

# Annual Report 2000

## Česká spořitelna's Rating as at 31 December 2000

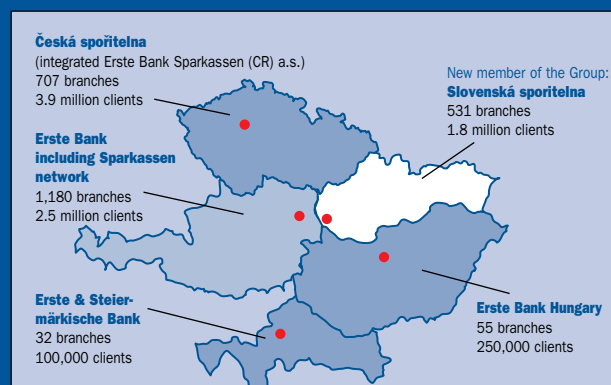
Rating Agency	Long-term	Short-term	Individual	Support	Financial Strength	Outlook
Fitch	BBB	F2	D/E	2		stable
Moody's	Baa1	Prime – 2			E+	
Standard & Poor's	BB	B				stable

## Česká spořitelna's Shareholder Structure as at 31 December 2000



\* Priority shares without voting rights

## Erste Bank Central European Financial Group as at 31 December 2000



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## Financial Highlights according to International Accounting Standards

(MCZK)

	Consolidated			Unconsolidated		
	2000	1999		2000	1999	
<b>Balance Sheet Indicators</b>						
Total assets	438,055	377,868	16%	397,563	344,056	16%
Loans and advances						
to financial institutions (gross)	155,144	133,143	17%	138,296	118,553	17%
Loans and advances						
to clients (gross)	134,900	124,210	9%	124,765	117,524	6%
Securities and other financial						
investments	113,231	85,118	33%	104,099	76,554	36%
Amounts owed to financial						
institutions	16,709	10,877	54%	12,668	8,090	57%
Amounts owed to clients	357,477	317,327	13%	327,255	291,457	12%
Shareholders' equity	22,655	22,844	(1%)	22,070	21,851	1%
<b>Profit and Loss Account Indicators</b>						
Net interest income	11,998	14,043	(15%)	10,739	12,619	(15%)
Net fee and commission income	5,120	4,226	21%	4,925	4,093	20%
Operating income	19,112	19,830	(4%)	17,391	17,855	(3%)
Operating expenses	(13,508)	(13,441)	0%	(11,854)	(12,006)	(1%)
Operating result	5,604	6,390	(12%)	5,537	5,849	(5%)
Risk provisions for loans						
and advances	(3,217)	(11,650)	(72%)	(2,982)	(11,313)	(74%)
Net profit/(loss) for the year	41	(6,222)		447	(7,213)	
<b>Basic Ratios</b>						
Net interest margin	2.79%	3.39%		2.74%	3.28%	
Capital adequacy	16.02%	17.70%		15.59%	17.47%	
Income/expense ratio	70.68%	67.78%		68.16%	67.24%	
Non-interest income/operating						
income	37.23%	29.19%		38.25%	29.33%	
Net income/equity	0.18%	x		2.04%	x	
Net income/total assets	0.01%	x		0.12%	x	

# The Year of the Most Profound Changes in Česká spořitelna History



Together with our subsidiaries we offer complete financial services.

PERFECTION

FLEXIBILITY

OPENNESS

BRIGHT FUTURE

PROFESSIONALISM

GROWTH

STRENGTH

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## Česká spořitelna Profile

Česká spořitelna, whose history goes back all the way to 1825, has long been one of the largest banks in the Czech Republic. Currently, it is the second biggest bank in terms of total assets and share capital. In terms of the number of clients and primary deposits, it is the largest bank in the Czech Republic. Its major client groups include households, tradesmen, small and mid-sized businesses, large corporates, towns and cities. Česká spořitelna's share of the household deposit market is 35%, its share of total primary deposits in the Czech Republic is 25% and its share in household lending is 35%. The Bank's share of the household mortgage loan market is currently 21%.

Česká spořitelna has been a joint-stock company since 30 December 1991. Together with its specialized subsidiaries, it forms one of the strongest financial groups in the Czech Republic, offering a comprehensive range of financial products and services. With a branch network encompassing 707 business locations, the Bank maintains over 12 million accounts, 2.7 million of which are *sporožiro* accounts. One out of every two households in the Czech Republic uses a *sporožiro* account at Česká spořitelna.

For many years, Česká spořitelna has been the biggest issuer of bank cards in the Czech Republic, providing 52%

of all card products. Its clients hold some 2 million bank cards. In 1996, Česká spořitelna became the first bank in the Czech Republic to offer credit cards. The year 2000 saw strong increases in both the volume and number of bank card transactions, by 80% and 125%, respectively.

Česká spořitelna is a major securities trader in the Czech capital markets, in general, and in the primary bond market, in particular. Due to its strong position in the market for primary deposits, the Bank remains a "market maker" in the inter-bank deposit market. Its share of the inter-bank loan market is 14%. Česká spořitelna is also an active lender to corporate entities and businesses. Its share in this segment of client loans is 11%.

A major milestone in the history of Česká spořitelna occurred in March 2000 when the Czech government signed an agreement selling a majority stake in Česká spořitelna to a strong foreign investor, Erste Bank. A demanding, ambitious transformation program immediately began whose aims are to create a client-oriented bank with a high level of service quality. Backed by Erste Bank's rich store of practical experience, Česká spořitelna is now on track to become a financial institution that is competitive not just in the Czech Republic and Central Europe but, indeed, in the European Union as well.

## The Year 2000 Review

<b>January</b>	1. 1. – functionality of all systems verified, confirming that Česká spořitelna has entered the year 2000 without Y2K malfunctions – bank begins offering the Visa Electron card on cash accounts
<b>February</b>	2. 2. – Czech government decides to sell majority stake in Česká spořitelna to Erste Bank 12. 2. – Česká spořitelna celebrates its 175 <sup>th</sup> birthday; on this day in 1825 the Founders' Deed of Spořitelna česká was signed
<b>March</b>	1. 3. – agreement on Sale of Shares signed between Erste Bank and the Czech government – Restructuring and Guarantee (Ring Fencing) Agreement signed among Česká spořitelna, Corfina and Konsolidační banka
<b>April</b>	2. 4. – first in a series of prestigious Česká spořitelna "Bike for Life" races
<b>May</b>	17. 5. – Annual General Meeting approves 1999 year-end financial statements
<b>June</b>	27. 6. – new Supervisory Board members are elected at Extraordinary General Meeting
<b>July</b>	1. 7. – new Board of Directors: J. J. Stack, Chairman; D. Baran, Vice Chairman; D. Heler, G. Mittendorfer, M. Škopek, Members – first co-branded card ČS Visa Classic Partner
<b>August</b>	1. 8. – extensive reorganization takes effect 3. 8. – de facto completion of privatization – Erste Bank takes over shareholder rights from National Property Fund of the Czech Republic 30. 8. – A. Treichl elected Chairman of the Supervisory Board; L. Klausová is elected Vice Chairwoman
<b>September</b>	30. 9. – Erste Bank (CR) is acquired by Česká spořitelna – Česká spořitelna offers foreign securities investments through open share funds SIS Eurotrend and Globaltrend
<b>October</b>	18. 10. – K. J. Jeníček becomes the sixth Member of the Board of Directors
<b>November</b>	1. 11. – Security Section created
<b>December</b>	14. 12. – Česká spořitelna share price reaches its high for 2000: CZK 241.30 – Česká spořitelna becomes the first bank to establish the office of Ombudsman

## A Word from the Chairman of the Board of Directors and CEO



Dear shareholders, business partners, clients and employees,

in the summer of 2000, the state sold its majority ownership to Erste Bank. With that event, we launched the complex transformation process through which we are turning our bank into a modern financial services provider.

### **What are we doing?**

We have begun to make major investments to make up for the lack of investment during the past decade. We have cleaned up our loan portfolio, and we are instituting a responsive credit risk management culture. We have evaluated management and made changes where necessary. We are centralizing functions to achieve efficiencies and reduce costs and we have put in place a new, incentivizing remuneration system. We are training our employees to be fully professional and service oriented. Through our sponsoring and other special programs we are participating as responsible partners in the communities where we do business.

### **How are we doing?**

Any change causes strain within an institution. At Česká spořitelna, where we are making changes that are both broad and deep, the strain is tremendous. Even so, Česká spořitelna achieved, according to IAS, a slight but significant profit in 2000, which came after two years of losses. We are on track to our target: 18% Return on Equity in 2002.

### **What are we really talking about there?**

Customers, employees, investors, communities.

At its core, this transformation is about PEOPLE.

**Our employees** are being challenged every day to improve service and to be more efficient. We are giving them the tools they need to succeed.

**Our customers** are beginning to see and experience change. So far it is modest. After all it takes time to build a modern financial services institution. But – they feel it every time a better trained Česká spořitelna banker calls a customer by name, helps a customer with a business plan or works with a customer to structure a lending proposal.

**Together:** What excites me is seeing the change already taking place in our employees and customers – and the good implications for our business growth and above-average investor returns. When our staff is fully trained and professional, when our customer contact personnel are properly supported, our customers will recognize Česká spořitelna not only as the bank located close to them, but also as a leading provider of financial services – the bank that listens closely to their needs and partners with them to realize their financial goals.

And THAT is good business for Česká spořitelna and for the Czech Republic!

April 2001

Jack STACK

## Transformation Program

The transformation of Česká spořitelna started immediately after Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank") acquired Česká spořitelna in March, 2000. The program's introductory phase began in the second quarter of 2000, when 22 Transition Teams staffed by 300 professionals from both banks commenced preparation of the Transformation Plans. After the planning stage was complete, the transformation itself, called "Naše spořitelna" (Our Bank), got off to a start in July. Specialists from Česká spořitelna and Erste Bank are involved in the implementation. The planned transition period is to last 18 months. December 2001 is the time, when the Bank will have transformed itself into an institution that is a leading provider of financial products and services in the Czech Republic. Clients can expect this process to bring them better services, improved distribution channels, a more professional staff and prudent lending across all segments.

A Steering Committee was set up to oversee the execution of the Transformation Program, Naše spořitelna, at the highest level. Planning and coordination of project team activities, preparation of recommendations for project goals, determining priorities, as well as managing communication that takes place within the Transformation Program, are the responsibilities of the Transformation Program Team, a newly formed organizational unit at Česká spořitelna staffed by representatives of Česká spořitelna and Erste Bank. Nine project areas have been identified at Česká spořitelna for implementation of the most significant changes. Major projects include retail

banking, human resources and information technologies, to name a few.

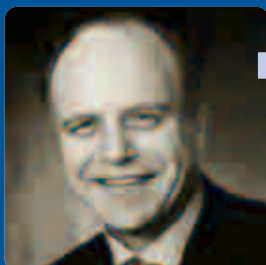
During 2000 over 500 Česká spořitelna employees were involved in the transition effort. In particular, they prepared analyses and implementation procedures. Several fundamental changes have been made: in addition to the newly formed office of the Ombudsman, the first ever such office among commercial institutions in the Czech Republic, a fundamental division of teller window responsibilities was implemented throughout Česká spořitelna's branch network. Also, 66 business skills trainers were selected and given special training. In early 2001, they launched training for all 7,000 of Česká spořitelna's front office workers with the aim of improving service quality and increasing sales potential. Česká spořitelna also opened 3 newly remodelled branches as pilot projects, where the new approach to clients will be demonstrated.

During 2001, Česká spořitelna is planning to complete implementation of the Symbols system in Corporate Banking and Financial Markets. This system represents a new platform for all banking products and is to be rolled out for Retail Banking by 2003. In the IT area, 2001 should see the reopening of the card center and the building of a Client Center. These activities will require investment outlays of CZK 2.5 billion in 2001. The upgrade of Česká spořitelna's information systems will also include a SAP implementation that should be completed early in the second half of 2001.

## Board of Directors at 31 December 2000

### Question for members of the Board of Directors:

*How is Česká spořitelna now, one third of the way through its ambitious transformation program – what has changed and what, in your opinion, is the greatest benefit brought so far by the transition effort?*



### John James Stack

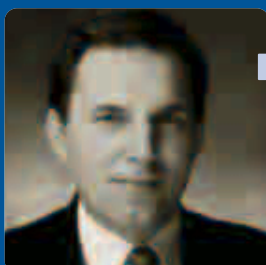
#### **Chairman of the Board of Directors and CEO**

*born on 4 August 1946*

*domicile: Prague, CR*

Mr. Jack Stack is a USA citizen. He studied mathematics and economics at Iona College (gaining a BA) and the Harvard Graduate School of Business Administration specializing in finance and management (gaining an MBA). During his 22 years at Chemical Bank and Chase Manhattan Bank served in a number of important positions. Before starting at Česká spořitelna he was an Executive Vice President. Starting from 1<sup>st</sup> March 2000 Jack Stack became Deputy Chairman of the Board of Česká spořitelna. On 4<sup>th</sup> July 2000, he was elected the Chairman of the Board of Directors and CEO of ČS.

*"Česká spořitelna is similar to a patient who has been very sick and is now in the first phase of his/her recovery. Česká spořitelna was sick due to nonperforming loans and a lack of investment in its people, products, business processes, properties and information technology. Now, these investments are being made, the patient is recovering, but the patient has a long way to go to be considered healthy. Next year, Česká spořitelna will be much healthier."*



### Dušan Baran

#### **Vice Chairman of the Board of Directors and First Deputy CEO**

*born on 6 April 1965*

*domicile: Prague, CR*

Mr. Dušan Baran is a graduate of the Mathematics and Physics Faculty of the Charles University in Prague and a course of study in banking at the Graduate School of Banking, University of Colorado, Colorado, USA. In 1991–1993 he worked for Agrobanka, a.s. in the Treasury Department. He joined Česká spořitelna, a.s. 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. He was named Member of the Board of Directors and Deputy CEO of ČS, a.s. in May 1998, and was promoted to Chairman of the Board of Directors and CEO in March 1999. On 4 July 2000 he was elected Vice Chairman of the Board of Directors of ČS and appointed First Deputy CEO. He is also Director of Finance of ČS, a.s. Mr. Baran is Chairman of the Supervisory Board of ČS-Živnostenská pojišťovna, a.s., Vice Chairman of the Stock Exchange Chamber of the Prague Stock Exchange and Member of the Presidium of the Banking Association. He is also President of the Europe Regional Group of the World Savings Bank Institute (WSBI) in Brussels, a full member of the General Council of the European Savings Bank Group (ESBG) in Brussels, a full member of the WSBI-ESBG Coordination Committee in Brussels, and a standing delegate of the Institute of International Finance in Washington.

*"Česká spořitelna has commenced a number of major internal changes. When these changes are completed, it intends to present itself as a modern, client-oriented financial institution. This process entails changing the approach and thinking of the Bank's employees, who are our greatest asset. That for me is the greatest benefit the transformation process has brought so far."*



### **Daniel Heler**

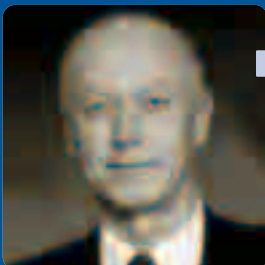
#### **Member of the Board of Directors and Deputy CEO**

*born on 12 December 1960*

*domicile: Prague, CR*

Mr. Daniel Heler is a graduate of the Prague University of Economics, Faculty of International Trade. In successive jobs, he did internships with J. P. Morgan, Goldman Sachs, S. Montagu, UBS, N. M. Rothschild, Shearson and Bayerische Hypobank. He has also attended a number of courses focused on global banking, profitability in banking, treasury and risk management. He has worked in the banking sector since 1983. First he held various positions in the Department of Foreign Exchange and Money Markets and then, in 1990, he became Director of the Financial Markets Department of Československá obchodní banka Praha. In 1992 he was named Treasurer and Member of the Board of Directors of Crédit Lyonnais Bank Praha. In 1998 he was appointed to the Board of Directors of Erste Bank Sparkassen (CR) a.s. responsible for the financial markets department. In 1999 he became Vice Chairman of the Board of Directors of Erste Bank Sparkassen (CR) a.s. Since 1 July 2000 he has been Member of the Board of Directors of Česká spořitelna responsible for asset management, investment banking, treasury, balance sheet management and financial institutions.

*"The transformation program has already begun to bear fruit at several levels. The way clients see Česká spořitelna has undergone a transformation and several Bank teams are already making progress in uprooting the established view of the Bank as a conservative institution steeped in its own traditions. This relates for example to our successes in changing Česká spořitelna's position in the financial markets, in market shares, and in realized transactions as well as to our capability to innovate and be compete head-to-head with established global banks. The completion of the transformation program should make Česká spořitelna a leading provider of financial services in the Czech Republic financial markets, based on long-term beneficial relationships with our clients."*



### **Karel Jan Jeníček**

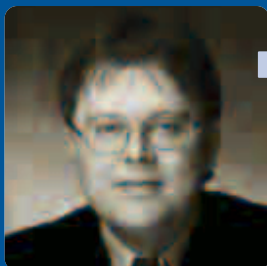
#### **Member of the Board of Directors**

*born on 27 July 1945*

*domicile: Prague, CR*

Mr. Karel Jan Jeníček started to work in 1970 after the studies of electrical engineering at Swiss Federal Institute of Technology Zurich on the development and implementation of financial and banking systems. He had worked for multinational companies in several European countries and in the U.S. He enhanced his education with business and finance at the University of Karlsruhe, Germany and with commercial law at the University of Zurich, Switzerland. Since 1983 he had worked for global financial institutions in leading positions, concentrating on the areas of Information Technology, Organization, Project Management, Trade Finance and building of national subsidiaries in Europe, Middle East and Central America. In his previous assignment he worked for Creditanstalt Group Vienna, Austria, as of 1997 as the Chairman of the Board of Directors of Creditanstalt d.d. Ljubljana, Slovenia. After the merger with Bank Austria he was a Member of Board of Directors of BACA d.d. Ljubljana. In his function as Member of ČS Board of Directors, Karel Jan Jeníček is responsible for operations divisions covering Payment Systems and Corresponding Banking, Information Technology, Organization, Property Management and Security.

*"The first part of the transformation was concentrated on the Bank's internal processes, which in most cases were not visible to our clients. We completed Phase One of the card center stabilization, leading to considerably decreased risk of breakdowns, we rolled out cutting-edge products such as Sporotel and Sporoservis, we're launching Internetbanking. In my thinking the transformation's biggest benefit is the changed approach of our employees toward cooperation with various Bank departments. We're only half-way there, though, many obstacles are still to be overcome, but we see them as a challenge to find the most effective solutions leading to a visible improvement in the Bank's services and bottom line."*



### **Gernot Mittendorfer**

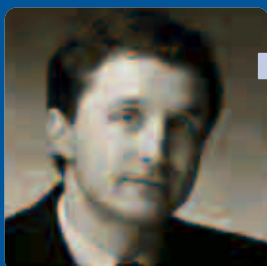
#### **Member of the Board of Directors**

born on 2 July 1964

domicile: Prague, CR

Mr. Gernot Mittendorfer is an Austrian citizen. He completed law studies at the University of Linz and is a graduate of Webster University in Vienna (Master of Business Administration, specializing in finance). He began to work in 1990 for Erste oesterreichische Spar-Casse Bank AG, as it was known at the time, and worked in various positions including Account Manager for large clients and in retail banking. In 1997 he was named to the Board of Directors of Sparkasse Mühlviertel West Bank AG, where he was responsible for the loan area as well as accounting and controlling, subsidiaries, and bank and leasing activities in the Czech Republic. At the same time he also held other management and supervisory positions in Austria and the Czech Republic. From 1999 he worked at Erste Bank Sparkassen (CR) a.s. as Member of the Board of Directors responsible for retail banking. On 1 July 2000 he became a Member of the Board of Directors of Česká spořitelna, a.s., where he is responsible for commercial banking including municipal finance and real property financing.

*"Česká spořitelna is changing rapidly. The speed of these changes has increased, since we are right in the middle of the implementation phase. I feel – I know – that we are on the right track. In my opinion, the greatest benefit of the transformation process is the fact that the customer and service quality are at the center of all our activities."*



### **Martin Škopek**

#### **Member of the Board of Directors and Deputy CEO**

born on 24 April 1967

domicile: Prague, CR

A graduate of the Prague University of Economics, in 1993–1995 Mr. Martin Škopek studied at the Jack T. Conn Graduate School of Community Banking, Oklahoma City University. From 1990 to 1999 he worked in various positions for Komerční banka, most recently as Commercial Director of the Division of Banking for private individuals and entrepreneurs. In October 1999 he became a Member of the Board of Directors and Deputy CEO of Česká spořitelna, and since 1 July 2000 he has been Member of the Board of Directors and Deputy CEO of ČS responsible for retail banking. He is also Vice Chairman of the Supervisory Board of ČS-Živnostenská pojišťovna, a.s. and Member of the Regional Board of Directors of VISA International for Central & Eastern Europe, the Middle East, and Africa.

*"There really are a lot of changes in process. A key change, the way I see it, is the Bank's reorientation from a product-oriented approach to a client-oriented one. We're going to start rolling out the new rules in the branch network in the second half of the year and I am firmly convinced that it will be a strong signal to our clients and the competition that Česká spořitelna is on its way to becoming a bank of Europe-class quality."*

## Supervisory Board at 31 December 2000

### **Andreas Treichl**

#### **Chairman of the Supervisory Board**

*born on 16 June 1952*

*domicile: Vienna, Austria*

Mr. Andreas Treichl studied economic sciences at Vienna University in 1971–1975. After completing a training program in New York he began his career in 1977 at Chase Manhattan Bank, which sent him to Brussels (1979–1981) and Athens (1981–1983). In 1983 he began to work at Die Erste for the first time. In 1986 he accepted a General Manager position with Chase Manhattan Bank Vienna, which was purchased by Credit Lyonnais in 1993. In 1994 Mr. Treichl was appointed to the Management Board of Die Erste. In July, 1997 he was named CEO. In August 1997 the shareholders approved the merger with GiroCredit, in which Die Erste had obtained a majority stake in March 1997. The formal completion of the merger took place on 4 October 1999, when it was recorded in the Commercial Register with retroactive effectiveness as of 1 January 1997. Immediately a process of integrating the business activities and operations of both banks was commenced, the successful effects of which are already seen in all main areas. In addition to being Chairman and CEO of Erste Bank, Andreas Treichl is responsible, among other areas, for private and business clientele, the branch network, savings bank policy and group communications. Mr. Treichl is Chairman of the Supervisory Board of the most progressive Austrian life insurer, S-Versicherung and S-Bausparkasse.

He became a member of the Supervisory Board of Česká spořitelna at the Extraordinary General Meeting on 27 June 2000 and on 30 August 2000 he was elected its Chairman.

### **Livia Klausová**

#### **Vice Chairwoman of the Supervisory Board**

*born on 10 November 1943*

*domicile: Prague, CR*

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 in 1967–1993 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. in 1994–1998 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 and became Vice Chairwoman of the Supervisory Board on 23 February, 2000.

### **Milan Bakeš**

#### **Member of the Supervisory Board**

*born on 11 October 1939*

*domicile: Prague, CR*

A graduate of the Charles University Law Faculty, Prague, Mr. 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. In 1996–1998 he was Chairman of the Supervisory Board, and in 1998–1999 Vice Chairman. Mr. Bakeš is also a board member of the Stock Exchange Arbitration Court of the Czech Republic.

### **Ivan Černý**

#### **Member of the Supervisory Board**

*born on 2 October 1947*

*domicile: Úvaly, CR*

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 finance, 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****Member of the Supervisory Board***born on 17 March 1946**domicile: London, UK*

A graduate of the Innsbruck University, where he obtained a Doctor of Law degree, Mr. Kurt Geiger also studied International Finance in Brugge (MA). In 1975–1989 he was Chief Corporate Finance Director at Chase Manhattan Bank, with responsibility for advisory activities in mergers and acquisitions, project finance, 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.

**Mark K. Gormley****Member of the Supervisory Board***born on 24 November 1958**domicile: London, UK*

Mr. Mark K. Gormley graduated from Denver University in Finance and Economics (BSBA) and New York University (MBA). He worked for Merrill Lynch in New York for 9 years, where he was a founding member of the Insurance Investment Banking Group, which focused on mergers and acquisitions and transactions in the financial markets. He spent the next nine years at Donaldson, Lufkin, Jenrette, New York, as General Manager of the Investment Banking Division, specializing in the insurance industry and asset management. He is a partner and co-founder of Capital Z Partners and heads up its office in London. He was elected to the Supervisory Board of Česká spořitelna at the Extraordinary General Meeting of 27 June 2000.

**Miloslav Hejnák****Member of the Supervisory Board***born on 5 February 1957**domicile: Prague, CR*

A graduate of the Prague University of Economics, in 1980–1993 Mr. Miloslav Hejnák worked as a researcher at the former Institute of Economics of the Czechoslovak Academy of Sciences. In 1993–1998 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 and served until 13 March 2000 when he resigned. He was re-elected to the office at the Annual General Meeting of Česká spořitelna held on 17 May 2000.

**Josef Komárek****Member of the Supervisory Board***born on 20 March 1940**domicile: Roudnice nad Labem, CR*

A graduate of the secondary school of industry (1954–1958) and the Charles University Law Faculty (1985–1991), Mr. Josef Komárek worked in 1958–1962 at MEZ Mohelnice and in 1962–1988 was employed at Agrostroj Roudnice nad Labem as planner, metallurgist, head of the casting department and Deputy Director. From 1988 to 1991 he worked at the Litoměřice District Office as head of the audit department and attorney to the District Office Director. Since 1991 he has been with Česká spořitelna as in-house counsel of the Roudnice nad Labem District Branch. He became Chairman of the Company-wide Works Council and Member of the Supervisory Board in May, 2000.

**Petr Liška****Member of the Supervisory Board***born on 4 September 1959**domicile: Prague, CR*

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 Czech Republic. Mr. Petr Liška was elected to the Supervisory Board by the employees of Česká spořitelna in 1999.

**Reinhard Ortner****Member of the Supervisory Board***born on 6 January 1949**domicile: Vienna, Austria*

Mr. Reinhard Ortner completed studies in social and economic sciences at Vienna University in 1971, specializing in monetary theory and policy. In 1971 he began work for Erste oesterreichische Spar-Casse, where he worked until 1973 in various positions in accounting and controlling. In 1977–1984 he was Director of Management Accounting, Administration and Finance. Since 1984 he has been a Member of the Board of Directors of Erste Bank der oesterreichischen Sparkassen AG. He was elected a Member of the Supervisory Board of Česká spořitelna at the Extraordinary General Meeting of 27 June 2000.

**Herbert Schimetschek****Member of the Supervisory Board***born on 5 January 1938**domicile: Vienna, Austria*

Mr. Herbert Schimetschek graduated from the Academic Gymnasium in Vienna in 1956 with a school-leaving exam and was subsequently accepted at the Law Faculty of Vienna University. In 1957 he began to work at Austria Versicherungsverein auf Gegenseitigkeit (Mutual Insurance Association), and in 1966 he helped to establish and develop its Italian subsidiary. Since 1977 he has been Chairman of the Board of Directors and CEO of Austria Versicherung, current UNIQA Personenversicherung AG. In his professional career, Mr. Schimetschek has held important positions in the governance bodies of several corporations and won a number of major awards. He was elected a Member of the Supervisory Board of Česká spořitelna at the Extraordinary General Meeting of 27 June 2000.

**Manfred Wimmer****Member of the Supervisory Board***born on 31 January 1956**domicile: Vienna, Austria*

Dr. 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 finance, 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. He was named to the Supervisory Board of Česká spořitelna, a.s. on 23 February 2000 as a substitute member and became a full member on 27 June 2000.

# Organization Structure as at 31 December 2000

<b>Chairman of the Board and CEO</b> <b>John James Stack</b>	<b>1100</b>	<b>1300</b>	<b>1400</b>	<b>1600</b>	<b>1010</b>	<b>1030</b>		
	Transformation Program	Chief Economist	Internal Audit	Human Resources	External Communication	Training and Development		
	<b>1200</b>	<b>1001</b>	<b>1500</b>	<b>1700</b>	<b>1020</b>			
	Credit Risk Management	Office of Management and Supervisory Board	Legal and Compliance Services	Marketing	Internal Communication			
<b>Vice Chairman of the Board and First Deputy CEO</b> <b>Dušan Baran</b>	<b>2100</b>	<b>2200</b>	<b>2400</b>	<b>2010</b>	<b>2020</b>	<b>2030</b>		
	Accounting and Taxes	Controlling and Planning	Central Risk Management	Investor Relations	Strategy of CS Finance Group	Capital Participations Management		
<b>Member of the Board and Deputy CEO</b> <b>Daniel Helel</b>	<b>3100</b>	<b>3200</b>	<b>3300</b>	<b>3400</b>	<b>3010</b>	<b>3020</b>	<b>3001</b>	
	Balance Sheet Management	Asset Management	Investment Banking	Treasury	Financial Institutions	Back Office	Support	
<b>Member of the Board</b> <b>Gernot Mittendorfer</b>	<b>4100</b>	<b>4200</b>	<b>4300</b>	<b>4400</b>	<b>4010</b>	<b>4001</b>	<b>4002</b>	
	Corporate Customers	Commercial Banking Centres	Real Estate and Mortgages	Municipalities	Trade Finance	Support	Product Development	
<b>Member of the Board and Deputy CEO</b> <b>Martin Škopek</b>	<b>5100</b>	<b>5200</b>	<b>5300</b>	<b>5400</b>	<b>5500</b>	<b>5600</b>	<b>5700</b>	<b>5001</b>
	Sales Management	Products and Process Management	Remote Delivery	Card Centre	Branches Region 1 (Prague)	Branches Region 2 (Bohemia)	Branches Region 3 (Moravia)	Support
<b>Member of the Board</b> <b>Karel Jan Jeníček</b>	<b>6100</b>	<b>6200</b>	<b>6300</b>	<b>6400</b>	<b>6500</b>			
	Payment System and Settlement	Information Technology	Property Management	Security	Organization			

**Legend:**

- Section managed by Director by Director of Section – Member of the Senior Management Team
- Section managed by Director of Section
- Department managed by Director of Department
- Sub-department managed by Head



## Macroeconomic Framework for Česká spořitelna's Business

Generally, the environment was favorable in 2000. Czech economic growth accelerated from -0.8% y/y in 1999 to +3.1 y/y in 2000 due to continued strong Foreign Direct Investment (FDI) and a healthier domestic environment. Year 2000 FDI was almost equally divided between privatization related activities and green field project investment.

The number of companies operating in the Czech republic was growing. In that environment, we expected – and continue to expect – greater demand for labor leading to better employment prospects and rising real wages. Improved employment and higher wages, in turn, should increase household demand for goods and services, including financial products and services.

The foreign trade deficit increased from CZK 64 billion in 1999 to CZK 127 billion in 2000. The deficit increase was caused by higher oil costs and greater imports of commodities and chemical products.

The current account (C/A) deficit increased by 70% y/y and reached 4.8% of the GDP. In the present economic situation, the C/A deficit is being offset by robust FDI. While the situation does not pose significant risk in the short-term, it could be a source of macroeconomic difficulties in a mid-term horizon if FDI (including privatization revenue) falls off.

Inflation for 2000 peaked at 4.4% y/y in October. Global trends pushed the CPI to 4% y/y by December 2000 from

a starting point of 3.4% y/y in January. Net inflation increased from January's 1.6% to 3% in December. Despite the increase, which was primarily oil price driven, inflation remained under targeted range of 3.5–5.5%.

The Central Bank kept interest rates unchanged during the year. The two-week repo rate remained at 5.25%. In general, we can say that Central Bank was keeping a neutral monetary policy.

The bond market was increasingly threatened by fiscal policy development. The deficit increased and there seemed to be little political will to cut expenditures. Consequently, the market began to anticipate a doubling in government bond issues in 2001. Government bond issues currently stand at approximately CZK 125 billion.

Despite possible risk arising from the budget deficit, economic development in the Czech Republic is, in our view, favorable for the banking market. The growth trends in industry and construction should result in increased business loan demand. The decline of unemployment and rising real wages should boost consumer demand for retail products and stimulate lending to private individuals. In the near term we can expect that loan demand will be concentrated on short-term consumer loans; over the long-term, we anticipate that savings growth will lead to a higher demand for long-term loan products such as mortgages.

## Financial Highlights

Unconsolidated, according to Czech Accounting Standards

### Balance Sheet Highlights

<b>(MCZK)</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Total assets	449,319	364,269	380,283	389,287	358,718
Receivables from banks	138,631	118,519	93,799	94,011	76,775
Net loans to clients	107,147	100,644	143,651	169,191	145,523
Securities	149,357	99,577	80,567	67,893	63,491
Primary deposits	327,265	291,488	298,257	301,735	295,675
Due to banks	67,710	31,976	41,695	48,193	30,723
Own bonds	5,500	5,500	5,500	5,000	0
Shareholders' equity	20,309	15,449	12,830	19,946	19,617
Share capital	15,200	15,200	7,600	7,600	7,600

### Profit and Loss Account Highlights

<b>(MCZK)</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Net interest income	11,016	12,666	15,002	15,894	13,389
Net fee and commission income	4,733	4,093	3,029	2,786	1,985
Gross operating income	18,589	17,432	18,791	19,213	17,588
General operating expenses	12,353	12,136	12,025	11,191	10,267
Net operating income	6,236	5,296	6,765	8,022	7,321
Net creation of reserves and provisions for loan risky assets	(2,707)	4,501	(5,485)	777	(541)
Receivables written off and assigned	728	15,038	7,490	7,075	4,362
Net after tax profit/(loss) for the accounting period	4,860	(4,893)	(6,940)	1,203	1,886

### Basic Financial Analysis Ratios

	Unit	2000	1999	1998	1997	1996
Net interest margin	%	2.50	3.11	3.59	3.94	3.43
Capital adequacy	%	12.90	13.62	9.20	8.97	8.86
Expenses/income	%	66.45	69.62	64.00	58.25	58.38
Non-interest income/operating income	%	40.74	27.34	20.16	17.28	23.87
Classified loans/loans	%	27.91	27.38	25.71	20.69	24.73
Net income/equity	%	27.18	x	x	6.09	10.02
Net income/total assets	%	1.10	x	x	0.30	0.48
Earnings per employee	TCZK	343.8	x	x	68.7	97.6
Assets per share	TCZK	3.0	2.4	5.0	5.1	4.7
Dividend	CZK/share	2.0*	0	0	5.0*	10.0

\* Priority shares

### Basic Operating Numbers

Amount	2000	1999	1998	1997	1996
Employees (head count)	14,131	15,277	16,580	17,522	19,319
Organizational units	707	876	1,033	1,127	1,738
ATMs	890	870	845	822	695
Electronic banking users	264,300	117,566	10,230	991	471
Active bank cards	1,970,950	1,728,940	1,338,265	1,080,379	891,903
Merchant locations accepting ČS cards	12,959	13,213	12,323	9,679	7,433
Sporožiro accounts	2,665,913	2,585,487	2,582,976	2,495,325	2,385,963

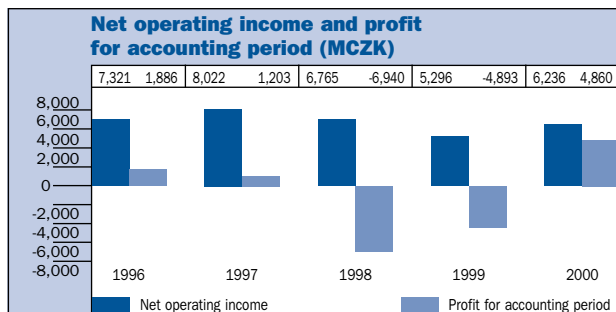
# Performance Report

(Figures in the Performance Report are based on Unconsolidated Financial Statements prepared in accordance with Czech Accounting Standards and found on the pages 45–76)

In 2000, Česká spořitelna returned to the black after a two-year period, recording, according to Czech Accounting Standards, an unconsolidated net profit of CZK 4,860 million at 31 December 2000. This improved result compared to 1999's loss of CZK 4,893 million has several causes. A very substantial component in the achieved earnings amount is the recording of a deferred tax receivable of CZK 4,590 million. This accounting transaction was carried out in accordance with changed accounting procedures for banks according to Czech Accounting Standards for the first time in 2000. Another cause for the profit is reduced net creation of reserves and provisions in conjunction with the clean-up of the Bank's loan portfolio that took place in late 1999 and the coming into force of the Restructuring and Guaranty (Ring Fencing) Agreement. Finally the net operating income grew by 18% over the previous year. With regard to the acquisition of a majority of the Bank's shares by Erste Bank and the subsequent launch of an extensive program of transformation and restructuring, the Bank took a charge against 2000 earnings to create a restructuring provision of CZK 1,776 million. CZK 355 million of this provision was used in 2000 to cover costs associated with the restructuring process.

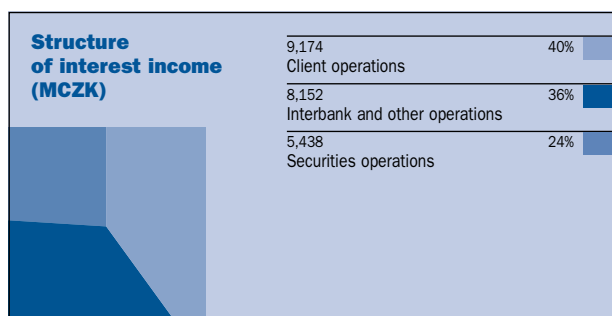
## Financial Developments

**Net operating income** totaled CZK 6,236 million, **up** CZK 940 million (**18%**) from 1999. Operating income grew by CZK 1,156 million (7%) to CZK 18,589 million, due primarily to substantial growth in gains from financial transactions and increased fee and commission income. Non-interest income totaled CZK 7,573 million and net interest income was CZK 11,016 million. The ratio of non-interest income to total operating income rose 14.40 percentage points to 40.74%. General operating expenses, which rose by a mere 2% to CZK 12,353 million, are the result of the Bank's increasing efforts to monitor and control costs.

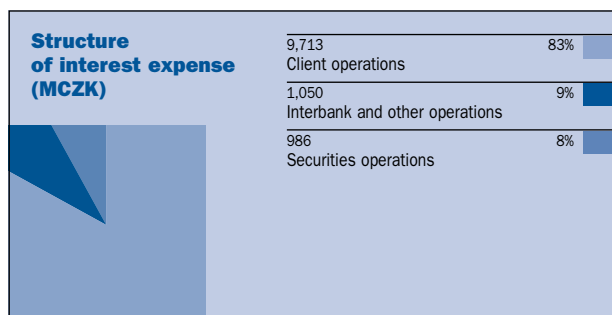


## Operating income

**Net interest income** fell year-on-year by CZK 1,650 million (13%) to CZK 11,016 million, which is **in line with market interest rates and structural changes in the Bank's active trading**, i.e. the reallocation of assets to less risky investments (treasury bills, inter-bank loans). The net interest margin declined by 0.61 of a percentage point to 2.50%. The decline in interest expenses (22%) was greater than the decline in interest income (18%).



Interest income fell to CZK 22,764 million and its structure shifted further away from client transaction revenues (40% as opposed to 47% in 1999) and towards revenues from securities (24% compared to 19% in 1999). Interest expenses fell to CZK 11,748 million. The parallel growth in primary deposits caused a proportional increase in interest expenses on client transactions (to 83% from 81% in 1999). This increase was offset by a decrease in expenses from inter-bank transactions which fell to 9% in 2000 compared with 14% in 1999.



There was a substantial year-on-year increase in non-interest income, which rose CZK 2,807 million (59%) to CZK 7,573 million, primarily as a result of higher gains on financial operations.

Net fee and commission income, which acts as a stabilizing

element in income, grew CZK 640 million (16%) from 1999's levels to CZK 4,733 million, accounting for 62% of total non-interest income. **Factors contributing to the growth in fees and commissions include the Bank's increasing transaction performance** as new client services are developed and the number of realized transactions grows. To illustrate, the number of transactions on deposit and loan accounts grew by 17 million to 344 million transactions. Client transactions are the primary source of net fee and commission income (CZK 3,789 million, 80%), and can be further broken down into fees and commissions on spořičiro accounts (CZK 1,423 million), current accounts belonging to legal entities (CZK 665 million), loans to individuals (CZK 335 million), early withdrawal fees (CZK 208 million) and fees and commissions from the card program (CZK 185 million). Other net fees and commissions of CZK 945 million include CZK 77 million from foreign currency transactions, CZK -5 million from securities transactions, and CZK -72 million on inter-bank transactions.

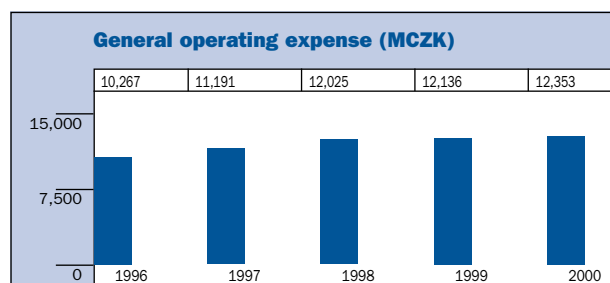
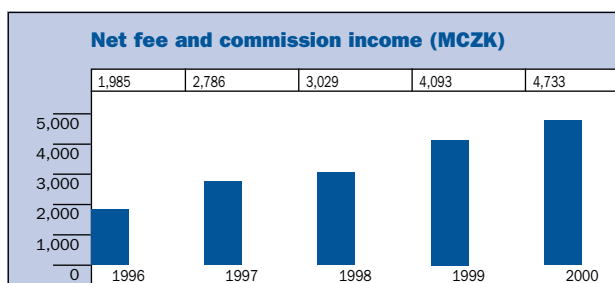
Income from variable yield securities (dividends) fell by CZK 71 million to CZK 117 million. Here the most significant factor was lower dividend income from ČS-stavební spořitelna (CZK 103 million in 2000 as opposed to CZK 182 million in 1999).

Other operating income fell slightly (by CZK 16 million, or 4%) to CZK 413 million. This income category includes items such as income from asset transfers (CZK 133 million) and income from real property leases (CZK 122 million).

### Operating expenses

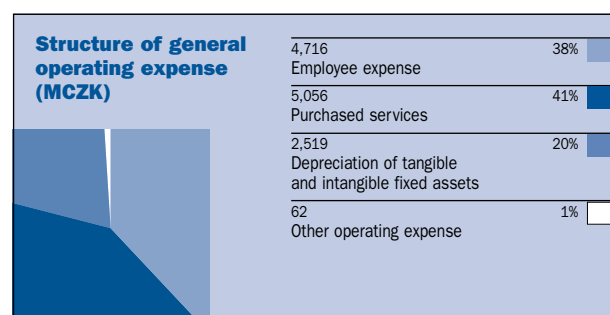
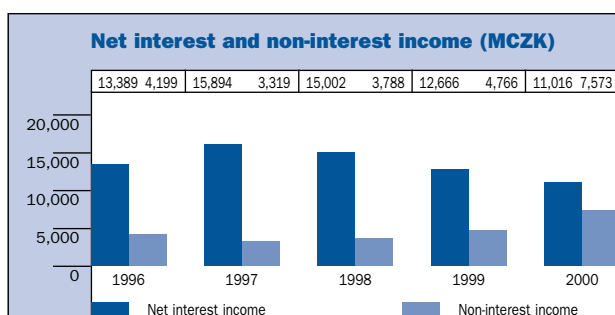
General operating expenses rose by only CZK 217 million (2%) over 1999 to end the year at CZK 12,353 million.

**This positive result is due primarily to total personnel expenses** including social security and health insurance, which were down CZK 104 million (2%) to CZK 4,716 million due to the gradual decline in the number of employees. Personnel expenses as a proportion of general operating expenses fell to 38% from 40% in 1999.



At year-end 2000, **profit on financial operations reached CZK 2,310 million** (1999: CZK 57 million). This growth is linked in particular to more favorable performance in securities trading, caused among other factors by a restructuring of portfolio securities to investment and trading ones during 2000 and the ensuing change in valuation and creation of provisions, as well as by losses on hedging swaps in 1999.

A total of CZK 5,056 million was expended on purchases of goods and services, which represents an increase of 9% over the previous year. **This development was influenced** on the one hand **by increased expenses relating to the Bank's restructuring effort** and on the other hand by reductions of selected expense items as a result of the lower number of employees and optimized utilization of office space. The largest items in the total



amount expended on purchases of goods and services were information technologies (CZK 1,822 million), buildings (CZK 884 million), consulting (CZK 453 million), telecommunications (CZK 368 million) and consumption of materials (CZK 318 million).

Depreciation of tangible and intangible assets also exhibited a positive trend, declining by CZK 59 million (2%) to CZK 2,519 million. Of this amount, depreciation of tangible assets accounted for CZK 1,896 million and intangibles CZK 624 million. Taxes and fees paid (e.g. court fees, road tax, etc.) also fell, by 46% to CZK 62 million.

**Net creation of reserves and provisions for loan risks**

**Net creation of reserves and provisions for loan risks** totaled CZK 1,659 million in 2000 which, when compared with 1999's level of CZK 10,431 million calculated using the same method, **represents a dramatic decrease** of CZK 8,772 million.

"Net creation of reserves and provisions for loan risks" includes the balance between creation and use of provisions and reserves relating to loans and guaranties (CZK 523 million), receivables written-off and assigned (CZK 728 million) reported in the "Other expenses" line in the profit and loss account, income from written-off receivables (CZK 24 million) reported in "Other income" line and a part of net creation and use of other reserves (CZK 440 million). This later category includes, among other things, creation of reserves for general banking risks and the reversal of reserves for swaps created by Česká spořitelna in 1999 in conjunction with an amendment to the Chart of Accounts for Banks.

The reduced level of new provisioning in 2000 was resulted from the overall economic upswing in the Czech Republic, which was reflected in loan portfolio quality and made it less necessary to create provisions.

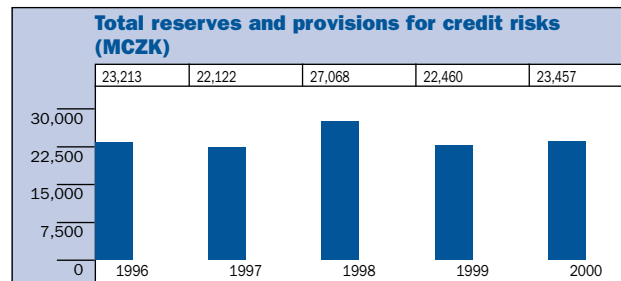
Another positive factor was the realization of a measure late in 1999, in accordance with a resolution of the Czech government, which involved transferring selected doubtful and non-performing receivables to Konsolidační banka.

Another important step that contributed to the lower need for provisions was the signature of the Restructuring and Guaranty (Ring Fencing) Agreement on 1 March 2000 by and between Česká spořitelna and Corfina, on the one hand, and Konsolidační banka on the other. The relevant resolutions of this agreement entered into force on the date of the transfer of Česká spořitelna shares owned by the National Property Fund of the Czech Republic to Erste Bank der oesterreichischen Sparkassen AG. Substantial part of the agreement is that Konsolidační banka guarantees the net book value of the "ring-fenced" items

according to the state captured in the Bank's books as at 31 December 1999. The "ring-fenced" items are receivables from corporate clients with a non-zero net book value, classified as of 31 December 1999 according to the relevant Česká národní banka (CNB) Regulation as non-standard, doubtful, or non-performing. Subject to the fulfilment of certain conditions, it will be possible until June 2001 to add to the list of "ring-fenced" items further receivables from corporate clients that were classified as standard and watch-list as of 31 December 1999.

As in the previous two years, the amount of provisions created was influenced by the obligation to make "supplemental provisions" pursuant to CNB Regulation 193/1998 Sb. To comply with this Measure, it was necessary as of 31 December 2000 to create supplemental provisions up to the full amount of real property collateral for all non-performing receivables that are more than 361 days overdue.

The creation of general reserves is focused in particular on covering anticipated losses from downgrading of loans classified as "standard" and from other processes ongoing in the loan portfolio. These reserves serve to cover structural risks which have a potential to impact the Bank's lending business.



**Other income and expenses**

**Included in the Bank's earnings result is an extraordinary item** of CZK 1,776 million **for restructuring reserves.**

These reserves were set aside to cover selected costs, operational in character. The Bank had already made use of a portion of the reserves (CZK 355 million) before the end of 2000. The balance of the reserves at 31 December 2000 was CZK 1,421 million. The restructuring reserves were reflected in the "Other provisions and reserves" and "Creation of provisions for tangible fixed assets" items.

The year-on-year increase in the provisions for participation interests and financial investments, up by CZK 491 million to CZK 577 million, was driven by financial investments related provisioning. The bank investment portfolio volume grew as a result of changes in

regulations concerning the allocation of securities to investment and trading portfolios.

**One item** in the "other operating expenses" category **that has seen long-term growth is the Bank's contribution to the Deposit Insurance Fund**, which was CZK 870 million in absolute terms, up CZK 219 million (34%) from 1999. This trend is the result of higher primary deposits boosting the overall level of insured deposits, as well as clients' gradually shifting from uninsured to insured types of deposits.

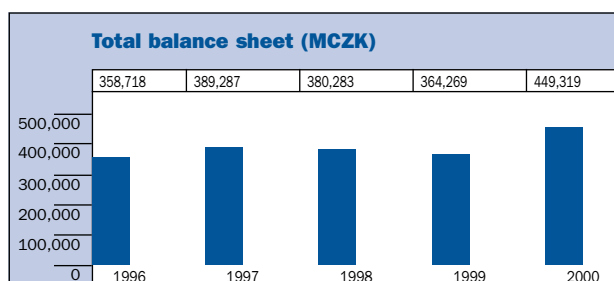
The net balance of reserves for tangible fixed assets was CZK 2 million. Other expenses, mainly for transfers of assets in the "other assets" category, fell by CZK 25 million to CZK 163 million.

The loss on extraordinary activity in 2000 totaled CZK 1,246 million, compared to a CZK 1,214 million profit on extraordinary activity in 1999. The difference between the years 2000 and 1999 is due to primarily a one-time revaluation of financial derivatives in the Bank's portfolio effective 1 January 2000. The evaluation was made necessary by a change in methodology and was reflected in the financial statements as an extraordinary revenue of CZK 385 million and an extraordinary expense of CZK 1,802 million. In addition, the 1999 figure included an extraordinary out-of-court settlement for which there was no counterpart, in 1999.

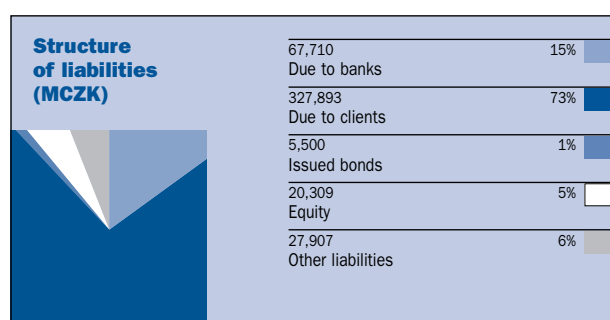
Česká spořitelna's **income taxes were heavily influenced by the provision of deferred tax according to the new CNB rules valid as of the year 2000**. The deferred tax of CZK 4,590 million consists of CZK 1,241 million in temporary differences and tax losses from past years in a cumulative amount of CZK 3,349 million. Income tax payable in the amount of CZK 25 million is based on a tax return correction. Česká spořitelna's overall tax position, then, is a receivable of CZK 4,565 million.

## Commentary on the Balance Sheet

Česká spořitelna's total assets as of 31 December 2000 are CZK 449.3 billion, which is CZK 85.0 billion (23%) higher than in 1999. In fact, in 2000, **Česká spořitelna's**

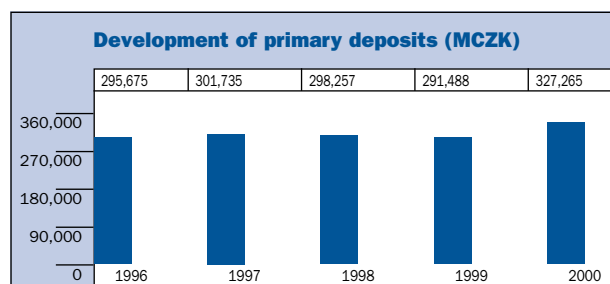


**total assets were higher than at any other time in the Bank's history.** The acquisition of Erste Bank (CR) accounted for CZK 23.0 billion of this increase. On the liabilities and equity side, the most dramatic shifts were a CZK 35.8 billion increase in primary deposits and a CZK 35.7 billion increase in the amount owed to banks. On the asset side, securities grew by CZK 49.8 billion and the amount owed by banks was up CZK 20.1 billion.



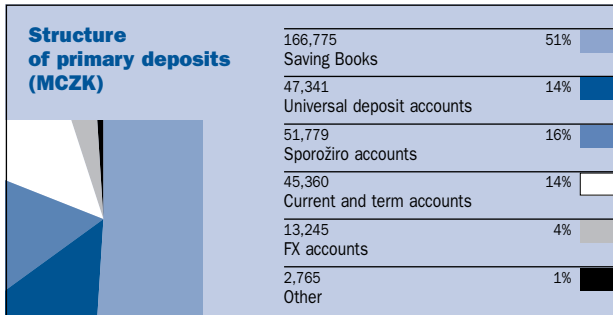
## Primary deposits

**Primary deposits**, which are the fundamental resource for the Bank's active business, **grew by CZK 35.8 billion (12%) in 2000**, reaching a historic high of CZK 327.3 billion. The growth in primary deposits is related to the expanding range of products and services offered by the Bank, as well as to developments in the Czech banking market (especially in the first half of 2000) and the inclusion of CZK 8.3 billion in deposits from the Erste Bank (CR) acquisition.



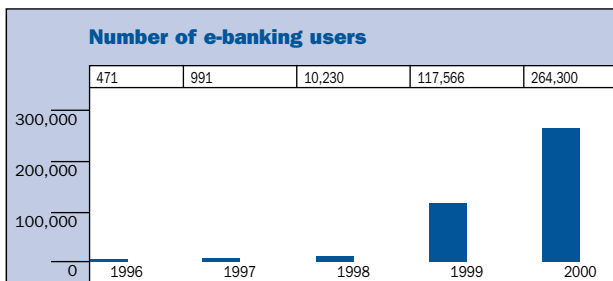
Growth was seen in the deposits of private individuals (up CZK 25.5 billion to CZK 274.9 billion) as well as organizations and businesses (CZK 10.3 billion to CZK 52.4 billion, or 16% of deposits). Foreign currency deposits also grew, by CZK 3.1 billion (30%) to CZK 13.2 billion, which represents 4% of the primary deposits total. While total deposit book balances declined 3% (CZK 4.7 billion) from the previous year's levels to CZK 166.8 billion,

the pace of this decline is slowing (from a 7% decrease in 1999). While clients are moving away from deposit books with 12- and 24-month notice periods, deposits on 1-, 3- and 6-month deposit books are growing substantially. The Universal Deposit Account has become a very popular product. Overall balances for this product increased 79% during the year, by CZK 20.8 billion to CZK 47.3 billion.

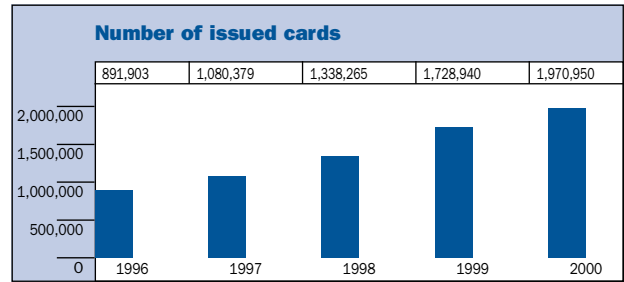


The number of sporožiro accounts rose by over 80 thousand over 1999's levels to 2,666 thousand accounts and CZK 51.8 billion in account balances. This represents an increase of CZK 11.8 billion (29%). **The number of transactions completed on sporožiro accounts grew by nearly 12 million** to 217 million transactions. Balances on current and term accounts belonging to legal entities and private individuals grew as well, by CZK 4.9 billion (12%) to CZK 45.4 billion.

In the electronic banking area, in both current and sporožiro accounts, in 2000 Česká spořitelna continued to develop its Home Banking, Phone Banking and GSM Banking products (the last using SMS messages over mobile phones). The Bank saw the number of new clients for these e-banking products grow at a fast pace: Home Banking by 53% to a total of 4,300 clients, Phone Banking ("Sporotel") by 177% to 251,400 clients, and GSM Banking ("SMS Sporotel for current accounts") by 180% to 8,600 clients. In 2000 preparations began on further



electronic banking tools, Internet Banking and GSM Banking using SIM ToolKit, both of which will be launched in 2001. Another important **alternative distribution channel** and one **that will become predominant** in the future, **is the Customer Center** which is being built in Prostějov. The Center will serve the entire Česká spořitelna Financial Group.



The number of active cards issued on sporožiro and current accounts belonging to private individuals and legal entities grew by 242 thousand (14%) over 1999's levels to 1,971 thousand cards. The Visa Electron current account card was launched in January 2000 and was followed in July by the first co-branded card, Visa Classic Partner, which is being marketed in cooperation with the Čedok travel agency. Twenty new ATMs were installed during 2000, bringing the total number to 890. In rolling out new ATMs Česká spořitelna focus on strategic locations such as shopping centers and large store chains. In the acquiring area, the Bank aggressively expanded the network of vendors that accept its cards; newcomers include large chains such as Ahold, Globus, Carrefour and Interspar. Another important step was the introduction of Česká spořitelna card acceptance throughout the entire network of Prima megamarkets and initial steps to do the same in the Albert supermarket chain.

The Bank's strategy is focused on increasing card versatility, i.e. to shift card business away from ATM withdrawals and toward direct card payments in stores. Perceptible growth in card versatility can be seen, for example, in the EC/MC Variant card, where the rate of card use for payment at least once a month increased from 10% to 17%. **The total number of card transactions made through vendors jumped 125%** to 4.5 million with a total transaction volume of CZK 8.3 billion. The number of ATM withdrawals increased by 18% to 63.2 million and the corresponding monetary volume was CZK 122.9 billion.

## Payments

In order to create conditions for business cooperation, as of 31 December 2000, 518 contracts with correspondents had been made in 91 countries throughout the world. The number of correspondents rose in spite of the current wave of bank mergers and acquisitions. In accordance with Česká spořitelna's strategy, the number of hard-currency accounts at partner banks was consolidated and reduced, based on an analysis of the relevant terms and conditions. The Bank's list of principal correspondents now includes 20 banks. After the Bank's integration into the Erste Bank Group, the number of accounts opened with Česká spořitelna by foreign banks has grown.

Over 100 million inter-bank payments were processed by Česká spořitelna in 2000 (up 8% from 1999) and sent through the CNB Settlements Center. Total payment volume was CZK 10.9 trillion, which is 32% higher than in the previous year. In the foreign payments area, 224,000 payments totaling CZK 66.2 billion were processed. The number of foreign payments was up 15% from 1999 and foreign payment volume climbed 34%. Time periods for processing all operations are in line with standards valid in the Czech Republic.

## Amounts owed to banks

**Amounts owed to other banks grew** by CZK 35.7 billion (112%) to CZK 67.7 billion, **due mainly to obligations under securities issued by the Bank which arise from reverse repo transactions**, which grew CZK 32.2 billion to CZK 55.0 billion. Loans from other banks totaled CZK 4.4 billion and deposits made by other banks (mainly term deposits) totaled CZK 8.3 billion. CZK 12.0 billion of this amount is attributable to the acquisition of Erste Bank (CR).

In 1998 the Bank received CZK 5.5 billion in subordinated debt from Konsolidační banka in the form of a loan that

matures in 2008 and can be included in the Bank's additional capital (Tier 2) for purposes of computing capital adequacy.

## Shareholders' equity and capital adequacy

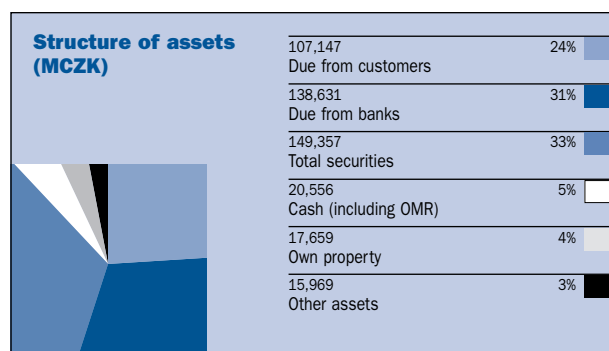
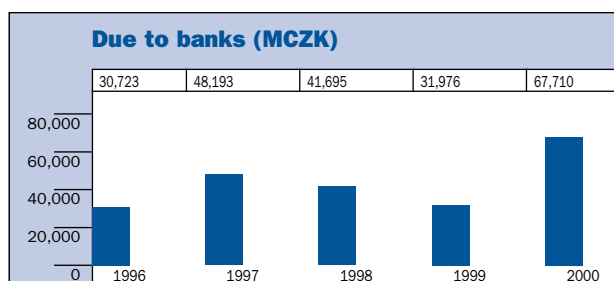
**Shareholders' equity was up 31%** from 1999, **due to the current period profit** of CZK 4.9 billion, and totaled CZK 20.3 billion, or 5% of the balance sheet sum.

**As of 31 December 2000, capital adequacy was 12.90%.**

A major amendment to the CNB's capital adequacy regulation was adopted during the year. Since April 2000, the CNB has required that Česká spořitelna trading portfolio market risk be covered by Česká spořitelna capital. This regulatory amendment caused Česká spořitelna's capital adequacy ratio to fall by approximately 1.6 of a percentage point.

In addition to the regulatory intervention mentioned above, two commercial developments had a material impact on the Bank's capital adequacy ratio in 2000. The first of these was the fulfilment of the Restructuring and Guaranty (Ring Fencing) Agreement. Under terms of the Agreement a Konsolidační banka guaranty was issued in August for the net book value of assets included in the Ring Fencing Portfolio, which boosted Česká spořitelna's capital adequacy by approximately 0.6 of a percentage point. The second development was the takeover of Erste Bank (CR)'s operations in September 2000. This caused the Bank's capital adequacy ratio to fall by approximately 0.9 of a percentage point.

**In terms of liquidity management, the most important trend in 2000 was the substantial influx of primary deposits** (CZK 35.8 billion), which was allocated primarily to highly liquid assets such as CNB and MoF treasury bills. Treasury bills and repo transactions with the CNB reached CZK 85.8 billion at 31 December 2000. The fundamental



bank liquidity indicator monitored by Česká spořitelna is the "current liquidity rate", defined as the ratio of quick assets to a portion of liabilities and equity. For illustration, at 31 December 2000 CZK 104.4 billion were considered quick assets, while the volume of CZK 315.2 billion of liabilities and equity were included in the denominator of the current liquidity rate calculation. The result, then, was a current liquidity ratio of 33.13% as of that date (1999: 30.39%).

### Client loans

**In 2000, Česká spořitelna halted the three-year declining trend in client loans.** A key role was played by the acquisition of Erste Bank (CR), which brought with it CZK 13.7 billion in client loans. In comparison with 1999, client loans grew CZK 6.5 billion (6%) in net terms to CZK 107.1 billion. In terms of gross volume, client loans total CZK 124.9 billion. Provisions of CZK 17.7 billion have been created against these loans.

**A quarter of the loans represent lending to private individuals.** The overall gross volume of retail loans increased CZK 1.1 billion to CZK 31.7 billion. Commercial retail loans grew CZK 3.0 billion (17%) to CZK 20.1 billion, with most of the growth occurring in mortgage loans (up 44% to CZK 5.0 billion), consumer loans (up 20% to CZK 1.7 billion), cash loans (up 11% to CZK 8.5 billion) and overdraft facilities on *sporožiro* account (up 55% to CZK 2.3 billion). The volume of social loans, which were issued prior to 1990 at lower-than-market interest rates, and which the government refunds at 6M PRIBOR + 2%, contracted by 14% to CZK 11.7 billion.

Česká spořitelna emphasizes its policy of accessibility in lending to private individuals. One result of this policy is *Sporoservis*, an alternative distribution credit product which allows a customer to apply for a loan directly at a store. The information the client gives to the vendor is sent to a centralized location where the information is used to determine the client's credit rating and an immediate decision is made on whether or not to extend the loan.

Loans denominated in foreign currencies grew, rising CZK 6.2 billion (48%) to CZK 18.9 billion, which is 15% of overall client loans in gross terms.

Mortgage lending to businesses and other organizations developed in similar fashion to mortgage lending to private individuals and ended the year 46% higher at CZK 1.8 billion, bringing **the total portfolio of mortgage loans to**

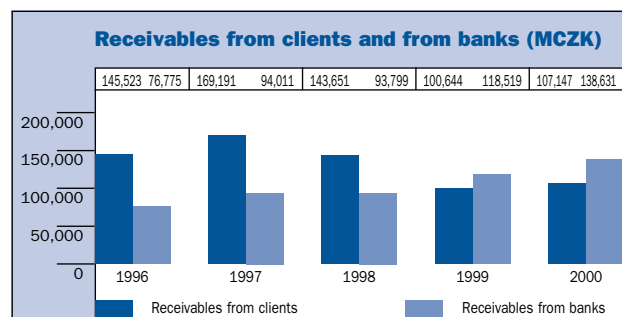
**CZK 6.8 billion**, up CZK 2.1 billion from the previous year. The municipal sector is a strategic client group for Česká spořitelna. Due to many years of cooperation, nearly 80% of all the cities and towns in the Czech Republic are clients of Česká spořitelna in one form or another. What is more, over a third of all the cities and towns have all their budget accounts with the Bank and use it for all their payments. Loans to municipal clients reached a volume of CZK 5.0 billion (up 1% year-on-year) and focused on repairs to apartment buildings made out of pre-fabricated concrete panels, construction of water treatment facilities, repairs to water mains, and infrastructure development for industrial parks.

Other corporate loans totaled CZK 68.2 billion, which is 2% less than in the previous year. The most significant shift in the lending structure was seen in loans to financial organizations, which were up CZK 13.0 billion to CZK 14.1 billion.

Movements in the client loan collateral structure were as follows: use of real estate as collateral fell from 36% to 28% (especially in corporate loans); third-party guarantees fell from 19% to 14% as the upper limit for lending without a third-party guarantor was increased; assignment of receivables fell from 9% to 4%, while bank guarantees jumped from 1% to 9%; and, unsecured loans rose from 25% to 39%.

**The quality of the client loan portfolio improved slightly** over the previous year. The proportion of standard loans rose by 1.80 percentage points to 61.42%. As this number would imply, the proportion of classified client loans was 38.58%, down from 40.38 percentage points in 1999.

In 2000, there was a major change in the organisation of problem loan management. As a result of this change a separate Credit Risk Management (CRM) section was formed, integrating debt restructuring and collection (Workout). The main reason for the change is Česká spořitelna's effort to utilize experience in restructuring and



debt collection in credit risk management throughout the entire lending cycle, both in the consulting area as well as in direct administration and accountability for dealing with problem clients. These changes should bring a significant improvement in the entire lending process and a significant reduction in the number of problem loans – not just non-performing loans but in all classified loan categories.

New possibilities in debt collection were brought by an amendment to the Bankruptcy Act and a newly passed Act on Non-Court Auctions. In accordance with the new methodology and the Ring Fencing rules, all necessary steps were taken to improve the Bank's creditor position which resulted in active portfolio management.

The Restructuring and Guaranty Agreement also includes a process of possible reclassification whereby those receivables that were classified incorrectly as of 31 December 1999 can be ring-fenced retroactively. At the same time, the Bank has an interest in reducing receivables volume through the debt collection process in the form of an incentive fee. In relation to partial or full collection of debts included in the portfolio subject to the Restructuring and Guaranty Agreement the assets value, as at 31 December 2000, decreased in contrast to the initial state. As of 31 December 2000 the portfolio had contracted to CZK 18.5 billion and KOB's guaranty was worth CZK 12 billion. Based on these data, it can be stated that **during 2000**, as a result of partial or total debt collection, **the volume of ring-fenced assets was reduced** from its 31 December 1999 level by a total of CZK 4.1 billion.

### Receivables from banks

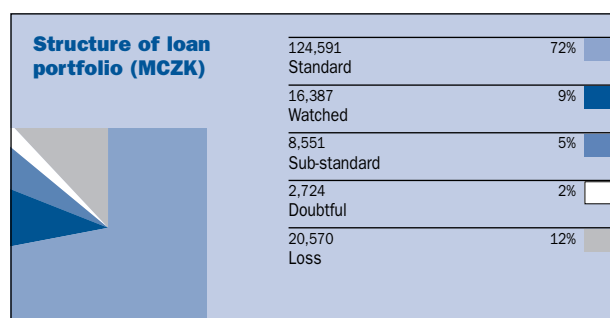
Inter-bank loans and deposits (receivables from banks) rose by CZK 20.1 billion (17%) over 1999's levels to CZK 138.6 billion, representing 31% of total assets. CZK 6.9 billion of this amount is attributable to the acquisition of Erste Bank (CR).

Loans provided by the issuing bank in reverse repo transactions with collateral securities transfers rose by CZK 30.6 billion (128%) to CZK 54.5 billion, inter-bank lending declined by CZK 9.2 billion (16%) to CZK 47.9 billion and deposits with other banks totaled CZK 35.9 billion, down CZK 1.6 billion (4%). Other amounts owed to the Bank by other banks totaled CZK 0.3 billion.

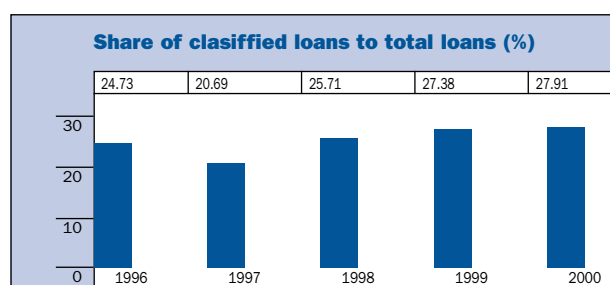
**The growth in inter-bank receivables is related particularly to the incremental growth in primary**

**deposits and the use of the funds so obtained in active inter-bank trading.** This growth was also influenced by reallocation of funds freed up by cutbacks in lending to legal entities.

**In keeping with the Bank's tradition, the quality of our inter-bank portfolio is high;** classified inter-bank loans are only 0.13% of total inter-bank loans, down from 0.66% in 1999.

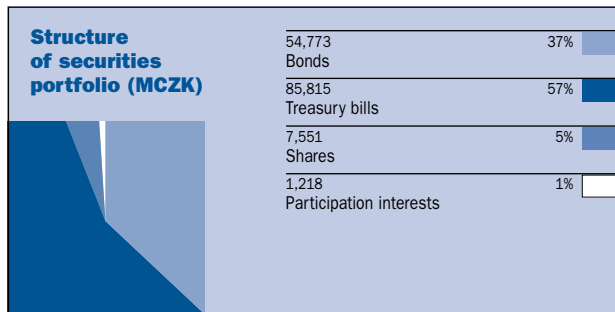


The overall volume of the loan portfolio fell by CZK 2.7 billion (2%) from 1999's levels to CZK 172.8 billion. The decline was in inter-bank loans. Client loans as a proportion of overall loans rose from 67% to 72%. Despite the improved quality of the client and loan portfolios, this development caused a slight deterioration in the indicator of overall loan portfolio quality. The proportion of classified loans was 27.91% at 31 December 2000, up from 27.38% at 31 December 1999.



### Securities and financial markets

As a matter of principle, Česká spořitelna takes a conservative approach to managing the Bank's securities portfolio, and that means minimizing issuer credit risk. When investing in securities, the Bank prefers to purchase



bonds issued by the Czech Ministry of Finance, companies with State guarantees, and the highest-rated Czech and foreign banks.

Česká spořitelna manages a CZK 149.4 billion **securities portfolio** which grew in size by CZK 49.8 billion (50%) during the year. With its 33% of balance sheet value the securities portfolio **is the largest single item on the assets side of the Bank's balance sheet**. In 1999, this proportion in the balance sheet was 27%. **Bonds and other fixed-income securities make up 94% of the portfolio value**. The growth of the securities portfolio is attributable to reallocation of funds freed up by cutbacks and lending to legal entities in particular, and to active trading using new funds from the incremental increase in primary deposits.

Holdings of State treasury bills and notes were increased to CZK 85.8 billion, up CZK 26.5 billion (45%). Most of this growth is attributable to repo trades, of which the Bank held CZK 55.0 billion, up CZK 23.9 billion from the year before.

In 2000, a methodological change took place in the securities portfolio regarding the way the securities are allocated to the investment and to the trading portfolio. This change was called for by new CNB regulation. The volume of bonds in the trading portfolio dropped steeply, by CZK 26.9 billion, to CZK 1.4 billion while the volume of bonds in the investment portfolio increased CZK 47.4 billion to CZK 53.4 billion. The investment portfolio includes CZK 17.4 billion in bonds of foreign issuers, which is CZK 11.0 billion higher than last year. Most of the bonds are Czech crown and foreign currency eurobonds. In the trading portfolio shares and other variable yield securities rose by CZK 6.7 billion to CZK 7.4 billion and fell in the investment portfolio by CZK 4.1 billion to CZK 0.1 billion. The trading portfolio contains unit certificates of the Český, Výnosový and Všeobecný open-end mutual funds in a total volume of CZK 7.3 billion,

which were transferred from the investment portfolio during the year in accordance with the securities investment strategy.

CZK 2.3 billion in less worthy bonds acquired earlier were included in the Ring Fencing program. During 2000, the Bank succeeded in negotiating reversals of transactions in underlying assets that were related to credit risk of Russian and Ukrainian entities. Canceling these transactions in 2000 added CZK 0.5 billion to the Bank's bottom line.

In 2000, Česká spořitelna markedly stepped up its equity trading activity on the Prague Stock Exchange (PSE). According to the list of the most active equities traders published by the PSE, **the Bank was number two in terms of trading volume among PSE members in 2000**.

In addition to trading in Czech shares, the Bank also focused on other products that it can offer to clients and which are in great demand. Clients interested in investing in Central European emerging market equities are offered services in cooperation with Erste Bank's other branches in the region. Together with Erste Bank Česká spořitelna gives clients also the opportunity to trade shares on advanced foreign markets in Europe and the USA, together with related services.

Česká spořitelna's alliance with Erste Bank has also positively influenced the Bank's financial markets business. Česká spořitelna's market position is stronger, both in inter-bank business and in terms of client transaction volumes. **The range of products offered by the Bank in this area has expanded considerably and several new products have been created**. The Bank occupies a very strong position in the money market, and in the primary and secondary bond markets. In primary issues, the Bank was mandated to issue bonds of Česká exportní banka, Třinecké železářny and the City of Prague. Regarding some products, complex financial derivatives in particular, Česká spořitelna is one of only a few banks in the local market provide to them.

In the asset management area, Česká spořitelna now provides its services and offers its products to both private and institutional clients. The Bank expects to see its assets under management grow. In portfolio management, emphasis was placed on implementing firm rules for developing investment strategies, executing them in a precise fashion, and evaluating investment decisions. All of these measures are gradually making themselves felt in terms of better performance in managed portfolios and more exact fulfilment of clients' needs.

In the area of collective investing (i.e. investment companies, investment funds and pension funds), Česká spořitelna offers its services as Custodian Bank. At the end of 2000, the Bank provided this service to 15 investment, mutual and pension funds, including the funds of Spořitelní investiční společnost.

The Bank manages CZK 7.5 billion in assets, up CZK 0.5 billion (7%) from 1999 and acts as Custodian Bank for another CZK 39.7 billion in assets for investment, mutual, and pension funds, an amount that is CZK 3.5 billion (8%) less than in 1999.

### Tangible and intangible fixed assets

The year 2000 saw a continuation of the declining trend in tangible and intangible fixed assets, which fell by CZK 0.5 billion (3%) to CZK 17.7 billion, or 4% of the total assets. Tangible fixed assets as a whole declined by CZK 1.0 billion (6%) to CZK 16.0 billion, CZK 12.5 billion of which represents land and buildings, CZK 0.6 billion investments in process, and CZK 2.9 billion other tangibles. Česká spořitelna also owns 485 buildings and co-owns another 32 with a total net book value of CZK 11.1 billion. Česká spořitelna also owns 727 estates with a total net book value of CZK 0.4 billion.

During 2000, a moratorium was placed on new construction projects in view of preparations for a change in the Bank's operating principles and procedures in cooperation with Erste Bank. In 2000 renovations and remodellings were completed in the branches Prague 1 – Rytířská, Prague 4 – Nuselská, Prague 5 – Štefánikova, Jeseník, and Brno – Štefánikova. A new-build project, Budějovická III, in Poláčkova Street in Prague 4 was also completed.

Intangible fixed assets increased by CZK 0.5 billion (37%) in year-on-year terms to reach CZK 1.7 billion. This development can be attributed mainly to the recording of CZK 0.2 billion in goodwill as the difference between

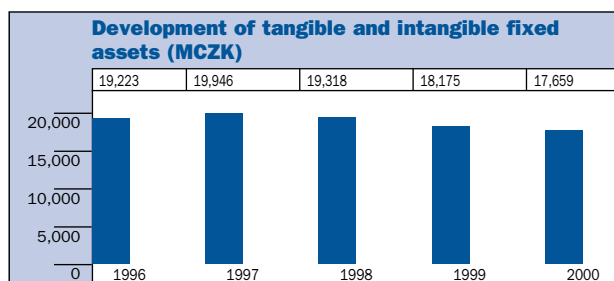
the book value of assets and liabilities in the Erste Bank (CR) acquisition at 30 September 2000 and the purchase price paid. Software totaled CZK 1.2 billion and investments in process came in at CZK 0.3 billion.

## Other Banking Activities

### Information technologies

The principal IT challenges in 2000 were to stabilize data processing operations and further develop information systems to keep pace with the Bank's growth. In accordance with the Bank's business strategy of improving service quality, adjustments were made to the functionality of existing software applications and work began on solutions for new distribution channels (electronic banking). IT operations were substantially influenced by the necessity to integrate Erste Bank (CR)'s systems into those of the Bank.

At the beginning of 2000 all measures taken by the Y2K Project were checked. After the verification that the Bank's information systems successfully entered the year 2000, the Y2K Project was closed. **IT development in 2000 continued mainly in the area of data network and communications roll-outs** (e.g. migrating sites in Prague to a new high-throughput communications infrastructure) with the aim of improving network infrastructure quality and reliability and increasing the financial effectiveness of operating Česká spořitelna's networks. Major attention was given to stabilizing the operation of the Card Center, including: optimization of Card Center settlement processes, completing development of a PIN verification application with the plan to install new terminals during the first quarter of 2001; and, eliminating problems impacting the Card Center's operations by building a back-up Card Center (completion planned for the first half of 2001). In the course of 2000, the third phase of the StarBank system, which concentrated on lending to private individuals and mortgage lending as core functions, was completed. Launching retail loans in the branch network allowed Česká spořitelna to offer this product at all the Bank's business locations. Phase four of the project will include foreign currency accounts and will be completed in the second half of 2001. Another IT task was to redesign the payments system by unifying payments functions into a single module and then transferring the module to a new platform. Development and implementation of the universal payments module was interconnected with the implementation of



accounting correction functions in related modules of the system. As part of this process a new format for sporožiro account statements was introduced that allows the Bank to report individual transactions to clients in the scope and level of detail defined by the inter-bank data interchange standard. **In late 2000, preparatory work began on implementing the Symbols and SAP R/3 systems.** One shortcoming of the information system during 2000 was its continued fragmentation, which puts high demands on maintenance and organization of labor and resulted in high service and development costs.

### Risk management

Česká spořitelna puts great emphasis on risk management as a comprehensive process that allows the Bank to effectively identify, measure, monitor and manage banking risks in accordance with CNB requirements and general risk management principles. The Bank's Central Risk Management, Credit Risk Management, and Balance Sheet Management departments support management of the Bank's income by identifying, monitoring and managing individual financial risks and thereby enabling funds to be allocated as effectively as possible.

The most important bodies in the risk management process are the Bank's Board of Directors, the Credit Risk Committee, the Assets and Liabilities Management Committee, and the Financial Markets and Risk Management Committee.

**Central Risk Management is an independent section that is kept separate in organizational terms from the commercial divisions and the Settlements Department.** It is subordinate and reports directly to the Member of the Board of Directors responsible for financial management. Also it reports to the Member of the Board of Directors responsible for the financial markets area. The section's principal mandate is to manage market and operational risks. In particular, it operates and implements processes relating to risk management in compliance with Erste Bank Group standards. Also, it cooperated with the unit taking a chance on a given risk to propose market risk limits and monitors risks, gains and losses on trading activity, including submitting regular reports to the Bank's management and business units.

Central Risk Management's role in managing operating risks includes approving positions in the commercial and banking profiles and being responsible for following up on the market valuations of these positions. Central Risk Management is also responsible for administering market risk monitoring

systems, including setting valuation parameters and assessing new products from the perspective of their potential impact on the Bank's market risk profile.

### Credit risk management

Credit risk – the possibility that a given client will not repay his loan – is a basic banking risk, and its management is of fundamental importance to the commercial success of any bank. **In recognition of this fact, Česká spořitelna opened a new, independent credit risk management unit in 2000.**

The basic tool for managing credit risk at Česká spořitelna is assessment of client credit. This assessment focuses in particular on an analysis of the client's financial situation, the anticipated development of his ability to repay the loan in question, assessing past credit history and the client's communications with the Bank. At the end of the process, the client is assigned to one of eight credit categories. Client credit assessments are carried out prior to closing any loan as well as during the course of the contractual relationship with the client. In accordance with the relevant Measure of the Czech National Bank, the 5-degree client classification system is also used. Internal client assessments correspond to the CNB classification. Loan processing also includes an assessment of collateral. For assessing risk associated with financial institutions (banks, insurance companies, etc.) Česká spořitelna has implemented an internal classification system that places individual institutions into one of ten categories. The in particular assessment looks at the institution's ability to repay its debts, factors relating to the external environment, market position, and ownership structure.

To assess credit risk for small clients, Česká spořitelna uses a credit scoring system. In essence, this method assesses the client's capability to repay the loan in question by assigning standardized numbers of points to relevant client characteristics. The final number of points determines whether or not the loan is approved.

One of the important steps in the loan process is the final approval or denial of a proposed loan transaction. During 2000, there was a major change in the approval authority area. Under the new rules, all loan transactions are approved by line managers in credit risk management, not by commercial managers.

Česká spořitelna continues to develop and build on the statistical models it uses to manage its entire loan portfolio. The Credit Risk Model, which operates on the basis of Value at Risk, allows the Bank to control risk

arising from concentration, predict future development of the loan portfolio, and determine the price of a loan based on the risk associated with it.

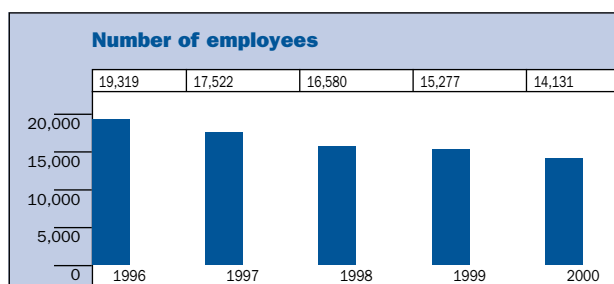
As a result of Česká spořitelna's becoming a part of the Erste Bank Group, changes took place in credit risk management during 2000. These changes will continue to take place in the future. The internal client credit rating system will be adjusted to work on the basis of 10 degrees of creditworthiness. Changes are also being prepared in the loan collateral management and approval authority areas.

A process of reclassifying the loan portfolio began in June 2000. In July, after the completion of an initial preparatory phase, a process of conducting detailed analyses of selected clients in both corporate and retail started. This reclassification is related to the Restructuring and Guaranty Agreement entered into between the Bank and KOB.

#### Developments in human resources and organizational issues

**The ongoing transformation process at Česká spořitelna led to the planned reduction in the number of employees** as of 31 December 2000, when the average adjusted head count for the year reached 14,499 and the physical number of employees on that date was 14,131. Compared to 1999 this represents a reduction of 1,146 employees (8%), including the absorption of 228 Erste Bank (CR) employees into the Bank's organization.

Despite higher employee mobility, the work force further stabilized in 2000, as evidenced by a mild rise in average employee age to 38.58 years and an increase in the proportion of employees who have been with the Bank more than 5 years to 78%. The proportion of men also rose slightly, to 22%, and the work force qualification structure continued to improve, including growth in the percentages of secondary-school and university graduates, which exceeded 75% and 17%, respectively. The aggregate average Bank employee monthly wage, after deducting



other personnel costs and subsequently calculated accrual/deferral items was up 6% for the year 2000, to CZK 19,325.

**The final stage of the Bank's privatization was accompanied** in the first three quarters of 2000 **by several changes in Česká spořitelna's corporate governance bodies.** Early in the year, several Supervisory Board members, who had represented the interests of the National Property Fund of the Czech Republic (NPF) as the largest shareholder, resigned. February and March 2000 saw Manfred Wimmer and Ernst-Gideon Loudon appointed to the Supervisory Board. John James Stack was elected to the Board of Directors of Česká spořitelna in February. At the Annual General Meeting of Česká spořitelna shareholders approved changes in certain Supervisory Board seats. Further major changes were approved at the Extraordinary General Meeting held on 27 June 2000. At the proposal of the NPF, the Extraordinary General Meeting elected the following new members to Česká spořitelna's Supervisory Board: Andreas Treichl, Reinhard Ortner, Mark K. Gormley, Herbert Schimetschek. The following were re-elected to the Supervisory Board: Miloslav Hejnák, Livia Klausová, Manfred Wimmer and Kurt Geiger. The following Supervisory Board members who were elected by the employees of Česká spořitelna remained: Milan Bakeš, Ivan Černý, Josef Komárek and Petr Liška. The new Supervisory Board took office on 3 August 2000, one day after shareholder rights were transferred to Erste Bank. At an Extraordinary Supervisory Board meeting convened on 30 August 2000, Andreas Treichl was elected Chairman of the Supervisory Board and Livia Klausová was elected Vice Chairwoman.

As of July 2000, Česká spořitelna had a new Board of Directors composed as follows: John James Stack, Chairman of the Board and Chief Executive Officer (CEO); Dušan Baran, Vice Chairman of the Board and First Deputy CEO; Daniel Heler and Martin Škopek, Members of the Board and Deputy CEOs and Gernot Mittendorfer as the Member of the Board. The sixth Member of the Board is Karel Jan Jeníček, who was elected to this office by the Supervisory Board in October.

**Effective 1 August 2000, the Bank's head office underwent an extensive reorganization** which created conditions for integrating the businesses of Erste Bank (CR) into the Bank's operations. The former system of divisions was done away with and a new system of management was put in its place. The Bank's operations are run by members of the Board of Directors, the CEO, the First Deputy CEO and the Deputy CEOs. A Senior

Management Team consisting of Members of the Board of Directors and directors of selected head office sections was set up to advise to the Board of Directors on fundamental business and political issues and strategic matters. The Bank continues to use a bilevel management system consisting of the head office and the district branches. The district branch is the basic executive business organizational unit of the Bank, offering the full range of Česká spořitelna Financial Group products and services, carrying out the Bank's strategic development plans and applying the fundamental principals and concepts of the Bank's business development policies.

The ongoing transformation and restructuring led to a reduction in the size of the branch network by 169 business locations, bringing the total number to 707. The "filiálka" branch category was eliminated. The goal is to make wide-spread use of alternative forms of service (electronic banking, terminals). At the same time, Česká spořitelna aims to offer the full range of services at most of the Bank's branches.

**The Česká spořitelna transformation process also included the acquisition of Erste Bank Sparkassen (CR) a.s.** and the subsequent integration of Erste Bank (CR) into Česká spořitelna. The acquisition was carried out with the prior approval of the Supervisory Board and Board of Directors of Česká spořitelna and the General Meeting of Erste Bank (CR).

The plan to acquire Erste Bank (CR) was based on Česká spořitelna's interest in expanding and improving in this manner its client portfolio, gaining better access to foreign markets, and obtaining the know-how of a bank with foreign equity participation. Another positive element in the combination of the two banks was the realization of synergies from the integration of the two banks' business activities in the domestic market and within the Financial Group of Erste Bank der oesterreichischen Sparkassen AG. The Agreement on Sale of Enterprise between Česká spořitelna and Erste Bank (CR) was signed on 26 September 2000 and took effect as of 30 September 2000. The agreed acquisition price was CZK 1,620 million.

### Internal audit

Česká spořitelna's internal audit unit acts as an independent, objective assurance and consultation service to the Bank's management and its owners as represented by the Supervisory Board. Internal audit activity focuses on added value and improving the Bank's operations. The implementation of a systematic,

methodic approach to evaluating risks and improving the effectiveness of risk management and other management and control processes helps the Bank to achieve its strategic goals. Internal Audit is an integral part of the Bank's system of internal controls. The independence of the Internal Audit unit is protected by internal Bank regulations and Internal Audit officers have unlimited access to all operations that go on at Česká spořitelna. Internal Audit's activities are governed by a periodic and strategic plan that is approved by the Audit Committee of the Česká spořitelna Supervisory Board.

### Environmental policy principles

It is Česká spořitelna's long-term goal to contribute to the process of protecting and improving the environment, both through direct support of environmental investments and by directly encouraging our clients to reduce environmental risk. The Bank is governed by its Environmental Policy Principles, passed in 1999, in which the Bank commits itself to promote the environmental perspective in its commercial policies. This entails stressing issues such as compliance with rules for bringing environmental considerations into the lending process, support for clients that have EMAS and ISO 14001 certification, participation in financing direct and indirect municipal environmental investments, and support for environmental investments being made by our existing creditworthy clients.

**The proportion of loans to the municipal sector that directly addressed environmental issues was 57%** at 31 December 2000. At the same time, the municipal lending structure also began to reflect an investment trend towards residential construction, including the renovation of existing prefabricated concrete panel-type apartment buildings and housing developments. These investments, too, have something of a positive effect on the quality of our environment.

For its commercial lending operation, Česká spořitelna has drawn up a list of activities that carry high environmental risk. Loans can be approved for these activities only in exceptional cases, provided the client documents compliance with the ČSN ISO 14001 standards or holds certain other environment-related certificates. Loan officers carry out regular follow-up visits to monitor and evaluate clients' business activities.

Česká spořitelna also applies environmental policy principles within its Financial Group and monitors fulfilment of Group members' action plans. Major shifts

were seen in 2000 in this area especially in Spořitelní investiční společnost, ČS-Živnostenská pojišťovna and Corfina. The application of these principles has been successful in encouraging clients to treat the environment with respect and stimulating them to take measures to prevent environmental damage.

### Marketing

In the area of advertising, Česká spořitelna focused primarily on comprehensibility and building brand recognition. **In this product campaigns, the Bank focused its advertising on modern bank financing products**, with particular attention to Sporoservis and combination offers – or packages – tailor-made to meet client needs.

During the Christmas season, Česká spořitelna mounted a Group-wide advertising push. During the year 2000, the entire financial group did a thorough audit of its advertising activities, in preparation to meet the goals of the Transformation Program for the marketing area.

**After its acquisition by Erste Bank, Česká spořitelna's sponsorship strategy underwent certain changes.** In addition to the standard sponsorship budget, a so-called "additional" sponsorship budget which is dedicated to fulfilling certain contractual obligations in connection with Erste Bank's purchase of Česká spořitelna. The terms of purchase included a commitment to support economic development in the Czech Republic through sponsorship support in four key areas: culture, education, sport, and community. To meet its commitment in the most effective and efficient way, the Bank has developed a new sponsorship evaluation system. Through this mechanism the Bank can monitor its sponsorships to make sure that it is funding equitably among the four key areas, that it is spreading its support throughout the Czech Republic, and that it is choosing activities which fit the new marketing strategy. Česká spořitelna has continued to support its traditional projects such as Divadlo na Vinohradech, Smetana's Litomyšl, the Charles University, the Prague Zoo, ČS – Srdce Foundation, the Czech Olympic Committee and the ČS MTB team. New relationships and initiatives during 2000 included Bike for Life, the "Ten Centuries of

Architecture" exhibit, the Prague German Language Theatre Festival, the Czech Management Center in Čelákovice, and the SANANIM anti-drug prevention and treatment center.

### Internal and external communications

Internal communications have played, and continue to play, an important role in this period of transformation, especially in explaining transition processes and Bank management's plans, and in convincing employees that the path the Bank is taking is the right one. Therefore, the Internal Communications Unit was spun off from the Marketing Section in August to become an independent department reporting directly to the Chairman of the Board of Directors. **Internal communications focused in particular on explaining the ongoing transformation** and its impact on day-to-day work, as well as on obtaining feedback from employees. Direct communications were stepped up: informative meetings and discussions were held regularly at the branches and regular management meetings were resumed. Preparations began to re-launch the corporate Intranet as a unified and up-to-date communications and work tool.

In 2000, **the Bank's external communications effort focused on keeping the public abreast of progress being made in the privatization of Česká spořitelna**, an issue which was at the forefront of media attention practically up until mid-year. In the second half of the year, external communication concentrated on presenting the goals and **first steps of the Transformation Program**. The channels used included press conferences, informal meetings with reporters, and press releases, the number of which rose substantially, especially in the third quarter and late in the year. The number of press interviews with the Bank's managers increased as well. Much attention was paid to communicating with clients through the "Write to us" e-mail box. Česká spořitelna's web site was newly revamped at the end of the year, and now allows users to get their bearings quicker and go right to the information they need. The web site's services now include automated e-mailings on various topics and a popular mortgage calculator application.

## Medium-term Strategic Plans

### Bank's New Vision

Česká spořitelna is entering the new century with a newly formulated Bank mission statement and with a new long-term vision of being a modern, efficient financial services provider that will satisfy the high standards of the Erste Bank Financial Group.

The new mission statement is as follows:

- we want to be the leading retail bank in the Czech Republic and offer products and services that ensure full satisfaction of our clients' needs;
- we want to become a bank that is known for high security, excellent service quality, innovation and efficiency;
- we want to make the financial group profitable again by achieving above average revenues;
- we want to be a full-fledged member of the Erste Bank Financial Group, a bank that is capable of competing in the integrated European banking system.

The new vision of Česká spořitelna is defined as the building of long-term relationships with the Bank's most important partners, i.e.:

- clients; by providing high-quality products and services,
- shareholders and investors; by generating above average returns,
- employees; by creating a motivating work environment and a corresponding system of compensation,
- cities, towns and interest groups; as partners responsible for the country's economic and social development.

The way to making the Bank's long-term vision a reality will involve making improvements in a number of areas: higher-quality marketing, a substantial increase in service quality, technology changes, higher revenues, more effective cost management, improved communication within the financial group, introducing the elements of a new corporate identity, changing the company's image including the logo. The Transformation Program, started by management in 2000, will put the Bank in a position to do just that. The work of the various specialized teams is coordinated by a top-level transformation program team which includes representatives of Česká spořitelna and Erste Bank.

### Focusing on Clients' Needs

The key element of the strategy is a new, positive and helpful approach to clients and beefing up the marketing

of the Česká spořitelna Financial Group as a whole. Česká spořitelna will strive for a deeper understanding of the needs of its clients and adapt the target product and service ranges of the Bank and indeed the entire Financial Group to meet those needs. At the same time, Česká spořitelna intends to react to a recent trend involving a shift in Czech clients' interest from traditional banking services toward a wider area of comprehensive financial services. In addition to preparing new products and services, the Bank is also preparing for a change in how clients are served. Clients will benefit not only from the physical changes in the branches – as a result of re-designed teller windows – but also from the new professionalism of the Česká spořitelna staff, as a result of customer service training.

Česká spořitelna is commencing a process of building long-term relationships of trust with our clients. This effort will be assisted by the new office of Ombudsman, which will work with the Service Quality Department to give a hearing to clients who would like to tell about their experiences with the services of Česká spořitelna. The goal is to help clients find an appropriate solution to specific problems that may arise, or at least to provide positive feedback for improving services in the future. During the course of the year we plan to regularly assess our clients' satisfaction with our services and react flexibly to the results of these assessments. In addition, in 2001 we plan to open a Client center for telephone inquiries and automated services staffed by operators. For the future, we are planning widespread development of these services. The goal is for the Client Center to provide services to clients of the entire Česká spořitelna Financial Group 24 hours a day, 7 days a week.

### Large Investments

The intensive drive of new sales technologies will in the future be addressed by extensive IT investment with the goal of gradually creating a new, integrated information system. In 2001 we expect the volume of investments to reach CZK 5 billion. This is also a pre-condition for developing reliable services distributed by electronic means. The Bank will endeavor to bring about a dynamic expansion of alternative distribution channels, the bank card program, GSM Banking services (transmitting information in SMS messages using mobile phones), and Home Banking. New service possibilities using the Internet and WAP banking are currently being carefully tested prior to roll-out.

Although Česká spořitelna's priority focus will continue to

be retail banking and strengthening its dominant position in the retail market, it also wants to continue being a leading market maker in the domestic money and capital markets as well as a leading commercial lender. In its activities in Czech financial markets the Bank will endeavor to make sure its team continues to enjoy a reputation for being at the top of its class, backed by international experience and wide-ranging professional know-how. In the future Česká spořitelna expects to expand brokerage activities for clients in the area of foreign securities. In the commercial lending area, it wants to substantially speed up the loan process, in particular by centralizing certain functions and also by further increasing the expertise of the Bank's employees. With its program for small and medium sized businesses, Česká spořitelna will be a major supporter of this customer segment in the future. For cities and towns, the Bank will continue to be a responsible strategic partner that can contribute to regional economic and social development.

## Česká spořitelna's Business Intentions and Financial Development for 2001

Česká spořitelna's sales activities in 2001 will focus in particular on creating conditions to achieve the key financial goal – a Return on Equity for the entire financial group of 6% in 2001. At the same time, this year will be a time of carrying out a number of transformation changes. The Bank's financial performance in 2001 will be influenced by the following principal factors:

- the high number of transformation projects focusing on restructuring an efficiency enhancement;
- key investments such as the building of a call center and IT roll-outs (particularly the implementation of the Symbols integrated information system and SAP);
- work force reductions throughout the year;
- efforts to bring about major income growth.

The Bank will have three central priorities in 2001:

- building the desired sales and service culture;
- achieving higher performance and efficiency;
- creating the necessary level of loan risk management and loan activity culture.

On the Bank's balance sheet, the volume of client loans will stagnate, with any real increase possibly being offset by transferring transforming loans from the Ring Fencing portfolio to Konsolidační banka. Due to an anticipated trend in primary deposits and as a result of Česká spořitelna's focus on better-performing instruments (such

as bonds), the volume of funds given and taken in the inter-bank market will decline.

In income, we expect to see increase in net interest income, driven primarily by the above mentioned structural shifts of assets in favor of financial instruments that generate greater returns. Income from fees and commissions will grow as well. This growth will be based on increased payments volume, strong support for the sales effort in association with the increasing quality of the Bank's services within the financial group.

In retail banking, Česká spořitelna will continue to market the Sporoservis credit product for individuals and will increase marketing of mortgage loans. Primary funds have reached high levels following dynamic growth in 2000. Due to its purchase by a strong foreign partner, Česká spořitelna expects to maintain this high level of primary funds in 2001. An important role in fee and commission income will be played by fast-growing income from the cross-selling of the products of the Bank's subsidiaries at the teller windows of the parent Bank.

In corporate banking, real growth loan volume will be achieved due to the residential financing program, the small- and medium-sized business financing program, and the foreign currency loan portfolio the Bank obtained through the acquisition of Erste Bank (CR).

With regard to the Bank's activities in the financial markets, the primary principles of managing the Bank's balance sheet will include an effort reduce credit sensitivity place excess liquidity in instruments that bear interest at higher rates. Derivatives such as currency and interest rate swaps will be used to a higher degree in refinancing assets. The Bank's important sales goals in this area include increasing the number of clients and the volume of bond transactions, as well as increasing the volume of shares sold to clients. Asset management, which we are starting practically from the initial phase, will make use of the Bank's large client base and extensive distribution network to get off to a rapid start while at the same time taking advantage of synergies from cooperation with Spořitelní investiční společnost and Erste Sparinvest.

## Strategic Intentions for 2002

The goal of all changes proceeding in Česká spořitelna is to finish the transformation process in 2002 and significantly increase the quality of provided services, measured through the customer satisfaction index. We also pursue ambitious financial goals for 2002: to reach, for the consolidation group, the Return on Equity of 18% and income/expense ratio lower than 70%.

## Majority Shareholder Erste Bank

Early in 2000 the Czech government decided to sell the State's share in Česká spořitelna to the strong Central European financial group, Austria-based Erste Bank. Erste Bank der oesterreichischen Sparkassen AG was established in 1819 as the first Austrian savings bank. After its merger with GiroCredit in 1997, Erste Bank became a leading financial institution among Austrian savings banks and the largest independent private bank in the country. After its successful stock exchange listing in 1997, the organization became 50% owned by institutional and private investors and comprises some 19% of the leading Vienna Stock Exchange index, the Austria Traded Index (ATX). Erste Bank's total assets in 1999 rated the Bank second among Austrian banking groups.

One of Erste Bank's strategic goals is to build up a strong position in Central Europe. The cornerstone of this strategy is its partnership cooperation with its subsidiaries in the Czech Republic, the Slovak Republic, Hungary, Croatia, and Slovenia, which give it access to a market with an enormous potential of over 40 million. The Erste Bank Financial Group currently serves 8 million clients in the Central Europe region.

At the beginning of 2001, Erste Bank had 300 of its own and 880 branches of the Sparkassen network in Austria.

## Major Subsidiaries of the Erste Bank Financial Group in Austria

### S Bausparkasse

- a leading building society in Austria
- manages accounts of some 1.5 million building savings participants and 200,000 loan recipients
- its customers include a third of the building savings market

### S Real

- real estate agency
- assist in finding appropriate residential buildings and to sell real estate

### S Wohnbaubank

- bank specializing in financing housing construction
- provides long-term mortgage loans at low interest rates

### S Versicherung

- leading Austrian life insurer
- it offers all classes of private and corporate insurance for the future, including life, accident and pension insurance, tailor-made products for insuring houses and buildings that are still under construction

### Vereinigte Pensionskasse

- leading Austrian supercorporate pension fund
- tax convenient guarantee of life standard for employees of all sized companies

### BVP

- pension fund for private businesses; specialized in expert actuarial opinions
- develops optimum solutions for small and middle sized companies in the area of products for elderly people

### VMG

- one of the largest insurance brokerages in Austria
- independent advice in making the best choice of insurer
- main target group consists of commercial customers and self-employed persons

### Gesco

- the financial group's communication partner
- consulting, production
- all services in the areas of marketing, advertising, public relations, the Internet, etc.

### S Immobilien

- Erste Bank and Sparkassen real estate fund
- offers safe investments in a wide range of real estate portfolios

### **EBV Leasing**

- specialist in vehicle leasing and fleet management
- Sparkassen's partner

### **Immorent**

- specialist in real estate and movables leasing in Austria and Central & Eastern Europe
- management of real-estate from project development, planning and building to property management

### **Spardat**

- the financial group's IT partner
- develops and administers software for banks
- organizational consulting and roll-out/training support in all IT areas

### **Erste Sparinvest**

- Erste Bank and Sparkassen investment fund
- largest open-end fund in Austria

## Information on the Security Issuer

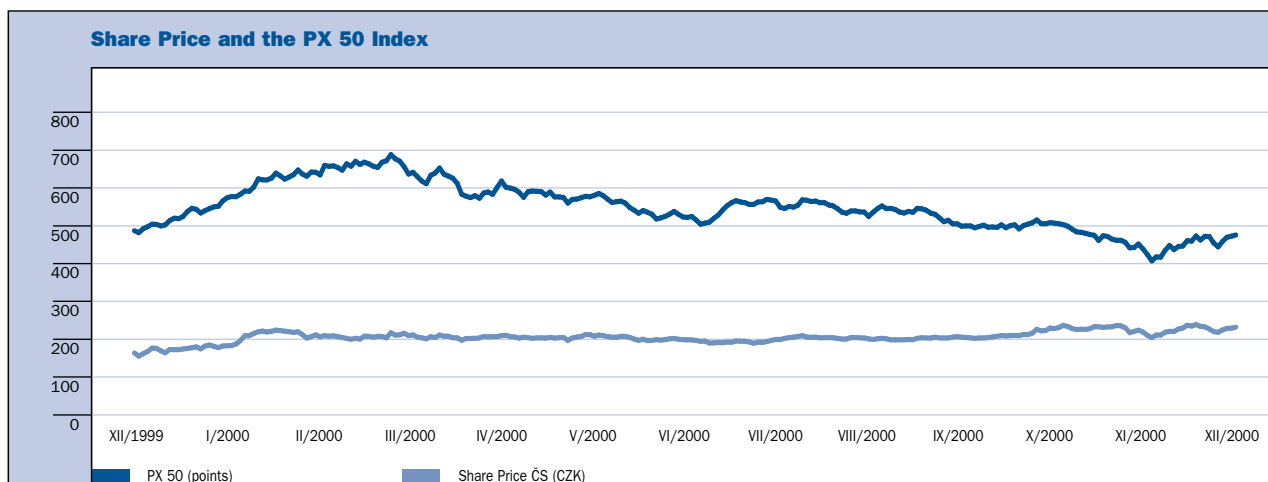
### Česká spořitelna Shareholder Structure at 31 December 2000

Shareholder	Share in registered capital (%)	Share in voting rights (%)
Erste Bank der oesterreichen Sparkassen AG, Graben 21, Vienna, Austria	52.62	56.81
Česká pojišťovna, a.s. Spálená 16, Prague 1	8.64	9.33
European Bank for Reconstruction and Development One Exchange Square, London, United Kingdom	5.92	6.39
Cities and towns of the Czech Republic	7.38	–
Other legal entities	23.92	25.82
of which: domestic	2.50	2.70
foreign	21.42	23.12
Private individuals	1.52	1.65
of which: domestic	1.49	1.61
foreign	0.03	0.04

The members of Česká spořitelna's Board of Directors held a total of 0 shares of Česká spořitelna as of 31 December 2000. Members of the Supervisory Board of Česká spořitelna held 2,530 shares at the same date, i.e. 0.002% of the registered capital.

As of 31 December 2000 the registered capital was CZK 15,200 million and was divided into 11,211,213 registered priority shares with nominal value CZK 100 per share and 140,788,787 bearer shares with nominal value CZK 100 per share.

In accordance with a resolution of the Extraordinary General Meeting held on 10 March 1999, the Bank's registered capital was increased by TCZK 7,600,000 to TCZK 15,200,000 in 1999. Share subscription took place in three rounds. Only shareholders with right of first subscription to the newly issued shares were allowed to participate in the first and second rounds. The third round was open to the public. All the shares were subscribed as bearer shares of common stock. Subscription took place at the nominal value of CZK 100 per share, i.e. without an issue premium. The subscribed registered capital was fully paid in and registered in the Commercial Register on 17 September 1999.



## Development of Česká spořitelna Share Price

Česká spořitelna's shares price reacted very positively to the sale of a majority block of shares to Erste Bank in early 2000. During the first year following privatization, the share price grew 41%. During the past year, the shares rose from CZK 166.30 to CZK 234.40 and became the second most successful issue traded in the SPAD system of the Prague Stock Exchange (after Komerční banka). Since the PX50 index fell 2.3% over the same period, the shares of Česká spořitelna outperformed the index by over 44% and brought shareholders excellent returns. Clearly the main driving force between the shares' growth was the Bank's privatization at the beginning of last year as well as expectations of wide-ranging, positive changes that will in the foreseeable future improve the Bank's performance, and increase the value of its shares. In addition, the shares benefited somewhat from a fall in global technology share prices as investors turned to other investments, including the Czech banking sector. The shares of Česká spořitelna continued to grow into early 2001. By 20 February they had improved by another 4.5% to CZK 244.90.

## Developments in Capital Markets

Developments in the Czech equity market in 2000 copied the global trend indicated most apparently by the U.S. technology market Nasdaq. That market saw a turn-around at the end of March, which was followed by a series of corrections which took the market lower and lower. This development was accompanied by a general deterioration in outlook for the American economy. The worldwide trend away from equities (and towards bond buying) made its mark on emerging markets, including the Czech Republic. Bright spots in an otherwise dark situation for equities were the shares of companies that had already been privatized or were expecting to be privatized. The most attractive sector from this perspective was banking. The telecommunications sector was hit by the double whammy of a global telecoms recession and complications in the domestic privatization process.

The bond market was in the clutches of a negative trend throughout almost all of 2000. Most of the market expected the central bank to abandon its policy of cutting interest rates in favor of increasing them in response to rising inflation. In addition, the bond market was under pressure from negative news concerning fiscal policy and concerns over excessive growth in the supply of government paper. The negative trend was not reversed

until late in the year. The turning point was a successful issue of ten-year bonds that showed there was demand for longer bonds, combined with favorable inflation numbers at the end of 2000. Expectations concerning future monetary policy developments were optimistic as well. Another factor contributing to the growth of the Czech bond market was strengthening euro against the dollar, which made the entire region of Central Europe more attractive.

## Information on Securities Issued

### Shares of Česká spořitelna, a.s.

Class:	shares of common stock and priority shares
Issues:	140,788,787 bearer shares of common stock 11,211,213 registered priority shares
Form:	booked form
Total shares outstanding:	152,000,000
ISIN:	CZ0008023801 (common stock) CZ0008023736 (priority shares)
Total issue nominal value:	CZK 15,200,000,000
Nominal value per share:	CZK 100
Transfer method:	marketability of the common stock is not restricted; rights pass when the shares are handed over to a new owner; registered priority shares may only be transferred among cities and towns of the Czech Republic
Number of publicly tradable shares:	140,788,787 shares of common stock (92.62% of the registered share capital)
Shares are traded on:	Prague Stock Exchange, RM-System

All the rights and obligations associated with ownership of the bearer shares are stated by the Commercial Code, the Banking Act, and the Securities Act. In particular, holders of bearer shares have the following rights:

### Profit shares

Shareholders have the right to a share in the company's profits (dividend) as approved by the General Meeting,

according to the earnings results and class of shares in question, for allocation to dividend payment. This share is determined by the proportion represented by the nominal value of the shares owned by the shareholder in question in the total nominal value of all shares belonging to all shareholders that hold shares of the same class. The dividend is due and payable three months after the date set forth in the General Meeting's profit allocation resolution. Unless otherwise stipulated by General Meeting resolution or in an agreement with the shareholder, Česká spořitelna is obligated to pay out the dividend at its own expense and risk by sending it to the shareholder's address that appears as of the strike date in the record of booked securities in the portion designated for the issuer. The Board of Directors is obligated to announce the dividend due date, location and pay-out method in the manner set forth in the Articles of Association for convening the General Meeting. The right to the dividend itself may be separately transferred starting on the date when the General Meeting decided to pay the dividend. The right to the dividend expires after the passage of the general four-year expiration period which begins to run on the dividend due date. In the event the shareholder fails to exercise the right to the dividend before the end of the four-year expiration period, the right shall expire on the date when Česká spořitelna becomes able to object against the dividend claim on the grounds of expiration. As a payer of withholding tax, Česká spořitelna withholds tax from dividend income in the amounts and in compliance with the time periods set forth in the Income Tax Act and in accordance with applicable provisions of international double-taxation treaties.

#### Participation in the General Meeting, scope of voting rights

The shareholder is entitled to attend the General Meeting, vote at the General Meeting, receive explanations at the General Meeting of company matters that are up for discussion at the General Meeting, and make proposals and counter-proposals. Each CZK 100 nominal value share represents one vote. Exercise of voting rights is not limited by any stipulation of the highest permissible number of votes that may be voted by a single shareholder. A shareholder's right to participate in and vote at the General Meeting may be suspended by a decision of the Czech National Bank.

#### Liquidation remainder

In the event the company is wound up with liquidation, the shareholder has the right to a share in the liquidation remainder. After all creditors have been satisfied, the liquidation remainder shall be divided amongst the

shareholders in proportion to the nominal value of the shares they hold.

#### Priority shares

The rights and obligations associated with ownership of registered shares differ: Priority shares have a priority right to dividends. The owner of priority shares is entitled to a share of the company's profits that is approved by the General Meeting at the proposal of the Board of Directors according to the company's earnings result as being allocated to payment of dividends on priority shares. The dividend amount is determined by the proportion of the nominal value of the shareholders' shares in the total nominal value of all the shares of all shareholders holding priority shares. The holder of priority shares is entitled to receive a priority dividend in each year in which the General Meeting resolved to allocate profits, regardless of whether or not the General Meeting decides to pay dividends to the holders of other (non-priority) shares in the given year. Priority shares do not embody the right to vote at the General Meeting. The holders of priority shares have all other rights associated with shares.

Employees of Česká spořitelna have the option of acquiring shares in Česká spořitelna's share capital by the standard route of buying shares only.

#### Česká spořitelna, a.s. Bond Issue

10.75% bonds due in 2002

ISIN:	CZ0003700437
Issue date:	27 February 1997
Type:	bearer bonds
Form:	documentary form
Total issue amount:	5,000,000,000
Nominal value per bond:	CZK 10,000
Number of bonds:	500,000
Coupons attached:	5 coupons – fixed interest rate of 10.75% p.a. paid annually in arrears
Bond transfer method:	no restrictions; rights attached to the bonds and coupons pass to the new owner when the bonds and coupons are handed over
Issue Administrator:	Česká spořitelna, a.s., Na Příkopě 29, 110 00, Prague 1
Designated office of Administrator:	Česká spořitelna, a.s., Národní 27, 110 00, Prague 1
Bonds are traded at:	Prague Stock Exchange

Denomination of the bonds: CZK  
 Bond maturity: The bonds will be paid in their nominal value on 27 February 2002

#### Bond repayment procedure

Payment of the principal and interest on the bonds will be made by the Administrator, at the payment recipient's option, either (a) by bank transfer to an account in the payment recipient's name at a bank in the Czech Republic, communicated to the Administrator in a manner considered by the Administrator to be reliable, no later than at the time when the bond and/or coupon in question is submitted for payment or (b) in cash against submission of the bond and/or coupon in question.

#### Date when bonds begin bearing interest and interest payment dates

The bonds shall bear interest from 27 February 1997 (the issue date) at a fixed interest rate of 10.75% p.a. and the interest shall be paid annually in arrears, as of 27 February of each year. The first interest payment will take place on 27 February 1998.

#### Deadlines for submitting bonds and coupons, expiration dates for claims to interest and principal payments

The rights attached to the bonds shall expire ten years after their due date.

#### Date and place for exercising right to interest income

Interest on the bonds will be paid only against submission of the respective coupon at one of the Administrator's designated locations, i.e. the city district branches of Česká spořitelna in Prague and the district branches of Česká spořitelna elsewhere in the Czech Republic, on an annual basis in arrears, as of 27 February of each year. As a payer of withholding tax, Česká spořitelna withholds tax from dividend income in the amounts and in compliance with the time periods set forth in the Income Tax Act and in accordance with applicable provisions of international double-taxation treaties.

#### Scope of third-party guarantees of bond repayment

No third party guarantees the repayment of the principal or payment of the interest on the bonds.

#### Appointment of delegates to bond holder meeting

This concept is defined only for bond issues on or after 1 January 2001. The issue conditions of the above mentioned bonds (item 13 of the issue conditions) set forth only the rules of order for the bond holder meeting.

#### Status of the bonds

##### (ranking of rights to satisfaction under the bonds)

The bonds constitute unsubordinated, unconditional, and unsecured obligations of the issuer which will rank (a) pari passu among themselves and (b) equally with all other current or future unsecured, unsubordinated and unconditional obligations of the issuer, save for certain obligations required to be preferred by applicable provisions of the law.

#### Jurisdiction

The rights and obligations attached to the bonds shall be governed by and interpreted in accordance with the laws and regulations of the Czech Republic. Any disputes which may arise out of or in connection with the bond issue conditions shall be submitted for a final decision to the Court of Arbitration at the Chamber of Commerce of the Czech Republic and the Agrarian Chamber of the Czech Republic in accordance with the valid rules of that court of arbitration.

#### Mortgage Bond Issue

11.85% mortgage bonds due in 2003

ISIN:	CZ0002000078
Issue date:	3 August 1998
Type:	bearer bonds
Form:	booked bonds
Total issue volume:	CZK 500,000,000
Nominal value per bond:	CZK 10,000
Number of bonds in issue:	50,000
Coupons:	fixed interest rate 11.85% p.a. paid annually in arrears
Bond transfer method:	no restrictions; the mortgage bonds pass to new owner as of the date the transfer is registered in the Securities Center for the benefit of the acquired.
Issue Administrator:	Česká spořitelna, a.s., Na Příkopě 29, 110 00, Prague 1
Designated office of Administrator:	Česká spořitelna, a.s., Národní 27, 110 00 Prague 1
Mortgage bonds traded on:	Prague Stock Exchange
Denomination of the bonds:	CZK
Bond maturity:	The principal on the mortgage bonds will be paid on 3 August 2003

### Mortgage bond repayment procedure

Interest on the mortgage bonds will be paid to the persons who owned mortgage bonds at the end of the strike date for payment of interest on the mortgage bonds. For the purposes of determining the persons entitled to receive interest on the mortgage bonds, the issuer will not take into account any transfers of mortgage bonds carried out on or after the ex-coupon date relating to the interest payment in question. The principal on the mortgage bonds will be paid to the persons who owned the mortgage bonds at the end of the strike date for payment of the principal. For the purposes of determining the persons entitled to receive the principal on the mortgage bonds, the issuer will not take into account any transfers of mortgage bonds carried out on or after the ex-principal date. Starting as of the ex-principal date (inclusive), no transfers of the mortgage bonds through the Securities Center will be allowed.

### Date when bonds begin bearing interest and interest payment dates

The mortgage bonds will bear interest starting on 3 August 1998 (the issue date) at a fixed rate of 11.85% p.a. and the interest shall be paid annually in arrears, as of 3 August of each year. The first interest payment took place on 3 August 1999.

### Deadlines for submitting bonds and coupons, expiration dates for claims to interest and principal payments

The rights attached to the bonds shall expire ten years after their due date.

### Date and place for exercising right to interest income

Payments of interest on the mortgage bonds will be carried out by the Administrator at the designated office annually in arrears, as of 3 August of each year. The strike date for interest payments shall be one calendar month prior to the due date of the interest payment in question. The ex-coupon date is the date immediately following the strike date.

### Scope of third-party guarantees of bond repayment

No third party guarantees the repayment of the principal or payment of the interest on the mortgage bonds.

### Appointment of delegates to bond holder meeting

This concept is defined only for bond issues made on or after 1 January 2001.

### Status of the bonds

#### (ranking of rights to satisfaction under the bonds)

The bonds constitute unsubordinated, unconditional, and unsecured obligations of the issuer which will rank (a) *pari passu* among themselves and (b) equally with all other current or future unsecured, unsubordinated and unconditional obligations of the issuer, save for certain obligations required to be preferred by applicable provisions of the law.

### Jurisdiction

The rights and obligations attached to the bonds shall be governed by and interpreted in accordance with the laws and regulations of the Czech Republic. Any disputes which may arise out of or in connection with the bond issue conditions shall be submitted for a final decision to the Court of Arbitration at the Chamber of Commerce of the Czech Republic and the Agrarian Chamber of the Czech Republic in accordance with the valid rules of that court of arbitration.

### Principal Business Pursuant to Section 2 of the Česká spořitelna Articles of Association, Version Valid as of 31 December 2000

The principal business is the conducting of banking operations and the provision of all banking services pursuant to generally binding laws and regulations governing the activities of banks in the Czech Republic and vis-a-vis foreign countries, as well as the following businesses:

- investing in securities for the Bank's own account;
- finance leases;
- payments and settlements;
- issuance of negotiable instruments such as bank cards and travellers' cheques;
- provision of guarantees;
- opening letters of credit;
- arranging for collection;
- trading in foreign currency denominated instruments for the Bank's own account and for client's account, trading in futures and options, including exchange-rate and interest-rate contracts, trading in convertible securities;
- participation in equity issues and provision of related services;
- financial brokerage;
- provision of business advice;
- managing securities of a client for the client's account, including consultation;

- deposit and management of securities and other instruments;
- acting as Custodian Bank;
- currency exchange operations;
- providing banking information;
- lease of safe deposit boxes;
- issuing mortgage bonds under special legislation;

The Company may establish other legal entities or acquire participations in the voting rights or registered capital of other legal entities, domestic or foreign, under the conditions given by law.

## Trademarks

Česká spořitelna owns several trademarks which are registered in the Trademark Register maintained by the Industrial Property Office, the most important being the combined trademark "ČS ČESKÁ SPOŘITELNA A.S." (registered in the Trademark Register under Number 182569) and the text trademark "Banka pro život" (registered in the Trademark Register under Number 204961). Other than licenses and trademarks mentioned above, Česká spořitelna does not hold any other patents, licenses or trademarks that could have a material impact on its business.

## Principal Investments

(Unconsolidated, in accordance with Czech Accounting Standards)

### Financial Investments in Shares and Bonds

(MCZK)	2000	1999	1998	1997
Bonds	140,588	93,575	75,258	62,078
Shares	7,551	4,987	4,335	4,854
Participation Interest	1,218	1,015	974	961
Total financial investments	149,357	99,577	80,567	67,893

### Tangible and Intangible Investments Acquired\*

(MCZK)	2000	1999	1998	1997
Tangible investments	1,326	1,306	1,753	2,874
Intangible investments	825	366	428	529
Total	2,151	1,672	2,181	3,403

\* Figures based on statements prepared according to ČSÚ (Czech Statistical Office) methodology

### Planned Principal Future Investments in the Czech Republic Financed out of Equity

(MCZK)	2001	2002	2003
Constructions, equipment etc.	2,000	2,000	1,500
Information technologies	3,000	3,000	2,000
Total	5,000	5,000	3,500

**Movements in Shareholders' Equity**

<b>(MCZK)</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Share capital	15,200	15,200	7,600
Share premium	0	0	4,115
Reserve funds	247	5,140	7,680
Capital funds	2	2	262
Retained earnings/losses from previous periods	0	0	113
Current period profit/loss	4,860	(4,893)	(6,940)
Shareholders' equity	20,309	15,449	12,830

**Profit on Ordinary Activities after Tax per Share and Dividend Amount per Share**

	<b>2000</b>	<b>1999</b>	<b>1998</b>
Profit on ordinary activities after tax (CZK millions)	6,106	(6,107)	(6,923)
Number of shares outstanding (millions)	152	152	76
Profit on ordinary activities after tax (per share, CZK)	40	(40)	(91)*
Dividend amount (per share, CZK)	2**	0	0

\* After adjusting to match 152 billion of shares, i.e. the same number as in 1999 and 2000, in 1998 after tax profit on ordinary activities per a share was CZK -46

\*\* Priority shares

**Operating Income**

<b>(MCZK)</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>
Net interest income	11,016	12,666	15,002
Income from variable yield securities	117	188	168
Net fee and commission income	4,733	4,093	3,030
Profit from financial operations	2,310	57	58
Other income	413	429	533
Total operating income	18,589	17,433	18,791

**Loans Received, Other Liabilities and Security Provided**

<b>(MCZK)</b>	<b>31. 12. 2000</b>
Loans received (unsecured)	4,415
Subordinated debt	5,500
Other liabilities (unsecured) total	396,698
due to banks, excluding loans	63,295
due to clients	327,893
certificates of deposit and similar debt securities	5,510
Security provided (contingent liabilities)	4,037

## Auditor

Auditor of the unconsolidated year-end financial statements for 1998, auditor of the consolidated financial statements according to IAS for 1998, auditor of the 1998 annual report

Name (first and last): KPMG Česká republika Audit, s.r.o.  
 Address: Jana Masaryka 12,  
 Prague 2, 120 00  
 Telephone: 02/2212 3111  
 Fax: 02/2212 3100  
 E-mail: gen@kpmg.cz  
 License No.: 071

Auditor of the unconsolidated financial statements for the year ended 31 December 2000 prepared in accordance with CAS, auditor of the consolidated financial statements for the year ended 31 December 2000 prepared in accordance with IAS and auditor of the annual report for the year ended 31 December 2000.

Name (first and last): DELOITTE & TOUCHE, spol. s r.o.  
 Address: Týn 641/4 Prague 1, 110 00  
 Telephone: 02/2489 5500  
 Fax: 02/2489 5555  
 License No.: 079

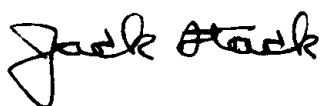
Auditor of the unconsolidated year-end financial statements for 1999, auditor of the consolidated financial statements according to IAS for 1999, auditor of the 1999 annual report

Name (first and last): KPMG Česká republika Audit, s.r.o.  
 Address: Jana Masaryka 12,  
 Prague 2, 120 00  
 Telephone: 02/2212 3111  
 Fax: 02/2212 3100  
 E-mail: gen@kpmg.cz  
 License No.: 071

## Affidavit

Bellow undersigned hereby declare that the information stated in the annual report of Česká spořitelna, a.s. for the year 2000 is factual and that no material circumstances that could influence the precise and correct evaluation of Česká spořitelna, a.s. were omitted. They also declare that financial statements for the past three accounting periods have been audited and that the auditor's opinions for the year 2000 are stated in this report.

Prague, 17 May 2001



Jack STACK  
 Chairman of the Board of Directors and CEO  
 Česká spořitelna, a.s.  
 Na Příkopě 29  
 Prague 1, 113 98



Dušan BARAN  
 Vice Chairman and Member  
 of the Board and First Deputy CEO  
 Česká spořitelna, a.s.  
 Na Příkopě 29  
 Prague 1, 113 98

## Supervisory Board Report

The Supervisory Board of Česká spořitelna, a.s. carried out the tasks and responsibilities that are vested in it by the law and the company's Articles of Association throughout the 2000 business year. As the company's oversight body, it supervised the Board of Directors' exercise of powers as well as the company's business operations, its financial management, and the realization of its plans and strategies. The Supervisory Board was kept regularly informed on the Bank's operations, its financial situation, developments in its privatization, and other significant matters.

The Supervisory Board has reviewed the submitted unconsolidated financial statements as at 31 December 2000 prepared in accordance with Czech Accounting Standards and arrived at the conclusion that the bookkeeping and accounting records were kept in demonstrable fashion in accordance with accounting regulations and that the financial statements are an accurate representation of the financial situation of Česká spořitelna, a.s. at 31 December 2000.

The financial statements were audited by Deloitte & Touche, spol. s r.o., which confirmed that the financial statements of Česká spořitelna, a.s. present fairly, in all material respect, the assets, liabilities, shareholders' equity, economic results and financial situation of the company at 31 December 2000 in accordance with the Accounting Law and relevant Czech regulations. The Supervisory Board noted with agreement this opinion of the auditor.

Based on all the above facts, the Supervisory Board has recommended the General Meeting to approve the financial statements of Česká spořitelna, a.s. at 31 December 2000 and the profit allocation proposal put forward by the Board of Directors.



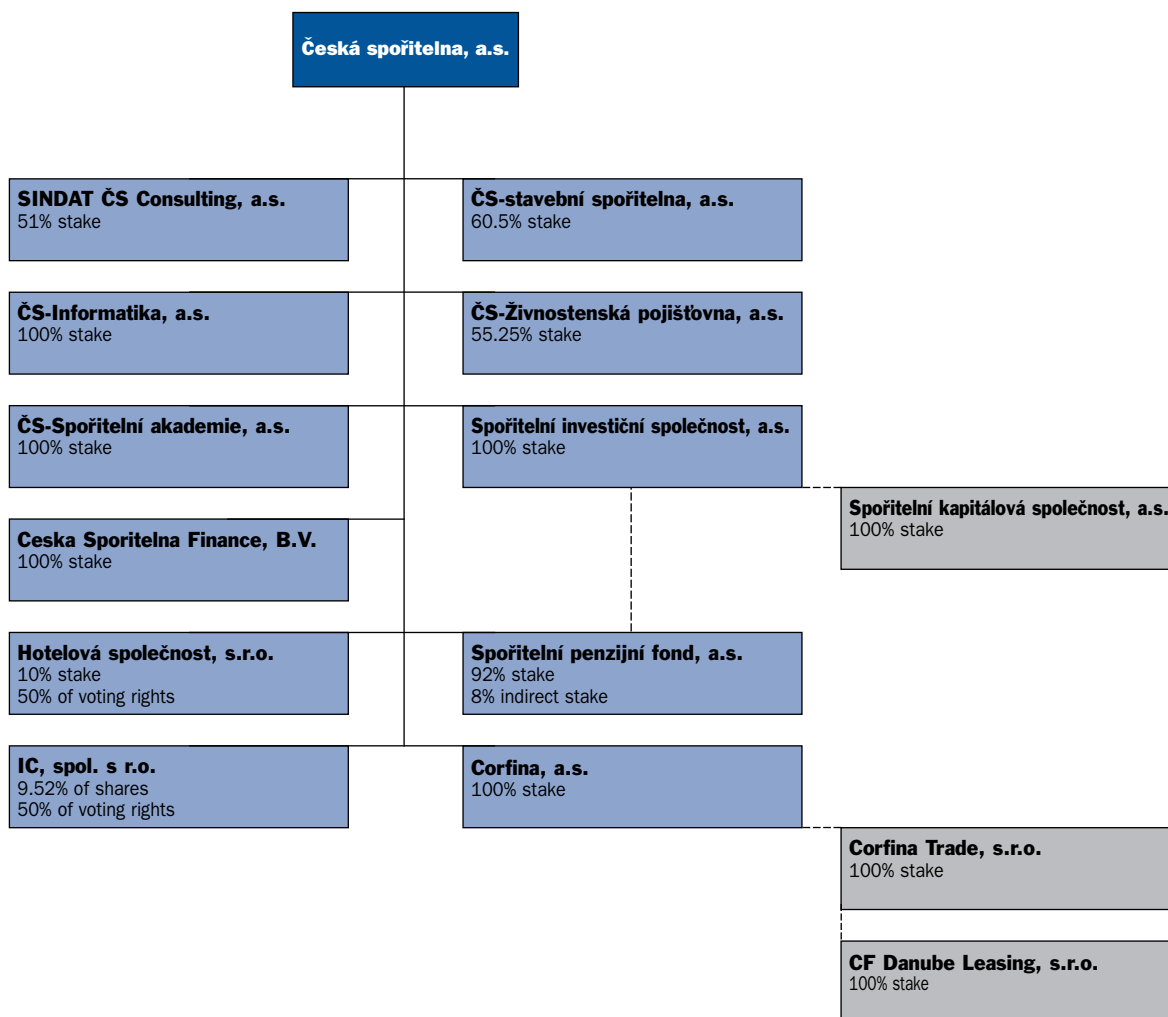
Andreas TREICHL  
Chairman of the Supervisory Board



# Česká spořitelna Financial Group

(Figures stated in the following section are in accordance with Czech Accounting Standards)

## Structure of Česká spořitelna Participation Interests with 20% and Higher Direct or Indirect Share in Registered Capital or Voting Rights



### Legend:

Direct participation interest

Indirect participation interest

— Direct influence

- - - Indirect influence

Where ČS's share in the voting rights is different from its share of the share capital, this is expressly stated under the company in question.

ČS-stavební spořitelna, a.s. (ČSST) was established on 22 June 1994. Its principal business is the provision of financial services in accordance with Act 96/1993 Sb. The company's registered capital is CZK 750 million and Česká spořitelna's share is 60.5% (CZK 454 million). The remaining 39.5% is owned by Germany-based Bayerische Landesbank Girozentrale. The book value of Česká spořitelna's share is CZK 333 million.

ČSST offers clients building savings programs with state contributions, giving them the right to receive a building loan with an interest rate of 5.5–6%. In terms of the number of clients, ČSST is the second largest building society in the Czech Republic with a market share of 22%.

New building savings agreements totaling 256,000 entered into in 2000, representing 23% of all new building society business in the Czech Republic. 54% of the new business was made through the Česká spořitelna branch network. The numbers of bridge loans and building savings loans were also up from the previous year. The large number of new agreements reinforced ČSST's financial strength and increased its total assets. Interest rates in the capital and financial markets where the most liquid assets are invested were the most significant factors influencing the building society's profit during the year. The year-on-year decline in profit was caused in particular by lower interest rates in the Czech inter-bank market and increased interest costs on deposits, which earn interest at a fixed rate over the entire duration of the contractual relationship. A year-on-year increase in fee income and savings in general operating costs, which remained at roughly 1999 levels, both had a positive impact on profits. A total of CZK 103 million in 1999 dividends were paid in 2000 to the parent bank. ČSST owes a total of CZK 43 million to Česká spořitelna and is owed CZK 1,008 million by its corporate parent. ČSST's loan risks provision is CZK 67 million and other provisions total CZK 153 million. The Czech building savings market has not yet completely stabilized and significant shifts in market share among market players are still occurring. Česká spořitelna is well positioned to play a substantial role in determining the future division of the market by offering and selling the product through its branch network.

	2000	1999	1998	1997	1996
Share capital (MCZK)	750	750	500	500	500
Total assets (MCZK)	29,381	26,006	20,403	13,182	6,630
Receivables from clients (MCZK)	3,750	2,996	1,571	316	21
Client deposits (MCZK)	25,552	22,402	17,277	11,060	5,834
Net profit (MCZK)	173	363	700	307	110
Number of clients (TCZK)	739	606	465	375	298
Number of branches	68	56	44	13	11
Average number of employees	290	253	204	159	122

**Company seat:** Pplk. Sochora 27, Prague 7  
**Toll-free info line:** 0800 177 777  
**Telephone:** 02/24309 111, 02/21583 111  
**Fax:** 02/24309 112  
**Internet:** www.csst.cz  
**e-mail:** csst@csst.cz

# ČS-Živnostenská pojišťovna, a.s.



ČS-ŽIVNOSTENSKÁ POJIŠŤOVNA, a.s.

Established on 1 October 1992, the company launched its 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). The company's registered capital is CZK 1,117 million, in which Česká spořitelna holds a share of 55.25% (CZK 617 million). The remaining 44.75% is owned by Austria-based Sparkasse Versicherung. This change occurred in 2000 when leading Austrian insurer Sparkasse Versicherung AG, a subsidiary of Erste Bank, took a stake in ČSŽP by increasing its capital by CZK 500 million. This has made ČSŽP one of the best capitalized insurers in the Czech Republic. The book value of Česká spořitelna's stake is CZK 495 million.

ČSŽP's principal business is insurance. The company offers the following basic classes of insurance: life and accident insurance, insurance for industry and business, property and casualty insurance for individuals, travel insurance, motor damage insurance, and third-party motor liability insurance. ČSŽP also offers insurance programs for businesses, tradesmen, professional associations and chambers, municipalities and other selected client groups. In terms of premiums written, ČSŽP is the sixth biggest insurance company in the Czech Republic.

Premiums written in 2000 grew 39% over the previous year, ending at CZK 3,022 million. This proves the growing trust of Czech citizens in the quality of the company's services. One large component in the growth was a CZK 602 million increase in premiums written in third-party motor liability insurance, which corresponds to a 5% share in this insurance market segment. The company posted a net loss in 2000 of CZK 220 million. This negative performance was caused among other factors by the non-life technical results where there was a higher claims experience and higher costs relating to provisioning for obligations to the Czech Insurers Bureau relating to legacy third-party motor liability claims that arose prior to market demonopolization. The total amount of this provision, which is based on current third-party motor liability market share, is CZK 112 million. Another factor in the loss is the company's ever-expanding range of insurance products, life insurance products especially, since new product launches incur high costs, especially during the first post-launch year. Technical provisions totaled CZK 1,703 million. The parent bank did not receive any income from its share in the company. ČSŽP owes a total of CZK 7 million to Česká spořitelna and is owed CZK 160 million by its corporate parent.

	2000	1999	1998	1997	1996
Share capital (MCZK)	1,117	816	616	216	216
Total assets (MCZK)	3,574	2,853	2,203	1,365	951
Premiums written (MCZK)	3,022	2,169	1,771	1,318	942
Net profit (MCZK)	(220)	(48)	2	(366)	15
Number of policies (TCZK)	486	394	287	204	118
Number of branches	118	130	130	145	134
Average number of employees	1 184	1,291	1,270	1,145	1,017

<b>Company seat:</b>	Smilova 547, 530 02 Pardubice
<b>Telephone:</b>	040/605 1110
<b>Fax:</b>	040/605 1380
<b>Internet:</b>	www.zivpo.cz
<b>e-mail:</b>	zivpo@zivpo.cz

## Spořitelní investiční společnost, a.s.



Spořitelní investiční společnost, a.s. (SIS) was established on 27 December 1991 as a 100% subsidiary of Česká spořitelna. At the end of 2000, SIS reaffirmed its number-one position among investment companies in the Czech Republic in terms of assets under management.

The earnings recorded by the company in 2000 are a reflection of the economic situation, which was favorable throughout the entire year. Plan was met both for net profit and shareholders' equity. Planned synergies within the Česká spořitelna Financial Group, expressed in financial terms, were exceeded as well. Most of the year-on-year decline in assets under management is attributable to the redemption by institutional investors of a substantial portion of the unit certificates they held in recently open-ended funds. In 2000, SIS converted its two remaining investment funds (2. SPIF and Všeobecný IF) into open-end mutual funds. It also launched a new income-oriented money market fund (OPF Merkur) and, in cooperation with Erste Bank, two foreign securities funds (OPF Eurotrend, an equity fund, and OPF Globaltrend FF, a fund of equity funds). The liquidation of the company's subsidiary, Českomoravská finanční společnost, was completed during the year. A rationalization of the company's organization led to a substantial decrease in the number of employees (as of 31 December 2000 the head count was 77).

Income related to the company's original privatization business still accounted for 70% of total revenues in 2000. Like other Czech investment companies, SIS is transitioning from being a manager of mostly former privatization funds to developing standard collective investment instruments, i.e. open-end mutual funds. Open-end fund management will become the company's core business. The company's goal is for open-end fund management revenues to account for 95% of total revenues by 2003.

	2000	1999	1998	1997	1996
Share capital (MCZK)	70	70	70	70	70
Equity (MCZK)	625	593	474	443	412
Total assets (MCZK)	684	685	543	483	442
Net profit (MCZK)	42	129	41	41	42
Assets under management (BCZK)	32.9	37.8	23.5	22.2	22.4
Number of employees	95	102	107	137	162

**Company seat:** Řásnovka 12, 110 15 Prague 1  
**Toll-free info line:** 0800 194 586  
**Telephone:** 02/2218 0111  
**Fax:** 02/2482 6649, 02/2482 6654  
**Internet:** [www.sis.cz](http://www.sis.cz)  
**e-mail:** [sis@sis.cz](mailto:sis@sis.cz)

## Spořitelní penzijní fond, a.s.



Spořitelní penzijní fond, a.s. (SPF) was established as a joint-stock company under a Certificate of Incorporation on 24 August 1994 and was registered in the Prague Commercial Register on 23 December 1994. The company's registered capital is CZK 100 million. Česká spořitelna's share in the registered capital is 92% (CZK 92 million). Spořitelní investiční společnost, a.s. holds the remaining 8%.

SPF's principal business is Supplemental Pension Insurance under Act 42/1994 Sb. on Supplemental Pension Insurance with State Contribution, as amended by Act 170/1999 Sb. SPF is a well-known pension fund and an active member of the Association of Pension Funds of the Czech Republic. At year end 2000, SPF was the number-two player in the Czech Republic market for Supplemental Pension Insurance.

In 2000, SPF posted a net after-tax profit of CZK 167 million. In spite of declines in interest rates during 2000, the increase in sales dynamics caused a 36% profit growth. This growth was caused primarily by SPF's adherence to conservative investment rules, growth in overall assets managed, and effective utilization of the fund's existing resources.

In the financial asset management area, SPF followed its strategic objective to achieve the greatest possible return on assets while maintaining a low level of long-term financial risk on investments made. In order to meet this objective, the pension fund invested in particular in low-risk Czech bonds and treasury bills.

By keeping strictly to its stated sales policies, SPF gained the trust of over 89,000 new clients last year. In this manner, the company posted a 21% increase in the number of clients over the previous year, outperforming the entire sector, which saw client numbers increase by less than 15% over the same period. Substantial year-on-year growth was also recorded in assets in personal accounts, which were up 31% to CZK 4.2 billion.

During 2000, Supplemental Pension Insurance proved in a convincing manner that it is an attractive product for clients and that it is a very promising component in the financial services sector. Arguments in support of this statement include increasing client interest in participation in the Supplemental Pension Insurance system, increasing participation by employers and consolidation of the system as seen in the declining number of pension funds and the arrival of new, highly-capitalized investors to the SPI market.

	2000	1999	1998	1997	1996
Share capital (MCZK)	100	100	250	250	250
Total assets (MCZK)	4,442	3,570	2,547	1,813	4,412
Capital accounts (MCZK)	3,817	3,024	2,162	1,525	737
Net profit (MCZK)	167	123	132	90	11
Number of participants (TCZK)	310	255	214	177	155
Number of employees	60	72	70	60	48

**Company seat:** Poláčkova 1976/2, 140 21 Prague 4  
**Telephone:** 02/6107 5100  
**Fax:** 02/6107 5189  
**Internet:** www.spf.cz  
**e-mail:** spf@spf.cz

The leasing company Corfina, a.s. (Corfina) was established on 1 January 1996. It has been 100% owned by Česká spořitelna since December 1996. Its registered capital is CZK 300 million. In terms of outstanding lease amounts as well as new business in 2000, Corfina is the number-five company in the Czech Republic leasing 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). Corfina also provides small-scale finance leases and consumer loans by selling goods on credit.

One of the fundamental positive factors that influenced Corfina's performance in 2000 was an overall recovery of the Czech economy that boosted demand for leasing. Corfina met its 2000 earnings goal, posting a profit of CZK 121 million, up 10% from 1999. As the cost of borrowing fell, interest costs declined substantially in year-on-year terms, while added value and depreciation of intangible and tangible fixed assets increased. The latter is related to increased sales activity in 2000. During the year there was a major increase in provisioning and creation of adjustments for future risks, by which Corfina succeeded in covering all presumed risks arising out of its lease portfolio. Lease agreements signed on or before 31 December 1999 by Corfina and its subsidiaries are secured by a KOB guarantee which covers the risks arising out of these agreements up the value of CZK 1.2 billion. The total assets grew 9% during the year 2000.

	2000	1999	1998	1997	1996
Share capital (MCZK)	300	300	300	300	300
Total assets (MCZK)	8,610	7,922	7,920	6,290	2,453
Outstanding lease amount (MCZK)	4,304	3,682	4,038	5,082	2,056
Net profit (MCZK)	121	110	2	(74)	(34)
Number of new leases	14,403	13,666	7,227	5,719	2,679
Number of branches	4	4	5	4	3
Number of employees	110	105	85	81	71

**Company seat:** Střelnická 8/1680, 180 00 Prague 8  
**Telephone:** 02/688 1875  
**Fax:** 02/688 5671  
**Internet:** [www.corfina.cz](http://www.corfina.cz)

## Sindat ČS Consulting, a.s.



The company was founded on 8 June 1995. Česká spořitelna owns 51% of the company's registered capital of CZK 1 million. The other shareholder is SINDAT, s.r.o. with 49%. Since 1999 the company has had an implemented and certified ISO 9001 compliant quality system. The principal businesses are strategic corporate consulting, financial consulting and financial project management, corporate restructurings and crisis management, accounting consulting, organizational management of third-party assets, and market appraisals of assets, including entire companies.

In 2000 the company posted a net profit of CZK 2.5 million (1999: CZK 2.4 million). Thanks to cost rationalization and optimization of the amount of subcontracting, all the major performance indicators are favorable. Added value in 2000 averaged CZK 967,000 per employee (1999: CZK 946,000). Positive development was also seen in overall company revenues, which reached CZK 43 million, up from CZK 42 million in 1999. A decline in sales was caused by a lower volume of orders from Česká spořitelna; in the past these had accounted for 40% of the company's overall revenues, but in 2000 this figure fell to 34%. Even so, Česká spořitelna continues to be the company's biggest client.

The company's shareholders' equity grew by 36% compared to 1999. The company also succeeded once more in reducing the role of liabilities in financing the company's assets, to 67% (1999: 74%, 1998: 86%).

	2000	1999	1998	1997	1996
Share capital (MCZK)	1	1	1	1	1
Total assets (MCZK)	30	28	36	32	34
Net profit (MCZK)	3	2	3	1	(1)
Number of clients	340	400	412	228	190
Number of branches	3	3	3	3	3
Number of employees	32	32	31	28	24

**Company seat:** Ukrajinská 10/1488, 100 00 Prague 10  
**Telephone:** 02/717 46 972, 02/710 16 111  
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**Deloitte  
& Touche**

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

We have audited the unconsolidated financial statements of Česká spořitelna, a.s. for the year ended 31 December 2000 prepared in accordance with Accounting Act No. 563/1991 Coll., and applicable Czech regulations, and have issued our report thereon dated 23 March 2001. We have also audited the consolidated financial statements of Česká spořitelna, a.s. for the year ended 31 December 2000 prepared in accordance with International Accounting Standards and have issued our report thereon dated 4 May 2001. These financial statements and auditor's reports are included on pages 46 to 76 and on pages 82 to 124 in this annual report.

We have also read other financial information prepared by management of Česká spořitelna included in the annual report for consistency with the audited financial statements. In our opinion, this information is consistent, in all material respects, with the audited financial statements.

Prague, 18 June 2001



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



*Statutory auditor:*  
*Michal Petrman*  
*Certificate no. 1105*



## Česká spořitelna Financial Performance in First Quarter 2001

Selected financial performance figures of Česká spořitelna for first quarter 2001 according to International Accounting Standards (unaudited)

<b>(MCZK)</b>	<b>Consolidated</b>	<b>Unconsolidated</b>
Net interest income	3,425	3,106
Non-interest income	1,512	1,482
Operating expenses	(3,760)	(3,500)
Creation of reserves and provisions for loan risks	(581)	(516)
Other operating results	(106)	(128)
Profit before tax	490	444
Income tax	(111)	(114)
Net profit	379	330
Minority shares	(33)	0
Net profit per minority shares	346	330
Total assets	444,427	404,739
Loans and advances to clients	139,487	128,484
Amounts owed to clients	361,520	334,026
Shareholders' equity	23,063	22,460

## Conclusions of the Annual General Meeting Held on 16 May 2001

The Annual General Meeting of Česká spořitelna, which was held on 16 May 2001 in Prague, approved the Board of Directors' Report on the Company's Business Activities and the financial situation in 2000. The shareholders present at the General Meeting were presented with the Supervisory Board Report for the year 2000 and approved the year-end financial statements in accordance with Czech Accounting Standards and earnings allocation proposal. The earnings amount allocated was CZK 4,860 million, of which CZK 243 million was allocated to the legal reserve fund, CZK 100 million to the social fund, and CZK 22 million was allocated to the payment of a dividend of CZK 2 per priority share. The remainder, CZK 4,495 million, was allocated to retained earnings.

The General Meeting also passed an amendment to Česká spořitelna's Articles of Association, which can be summarized as an adjustment to the company's internal organizational rules to bring them into full compliance with the new legislative requirements given by the amended Commercial Code and other legal regulations. Certain other changes aimed at simplifying and shortening the Articles of Association were made as well.

## Current District Branch Directory as of 16 May 2001

Locality	Branch	Address	Postal Code	Telephone	Fax
Brno	district	Jánská 6	601 55	+420 5/42125111	+420 5/42125165
Břeclav	district	Národních hrdinů 7	690 58	+420 627/307111	+420 627/321296
České Budějovice	district	U Černé věže 1	370 26	+420 38/7717911	+420 38/7717483
Děčín	district	Pohraniční 1385/14	405 93	+420 412/590111	+420 412/510601
Hradec Králové	district	tř. ČSA 402	502 01	+420 49/5066111	+420 49/5513065
Jihlava	district	Křížová 1	586 23	+420 66/7140111	+420 66/7321669
Karlovy Vary	district	tř. TGM 14	361 18	+420 17/3222582-4	+420 17/3226135
Karviná	district	K. Sliwky 8a/50	733 21	+420 69/6395111	+420 69/6324016
Kladno	district	nám. Svobody 1960	272 66	+420 312/627822-4	+420 312/628600
Klatovy	district	nám. Míru 152	339 18	+420 186/340111	+420 186/20332
Kolín	district	Rubešova 50	280 14	+420 321/739111	+420 321/739103
Liberec	district	Felberova 12/9	460 98	+420 48/5234111	+420 48/5103060
Mladá Boleslav	district	nám. Míru 47	293 51	+420 326/716411	+420 326/29011
Most	district	Bankovní 1300	434 57	+420 35/6445111	+420 35/7708978
Náchod	district	Karlovo nám. 179	547 25	+420 441/415111	+420 441/423150
Nový Jičín	district	Masarykovo nám. 1	741 11	+420 656/702505-6	+420 656/701462
Olomouc	district	tř. Svobody 19	771 05	+420 68/5526111	+420 68/5222501
Opava	district	nám. Republiky 15	746 71	+420 653/683111	+420 653/621920
Ostrava	district	nám. Dr. E. Beneše 6	702 70	+420 69/6209111	+420 69/6113242
Pardubice	district	tř. Míru 72	531 07	+420 40/6812111	+420 40/6615702
Písek	district	Alšovo nám. 178	397 39	+420 362/757111	+420 362/757120
Plzeň	district	Františkánská 15	305 09	+420 19/7212111	+420 19/7320698
Praha 1	borough	Rytířská 29	111 21	+420 2/24101111	+420 2/24212713
Praha 2	borough	Jugoslávská 19	120 24	+420 2/21634222	+420 2/24246575
Praha 4	borough	Budějovická 1912	140 21	+420 2/61071111	+420 2/61072002
Praha 5	borough	Štefánikova 17/247	150 31	+420 2/61097111	+420 2/57324127
Praha 8	borough	Sokolovská 1	186 53	+420 2/2326169	+420 2/2326178
Prostějov	district	Žižkovo nám. 17	796 98	+420 508/305111	+420 508/305120
Příbram	district	Milínská 166	261 22	+420 306/25024	+420 306/646240
Svitavy	district	nám. Míru 34	568 15	+420 461/562111	+420 461/530780
Tábor	district	tř. 9. května 518	390 02	+420 361/495111	+420 361/251693
Ústí nad Labem	district	Mírové nám. 2	400 58	+420 47/5255111	+420 47/5220532
Zlín	district	Zarámí 4463	761 65	+420 67/7612111	+420 67/37076

## Glossary of Terms

Acquiring:	a contractual relationship between a Card Association member bank and merchants allowing acceptance of bank cards for payment of goods and services
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
Cost/income ratio:	ratio of operating expense and operating income
Credit scoring:	a quantitative method for assessing a client's credit using a system in which points are awarded for various criteria
Deferred tax receivable:	a tax receivable determined from costs that have already been realized but which can reduce future tax liability
Duration:	the measure of change in the price of a bond against the change in its yield to maturity
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
Mandatory minimum reserves:	reserved 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 interest margin:	ratio of net interest income to average balance of gross assets

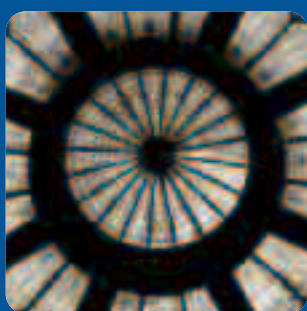
Non-interest income/operating income ratio:	non-interest income is the difference between operating income and net interest income
Option:	a contract giving the holder the right, but not the obligation, to buy or sell a particular asset at a specific price during a specified period and at the specified 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
Preferred 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 provisions:	reserves 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 Reserve:	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

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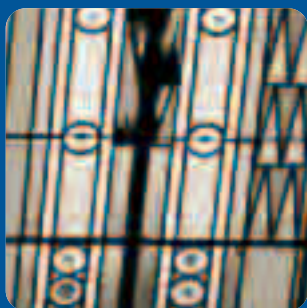
Illustrations accompanying the annual report represent details of Art Nouveau buildings of the selected cities, in which Erste Bank Financial Group operates. The images are by Viennese photographer Bernhard Angerer.



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Václavské náměstí 1-3  
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Academy of Music  
Zeneakadémia  
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Prague  
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