

**Report on Komerční banka's
Financial Results
as at 31 March 2001**



THE CZECH ECONOMY IN THE FIRST QUARTER OF 2001

Domestic demand continued to grow strongly in the first quarter of 2001. Production in the industrial and building sectors rose by 10 % and 15 % respectively year on year. Industrial growth is concentrated in processing industrial sectors, while primary industry remained relatively stagnant. In the building industry the recovery has so far been confined to large construction investments, with the retail building sector remaining in recession. Retail sales increased by 3.5 % during the first quarter, confirming the fact that economic growth will be led principally by domestic investment demand in 2001, with only a slight increase forecast for consumer demand. GDP rose approximately 3.5 % over the first quarter. The expanding economy has begun to create new employment opportunities: at the end of the first quarter the unemployment rate stood at 8.7 % and the ratio between the number of new employment positions and that of job applicants continues to improve.

High demand for industrial and building production has not yet had a significant impact on inflation. Price rises in industry at the end of March 2001 amounted to 4.1 %, which represents a marked slowdown against the previous year. As expected, the increase in industrial prices has begun to converge strongly with the development of consumer prices. At the end of March 2001 the year on year rise in the consumer price index was exactly the same as the increase in production prices.

On the other hand, strong domestic demand has led to an increase in imports and a widening balance of trade deficit. This stood at CZK 31.1 billion for the first quarter, an increase of CZK 12 billion against the corresponding period in 2000. The current account deficit for the first quarter shall probably exceed 5 % of GDP. If the unfavourable reports of a slowdown in economic growth in Germany are confirmed in the following months, and the price of oil remains at approximately USD 28 a barrel, the balance of trade deficit can be expected to widen still further, resulting in the depreciation in the value of the Czech koruna.

Overall, economic growth for 2001 can be expected to rise slightly to 3.5 %. Industry should record similar growth as in 2000 of around 5 % with the building industry rising to 7 %. Unless there is an unexpectedly sharp downturn in demand in Western Europe the balance of trade deficit should remain around CZK 130 billion. This would mean a reduction in the current account deficit to 4.5 % of GDP.

MAIN EVENTS

The main event during the first quarter was undoubtedly the Bank's continuing privatisation. Important steps were taken towards the eventual sale of 60 % of the State's holding. In January, four leading international banking institutions began due diligence proceedings in order to establish a detailed evaluation of the Bank. This formed a basis for the submission of binding offers for the purchase of the state holding.

Due diligence began with presentations by the Board of Directors to potential investors. At the same time investors were given access to over six thousand documents in the Data Room archive, enabling them to inspect the activities of the Bank and its subsidiaries and associated companies.

From January, potential investors were given the opportunity to assess the quality of management within the Bank by means of one-to-one interviews with senior management both at Head Office and throughout the branch network.

Due diligence concluded with an analysis of loan documentation and loan procedures. These were conducted on-site in the Bank's branches.

An ordinary general meeting of the Bank was convened 28 March 2001. Shareholders approved changes to the Articles of Association in order to comply with an amendment to the Commercial Code which came into effect 1 January 2001. The most important changes relate to a specification of the competencies of the Bank's organs. The general meeting also adopted amendments applying stricter conditions to the share incentive scheme approved at the ordinary general meeting of 31 May 2000.

With effect from 31 March 2001 the Bank closed its remaining representative offices in London, Frankfurt, Warsaw and Budapest. This will bring savings in operational costs in the coming years but shall in no way affect the Bank's international business commitments. These were and shall continue to be conducted through its own correspondent banking.

BUSINESS ACTIVITY

The ongoing privatisation process has not affected the Bank's quality of services. Existing services were improved and new services introduced during the first quarter.

The end of March saw the conclusion of the pilot phase of the new 'mojebanka' product. From 1 April 2001 customers have been able to access internet banking services at www.mojebanka.cz. These services are primarily intended for small and medium-sized businesses and corporate entities - entrepreneurs. Bank experts are also preparing a version aimed at a wide range of retail customers - natural persons.

Since 26 February 2001 customers have also been able to recharge Oskar mobile telephone cards at the Bank's ATMs. A further innovation is the opportunity to pay invoices and access other of the mobile operator's services through the ATMs.

A new product created jointly with the Bank's subsidiary, Komerční pojišťovna, offers collective credit insurance. On agreeing a consumer loan the customer is automatically included in the collective insurance without any obligation to pay an insurance policy. The product includes insurance in the event of death, full disability, loss of earnings through illness and loss of employment.

Since January, following the creation of larger regional administrative bodies, the Bank has offered such bodies an overdraft facility in addition to a current account. Each regional body can choose one of four types of facility up to a maximum of CZK 25 million. The overdraft is available for a period of 12 months.

FINANCIAL RESULTS UNDER INTERNATIONAL ACCOUNTING STANDARDS

PROFIT AND LOSS ACCOUNT

After several years of recording a loss the Bank generated *net profit* of CZK 1.3 billion in the first quarter of 2001. The result reflected a year on year increase of 7.3 % in operating profit, i.e. *profit before provisions for loan losses and income tax*. This was made possible by a sharp reduction in the creation of provisions and reserves (fall of 59.1 %) and a lower tax burden (fall of 68.8 %). The main factors in the return to profit were the restructuring

programme implemented in the middle of 2000 and the state support provided in the form of the transfer of bad loans to Konsolidační banka and the guarantee for part of the loan portfolio.

Net interest income rose 6.9 % to CZK 3.0 billion in comparison with the first quarter of 2000. This is attributable to the rise of 3.1 % in interest income, which exceeded the rise in interest expense by 2.8 percentage points. The increase in interest income was principally due to a rise of 61.7 % in interest received from banks as a result of the refinancing loan provided to Konsolidační banka as part of the transfer of bad loans, as well as higher investments on the inter-bank market. Net interest income from inter-bank operations amounted to CZK 2.2 billion as at 31 March 2001. This represents 73 % of net interest income.

Interest income from customers fell year on year by 27.1 % following the fore-mentioned transfer of bad loans to the company Konpo in March 2000 and the resulting reduction of the loan portfolio.

Net interest income for the first quarter of 2001 was adversely affected by the fall in market interest rates and the Bank's consequent reduction of its reference rate. As at 31 March 2001, the Bank's reference rate was 5.2 %.

The net interest margin as at 31 March 2001 was 3.55 %.

As a result of changes to accounting procedures, from 1 January 2001 the item *net fees and commissions* also includes exchange rate commissions from clean and documentary payments (formerly part of the dealing profit item) and from cash conversions (formerly part of other income). The results are calculated on an equivalence basis. Net fees and commissions for the first quarter amounted to CZK 1.9 billion, representing a rise of 13.1 % against the same period in 2000.

As at 31 March 2001 net fees and commissions without exchange rate commissions amounted to CZK 1.3 billion. Fees from customers rose year on year by 22 % and now make up 97 % of total fee income. Fees from customers have risen sharply since the third quarter of 2000 following a change in pricing strategy on selected products and services. The year on year growth in net fees and commissions also reflects the savings on fees paid to customers with regard to termination of a securitisation transaction in April 2000.

Exchange rate income from clean and documentary payments came to CZK 340 million at the end of the first quarter. Exchange rate income from currency exchange operations amounted to CZK 210 million.

Dealing profits include the Bank's results from trading with securities excluding income from fixed asset investments (see other income), interest rate and commodity derivative operations and results from exchange rate profit and losses from foreign exchange operations excluding clean, documentary and cash conversion operations (see fees and commissions). Dealing profits in the first quarter fell 50.9 % to CZK 340 million in comparison with the same period in 2000. The profit of CZK 226 million on trading with securities made up the larger part of the result.

The interest rate and commodity derivatives result of CZK 128 million was largely influenced by the rise of real value in January, partly as a result of the reclassification of hedging operations with regard to the implementation of the new IAS 39 accounting procedures from 1 January 2001. Profit from commodity derivatives (CZK 2 million) formed a negligible part of the overall result.

The foreign exchange part of dealing profits now only includes dealer non-derivative operations, the revaluation of foreign exchange account balances, spot transactions and currency derivatives. These operations are characterised by relatively high volatility of results. In the first quarter they recorded a loss of CZK 14 million.

Other income totalling CZK 82 million recorded a fall of 43.4 % year on year. The major part of other income came from fixed asset investments, amounting to CZK 68 million at the end of the first quarter.

The year on year fall of CZK 199 million in non-interest income, given the almost unchanged volume of overall income, resulted in a reduction in the proportion of *non-interest income to overall income* of 3.7 percentage points to 43.0 % as at 31 March 2001.

Administrative expenses as a nominal value rose year on year by CZK 175 million, i.e. by 8.2 %. Discounting the year on year increase in consumer prices this represents an increase of 4 %. The increase was in large part due to costs incurred by the Remedial Management Division with the aim of facilitating the collection of bad loans and managerial bonuses in March 2001. The rise in costs was also affected by the higher transfer to the Deposit Insurance Fund and expenses for due diligence and promotional activities.

Depreciation of tangible and intangible assets and the creation of other reserves amounted to CZK 486 million. The year on year fall in this item of CZK 352 million (42 %) was mainly due to corrections in the inclusion of leasing in depreciation amounting to CZK 311 million as at 31 March 2000.

The *cost/income ratio* as at 31 March 2001 was 52.3 %.

Provision for loan losses fell by more than 59 % to CZK 736 million, reflecting the improved quality of the loan portfolio. The impact of the state guarantee has yet to be felt as the Office for Protection of Economic Competition has not so far adopted its attitude from its application. The Bank has therefore included the amount corresponding to the savings on provisions in general reserves.

BALANCE SHEET

Total assets of CZK 401.7 billion showed no significant change against the end of 2000.

ASSETS

Cash and balances with the central bank fell by 13.2 % to CZK 17.9 billion. The item changes according to the Bank's operational requirements and according to the volume of mandatory minimum reserves held at the Czech National Bank. Interest had not yet been charged on mandatory minimum reserves at the end of the first quarter.

Amounts due from financial institutions at CZK 183.6 billion still constitute the largest single item on the assets side of the balance sheet, rising 4.8 % against the end of 2000. The increase was mainly due to the increase in the balance of REPO loans. These make up almost 43 % of amounts due from financial institutions.

Treasury and other bills amounted to CZK 1.6 billion at the end of the first quarter, falling 86.2 % against the end of 2000. The reduction was primarily due to the greater use of alternative money market instruments.

Total net loans and advances to customers fell 1.3 % to CZK 128.6 billion against the end of 2000. The gross figure was CZK 151.1 billion. Corporate loans, which continue to form the major part of customer loans, rose by 1.5 % over the first quarter. The strong increase in mortgage loans (11.1 %) and consumer loans (8.4 %) represented an increase of 11 % in their proportion of the total customer loans.

The volume of new loans granted by the Bank during the first quarter (CZK 14.2 billion) was affected by the stricter conditions applied to loan transactions.

The proportion of standard loans to total customer loans rose by 2.3 percentage points to 48.4 % over the first quarter. The increase was due partially to the reclassification of customers from higher risk categories. The proportion of loans under special review (non-standard, doubtful and loss) to total customer loans fell by 2.2 percentage points to 31.5 % and the proportion of loss loans to total customer loans by 1.9 percentage points to 10.8 % as at 31 March 2001.

Total customer loans at the end of March 2001 were covered by provisions and general reserves of CZK 22.6 billion.

Structure of Loan Portfolio by Classification

(CZK mil.)

	As at 31 December 2000		As at 31 March 2001	
	Amount	Provisions	Amount	Provisions
Standard	68,127	-	73,212	-
Watch	29,782	396	30,368	392
Total standard and watch loans	97,909	396	103,580	392
Sub-standard	24,625	1,250	21,948	977
Doubtful	6,323	1,106	9,242	1,010
Loss	18,818	10,954	16,375	11,497
Total loans under special review	49,766	13,310	47,565	13,484
General provisions		7,026		8,681
Total customer loans	147,675	20,732	151,145	22,557

Changes in IAS methodology with effect from 1 January 2001 led to the revised classification of the securities portfolio to: *securities for trading, securities for sale and securities held until maturity*.

The fall in the volume of *securities held until maturity* from CZK 41.5 billion as at 31 December 2000 to CZK 10.5 billion at the end of the first quarter was caused by the fore-mentioned change in accounting methodology, by which securities for sale were removed from the investment portfolio and securities held until maturity were included in separate categories.

State bonds were the major factor behind the increase of 31.7 % to CZK 4.1 billion in the balance of the *securities trading portfolio* (formerly the trading portfolio) during the first quarter.

Bonds comprise 73 % of the securities trading portfolio and 57 % of the securities for sale portfolio.

LIABILITIES

Amounts owed to financial institutions stood at CZK 37.9 billion as at 31 March 2001, falling 3.7 % against the end of 2000. Reduced term deposit balances were primarily responsible for the lower figure.

Amounts owed to customers fell 1.7 % to CZK 282.8 billion over the first quarter. The reduction of CZK 4.9 billion was due mainly to the January repayment of short-term deposit bills of exchange issued by the Bank. The first quarter saw the deposits structure change in favour of term accounts, while demand deposits recorded a fall.

The book value of *subordinated debt* rose 2.7 % to CZK 7.8 billion during the first quarter as a result of the dollar's strengthening against the koruna.

The volume of *own bonds* amounted to CZK 27.8 billion as at 31 March 2001, registering a rise of 1.3 % against the end of 2000.

Profit recorded for the first three months of 2001 caused *shareholders' equity* to rise 6.6 % to CZK 21.5 billion as at the end of the first quarter.

The *equity to total assets ratio* was 5.4 % at the end of March 2001.

The Bank's *capital adequacy* under BIS methodology reached 15.0 % as at 31 March 2001. The figure reflects the profit generated during the first quarter. Using the Czech National Bank's methodology, capital adequacy amounted to 14.25 %.

SHAREHOLDER STRUCTURE

Major shareholders of Komerční banka with over 1 % of the share capital

(as of 21 March 2001)

Shareholder	Number of shares	Percentage of the share capital
NATIONAL PROPERTY FUND OF THE CZECH REPUBLIC	22,806,227	60.00%
THE BANK OF NEW YORK ADR DEPARTMENT ¹⁾	4,548,900	11.97%
BROWN BROTHERS HARRIMAN & Co., As Custodian	651,268	1.71%
CHASE IRELAND [NOMINEES] LIMITED	536,114	1.41%
STATE STREET BANK AND TRUST COMPANY	532,240	1.40%
CHASE NOMINEES LIMITED	520,763	1.37%
OTHER SHAREHOLDERS	8,414,340	22.14%

¹⁾ With the permission of the Czech National Bank, The Bank of New York ADR Department is the holder of those shares for which Global Depository Receipts (GDRs) were issued and which are in the possession of a significant number of foreign investors.

KOMERČNÍ BANKA'S PROFIT AND LOSS STATEMENT
ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS
(in CZK million)

	31 March 2001 (Unaudited)	31 March 2000 (Unaudited, Restated)
Interest income	6,890	6,682
Interest expense	(3,850)	(3,837)
Net interest income	3,040	2,845
Net fees and commissions	1,876	1,659
Dealing profits / (losses)	340	693
Other income	82	145
Net operating profit	5,338	5,342
Administrative expenses	(2,304)	(2,129)
Depreciation and other provisions	(486)	(838)
Profit / (loss) before provision for loan losses and income taxes	2,548	2,375
Provision for loan losses	(736)	(1,800)
Profit / (loss) before income taxes	1,812	575
Income taxes	(500)	(1,600)
Net profit / (loss) for the period	1,312	(1,025)

KOMERČNÍ BANKA'S BALANCE SHEET
ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS
(in CZK million)

	31 March 2001 (Unaudited)	31 December 2000 (Audited)
Assets		
Cash and balances with the central bank	17,887	20,607
Due from financial institutions	183,632	175,299
Treasury bills and other bills eligible for refinancing	1,615	11,670
Loans and advances to customers (net)	128,588	126,943
Securities held for trading	4,133	3,139
Securities available for sale	30,004	-
Accrued income and other assets	10,595	8,102
Investments held to maturity	10,545	41,465
Fixed asset investments	1,689	1,625
Tangible fixed assets (net)	12,982	13,355
Total assets	401,670	402,205
Liabilities		
Amounts owed to financial institutions	37,935	39,378
Amounts owed to customers	282,761	287,624
Certificated debts	27,809	27,441
Accruals, provisions and other liabilities	23,855	19,988
Subordinated debt	7,767	7,563
Total liabilities	380,127	381,994
Shareholders' equity		
Share capital	19,005	19,005
Share premium and reserves	2,538	1,206
Total shareholders' equity	21,543	20,211
Total liabilities and shareholders' equity	401,670	402,205

**KOMERČNÍ BANKA'S PROFIT AND LOSS ACCOUNT
ACCORDING TO THE METHODOLOGY OF CZECH BANKS**

(in CZK thousand)

		31 March 2001	31 March 2000
1.	Interest income and similar income	7,060,648	6,682,432
	of which: interest income from fixed income securities	593,711	429,681
2.	Interest expense and similar expenses	(3,841,038)	(3,817,266)
	of which: interest expense on fixed income securities	(506,392)	(545,858)
3.	Income from variable yield securities	39	119,939
a)	income from shares and other variable yield securities	39	0
b)	income from investments in associated undertaking	0	119,939
c)	income from investments in subsidiary undertaking	0	0
d)	income from investments	0	0
4.	Fee and commission income	1,411,755	1,158,085
5.	Fee and commission expense	(94,854)	(220,598)
6.	Profit (loss) from financial operations	554,780	1,446,328
7.	Other income	2,126,942	35,951,132
8.	General operating costs	(2,541,592)	(2,371,176)
a)	staff costs	(1,316,624)	(1,133,921)
aa)	salaries and wages	(954,558)	(836,658)
ab)	social insurance	(313,141)	(255,610)
ac)	health insurance	(48,925)	(41,652)
b)	other operating costs	(1,224,968)	(1,237,255)
9.	Creation of reserves and provisions for tangible and intangible assets	0	0
a)	creation of reserves for tangible assets	0	0
b)	creation of provisions for tangible assets	0	0
c)	creation of provisions for intangible assets	0	0
10.	Use of reserves and provisions for tangible and intangible assets	0	0
a)	use of reserves for tangible assets	0	0
b)	use of provisions for tangible assets	0	0
c)	use of provisions for intangible assets	0	0
11.	Other costs	(1,725,826)	(51,650,548)
12.	Creation of reserves and provisions for loans and guarantees	(3,665,694)	(16,137,745)
13.	Use of reserves and provisions for loans and guarantees	1,915,490	29,762,155
14.	Creation of reserves and provisions for fixed asset investments and portfolio to maturity	(1,897)	(911,213)
15.	Use of reserves and provisions for fixed asset investments and portfolio to maturity	391,453	103,798
16.	Creation of other provisions and reserves	(220,000)	0
17.	Use of other provisions and reserves	461,059	768,269
18.	Income tax from current activities	(500,000)	(1,600,000)
19.	Profit / loss from current activities for accounting period after tax	1,331,265	(716,408)
20.	Extraordinary income	265,707	144,861
21.	Extraordinary costs	(214,920)	(33,949)
22.	Income tax from extraordinary activities	0	0
23.	Profit or loss from extraordinary activities after tax	50,787	110,912
24.	PROFIT OR LOSS FOR ACCOUNTING PERIOD	1,382,052	(605,496)

KOMERČNÍ BANKA'S BALANCE SHEET
ACCORDING TO THE METHODOLOGY OF THE CZECH BANKS

(in CZK thousand)

ASSETS

		31 March 2001			31 December 2000
		Nominal value	Correction	Net value	
1.	Cash in hand, deposits with central banks, post checking accounts	17,272,563	0	17,272,563	19,787,027
2.	Treasury bills and other bills	73,345,470	0	73,345,470	76,225,789
a)	treasury bills and similar bonds issued by the state	1,614,893	0	1,614,893	11,368,789
b)	other bills	71,730,577	0	71,730,577	64,857,000
3.	Amounts due from banks	184,265,346	19,201	184,246,145	176,419,932
a)	payable on demand	497,313	0	497,313	777,073
b)	other receivables	183,768,033	19,201	183,748,832	175,642,859
	of which: subordinated assets	0	0	0	0
4.	Amounts due from clients	151,314,460	14,039,501	137,274,959	133,968,417
a)	payable on demand	1,445,240	0	1,445,240	1,040,497
b)	other receivables	149,869,220	14,039,501	135,829,719	132,927,920
	of which: subordinated assets	0	0	0	0
5.	Bonds and other fixed income securities for trading	30,067,886	454,267	29,613,619	3,049,693
a)	issued by banks	1,031,804	7	1,031,797	895,245
	of which: own bonds	924,348	0	924,348	680,309
b)	issued by other subjects	29,036,082	454,260	28,581,822	2,154,448
6.	Shares and other variable yield securities for trading	5,334,801	440,505	4,894,296	172,973
7.	Fixed asset investments in associated undertakings	494,718	5,001	489,717	489,730
a)	in banks	280,000	0	280,000	280,000
b)	in other entities	214,718	5,001	209,717	209,730
8.	Fixed asset investments in subsidiary undertakings	1,660,252	461,279	1,198,973	1,135,189
a)	in banks	453,648	19,022	434,626	438,366
b)	in other entities	1,206,604	442,257	764,347	696,823
9.	Other financial investments	10,576,120	0	10,576,120	42,603,985
10.	Intangible assets	2,032,149	1,198,286	833,863	872,579
a)	expenses of foundation	0	0	0	0
b)	goodwill	0	0	0	0
11.	Tangible assets	20,739,467	8,799,593	11,939,874	12,207,521
a)	land and buildings for banking activities	11,501,539	2,469,746	9,031,793	9,279,966
b)	other	9,237,928	6,329,847	2,908,081	2,927,555
12.	Own shares	2,976	0	2,976	5,265
13.	Other assets	8,408,899	138,433	8,270,466	6,131,408
14.	Subscribed capital called-up and not paid	0	0	0	0
15.	Prepayments and accrued income	1,689,734	0	1,689,734	3,772,856
	TOTAL ASSETS	507,204,841	25,556,066	481,648,775	476,842,364

LIABILITIES

		31 March 2001	31 December 2000
1.	Amounts due to banks	109,664,804	104,255,177
a)	payable on demand	5,069,681	6,154,880
b)	other	104,595,123	98,100,297
2.	Amounts due to clients	282,752,411	287,623,691
a)	savings deposits	23,738,017	24,833,587
	of which: payable on demand	1,569,510	1,691,682
b)	other amounts due to clients	259,014,394	262,790,104
	of which: payable on demand	105,798,178	122,983,543
3.	Certificates of deposit and similar debentures	27,808,730	29,600,720
a)	certificates of deposit	619	720
b)	other	27,808,111	29,600,000
4.	Accruals and deferred income	2,793,799	2,530,932
5.	Reserves	10,240,052	9,201,697
a)	reserves for standard loans and guarantees	9,872,279	8,174,946
b)	reserves for foreign exchange rate losses	0	0
c)	reserves for other banking risks	0	0
d)	other reserves	367,773	1,026,751
6.	Subordinated liabilities	7,767,400	7,562,600
7.	Other liabilities	19,205,544	16,027,947
8.	Share capital	19,004,926	19,004,926
	of which: share capital paid-up	19,004,926	19,004,926
9.	Share premium fund	0	0
10.	Reserve funds	568,050	564,050
a)	obligatory reserve funds	558,050	558,050
b)	reserve funds for own shares	10,000	6,000
c)	other reserve funds	0	0
11.	Capital funds and other funds from profit	610,343	619,960
a)	capital funds	0	0
b)	other funds from profit	610,343	619,960
12.	Retained earnings and not compensated loss of previous periods	(149,336)	0
13.	Profit or loss for the accounting period	1,382,052	(149,336)
	TOTAL LIABILITIES	481,648,775	476,842,364

OFF-BALANCE SHEET

		31 March 2001	31 December 2000
1.	Total future potential liabilities	29,542,530	28,007,413
	of which:		
a)	received bills of exchange / acceptances and endorsements of bills of exchange	4,800	4,800
b)	commitments from guarantees	29,537,730	28,002,613
c)	commitments from collateral	0	0
2.	Other irrevocable commitments	34,273,112	34,794,505
3.	Receivables from spot, forward and option operations	348,931,167	273,516,162
4.	Liabilities from spot, forward and option operations	349,025,271	273,112,211