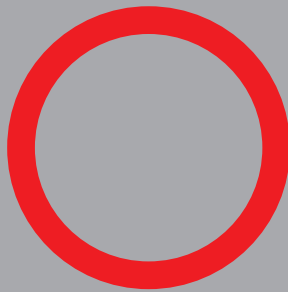




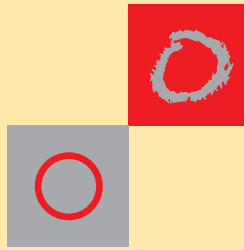
**CS Interim Report: Three Quarters 2000**



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## Introduction by the Chairman of the Board and CEO

*Česká spořitelna, a.s. is transforming itself. We are putting in place the building blocks to transform our retail, corporate, financial markets and subsidiary lines of business into a modern financial services group which will be highly competitive in the Czech Republic, Central Europe, and the European Union.*

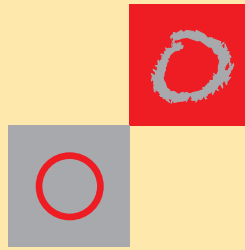
*Our transformation will not bring instant results. Our customers, the communities where we do business, and our shareholders will see steady progress, quarter by quarter, as the Česká spořitelna team reengineers our processes, eliminates bureaucracy and duplication, and focuses on customer satisfaction leading to revenue growth.*

*In particular, the Third Quarter saw the acquisition of Erste Bank in the Czech Republic. This purchase brought valuable customers and assets to Česká spořitelna. More importantly, the acquisition added highly qualified human resources who will contribute in many and varied ways to our transformation.*

*October 2000*

*Jack STACK*

*Chairman of the Board of Directors and CEO*



## Trends in the Czech Republic's Economic Development during Third Quarter 2000

The economic indicators for the Third Quarter indicate that most sectors of the Czech economy are showing gradually improving performance. A number of economic indicators, however, are based on a short history and are not completely reflective of the actual state of affairs.

An example of a recent – and extremely important – economic influence is Foreign Direct Investment (FDI). The ongoing influx of FDI is enabling the Czech economy to lessen its dependence on heavy industry and create companies that are competitive not only in their historical Western European markets but also in the World Market. In the years to come, as these companies grow and account for an increasingly greater share of the Czech Republic's exports, we should see growing export sales into a widening market. Under this scenario, we may expect the Czech economy's growth rate to surpass that of the more mature European Union countries.

Continued privatization and the influx of FDI are also having a major impact on the situation in the labor market. Over the past few months, this year's lower number of school graduates combined with increased interest in recruiting new employees (especially on the part of new economy companies) have had a positive impact on the number of open job positions and helped keep the unemployment rate below nine percent. So far, the stable unemployment rate and increased labor demand have not translated into an increase in consumer loan demand.

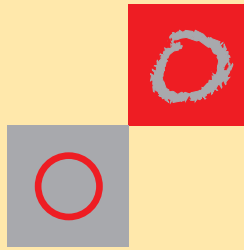
In spite of continued high year-on-year growth in exports, the foreign trade deficit has widened substantially. Since there can be no expectation that this year's balance of services will end at a level much better than in past years, this year's current account deficit will rise from just under 2 percent (in 1999) to over 3.5 percent. While increased domestic demand is one of the factors in this growth, the largest factors are high oil prices and the euro's weakness against the dollar. The negative impact of these two factors will continue to be felt in the coming months, and, therefore, we must expect this year's foreign trade deficit to rise to roughly CZK 120 billion, or nearly double last year's figure.

Inflation remains under control, despite high oil prices and growing domestic demand, as reflected in the over five percent cumulative growth in retail sales. The year-on-year value of the Consumer Price Index (CPI) should be around 4 percent at year-end. Net inflation – which is the principal indicator determining interest rates and does not include government-regulated prices – should end below the lower bound of this year's net inflation target (3.5–5.5 percent). For this reason, it is unlikely that the Czech National Bank will raise interest rates this year. A slight increase may occur in the first half of next year, although it would only be minimal (no more than 50 bp).

While the money market remains calm, there have been substantial changes in long-term interest rates during the past few months. Prices for government paper have fallen significantly on worries that next year there will be insufficient demand for new issues of long-term government bonds. Yields have risen by as much as 50 bp, hitting new long-term highs and setting records in some cases.

The koruna has also seen some interesting developments. Under the influence of investments, the koruna reached in October its historic high against the euro (34.65) since the introduction of the single European currency. During the same period, however, the koruna weakened against the dollar to a historic low (42.52). For the next year we expect the koruna to be relatively stable against the euro, while its performance against the dollar will be entirely dependent on the development of European economies – i.e., increased volatility is probable. However, over the long term the koruna is expected to gain ground gradually against the dollar, strengthening it from 42.0 to 34.0.





## Major Changes at the Bank

### ■ NEW BOARD OF DIRECTORS AND SUPERVISORY BOARD

During the first three quarters of 2000, the final phase of Česká spořitelna's privatization was accompanied by gradual changes in the Bank's governance bodies. After the departure of several members of the Supervisory Board that had represented the interests of the National Property Fund of the Czech Republic (NPF) as majority shareholder, Manfred Wimmer and Ernst-Gideon Loudon were appointed to the Supervisory Board in February and March of this year. Jack Stack was elected to the Board of Directors of Česká spořitelna in February.

While the Annual General Meeting of Česká spořitelna approved some minor changes in the Supervisory Board, major changes were made at the Extraordinary General Meeting of June 27, 2000. At the motion of the NPF, the following new members were elected to the 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 Supervisory Board members who had been elected by Česká spořitelna employees – Milan Bakeš, Ivan Černý, Josef Komárek and Petr Liška – remained in their posts. The new Supervisory Board took office on August 3, 2000, the same day shareholder rights were transferred to Erste Bank.

As of July 2000, Česká spořitelna also formed a new Board of Directors: Jack Stack is Chairman of the Board and CEO; Dušan Baran is Vice Chairman of the Board; Daniel Heler is Member of the Board responsible for financial markets; Gernot Mittendorfer is Member of the Board responsible for commercial banking; and Martin Škopek is Member of the Board responsible for retail banking.

As part of the new management structure, a twelve-member Senior Management Team was instituted to decide on matters of business policy and strategy. In addition to the entire Board of Directors, the following six top Česká spořitelna executives serve on the Senior Management Team: Frank-Michael Beitz, Pavel Cetkovský, Petr Hlaváček, Pavel Kysilka, Roman Mentlík, and Jiří Škorvaga.

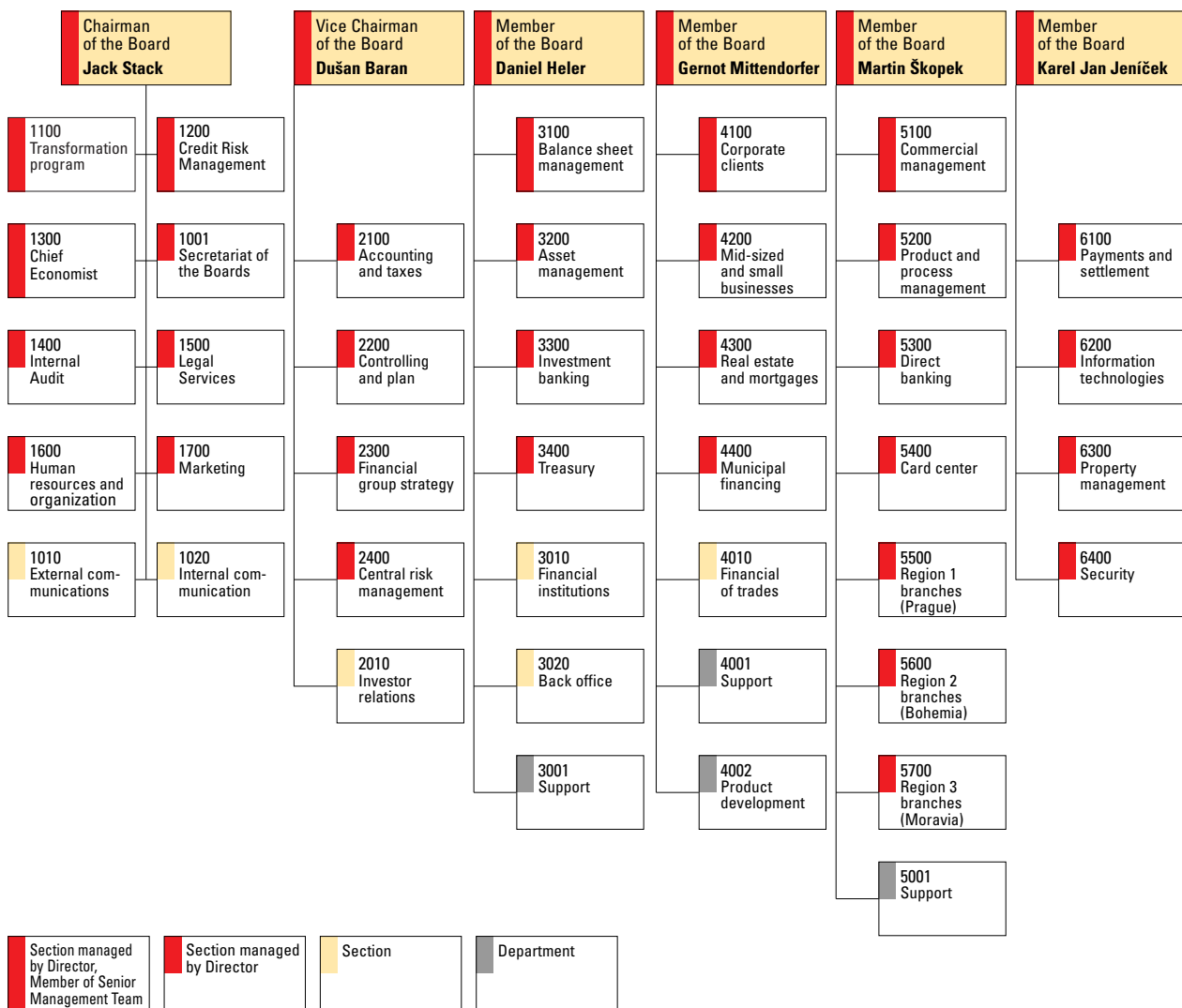
At the Extraordinary General Meeting of August 30, 2000, Andreas Treichl was elected Chairman of the Supervisory Board and Livia Klausová was elected Vice Chairwoman of the Supervisory Board. The latest change took place on October 11, 2000, when the Supervisory Board elected Karel Jan Jeníček the sixth Member of the Board of Directors, with responsibility for information technologies, payments and settlements, property management, and security.

### ■ NEW ORGANIZATION STRUCTURE

Effective August 1, 2000, Česká spořitelna's Head Office in Prague carried out a wide-ranging reorganization in function of the successful completion of the privatization process and Česká spořitelna's inclusion in the Group of Erste Bank der oesterreichischen Sparkassen. As of October 11, 2000, certain sections that had been managed directly by the Chairman of the Board passed to the new Member of the Board, Karel Jan Jeníček. A new Security Section was formed as of November 1, 2000.

Among other things, the new organization structure creates conditions for improving client services by adding new products, improving cross-selling in cooperation with our subsidiaries, widening our range of services in direct banking through the use of remote distribution channels, and an increased emphasis on customer service.

**ČESKÁ SPOŘITELNA BOARD OF DIRECTORS, MANAGEMENT RESPONSIBILITIES AS OF NOVEMBER 1, 2000**



**TRANSFORMATION PROGRAM**

Work on the transformation of Česká spořitelna moved from planning to implementation following the transfer of shareholder rights to Erste Bank in early August 2000. The goal of the transformation program is to provide better service and products to our customers and better returns to our shareholders.

Work is ongoing in twenty projects which are divided into nine main areas.

Česká spořitelna employees are participating in an exchange program with Erste Bank which gives them the opportunity to enrich their professional experience. In order to improve the sales skills of front office employees, trainers were chosen who will train the employees in sales tactics and develop their skills. An important step in the transformation program was the formulation of a new strategy for the Česká spořitelna Financial Group, which is focused on leveraging synergies between the Bank and its subsidiaries and support for cross-selling products. Front office processes and procedures are being gradually reshaped, and non-sales functions are being removed from teller windows. Sales and product manuals have been developed for better employee orientation in the new procedures. However, many of the changes will not be visible until the beginning of next year, since a considerable portion of the work to date has been concentrated on revising internal processes.

## ■ INTEGRATION OF ERSTE BANK ČR INTO ČESKÁ SPOŘITELNA

An important event that occurred near the end of the Third Quarter was the conclusion of an Agreement on Sale of Enterprise between Erste Bank Sparkassen (CR) a.s. and Česká spořitelna, a.s. Pursuant to this agreement, all assets and liabilities of Erste Bank ČR passed to Česká spořitelna. The agreement took effect on September 30, 2000. The purchase price was set, on the basis of appraisals, at CZK 1.620 billion.

As of the effective date of the agreement, Česká spořitelna took over all assets and liabilities of Erste Bank ČR, its existing branch network, clients (approximately 8,000) and employees (240).

All efforts throughout the integration process were concentrated on the need to minimize the impact of the changes on the quality of services provided to clients. The clients of Erste Bank ČR were informed of the integration in timely fashion, and Česká spořitelna prepared a unified offer of products and services for them.

The plan to acquire Erste Bank ČR was based on Česká spořitelna's interest in gaining access to the attractive clientele of the foreign bank's subsidiary accelerating utilization of the strategic partner's know-how, and bringing valuable employees into the Česká spořitelna team.

## Credit Ratings

During 2000 credit-rating agencies reacted positively to both the sale of Česká spořitelna to Austria-based Erste Bank and to the successful start of the Bank's transformation. Moody's increased its long-term rating from Baa2 to Baa1 and Standard & Poor's changed its outlook from negative to stable. Thomson BankWatch increased Česká spořitelna's Inter-Country Issuer rating from IC-C to IC-B/C and Fitch changed its outlook from RatingAlert Evolving to stable.

At present, Česká spořitelna holds an investment-grade rating from three of the four agencies. Česká spořitelna is also holding up well in comparison with the rating of the Czech Republic itself, which is the highest rating achievable for the Bank. In two cases (Moody's and Thomson BankWatch), its rating is equal to that of the Czech Republic, and in the case of Fitch it is just one rung below.

### Ratings of ČS at October 4, 2000

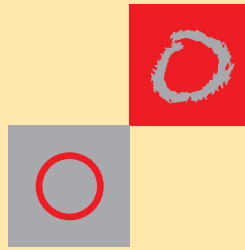
Rating Agency	Long-term	Short-term	Individual	Support	Intra-Country Issuer	Financial Strength	Outlook
Fitch	BBB	F2	D/E	2			stable
Moody's	Baa1	Prime-2	E+			positive	
Thomson BankWatch	BBB	LC-1			IC-B/C		
Standard & Poor's	BB	B					stable

## Other Banking Activities

Due to the Bank's cost-reduction and rationalization measures, the number of employees of Česká spořitelna has decreased by 1,141 during 2000, bringing the headcount at the end of the Third Quarter to 14,136. The 240 employees of Erste Bank CR were transferred to CS by October 1, 2000. The year has also seen a continuation of the branch network optimization process that commenced in 1998. There were 82 fewer sales locations at the end of the Third quarter than there were at the beginning of the year. Another 87 poorly performing outlets were closed down as of October 1, 2000. Currently Česká spořitelna has 707 sales locations and there are no plans for any further substantial reductions in the branch network.

As of the end of the Third quarter, the number of contractual vendor locations accepting Česká spořitelna cards increased from 10,109 at the end of 1999 to 10,325. This network encompasses a wide portfolio of merchants ranging from small store owners to large international retail chains.

Česká spořitelna continues to be the largest issuer of bank cards in the Czech Republic. As of September 30, 2000 it had issued 1,872,109 cards, or roughly 143,000 cards more than at year-end 1999. The number of electronic banking (GSM Banking, Home Banking) and telephone banking (Sporotel) users rose during the same period by over 86,000 to the current number of 203,325 users.



**Consolidated Non-Audited Performance Results of Česká spořitelna  
as of September 30, 2000,  
according to International Accounting Standards**

**Česká spořitelna posted consolidated current-year earnings of CZK 311 million for the first three quarters of 2000 according to International Accounting Standards (IAS).** Contributing to this result were the lower need for provisions and adjustments for credit risk, net fee and commission revenues, and net profit on sales operations. The net interest revenue figure was negatively influenced by declining interest rates in the Czech Republic. **Operating profits**, defined as the difference between operating revenues (net interest revenues, net fee and commission revenues, and net profit on sales operations) and general operating costs (employee costs, other administrative overheads, depreciation and amortization) reached CZK 3.879 billion, and the resulting **operating costs and revenues ratio** was 72.03 percent.

**Interest revenues** totaled CZK 19.018 billion, consisting mainly of receivables from clients (CZK 8.352 billion) and receivables from banks (CZK 6.623 billion). **Interest costs** totaled CZK 10.208 billion, of which CZK 8.566 billion was incurred on liabilities to clients. **Česká spořitelna's share as parent bank in the net interest revenue of CZK 8.810 billion was 91 percent.**

**The net fee and commission revenue figure** reached CZK 3.168 billion, 82 percent of which is attributable to payments. **Net profit on sales operations** was CZK 1.892 billion. At CZK 5.060 billion, non-interest revenues represented 36 percent of operating revenues. 93 percent of the operating revenue total of CZK 13.870 billion was attributable to the parent bank.

**The amount of provisions and adjustments for credit risks** (CZK -2.225 billion) was influenced, among other factors, by an agreement between Česká spořitelna and Konsolidační banka.

**General operating costs** at CZK 9.991 billion were comprised as follows: 38% employee costs (CZK 3.814 billion, mainly wages and benefits), 40% other administrative overheads (CZK 4.019 billion, purchased goods and services), and 22% depreciation and amortization (CZK 2.158 billion). The parent bank's share of general operating costs was 88 percent.

**Other operating items** at CZK -1.527 billion were influenced primarily by the setting aside of a restructuring provision (CZK -1.738 billion) and costs associated with the transformation of Česká spořitelna.



## BALANCE SHEET

**The consolidated total assets of Česká spořitelna at September 30, 2000 were CZK 438.9 billion, an amount which includes CZK 21.5 billion acquired from Erste Bank ČR** on September 30, 2000. The parent bank's share in the total assets figure is 92 percent.

**Primary deposits (liabilities to clients), at CZK 349.6 billion, represent 80 percent of the total balance sheet amount.** Česká spořitelna's share in the growth of its primary deposits during the first half of 2000, including CZK 6.9 billion in primary deposits from Erste Bank ČR, was 92 percent. ČS-stavební spořitelna's share was 7 percent. Savings deposits make up more than half (54 percent) of liabilities to clients.

Liabilities to banks totaled CZK 21.1 billion. Here the acquisition of Erste Bank ČR had a major influence (CZK 12 billion). The amounts of bonds outstanding CZK 5.2 billion and subordinated debt (CZK 5.5 billion) did not change. Other liabilities were at CZK 33.8 billion.

**Shareholder's equity**, including minority shares, totaled CZK 23.8 billion, an amount which was negatively impacted by the accounting loss for 1999, which was deducted from the reserve fund.

On the assets side of the balance sheet, the largest item was **inter-bank receivables** with a gross volume of CZK 164.2 billion (37% of total assets). Erste Bank ČR represents CZK 5.5 billion of this amount. **Receivables from clients**, gross, totaled CZK 131.1 billion, 71% of which are corporate loans, 25% are household loans, and 4% are loans to the public sector. Erste Bank ČR's share is CZK 13.0 billion. Provisions and adjustments to loans totaled CZK 22.2 billion.

March 2000 saw the execution, as part of the privatization of Česká spořitelna, of a "Ring Fencing Agreement" governing the mutual relations between Česká spořitelna and Konsolidační banka with respect to a defined portfolio that is subject to the terms of this agreement. At the same time, the agreement sets forth technical conditions both for the management of this portfolio as well as, subsequently, for setting the realization price and the method used to assign the receivables in question. The agreement is based on a resolution of the Government of the Czech Republic that was passed in February 2000, and covers a total exposure of over CZK 17 billion. Pursuant to a decision of the Board of Directors of Česká spořitelna, this portfolio is under a special management regime.

**The total securities portfolio**, at CZK 112.6 billion, represents 26% of the total assets figure. Assets earmarked for trading comprise CZK 55.9 billion, financial investments CZK 50.1 billion, and investments for sale CZK 6.6 billion. The acquisition of Erste Bank ČR accounts for CZK 1.6 billion of the financial investments figure.

Other assets totaling CZK 38.9 billion include CZK 16.8 billion in tangible assets and CZK 1.4 billion in intangible assets.

**■ CONSOLIDATED PROFIT AND LOSS ACCOUNT ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS AT SEPTEMBER 30, 2000**

	(CZK millions)
Net interest revenue	8,810
– Provisions and adjustments to credit risk	-2,225
Net fee and commission revenue	3,168
Net profit/loss on sales operations	1,892
Employee costs	-3,814
Other administrative overheads	-4,019
Depreciation and amortization	-2,158
Other operating items	-1,527
Profit/loss before tax	153
Income tax	252
Net profit after tax	405
Minority shares	-64
Net profit after minority shares	341
<b>Current year profit/loss</b>	<b>311</b>
Operating revenues	13,870
General operating costs	-9,991
<b>Operating result</b>	<b>3,879</b>

**■ CONSOLIDATED BALANCE SHEET ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS AS OF SEPTEMBER 30, 2000**

	(CZK millions)
Cash on hand, deposits with central banks	14,328
Receivable from banks	164,207
Receivable from clients	131,086
– Provisions and adjustments to loans	-22,158
Assets for trading	55,850
Investments for sale	6,615
Financial investments	50,116
Other assets	38,899
<b>Total assets</b>	<b>438,943</b>
Payable to banks	21,053
Payable to clients	349,606
a) Savings deposits	187,241
b) Other deposits	162,365
Own bonds outstanding	5,208
Subordinated capital	5,500
Shareholders' equity	23,200
Minority shares	609
Other liabilities and equity	33,767
<b>Total liabilities and equity</b>	<b>438,943</b>