate is determined by current supply and demand on the inter-bank market.

**Subordinated debt**

an increase of capital by taking on debt which, in the event of liquidation, is subordinated to all other debts of the bank.

**Swap**

a currency swap involves the exchange of one currency for another followed, after an agreed time period, by the reversal of the transaction with no currency risk; for all practical purposes, a currency swap is a combination of a spot and a forward taking place at once in a single transaction.

**VAR (Value At Risk)**

a method of risk assessment that predicts the future movement of a selected indicator based on historical data and set probabilities over a given time period; VAR provides a measure of the highest possible loss at the selected probability.



- accounting principles (40, 64, 66, 71)  
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## Česká spořitelna district branches directory as of 17 May 2000

Locality	Branch	Address	Postal Code	Telephone	Fax
Brno	District	Jánská 6	658 47	(+420 5) 4212 5111	(+420 5) 4212 5165
Břeclav	District	Národních hrdinů 7	690 58	(+420 627) 307 111	(+420 627) 321 296
České Budějovice	District	U Černé věže 1	370 26	(+420 38) 771 7911	(+420 38) 771 7279
Děčín	District	Pohraniční 1385/14	405 93	(+420 412) 590 111	(+420 412) 510 601
Hradec Králové	District	tř. ČSA 402	502 01	(+420 49) 506 6111	(+420 49) 551 3065
Jihlava	District	Křížová 1	586 23	(+420 66) 714 0111	(+420 66) 732 1669
Karlovy Vary	District	tř. TGM 14	361 18	(+420 17) 322 2582-4	(+420 17) 322 6135
Karviná	District	K. Sliwky 8a/50	733 21	(+420 69) 639 5111	(+420 69) 632 4016
Kladno	District	nám. Svobody 1960	272 66	(+420 312) 627 822-4	(+420 312) 628 600
Klatovy	District	nám. Míru 152	339 18	(+420 186) 340 111	(+420 186) 20 332
Kolín	District	Rubešova 50	280 14	(+420 321) 725 800	(+420 321) 25 197
Liberec	District	Felberova 12/9	460 98	(+420 48) 523 4111	(+420 48) 510 3060
Mladá Boleslav	District	nám. Míru 47	293 51	(+420 326) 716 411	(+420 326) 29 011
Most	District	Bankovní 1300	434 57	(+420 35) 312 111	(+420 35) 28 217
Náchod	District	Karlovo nám. 179	547 25	(+420 441) 415 111	(+420 441) 423 150
Nový Jičín	District	Masarykovo nám. 1	741 11	(+420 656) 702 505-6	(+420 656) 701 462
Olomouc	District	tř. Svobody 19	771 05	(+420 68) 552 6111	(+420 68) 522 2501
Opava	District	nám. Republiky 15	746 71	(+420 653) 683 111	(+420 653) 621 920
Ostrava	District	nám. Dr. E. Beneše 6	702 70	(+420 69) 620 9111	(+420 69) 611 3242
Pardubice	District	tř. Míru 72	531 07	(+420 40) 681 2111	(+420 40) 661 5702
Písek	District	Alšovo nám. 178	397 39	(+420 362) 757 111	(+420 362) 757 120
Plzeň	District	Františkánská 15	305 09	(+420 19) 721 2111	(+420 19) 220 698
Praha 1	Borough	Rytířská 29	111 21	(+420 2) 2410 1111	(+420 2) 2421 2713
Praha 2	Borough	Jugoslávská 19	120 24	(+420 2) 2163 4222	(+420 2) 2424 6575
Praha 4	Borough	Budějovická 1912	140 21	(+420 2) 6107 1111	(+420 2) 6107 2002
Praha 5	Borough	Štefánikova 17/247	150 31	(+420 2) 6109 7111	(+420 2) 5732 4127
Praha 8	Borough	Sokolovská 1	186 53	(+420 2) 232 6169	(+420 2) 232 6178
Prostějov	District	Žižkovo nám. 17	796 98	(+420 508) 305 111	(+420 508) 305 120
Příbram	District	Milínská 166	261 22	(+420 306) 25 024	(+420 306) 646 240
Svitavy	District	nám. Míru 34	568 15	(+420 461) 562 111	(+420 461) 530 780
Tábor	District	tř. 9. května 518	390 02	(+420 361) 495 111	(+420 361) 251 693
Ústí nad Labem	District	Mírové nám. 2	400 58	(+420 47) 525 5111	(+420 47) 522 0532
Zlín	District	Zarámí 4463	761 65	(+420 67) 761 2111	(+420 67) 37 076



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