

**ORDINARY GENERAL MEETING OF KOMERCNI BANKA, a. s.,  
HELD ON 19 JUNE 2003**

**Document No. 1**

**RULES OF PROCEDURE AND RULES OF VOTING  
AT THE GENERAL SHAREHOLDERS' MEETING OF KOMERCNI BANKA, a. s.**

**A) Acting of shareholders at the General Meeting**

1. At the general meeting of the company, a shareholder is entitled to exercise his rights laid down in the Act No. 513/1991 of Coll., Commercial Code (in its valid version) and in Articles of Association approved by the general meeting. In compliance with them, a shareholder has the right to vote at the general meeting on items of agenda and ask the meeting for explanation of matters concerning the company and persons controlled by the company if such explanation is needed for the assessment of the subject of the general meeting discussions. A shareholder is further entitled to lodge proposals and counterproposals, either in person or through persons authorised to act on his behalf, or through his representatives authorised based on the proxy.
2. The general meeting discussions shall be subject to the agenda indicated in the notice of holding the general meeting. Matters not placed on the proposed agenda of the general meeting may be decided on only in the presence and with consent of all shareholders of the company.
3. The general meeting shall be opened by the member of the Board of Directors authorised by the Board of Directors (a Board member opening the meeting) and he shall conduct the general meeting until the election of the general meeting chairman.
4. In the beginning, the general meeting shall elect:
  - Chairman of the general meeting,
  - Minutes clerk,
  - Two verifiers of minutes,
  - Persons authorised to count votes (hereinafter "scrutineers").
5. Nominations for the chairman of the general meeting, for a minutes clerk, two verifiers of minutes and scrutineers are voted on by one ballot.
6. Then the general meeting is conducted by the general meeting chairman who is responsible for the general meeting course.
7. The general meeting chairman is obliged to:
  - Observe the general meeting agenda,
  - Adhere to provisions of these Rules of Procedure and Rules of Voting, company Articles of Association, Commercial Code, Act on Banks, and to decide on all controversial issues connected with the course of the general meeting,
  - Conduct the voting in such manner so that in cases when a notary record is to be made on resolutions of the general meeting, such notary record may be issued with all prerequisites required by laws.
8. The general meeting chairman has the right to:
  - Interrupt the general meeting discussions and announce breaks in order to enable the proper exercise of shareholders' rights, and ensure the order and correct course of the general meeting,
  - Adopt procedural resolutions to be applied to the course of the general meeting, in particular, to decide on a time limit for lodging oral proposals, counterproposals, requests for explanation or a protest.

9. Shareholders shall file their proposals, counterproposals and requests for explanation to the general meeting chairman either in writing or orally. If these are filed in writing, they shall be lodged at the information centre. It is necessary to indicate in a header if a proposal, counterproposal or request for explanation is concerned. A shareholder shall put his legible signature below the text and indicate his first name, surname if he is the natural person, and a company name and identification number if he is a corporate person. If the lodged proposal, counterproposal or request does not include such particulars, the general meeting chairman shall try to complete them. Should the general meeting chairman not make sure that the proposal, counterproposal or request has been filed by an authorised person, it will not be discussed. In case of the oral proposal, counterproposal or request for explanation of matters concerning the company matters and persons controlled by the company, if such explanation is necessary for the assessment of the subject of the general meeting discussion, the person who filed them shall indicate his first name and surname, or the first and surname of the person on behalf of whom he is acting, if he is acting for a shareholder - natural person. If needed and if requested by the general meeting chairman, he shall also indicate his permanent address. If a shareholder - corporate person is concerned, he shall indicate his first name and surname and also the company name and identification number of the person on behalf of which he is acting. He shall also indicate if a proposal, counterproposal or request for explanation.

The general meeting chairman is obliged to ensure the explanation of requests for explanation lodged subject to these Rules of Procedure and Rules of Voting. The information contained in the explanation must be certain and must provide a clear picture of reality. The information may be fully or partially declined in cases laid down in the Commercial Code.

10. A shareholder, member of the Board of Directors or the Supervisory Board, has the right to ask the minutes clerk for the incorporation of a protest concerning the resolution of the general meeting into the general meeting minutes. The manner of lodging the protest must be subject to provision of para 9 hereof.
11. When leaving the general meeting, a shareholder is obliged to return his ballots and register his leave at the attendance registration point. If he returns again to the general meeting, after he has registered himself in the list of attending shareholders, he will again receive his ballots.
12. After the agenda of the general meeting has been exhausted, the general meeting chairman shall end its discussions.
13. Minutes of the general meeting must be signed by the general meeting chairman, minutes clerk and by verifiers of minutes.

## **B) Manner of voting at the general meeting**

1. All persons entered in the list of attending shareholders and present at the general meeting in the time when the voting is announced, are entitled to vote, unless stipulated differently by laws.
2. The order of voting shall reflect the agenda of the general meeting.
3. Shareholders shall vote by ballots. Ballots have a presentation number assigned and a numerical code of a voting shareholder, number of the voting round and designation for voting "PRO" (for), "PROTI" (against), "ZDRZEL SE" (abstained) indicated. During the announced voting round a shareholder may hand over only one ballot (PRO - or PROTI - or ZDRZEL SE), in particular, the ballot where his numerical code and the announced number of the voting round are indicated.
4. A shareholder will receive ballots upon the registration of his attendance to the general meeting. One share in the nominal value of CZK 500 represents one vote.
5. If the Board of Directors or Chairman of the general meeting asks, or if the general meeting resolved so, shareholders will vote by acclamation. Each shareholder will receive a card with the number of his votes marked. When called by the general meeting chairman, shareholders shall pick the cards up so that scrutineers may count votes.
6. The proposal submitted by the Board of Directors shall be voted on first. If such proposal is passes by the required majority, other proposals or counterproposals to this issue are not voted on. In the opposite case other proposals or counterproposals to the same issue are voted on in the time order in which they were lodged. If the general meeting approves any such proposal or counterproposal lodged this way, other proposals or counterproposals are not voted on.
7. If several proposals are voted on within the scope of one resolution (so-called en-bloc voting) and if a shareholder does not agree with any of such proposals, it shall be understood that he does not agree with the whole resolution.
8. Amendment of Articles of Association shall be voted en-block. Separate provisions of Articles of Association, which have been affected by changes compared with hitherto valid Articles of Association, will be read verbatim to shareholders at the general meeting.
9. In the course of voting:
  - a) the general meeting chairman shall:
    - establish if the general meeting has a quorum,
    - inform that the general meeting has a quorum and is capable to adopt a resolution,
    - read, optionally ask for reading, the accurately proposed resolution which is to be voted on and announce the required quorum of votes,
    - announce the start of voting on a certain item of the general meeting agenda,
    - notify the number of the voting round,
  - b) a voting person shall cast a respective ballot into a ballot box prepared by a scrutineer.
10. In case of a loss of a ballot or in case of incorrectly printed data on a ballot, a shareholder shall ask a scrutineer for a substitute ballot. A scrutineer shall ensure that the issue of such new ballot is indicated in the minutes.
11. After each voting scrutineers shall take over ballots from voting shareholders and verify their validity. An invalid ballot is deemed a ballot in which it is impossible to ascertain explicitly any of identification data or which includes a serial number of a voting round different from that announced. Invalid are also ballots torn apart, or otherwise destroyed when it is impossible to ascertain the will contained in it.

12. Scrutineers shall count votes attached to valid ballots. As soon as they establish that the number of votes required for passing the resolution on the proposed item of the agenda was achieved, they will notify the preliminary result of voting to the general meeting chairman and the chairman will inform the general meeting. Then the counting of remaining votes continues and complete results are notified to the general meeting only at its closure and indicated in the general meeting minutes. If the number of votes required for passing the proposal is not achieved in the voting, the general meeting chairman shall inform attending shareholders of the next proposal and call them for new voting.
13. If a notarial record is to be made on resolutions of the general meeting, the general meeting chairman shall wait until complete results of voting on this issue of the general meeting agenda are known and then announce complete results of voting. If the number of votes required for passing the proposal is not achieved in voting, the general meeting chairman shall inform attending shareholders of the next proposal and call them for new voting.
14. If no submitted proposal or counterproposal has been passed to any item of the general meeting agenda, the general meeting chairman shall end discussions on such item.

These Rules of Procedure are valid for the Ordinary General Meeting of Komerční banka, a. s., held on 19 June 2003.

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**ORDINARY GENERAL MEETING OF KOMERČNÍ BANKA, a. s.,  
HELD ON 19 JUNE 2003**

**Document No. 2**

**REPORT OF THE BOARD ON THE BUSINESS ACTIVITIES OF THE BANK AND  
ON THE STATUS OF ITS ASSETS IN THE YEAR ENDED  
31 DECEMBER 2002**

## **Strategy**

**The strategy of Komerční banka is to become the leading financial institution in the retail business, and the core local provider of investment banking services to corporates in the Czech Republic.**

With this goal in mind, Komerční banka, with support from Societe Generale, launched an extensive Transformation Programme at the beginning of 2002. The programme consists of more than 150 strategic projects and covers all areas of the Bank. The Transformation Programme, which will be completed during 2003, is essential for the successful implementation of the three-year Strategic and Business Plan, with the following main objectives:

- **Building of a new customer-oriented mindset**

In order to provide better services to its clients, Komerční banka implemented new customer segmentation based on three main segments – Individuals, Medium Enterprises and Municipalities and Corporates. As a result of this change, the distribution network has undergone significant reorganisation, consisting mainly of individual service provision for each client and the establishment of points of sale specialising in serving clients from a particular segment. Optimisation of the distribution network also involves the opening of new points of sale and the re-allocation of selected existing branches.

- **Enhancement of a multi-channel distribution model**

Improving the availability of services for all clients is one of the core ambitions of Komerční banka. In its efforts to stimulate the use of direct banking (Phone, Internet and PC banking) for regular banking transactions, the Bank focused on integrating direct banking services into its distribution network. In accordance with this strategy, the Bank continued to develop its direct banking services and new products.

- **Product portfolio tailored to the needs of customer segments**

As a result of the new client segmentation, the Bank focuses on offering product packages tailored to the needs of individual client groups. With the aim of exploiting the cross-selling potential of products, the Bank has also included in its portfolio the products of KB Group companies. During the course of 2002, the commercial offer of the Bank has been better structured and simplified through the creation of Families of products.
- **Launch of a new corporate identity**

In October 2002, Komerčni banka introduced its new corporate identity, in line with its new strategy and membership of the worldwide Societe Generale Group. The Komerčni banka Group logo leverages the global image of Societe Generale and the existing KB brand. The uniform image of all companies in the Group promotes cross-selling potential. At the same time as the new image was launched, the Bank also presented its new advertising campaign under the slogan *"Go ahead. We help you change your world"*.
- **New organisation structure and human resources policy**

In line with the new strategy, major organisation changes were implemented, both at Headquarters and in the branch network. The new organisation structure reflects the current objectives of the Bank better. The new approach to human resource management places a priority on the career development of employees, with the aim of constantly improving their professional capacity. A new principle of motivating employees, allowing for their fair evaluation, was also successfully implemented.

Restructuring of companies in the Komerčni banka Group

The implementation of the new Societe Generale business model requires the restructuring of subsidiaries in the KB Group. The main purpose of this exercise is to exploit the synergy potential and foster closer co-operation between subsidiary companies and Komerčni banka, primarily in the area of product development and distribution. The changes will result in a consolidated range of group-wide products for the different client segments.

▪ **Improvement of the quality of the credit portfolio**

As part of the transformation process, the Bank is gradually harmonising credit risk management with the standards of Societe Generale. In the field of credit evaluation, the Bank focuses on improving the efficiency of the credit process and shortening the approval time. A major emphasis is also placed on recovering and finding solutions to non-performing loans granted prior to the Bank's privatisation.

## **Business Activities**

### **Clients**

At the end of 2002, Komerčni banka was serving 1,262 thousand clients, representing a year-on-year increase of 18 thousand clients. The increase in the number of clients gathered momentum in the second half of the year, following the launch of new products and packages and a massive advertising campaign by the Bank. Of its total number of clients, 964 thousand were individuals, 276 thousand small businesses, and 22 thousand corporates.

### **Segmentation**

In 2002, the new segmentation of KB clients was defined and started to be implemented in order to identify customer needs better. Implementation will be finished in April 2003. The Bank currently recognises three main client segments:

- **Individuals** - This segment also includes small businesses and entrepreneurs.
- **Medium Enterprises and Municipalities**
- **Corporates**

### **Distribution network**

Komerčni banka offers its products and services through its branch network and through direct banking channels (Phone, Internet and PC banking).

### **Branch network**

In 2002, the extensive transformation of the sales network was started, with the aim of improving quality of service for the Bank's clients. Most of the projects are now in progress and are scheduled for completion during 2003.

In October 2002, the first wave of the programme to restructure the organisation structure of the branch network was implemented. The KB branch network remains divided into 8 business divisions, consisting in total of 331 points of sale to serve individual clients. From October 2002, the existing branches are being consolidated to form 40 regional branches, each managing a number of smaller branches. The regional branches will, in time, concentrate selected business, back office and supporting functions for subordinate points of sale. Regional branches will also be specialised business centres for the segment of Medium Enterprises and Municipalities. The nine specialised business centres dedicated to corporates are also part of the Bank's distribution network. As part of the overall optimisation of its branch network, in 2002 Komerčni banka opened the first of 50 new branches scheduled to be up and running by the end of 2004. These points of sale are designed in a new style enabling the Bank's staff to focus more on individual consultation with clients. Most of these new branches will have four or five relationship managers. Some other branches have been relocated to more suitable locations. KB also continued to develop its network of ATMs. The number of ATMs grew year on year by 105 to 440. With the odd exception, all the Bank's points of sale now have ATMs installed.

## Direct banking

One of Komerční banka's main principles is prompt availability for clients. This was one of the reasons KB integrated direct banking into the KB business model in 2002. Direct banking services were used by 55% more clients than in 2001, i.e. over 391 thousand clients, which is almost a third of all KB clients at the end of 2002. *Expresní linka*, the telephone banking product with the largest range of services in the Czech Republic, was being used by over 273 thousand clients at the end of 2002. The number of *profibanka* users increased fivefold over the year to 18 thousand clients. *Mojebanka*, the Internet banking product, was being used by nearly 73 thousand clients. The total share of direct banking payments in the total number of KB payments increased to 37%, and the total share of foreign direct banking payments in the total number of foreign payments made at KB increased to 52%.

Komerční banka continued to improve existing direct banking services in 2002 and launched several new products. The Phone, Internet and PC banking services are now available in English. Internet services can now be used by clients as young as fifteen years old. The KB call centre was also reorganised; it now provides services via an interactive voice service and has expanded sales of KB products on-line.

The Bank's new product *Primý kanál* enhances the functionality of the *mojebanka* and *profibanka* systems and is primarily designed for clients generating high numbers of payments. *Garantovaná platba* is a unique product on the Czech market and allows clients to carry out direct debit payments by using a microchip card in selected wholesale outlets.

The high standard of direct banking services offered by KB was underlined in the Bank of the Year competition, where KB was ranked the second best bank in the Czech Republic in the category of Direct Banking of the Year 2002.

## Approach to clients

The new segmentation of clients and the re-organisation of the sales network allowed the Bank to implement a new approach to KB clients. The Bank identified the following three main principles in order to strengthen its position in all three client segments:

- **Accessibility** – one dedicated relationship manager for each client
- **Proximity** – closer relationship with clients through the distribution network and direct banking channels
- **Expertise** – all relationship managers specialised in meeting client needs.

Individuals are served by dedicated relationship managers in the existing sales network and direct banking channels. Medium Enterprises and Municipalities are served through newly created business centres. Each client is assisted by a specialised team which services clients on a regular basis. Corporates are served in specialised business centres by a team of professionals including relationship managers, analysts and sector or product specialists.

## New corporate identity

The Bank's new corporate identity launched in October 2002 promotes a new era of KB focused on expertise, innovation and team spirit. It embodies the global SG image and the existing KB brand. The most visible demonstration of this link is KB's new logo, leveraging SG's black and red with the KB sign. All the logos of the KB subsidiaries will be also redesigned to express their direct affiliation to KB. The new corporate identity has been promoted through a multi-media advertising campaign in the Czech Republic. Komerční banka also unified the external appearance of all points of sale and ATMs. By the end of 2002, the new sign had been installed at more than 20% of points of sale. The whole process is scheduled to finish in the first half of 2003. KB therefore became the first SG subsidiary to adopt Societe Generale's new corporate identity.

## Retail Banking

In 2002, Komerční banka focused on developing products tailored to the needs of the respective customer segments and on simplifying its product range. All the group's products have been unified under the new KB brand. In order to improve client orientation in the product portfolio, and to increase awareness of KB products, the Bank created Families of products. The main categories are Everyday banking services, Direct banking, Loans, Insurance, and Investment and saving.

### Individuals

The Bank's activities on the Individuals segment of the market in 2002 focused mainly on customer care. Following the implementation of its new client segmentation, the Bank developed several new products and modified existing product packages in order to offer comprehensive packages accommodating customers' needs. In the autumn, with the assistance of a massive communication campaign, Komerční banka launched a new package called *Perfekt Konto*. This package is based on the day-to-day needs of customers, providing them with a current account, overdraft facility, payment card with 2 free-of-charge withdrawals from KB ATMs per month, and phone banking services. Within 3 months of its launch, KB had sold nearly 20,000 new contracts to existing and new customers.

Another important product, the life insurance product Vital, was launched in association with Komerční pojistovna in autumn 2002. KB customers can exploit this very flexible offer to plan their finances (Vital Plan), secure their children's future (Vital Junior), or improve their standard of living when they retire (Vital Renta). Within 5 months of its launch, KB had sold contracts in the total amount of gross premiums written of CZK 1 billion.

During 2002, Komerční banka also simplified its sales processes and reduced the bulk administrative tasks carried out by its sales force. This helped the Bank to increase the number of mortgages granted in 2002 by 60% and consumer loans by 23% in comparison with 2001.

As at 31 December 2002 the portfolio of retail loans represented 18.8% of the total KB loan portfolio.

CZK billion	2002	2001
Mortgage loans	18.3	14.2
Consumer loans	7.7	6.0

### Small Businesses and Entrepreneurs

In the segment of small businesses and entrepreneurs, the Bank's new strategy revived the rising trend in the number of clients.

The Bank continued its partnership with the General Health Insurance Fund and the Czech Medical Chamber and entered into partnership with the Czech Dental Chamber and the Association of General Practitioners. In spring 2002, the Bank launched a special product package designed for entrepreneurs operating in the medical care sector. Optimum Medicum and Premium Medicum offer the latest financial management tools and Medicum is a loan intended for the financing of regular operations such as purchases of medical equipment for surgeries, as well as, for instance, surgery take-over.

The new approach to small businesses and entrepreneurs is demonstrated in the Bank's partnership with the Czech Franchising Association, the launch of a new type of investment and operating loan, and the new PC Komplet package. PC Komplet is a comprehensive support platform for Internet banking. Komerční banka will come up with additional commercial offers and product packages for small businesses and entrepreneurs in 2003.

## Corporate Banking

### Medium Enterprises and Municipalities

KB's offer is optimally attuned to the changing needs of the ME&M segment; the Bank constantly monitors client needs and improves its product positioning. Komerční banka has also introduced several new products for ME&M clients.

In the second half of 2002, Komerční banka introduced its Domino product package. The package is composed of a range of financial products and services offered to core employees of KB's corporate clients. Domino allows companies to grant special conditions to their employees which are not available outside the Domino framework; this is intended to increase employee satisfaction and loyalty. It allows employees to open a current account with KB and to collect their monthly wages or salaries electronically, eliminating delays. Special add-on benefits include credit cards, personal loans, mortgage loans, insurance products, retirement savings accounts, etc.



In addition, KB launched the specialised leasing product KB Leasing, which is offered to corporate clients needing to finance certain types of technology with contract values exceeding CZK 1 million. In 2003 the Bank plans to extend this offer to contracts of less than CZK 1 million. KB Leasing comprises financial, operating or sale-and-leaseback contracts. The product is offered in co-operation with a SG Group leasing company. Komerční banka is also designing a car fleet management product (KB FleetLease), to be launched in mid-2003. All the new products described above have been designed to meet both ME&M and Corporate Banking client needs.

With regard to its individualised approach to ME&M clients, KB launched a new type of regular ME&M event in 2002: "Meeting Days with KB". ME&M clients from a given region are invited to a meeting organised by KB to discuss their specific product needs.

## Corporates

### **Komerční banka is traditionally the prime bank for corporate clients in the Czech Republic and enjoys sound relations with leading Czech companies.**

In 2002, KB implemented a number of significant changes to its Corporate Banking Segment in order to provide even better quality of service. KB set up a unit fully focused on servicing large and top companies and multinationals in the Czech Republic. The main objective is to provide flexible financial solutions, banking services and other products from the KB Group to a large spectrum of clients seeking sophisticated solutions to their requirements.

The new organisational structure comprises a network of nine Regional Business Centres, three of which are in Prague. Each client in the Business Centre is assisted by a relationship manager who is supported by an analyst and a commercial officer; these professionals jointly structure and arrange for more complex transactions and manage the daily needs of the client. Experts in sophisticated investment products and trade finance are also members of the team.

Corporate Banking introduced innovative products in 2002, including a new Frame Agreement to provide miscellaneous products ranging from loan facilities to trade finance services and financial market products under a single contractual agreement.

### **Acquisition of Societe Generale Prague Branch**

At the end of March, Komerční banka approved the acquisition of the Prague branch of Societe Generale. Subsequently, all 589 clients were transferred from the branch to Komerční banka. These, mainly corporate clients, were migrated together with their products into the KB sales network. All 128 employees of the branch were also migrated. The whole process of taking over the Societe Generale Prague Branch was completed at the end of June 2002.

## Investment Banking

**Komerční banka offers clients a full range of products and services on financial markets, in the area of securities, debt capital markets and asset management. The Bank provides services in mergers and acquisitions and economic and strategy research. Investment banking also manages the interest rate and foreign exchange risks of the Bank and executes the Bank's hedging policy.**

### Financial markets

Komerční banka can offer a full range of financial market products. In co-operation with Societe Generale Group, it offers hedging services covering most of types of risk, including risks connected with trading on commodity markets. In line with the Bank's strategy to develop client trade on the financial markets, the revenues from client operations achieved double-digit growth. The emphasis on increasing the proportion of deals with higher value added has been reflected in the creation of the specialised Derivatives Marketing Desk for major customers.

### Securities

Komerční banka is one of the largest market-makers for government and corporate bonds denominated in CZK. In 2002, the Bank also penetrated other markets in Central Europe – Slovakia, Poland and Hungary. In equity trading, KB is in charge of market-making on the Czech stock market, providing clients with services on the Prague Stock Exchange. The main target is to improve the position on the equity market and increase the number of issues for which the Bank acts as market-maker.

A wide range of products, in particular bonds, equities and other financial market products, including sophisticated financial engineering products, are offered also to financial institutions.

### Debt capital markets

Komerční banka arranges complex financing of client projects, from structuring to the arranging and underwriting of debt transactions through either syndicated loan or bond issuance. In 2002 significant transactions in the area of syndicated loans were:

- Successful arranging and placing of a syndicated long-term loan of CZK 855 million for Teplarna Usti nad Labem, a. s.;
- Co-arranger of a syndicated loan totalling CZK 2.66 billion for Bivideon B.V., the parent company of Ceske radiokomunikace, a. s.

In co-operation with Societe Generale Komerční banka provides clients with complex financing proposals through both the domestic market or by issuing bonds in the Euromarket.

### Asset management

At the end of 2002, Komerční banka was managing assets worth CZK 2.5 billion, a decrease of 80% compared with the end of 2001. This is a result of the strategic decision to transfer management of the Penzijní Fond KB portfolio to another Komerční banka subsidiary, Investiční kapitálová společnost KB. The number of portfolios managed is currently 60 and the average relative yield amounted to 6.47% p.a.

### Mergers and acquisition

In the area of mergers and acquisitions, Komerční banka provides a complete range of services, including consulting in the purchase or sale of a company, searching for strategic or financial partners and financial and corporate advisory services. In 2002, Komerční banka was in a consortium with J.P.Morgan advising the Government of the Czech Republic on the privatisation of the majority stake in the Czech incumbent telecommunication operator, Český Telecom.

## Remedial Management

The year 2002 was the second whole year of operations of the Remedial Management Division, which was created in autumn 2000 with the sole purpose of managing and working out classified receivables held separately in the so-called Work-out Bank.

**The mission of Remedial Management is to recover as many non-performing assets as possible, at the lowest possible cost to the Bank and in the shortest possible time, taking the interests of Komerční banka as a priority.**

The activities of Work-out Bank in 2002 were very successful. Its portfolio of classified loans, many of which dated back to the early 1990s, was substantially reduced, which allowed the Division to reduce its number of employees to less than 200, streamline its organisation, and reduce its costs. In addition to its recovery efforts, Remedial Management collaborated in the sale of a CZK 15.6 billion block of KB problem loans, a transaction expected to be concluded during the first half of 2003.

The total amount collected from clients and proceeds from the sale of collateral and receivables was CZK 12.5 billion, of which CZK 10.6 billion was principal. The successful restructuring of assets of CZK 1.1 billion allowed for their transfer back to the Bank's sales network for standard management.

As a result of the Bank's conservative approach, the Work-out Bank is also in charge of handling a number of clients classified as sub-standard. The Bank believes that the best practice is to deal with a problem when it first emerges, i.e. before it grows serious, and to transfer problem loans to the Work-out unit as soon as problems are identified. The results of the Bank's work-out operations prove that our methodology works.

The Bank is satisfied with the recovery yield. A targeted campaign generated above-average results. The Bank envisages a continuation of this trend in 2003, while the expected completion of the portfolio sale will bring about another dramatic reduction in the KB classified loans portfolio.

## Risk Management

**Risk management at Komerční banka is performed in accordance with legislation and the rules of the Czech National Bank and other Czech regulatory institutions. The Bank's practices also adopt the latest global trends in all areas of risk management. Immediately after the majority owner took over Komerční banka, a thorough review of all existing procedures was launched; these procedures were then adjusted and adapted to the risk management practices of the Societe Generale Group.**

### Credit Risk Management

In co-operation with Societe Generale, the process of the gradual harmonisation of KB risk management standards with SG standards continued throughout the year. A system of regular reporting to the majority owner was introduced, both for the use of the majority shareholder and for the banking supervisory authority in France. In credit origination, the Bank successfully continued to develop a system of credit risk assessment. A major development was the completion and implementation of a tool for real-time evaluation of client risk. In connection with this exercise, client data were centralised and, in addition to the acceleration of the process of credit risk evaluation, the Bank succeeded in building a platform for more comprehensive client risk assessment. In 2002 attention continued to be paid to monitoring the Bank's exposure to economically linked clients whose transactions account for a significant share of the Bank's total portfolio.

During the year, the Bank completed the process of implementing an inter-bank credit register of individuals in the Czech Republic. The register was put into operation in June 2002 and the Bank is gradually adopting the use of the register in its credit process. Inter alia the credit register allows for a better identification of clients with a poor credit history. The Bank was also fully involved in a project for a credit register of legal entities, supervised by the Czech National Bank and launched in November 2002. The Bank has successfully met all of its duties with respect to the CNB and is currently disclosing all information within the scope required and is preparing for its application in the credit process.

The Bank took part in Quantitative Impact Study Project organised by CNB in accordance with the guidelines of the Basel Committee. The project aimed at quantifying the impact of the New Basel Capital Accord on the capital adequacy of banks. Komerční banka is prepared to implement the advanced calculation methods, and ultimately to optimise the distribution of its capital with respect to the capital requirements.

### Loan evaluation and monitoring

In 2002, the process of loan evaluation underwent further changes as a result of the need to integrate the practices of the majority shareholder while respecting the local specifics of the Czech market.

In the area of loan evaluation and monitoring, the Bank focused on improving credit process efficiency. One of the measures taken in pursuit of this objective was the major reorganisation of loan approval at Headquarters and in the regional units. Five new branch teams were also created, copying the structure of industry sectors and special types of financing, e.g. project and acquisition finance, trade finance, development projects, and

municipality finance. A new team was set up to focus on an evaluation of Czech corporations with a foreign parent company, applying SG international approach.

The changes have already produced benefits in the form of a more flexible approval process, improved KB credit portfolio, and a shortened approval time. The positive trend was boosted when new evaluation and loan approval tools were introduced.

- New credit documentation structure – changes to the structure of loan approval documentation with the aim of allowing for the more efficient transfer of information between business divisions and Risk Management,
- DCCIT – implementation of the DCCIT tool for electronic document circulation will make communications during the approval process more flexible,
- Risk Machine – a process of implementation was started; this tool was designed to monitor limits and evaluate risks, aiming to harmonise the KB credit process with SG standards and CNB requirements.

### Classification of receivables

The Bank classifies receivables from loans and other receivables from financial operations of the Bank according to CNB rules. To evaluate a debtor's financial situation, the Bank uses an internal system based on the scoring, rating, and regular monitoring of the performance of obligations with respect to the Bank. A major change in this area was the intensification of individual classification and specification of the amount of provisions using three levels of Provisions Committees. Reviews of the correctness of classification are usually carried out every quarter.

### Provisions and reserves

In 2002, in the area of provisions and reserves, the Bank applied new accounting and tax rules in accordance with the new legislation in effect from January 2002 (the Charter of Accounts for Banks and the Act on Reserves).

The group approach to the creation or release of provisions (i.e. creation or release in relation to the individual groups of receivables) was substituted by an individual approach (i.e. creation or release according to the development of the provisions for individual receivables). Following the introduction of the new tax requirements, a new approach to the creation of tax provisions by type and part of receivables was introduced. As for reserves, new creation of reserves for standard balance sheet receivables was suspended along with reserves for standard and watch off-balance sheet items. The Bank currently creates reserves only for selected off-balance sheet items which meet statutory criteria. As a result of a new requirement under the Act on Reserves, the Bank is now releasing a part of the tax-deductible reserve created before the end of 2001 in order to achieve a 25% reduction in this reserve every year until 2005.

Furthermore, a new method of calculating limits for the creation of provisions and reserves in accordance with the Act on Reserves is now applied.

The amount of provisions was affected inter alia by a partial adjustment of discount coefficients following a review of the Bank's collateral recovery rate in the previous period and by requirements for the amount of provisions approved by the Provisions Committees.

### State Guarantee for the coverage of losses from the Bank's non-performing assets

On 29 December 2000, Komerční banka and Konsolidacní banka concluded a guarantee agreement following a decision of the Czech Government dated 18 December 2000. Under this agreement, Konsolidacní banka (now Česká konsolidacní agentura) will reimburse Komerční banka for its losses up to a maximum amount of CZK 20 billion which are incurred by the Bank during a three-year period starting on 31 December 2000 in connection with selected classified exposures of the Bank.

The guarantee covers net exposure (the nominal value less the specific provision created) of non-performing assets classified as at 31 December 2000 as sub-standard, doubtful and loss (in accordance with the corresponding rules of the Czech National Bank). The amount to be paid by Česká konsolidacní agentura under the guarantee will depend on the amounts recovered by the Bank up to and including December 2003. The Bank will continue to manage the portfolio of guaranteed classified assets, attempting to recover as much as possible. The guarantee covers the net book value as at 31 December 2000 up to a maximum limit of CZK 20 billion. The agreement stipulates that performance under the guarantee will take the form of cash or a transfer of treasury bonds, to be effected by 30 June 2004 at the latest.

### Foreign exposures

While Komerční banka's operations are principally conducted with domestic clients, the Bank also has material exposures from its business with foreign entities. They arise from transactions with international financial institutions on the inter-bank market. Foreign exposures also include loans to clients and financial institutions, interest-bearing investments, and other on-balance sheet and off-balance sheet items. Exposures to foreign counterparties are controlled through a system of individual counterparty and country risk limits. By reviewing these limits regularly, the Bank strives to avoid the accumulation of economic or political risk.

## Market Risk Management

In 2002 the main achievement of the Bank's market risk management was to integrate market risk management into Societe Generale Group. Market risk division according to the SG model includes two platforms: market risk and counterparty risk of capital market activities.

Market risks at Komerčni banka are managed in compliance with the following core principles:

- all risks are systematically and regularly monitored,
- risk assessment departments are independent from business units,
- all regulatory requirements are fully respected,
- the Market and Credit Risk Management policies are approved by the Board of Directors,
- any new market activity/product is comprehensively analysed and assessed before launch,
- authorisation must be always given before the conclusion of the transaction with external counterparty.

The Market risk division reports directly to the member of Board of Directors in charge of risk. A close functional link also exists with the SG Group's Risk Management.

In 2002, the Bank implemented a New Product Committee, which ensures that all the potential risks of a new market product/activity are identified and properly assessed before launch.

### Counterparty risk of capital market activities

The assessment of the counterparty risks of financial institutions is based on external and internal ratings. The counterparty risk department includes a specialised analysis team, which is responsible for assessing the credit quality of the Bank's financial institution counterparts. Limits are granted based on these analyses.

In 2002 Komerčni banka adopted a new concept for the measurement of counterparty exposure arising from derivative products, which was developed by Societe Generale and is used across the Group. This concept is based on the "Current Average Risk" indicator. It enables the evaluation of the replacement costs of a derivative product in case of counterparty default by calculating the average of the estimated potential exposures which are likely to occur during the remaining life of the transaction. It is a function of the current market parameters and time to maturity.

Credit exposure arising from capital market activities is monitored on a daily basis. The newly implemented risk monitoring system enables the bank to monitor the changes in exposure due to the changes in market conditions. The front office (dealing room) units are provided with information systems enabling them to check that the exposure limits are not exceeded. Any breaches of limits are immediately reported to the relevant levels of the Bank's management.

### Market risk

Market risk is defined as a risk of loss arising from adverse market conditions. Komerčni banka is exposed to the following types of market risks: interest rate risk, foreign exchange risk, equity risk, credit spread risk and liquidity risk.

The main mission of the market risk unit is to facilitate the Bank's market activities development and its returns in the context of well mastered risks.

In 2002 the Bank implemented several changes in market risks measurement:

1. The methodology was changed from the previously used parametrical Value at Risk to the historical simulation approach in order to reflect better the correlations and characteristics of the probability distribution of market parameters. For the historical simulation scenarios of one day variations of market parameters over a period of last 250 business days are used. The Value at Risk is calculated at a 99% confidence level and 1 day time horizon. The bank systematically reviews the accuracy of the model by back-testing. The new model also allows the Bank to consolidate its market risks into SG Group's Value at Risk.
2. In order to take in account low probability events not covered by Value at Risk (at the 99% probability level) the Bank performs several types of stress tests for IR exposure. Shock scenarios take into account significant movements in rates, with a probability of 99.96% (occurrence of the event once in 10 years). Other kind of stress-tests is based on "what if" scenarios, where a flip of interest rate curves at pivot points is simulated.

In 2002 the Bank also implemented a new system of market risk limits, monitored on a daily basis. Market risk limits are set up for all market risk indicators.

### Monitoring of CDO, CDS and CLN portfolio

During 2002 the Bank focused on improving the measurement of exposure linked to the CDO, CDS and CLN portfolio. The Bank upgraded the tools for evaluating and measuring the risk of the portfolio. The model is based on methodology which estimates the potential deterioration of the credit profile of the underlying assets, estimating the market value on the basis of the present value of the expected cash flows. In 2002 the model was adjusted to suit specific CDOs in the Bank's portfolio in order to better reflect their fair value. This model is also

used for the evaluation of credit default swaps and credit linked notes. The level of CDOs and credit derivatives provisions has increased significantly.

#### Risk consolidation within the KB Group

In order to have a sound market risk management practice across the KB Group and to allow for risk consolidation, the Bank has recently started to build a closer functional link with Komerční banka Bratislava, as it is the only subsidiary allowed to assume market risks actively on its own account. The transformation of market risk management at Komerční banka Bratislava is under the supervision of Komerční banka with the primary aim of bringing in expertise in terms of market risk management methodology and risk systems. The transformation of market risk management within the KB Group, including the implementation of new market risk management systems and procedures, will be one of the major projects in 2003.

### Asset and Liability Management

The process of asset and liability management (ALM) covers the core banking activities defined as structural book and is driven by the need to address potential consequences of any mismatches in the characteristics of assets and liabilities under management (interest rates, maturities, currency) and to pre-empt them. The rules used, changes to these rules, and proposed hedging transactions with respect to the interest rate and liquidity risk are approved by the ALCO committee. In all its activities, the Bank fully complies with requirements of the Czech regulatory authorities (the Ministry of Finance of the Czech Republic, the Czech National Bank), as well as with international regulations (IAS 39).

#### Liquidity risk

The management of liquidity risk is primarily designed to ensure that the Bank can, at any time, meet its funding requirements. This includes the maintenance of adequate volumes of cash, and balances on nostro accounts and on the account of minimum mandatory reserves while keeping the Bank's costs of liquidity low and not hindering business activities. Liquidity is maintained by consistent diversification of sources and cash-flow management as it reduces the occurrence of unforeseen requirements for additional funding in the period in question. This primary objective is achieved by way of managed coverage of the Bank's cash-out with a very high confidence level (97.5%) over a sufficiently long future period (one year).

A liquidity snapshot broken down by currency – CZK, USD, EUR and other currencies – is monitored at two levels of market behaviour: normal and stressed liquidity. The management of short-term inter-day liquidity is carried out using a series of indicators on a daily basis. Sufficient liquidity is controlled by means of a set of limits – in order to achieve these, the Bank uses on-balance sheet instruments (bond issues, loans taken, etc.) and off-balance sheet instruments (cross currency swaps, foreign exchange swaps).

#### Structural interest rate and exchange rate risk

Structural interest rate and exchange rate risks are risks of a potential loss arising from positions held in the Bank's structural book as a result of a fluctuation in the market price (interest rate and exchange rate changes). Structural exchange rate risk is measured and managed on a daily basis. The Bank's position is controlled by a system of limits (the Bank's internal limits and limits required by the external regulator – the CNB). Foreign exchange positions are hedged by standard instruments (FX spot and FX forward operations).

The Bank manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of the volatility of future interest income. The Bank has implemented Convergence – an asset and liability management system supplied by SUNGARD. The system is used by ALM to apply methods for interest rate risk measurement combined with the goal of further reductions in risks. Standard market instruments for hedging against interest rate risk, such as interest rate swaps (IRS), forward rate agreements (FRA), and to a lesser degree investing in securities, are used by the Bank.

#### Price setting

ALM is in charge of external price setting at the Bank – it publishes the KB exchange rate list and sets the external interest rates of deposit products and KB base rates, which are then used to set interest rates on loans. The external interest rates of deposits are set by the Interest and Exchange Rate Management Committee, taking into account external developments.

### Regulatory Risk Management

Regulatory risk is the risk of potential non-compliance with laws and regulations.

Komerční banka's activities are subject to regulation by the Czech National Bank, which issues regulations and is responsible for banking supervision. The Bank's activities as a securities trader and depository are further supervised by the Czech Securities Commission and the relevant regulations are issued by the Ministry of

Finance of the Czech Republic. Equity securities market operations are controlled by the Prague Stock Exchange, a self-regulating body.

The Bank's subsidiaries and associate companies are, depending on their character, primarily supervised by the Czech National Bank (Vseobecná státní spořitelna KB) or by the National Bank of Slovakia (KB Bratislava), by the Czech Securities Commission (IKS KB) or the Ministry of Finance (Komerční pojistovna), and in some instances jointly by the Czech Securities Commission and the Ministry of Finance (Penzijní fond KB).

Komerční banka, like other banking institutions in the Czech Republic, is regulated by practically the same rules as those applied in Member States of the European Union. In 2002, regulations governing capital adequacy, credit exposure, asset quality assessment, the creation of provisions, and restrictions on the acquisition of material ownership interests in non-banking and non-financial entities were amended with the goal of harmonising them with European standards.

In 2002, the Bank continued to implement standards issued by regulatory bodies in the practices of KB, gradually adopted the majority owner's practices with respect to the management of compliance risk on consolidated bases. During 2002, the Bank focused on strengthening internal regulation in the field of ethical conduct and employee integrity.

In 2002, Komerční banka was not penalised by regulatory authorities for non-compliance with statutory requirements.

## Information Technology

In 2002, in addition to its efforts to secure the required availability of the information systems it operates, the Bank's IT operations focused on the following activities:

- In the area of direct banking, the stability of information systems has been improved. The information system was expanded to include new products (Direct Channel, online payment card authorisation, EDI), and the functionality of existing products - *mojebanka*, *profibanka* and *Garantovaná platba* – was enhanced. As a result of this expansion, the obsolete products BEST and M-BEST were phased out as of 31 December 2002.
- In terms of strategy, a proposal for the architecture of new mid- and long-term information systems was developed to provide better support to the new business model of KB Group.
- As for the central banking system, new functionality was introduced for partial loan repayments and the memoposting of credit transfers, thus improving the standard of service to clients.

## Human Resources

**In 2002, Komerční banka continued implementing its three-year plan for the rationalisation and optimisation of the number of staff. The reduction broke through the threshold of nine thousand employees and the headcount came to 8,795 employees, of which 3,325 were at Headquarters and 5,470 in the network. The total number of staff decreased by 504 year on year, translating into a 5.4% decrease.**

The number of staff was affected by the reintegration of selected activities and employees from Reflexim (a KB subsidiary), the completion of the accounting centralisation process, the integration of the Societe Generale Prague branch, and the centralisation of payroll activities.

**Human resources management focused on the definition and implementation of the new HR policy in the field of job structure, remuneration, career development, training and recruitment, and the centralisation of selected activities.**

In order to cope with this new HR policy, the division was restructured and extended by the Mobility and career management department. Applying the methods of SG, career management experts are assigned to operational divisions, where they become partners or advisers in HR matters.

In the area of compensation and wage policy, through various projects and studies a new compensation system based on the new job structure, a comparison with the market level, and performance evaluation was built. This system ensures a closer link between remuneration and performance. The performance of employees will be evaluated according to the new system of evaluation launched at the end 2002.

In line with other changes in human resources management, Komerční banka centralised payroll activities. Payroll centralisation allows for more efficient personnel and wage data processing and a decrease in total costs. With regard to recruitment, Komerční banka's strategy is based on the internal mobility and career development of its employees. In line with this strategy, the Bank supported the recruitment of young graduates with career development potential with the aim of preparing them for future managerial or specialised positions within the Bank.

The Bank focuses on providing core training to its staff. The Human resources division organised courses on languages, banking products, and information and communication technology. Some of these courses were prepared and developed with the support of Societe Generale.

- Human resources organised 70,467 days of training during 2002, representing a year-on-year increase of 32%.
  - More than 90% of KB employees attended at least one day of training.
  - KB employees trained during the year spent an average of 9 days on courses.

The Human resources division also manages relations with the KB trade union. As a result of internal negotiations, a new collective agreement was signed for the period from 1 July 2002 to 30 June 2005. Wage developments in 2003 were also agreed in accordance with the KB remuneration policy.

## Corporate Citizenship

In 2002, Komerční banka redefined its sponsorship strategy, which is now based on the position Komerční banka holds on the Czech market and takes into account the main principles of Societe Generale as regards sponsorship activities. In its role of sponsor, Komerční banka will focus on the arts, amateur sport, and education.

Komerční banka became the General partner of the National Theatre. All funding donated to the National Theatre will be used exclusively to support artistic work in line with the main intention of the agreement – partnership between a leading banking and a leading cultural institution. The Bank is keen to participate in efforts to make the National Theatre a venue for the broader public, mirroring the idea of Komerční banka as a bank for everyone. Komerční banka will sponsor drama, ballet and opera at the National Theatre.

Komerční banka's sponsorship of the arts also covered the projects of the Prague Symphony Orchestra.

In 2002, Komerční banka engaged in co-operation with the Czech Rugby Union. Komerční banka aims to support amateur collective sport with a wide membership base in all regions of the Czech Republic, especially for children and young people. Komerční banka and Societe Generale have built their activities on three main pillars – professionalism, innovation and team spirit. Successful tactics, the ability to overcome barriers, the strength of a team relying on the extreme efforts of individual team members – these are all qualities attributed to rugby and are also very close to the values espoused by Komerční banka. The Bank will support rugby nationally, which means that the funding will be channelled not only into the national team, but also into all teams in the Czech Republic.

One of Komerční banka's new sponsorship activities is support for the Liberal Institute conference and the related Annual Liberal Institute Award, which is given to outstanding figures in global economic thinking. In 2002, the Award was presented by the Chief Executive Officer of Komerční banka, Alexis Juan, to the Nobel Prize Winner for Economy, James M. Buchanan. Thanks to Komerční banka's support, a Czech translation of a collection of his essays entitled Politics through the Eyes of an Economist, as well as his lecture on ethics in business, was made available.

Komerční banka is also involved in co-operation with Charles University, the University of Economics, Prague, and Masaryk University in Brno. The Bank is a valuable source of information and opportunities for students as they seek to acquire practical experience and knowledge. In return, the Bank can benefit from the fresh ideas and insights of students. Students guarantee the Bank's dynamic development – an assurance to clients that Komerční banka will always be a modern and innovative institution.

## Comments on the Unconsolidated Financial Results (IFRS)

### Profit and loss account

#### Net interest income

Net interest income of CZK 12,447 million represents a decrease of 4.2% compared to 2001. The increase of net interest income from banks by 24.3% resulted from the placement of the growing excess of liquidity on the inter-bank market. Net interest income from Ceska konsolidacni agentura decreased year on year by 21.4% to CZK 2,500 million. Net interest income from customers decreased by 28.6% and was influenced mainly by the steadily declining interest rates. In the course of 2002, the CNB repo rate fell from 4.75% to 2.75% and the Reference Rate of the Bank followed this trend and fell from 4.6% to 2.8%. As a result of the above, the net interest margin decreased from 3.64% to 3.25%.

#### Net fees and commissions

The Bank generated net fees and commissions in the amount of CZK 8,320 million, which represents a year-on-year decrease of 0.9%. Non-foreign exchange fees and commissions increased by 3.3% and comprise principally fees and commissions from settlements, account maintenance and loan administration. A very dynamic year-on-year development was seen in the fees and commissions from payment cards. Foreign exchange fees and commissions comprise fees and commissions from foreign exchange clean and documentary payments and foreign exchange cash conversions. Their year-on-year decline by 11.5% to CZK 2,088 million was linked mainly to the impact of the introduction of the Euro. Net fees and commissions were also temporarily negatively impacted by the August floods.

#### Net profit from financial operations



Net profit from financial operations achieved a satisfactory result of CZK 1,426 million. Net profit from foreign exchange operations more than doubled to CZK 987 million especially due to the good results in spot and swap operations arising from the differences in CZK and USD interest and exchange rates. Net profit from securities decreased by 53.6% and amounted to CZK 490 million, in which a significant role was played by the unrealised profit made on government bonds. The 2001 result was positively affected by the sale of the share in Ceska pojistovna, generating a one-off gain of CZK 567 million.

#### Other income

Other income totalled CZK 404 million, decreasing by 53.8% from CZK 875 million as at the end of 2001. It included dividends from KB subsidiaries and associates and miscellaneous income. The Exceptional net income in 2001 consisted principally of one-off income from the write-off and write-back of receivables and payables from payment operations at the beginning of 1990s.

#### Net banking income

Net banking income amounted to CZK 22,597 million, representing a decrease of 5.1% compared to the year ended 31 December 2001. The share of non-interest income in the total banking income was 44.9%.

#### Operating costs

Operating costs, including administrative expenses, restructuring costs and depreciation amounted to CZK 12,760 million, which represented a decrease of 15.3% compared to the year-end 2001.

Administrative expenses stood at CZK 10,100 million, representing a year-on-year decrease of 7.8%. Personnel costs fell by 10.7% from CZK 5,886 million to CZK 5,257 million. Other administrative expenses fell by 4.4% to CZK 4,843 million, influenced by savings in the contributions to the Deposit Insurance Fund. Based on the amendment of the Banking Act the Bank's contribution for the year 2002 reached a level of CZK 272 million, representing savings of CZK 545 million compared to the year 2001. Other administrative costs were also affected by efficient cost control within the Bank and the centralisation of processes including the transfer of selected activities from Asis and Reflexim back to KB.

Restructuring costs amounted to CZK 1,007 million and represent costs incurred in the course of the Bank's rebranding, reorganisation of the sales network, centralisation and rationalisation of the Bank's processes as well as advisory and consultancy expenses related to the Transformation Programme and redundancy costs.

Depreciation and other provisions totalled to CZK 1,653 million, which represents a year-on-year decrease of 29.8%.

#### Net operating income

Net operating income of CZK 9,837 million increased by 12.5% compared to 2001. The main driver of this development was successful cost control at the Bank. The cost/income ratio fell from 63.3% to 56.5% as at 31 December 2002.

#### Provisions for loan and investment losses

Net release of provisions for loan and investment losses amounted to CZK 1,434 million.

Net release of provisions and reserves for loan losses of CZK 1,513 million reflects the release of specific provisions to loans as a result of the improving quality of the Bank's loan portfolio. It also includes the partial release of a general provision for loan losses that follows new Czech legal requirements: as of 31 December 2001, the minimum 25% of the tax-deductible general provisions and reserves is to be released each year, until 2005. In 2002 KB released CZK 2,234 million representing 25.4% of the initial amount.

Income from fully written-off loans amounted to CZK 1,019 million, representing a year-on-year increase by 22.9%.

Net creation of provisions for Collateralised Debt Obligations and Credit Linked Note portfolio held as securities available for sale amounted to CZK 759 million, reflecting changes in credit conditions on the markets of the underlying assets.

Net creation of provisions for investments in subsidiaries and associates of CZK 339 million was mostly dedicated to Komerční Pojistovna.

#### Tax charge

Total income tax amounted to CZK 2,508 million. The tax payable in respect of the current year amounted to CZK 3,314 million. In 2002 the Bank posted total deferred tax receivable of CZK 1,074 million. Deferred income tax is provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Whereas the reporting of deferred tax liability is obligatory, it positively impacted the Profit and Loss account by its decline of CZK 172 million at the end of 2002. The deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised. In course of 2002 the Bank posted deferred tax assets of CZK 902 million for the first time. In the previous years, due to uncertainties over the realisation of deferred tax assets in future accounting periods, the Bank recognised only a deferred tax liability in its statutory books. The uncertainties

principally resulted from the anticipated legislative changes in respect of banking provisions and reserves and securities.

### Net profit

Net profit amounted to CZK 8,763 million, representing an increase of 246.1% compared to the year-end 2001. This result was influenced principally by successful cost management and the release of provisions.

### Balance sheet

Total assets in 2002 grew by 4.3% and amounted to CZK 439.8 billion as at 31 December 2002.

#### ASSETS

##### Cash and balances with the central bank

The balance of cash and balances with the central bank fell compared to the end of 2001 by 21.1% to CZK 14.4 billion. This amount reflects the operating needs of the Bank and the trend in the obligatory minimum reserves with the Czech National Bank. The obligatory minimum reserves bear interest equal to the CNB two week repurchase rate; at the end of 2002 it was 2.75%.

##### Amounts due from banks

Amounts due from banks increased from CZK 155.6 billion as at the end of 2001 to CZK 199.7 billion as at the end of 2002, i.e. by 28.4%. The balance at the Czech National Bank in the form of repurchase operations recorded a year-on-year growth by 77.8% and stood at CZK 144.4 billion as at 31 December 2002. Term placements with banks on the other hand fell by 45.0% and stood at CZK 39.2 billion as at the end of 2002. As of 31 December 2002, due from banks also include bonds issued by the parent company, Societe Generale SA, purchased by the Bank under an initial offering in the 4th quarter of 2002 (CZK 14.0 billion).

##### Due from Ceska konsolidacni agentura

Due from Ceska konsolidacni agentura decreased during the course of 2002 by 28.8% as a result of regular repayment of loans and as at 31 December 2002 they amounted to CZK 35.4 billion. Loans granted by Komerční banka to Ceska konsolidacni agentura, formerly Konsolidacni banka Praha, s. p. u., are connected with the re-financing of the transfer of classified assets in August 1999 and March 2000.

##### Loans and advances to customers

Net loans and advances to customers (following the deduction of provisions) were, at the end of 2002, CZK 121.2 billion, representing a decline by 10.4% compared to the end of 2001. After deducting repurchase operations with state institutions amounting to CZK 12.5 billion, which were executed in December 2001 and repaid up in January 2002, this represents a year on year decrease by 1.3%. As at 31 December 2002, the nominal volume of loans reached CZK 138.3 billion, and the related provisions and reserves were CZK 17.2 billion. The main factor of the year-on-year decline in customer loans was the continuing successful workout of the portfolio of non-performing loans. Loans to individuals on the other hand grew significantly. Mortgage loans grew, compared to the end of 2001, by 29.2% to reach a total of CZK 18.3 billion, consumer loans grew over the same period by 28.0% to a total of CZK 7.7 billion. The share of loans to individuals in total loans increased from 13.8% in 2001 to 18.8% in 2002.

In 2002, the positive trend in improving the quality of the loan portfolio continued. Whilst the proportion of standard loans in the total loans grew to 64.4%, i.e. by 8.5 percentage points, the share of loans under special review (sub-standard, doubtful, loss loans) was reduced by 7.2 percentage points to the present 19.1%. Improvements in the quality of the loan portfolio, together with the obligatory release of the general provision required by the changes in the legislation which came into force in 2002, were reflected in the decline in total provisions and reserves for loan losses by 27.7% to CZK 17.2 billion. This amount is inclusive of the general provision of CZK 6.5 billion (CZK 8.8 billion in 2001). At the end of 2002, the disposable value of collateral taken by the Bank to secure customer loans was CZK 57.7 billion, of which CZK 28.4 billion was real estate. A significant portion of the portfolio of non-performing loans of Komerční banka is covered by the State Guarantee. The State Guarantee ensues from an agreement between Komerční banka, a. s., and Konsolidacni banka Praha, s. p. u, concluded in December 2000. In the agreement, Konsolidacni banka, now Ceska konsolidacni agentura, made a commitment to cover losses incurred by Komerční banka during the period 2001 - 2003 from its portfolio of on-balance sheet and off-balance sheet receivables classified as at 31 December 2000 as sub-standard, doubtful and loss. The amount paid by Ceska konsolidacni agentura is limited to CZK 20 billion. As at 31 December 2002, the nominal volume of guaranteed receivables amounted to CZK 21.8 billion, representing a decrease by 64.2% compared to the situation at the end of 2000. The cumulative realised losses from this portfolio totalled CZK 2.6 billion.

According to IAS 39 and in line with the intent of acquisition, the Bank's securities are categorised into portfolios for trading, available for sale and a portfolio of investments held to maturity. The Bank also carries

securities acquired under an initial offering and not intended for trading, which are included in amounts due from banks.

#### Trading securities

The volume of the portfolio of securities for trading increased, compared to the end of 2001, by 146.5% to reach CZK 9.3 billion. This trend was driven by the growing volume of treasury bills which now make up 83.4% of the portfolio.

#### Securities available for sale

As at 31 December 2002, the value of the portfolio of securities available for sale was CZK 24.4 billion, representing a year-on-year decline by 28.8%. This development was affected by the partial sale of the Bank's share in Otevreny podilovy fond Globalni (Globalni Open-ended Mutual Fund) and by the reduction in the value of asset backed securities (CBO) as a result of CZK/USD exchange rate developments.

#### Investments held to maturity

The volume of the portfolio of investments held to maturity increased from CZK 960 million as at the end of 2001 to the present value of CZK 2.5 billion. The growth reflects the purchase of a portion of subordinated debt securities issued by the Bank's subsidiary Komerčni Finance, B.V., which was realised in the second half of 2002. As at 31 December 2002, the value of subordinated debt securities was CZK 2.4 billion. The volume of mortgage bonds in the portfolio fell from CZK 960 million as at the end of 2001 to CZK 97 million at the end of 2002 due to the maturing of one title in 2002.

#### Investments in subsidiaries and associates

Investments in subsidiaries and associates increased by 29.8% compared to 2001, to reach the amount of CZK 1.6 billion. The main catalysts of growth were the twofold increase in the shareholders' equity of Komerčni pojistovna by Komerčni banka and net creation of provisions for this ownership interest to cover the losses of Komerčni pojistovna reported in the previous years.

## LIABILITIES

#### Amounts due to banks

Amounts due to banks at the end of 2002 totalled CZK 22.5 billion, representing a year-on-year decrease by 21.9%.

### Amounts due to customers

Amounts due to customers grew, compared to 2001, by 6.2% and as at 31 December 2002 they stood at CZK 341.1 billion. The volume of deposits on current accounts showed year-on-year growth by 20.8% to reach a total of CZK 171.0 billion; term deposits and savings accounts, on the other hand, fell by 10.1% and amounted to CZK 129.1 billion as at 31 December 2002.

### Certificated debt

The volume of certificated debt was, as at the end of 2002, CZK 18.3 billion, reflecting the redemption of two five-year bond issues totalling CZK 10.1 billion. Bonds represent 61.4% and mortgage bonds 38.6% of the total certificated debts.

### Subordinated debt

The value of the subordinated debt fell year on year by 15.9% to CZK 6.1 billion as a result of the trend in the CZK/USD exchange rate. Subordinated debt securities acquired by the Bank in the second half of 2002, which make up 39.0% of the total nominal volume of the issue, are carried in the Bank's assets (see Investments held to maturity) and have not been offset against the subordinated debt in the unconsolidated accounts.

### Shareholders' equity

Shareholders' equity of the Bank was CZK 33.8 billion as at 31 December 2002. The increase of 43.1% compared to the same period of the previous year was driven mainly by the rising profits in the current period. The Bank's equity was CZK 19.0 billion, the same as at the end of 2001. As at the year-end 2002, the balance of shareholders' equity represents 7.7% of its total assets.

## Komerční banka Financial Group

**As at 31 December 2002, Komerční banka's financial group consisted of fourteen companies controlled to some degree by the Bank. Ten of the companies within the KB Group were subsidiaries, under the full ownership of Komerční banka, and four were associate companies, in which Komerční banka had a significant interest.**

In addition to KB Group companies, Komerční banka maintained several strategic shares of 20% or below in the registered capital of other companies. These were smaller interests in Ceskomoravská záruční a rozvojová banka, a. s., Burza cenných papírů Praha, a. s. (the Prague Stock Exchange), and as of 2002 Czech Banking Credit Bureau, a. s.

### Restructuring process

2002 was a year of change for the KB Group. An ambitious restructuring process was launched with the aim of replicating the successful business model adopted by Societe Generale in other regions. The plan is to make a significant improvement to the range and quality of products offered by the KB Group and to enhance its efficiency. The restructuring process will be completed in 2003. As a result, Komerční banka's customers will have access to a comprehensive range of competitive products offered by specialized KB Group companies, and Komerční banka's shareholders will benefit from further efficiency within the KB Group.

The first element of the restructuring process focuses on the close involvement of specialised Societe Generale subsidiaries in the KB Group – in particular SGAM (asset management) and SOGECAP (insurance). SGAM and SOGECAP are intensely involved in the management of IKS KB and Komerční pojišťovna, respectively. As a result, customers have access to the global asset management products of Societe Generale and a brand new insurance product offer has been built by Komerční pojišťovna reflecting the international experience of SOGECAP and offering a top quality range of modern insurance products.

In addition, the insurance book of Komerční pojišťovna was split into life and non-life, and the motor third party liability portfolio (MTPL) and a part of car accident insurance (CASCO) were sold to Kooperativa. This will enable Komerční pojišťovna to concentrate on its core business, which is life insurance.

The second element of the restructuring process is further exploitation of synergy potential within the KB Group entities and closer co-operation with Komerční banka, especially in product development and distribution, marketing, asset and liability management, financial management, and risk management. The Komerční banka distribution network is beginning to play a decisive role in the distribution of KB Group products. The products of KB Group companies are included in the product packages offered by Komerční banka.

Another element of the restructuring process is a strong focus on those subsidiaries involved in areas identified as the core business of Komerční banka. For entities outside of the scope of the core business of Komerční banka, more efficient strategies were established for their further development. These strategies included either integration of their business into Komerční banka, outsourcing, a search for strategic partners, or liquidation. A-Trade was sold off outside the KB Group in 2002 and the liquidation of the ALL IN group of companies will be completed in 2003.

Outside the scope of KB Group, close co-operation was established with other Societe Generale entities active on the local market, in particular with Franfinance Leasing, with its tailored "large ticket" corporate leasing

offers, and ALD automotive, where new products of car fleet management and operative leasing are being introduced on to the market.

The KB Group is also present in the Slovak Republic. Banking services, primarily to corporate clients, are offered by Komerční banka Bratislava, and leasing services are offered through CAC Leasing Slovakia.

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**ORDINARY GENERAL MEETING OF KOMERCNI BANKA, a. s.,  
HELD ON 19 JUNE 2003**

**Document No. 3**

**UNconsolidated annual financial statements of  
KOMERCNI BANKA a.s. FOR THE YEAR 2002**

**UNDER CZECH ACCOUNTING STANDARDS**

Under Section 8 (i) of the Articles of Association the General Meeting is authorised to approve the financial statements. Therefore the Board of Directors of Komerční banka, a. s., submits the unconsolidated financial statements of Komerční banka, a. s., for the year 2002 to the General Meeting for approval. The financial statements have been performed under generally binding legal regulations, particularly under Act No. 563/1991 Coll., the Accounting Act, and other related regulations. The financial statements have been subject to the examination by an external auditor, the company Deloitte & Touche under Act No. 254/2000 Coll., the Act on Auditors and the Chamber of Auditors of the Czech Republic.

In the external auditor's opinion the financial statements truly describe assets, liabilities and own capital of Komerční banka, a. s., in all material aspects at 31 December 2002 and the results of its financial management for the year 2002 are in compliance with Act No. 563/1991 Coll.

For the detailed understanding of the audit extent and results and the economic results the shareholders are recommended to study the full text of the audit report and the financial statements.

Main data of the audited unconsolidated financial statements for the year 2002 under the Czech Accounting Standards are as follows:

Net profit after taxation	CZK 9,229,086 thousand
Equity capital	CZK 33,803,606 thousand
Total assets	CZK 445,981,759 thousand

Based on the above mentioned reasons the Board of Directors of Komerční banka, a. s., proposes the General Meeting the following:

**- to approve the unconsolidated financial statements of the company Komerční banka, a. s., for the year 2002.**

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#dividenda#

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**ORDINARY GENERAL MEETING OF KOMERCNI BANKA, a. s.,  
HELD ON 19 JUNE 2003**

**Document No. 5**

**consolidated annual financial statements of  
Komerční banka A. S., for the year 2002  
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**

Under Section 8 (i) of the Articles of Association the General Meeting is authorised to approve the financial statements. Therefore the Board of Directors of Komerční banka, a. s., submits the consolidated financial statements of Komerční banka, a. s., for the year 2002 to the General Meeting for approval. The consolidated financial statements have been made out under generally binding legal regulations, particularly under Act No. 563/1991 Coll., the Accounting Act, and other related regulations. The financial statements have been subject to the examination by an external auditor, the company Deloitte & Touche under Act No. 254/2000 Coll., the Act on Auditors and the Chamber of Auditors of the Czech Republic.

In the external auditor's opinion the consolidated financial statements truly describe assets, liabilities and own capital of the consolidation unit of Komerční banka, a. s., in all material aspects at 31 December 2002 and the results of its financial management for the year 2002 are in compliance with Act No. 563/1991 Coll.

For the detailed understanding of the audit extent and results and the economic results the shareholders are recommended to study the full text of the audit report and the financial statements.

Main data of the audited consolidated financial statements for the year 2002 prepared in accordance with International Financial Reporting Standards:

Net profit after taxation	CZK 9,026 million
Equity capital	CZK 35,366 million
Total assets	CZK 446,092 million

Based on the above mentioned reasons the Board of Directors of Komerční banka, a. s., proposes the General Meeting the following:

**- to approve the consolidated financial statements of the company Komerční banka, a. s., for the year 2002.**

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**ORDINARY GENERAL MEETING OF KOMERCNI BANKA, a. s.,  
HELD ON 19 JUNE 2003**

**Document No. 6**

**PROPOSAL OF AMENDMENTS TO THE ARTICLES  
OF ASSOCIATION**

**OF KOMERCNI BANKA, a. s.**

## **Article I Fundamental Provisions**

### - **Section 1**

#### **Trade Name and Registered Office**

(1) The trade name of the company shall be "Komerční banka, a. s." (hereinafter referred to as "the Bank").

(2) The trade name of the Bank shall not be translated into foreign languages.

(3) The registered office of the Bank shall be at Prague 1, Na Příkopě 33, building identification number 969, post code 114 07.

(4) The Bank has been incorporated in the Commercial Register maintained with the Municipal Court in Prague, Section B, Entry 1360.

(5) The Bank has been established for an indefinite period of time.

## **Article II Business Activities of the Bank**

### - **Section 2**

(1) The Bank shall carry on business pursuant to Act No. 21/1992 Coll., the Banking Act, as amended (hereinafter referred to as „the Banking Act,“). The business activities of the Bank shall include:

- a) acceptance of deposits from the public;
- b) granting of loans;
- c) investing in securities on the Bank's own account;
- d) financial leasing;
- e) making and receiving payments and administration of clearing system;
- f) issue and administration of payment instruments, such as payment cards and traveller's cheques;
- g) provision of guarantees;
- h) issue of letters of credit;
- i) provision of collection services;
- j) provision of investment services
- k) dealing on the Bank's own account or on the client's account in:  
foreign currencies and gold;
- l) financial brokerage;
- m) foreign exchange operations (foreign exchange purchase);
- n) provision of depository services;
- o) provision of banking information;
- p) rental of safe-deposit boxes;
- q) issue of mortgage bonds,
- r) activities directly related to those mentioned in paragraphs a) – q).

(2) The Bank shall further carry on business activities for business enterprises that provide supporting banking services and for financial institutions that are controlled by the Bank. The extent of the business activities shall cover:

- a) accounting consultants' activities, book-keeping,
- b) *procurement of deals,*
- c) *road transportation*
- d) *engineering activities in investment production,*
- e) *administration and maintenance of real property,*

- f) *organisation of specialised courses, training, and other educational programs including teaching,*
- g) *business, financial, organisational, and economic consultants' activity*
- h) *data processing, databank services, web administration.*

### **Article III Registered Capital of the Bank**

#### - **Section 3**

The registered capital of the Bank shall be CZK 19,004,926,000.

### **Article IV Shares**

#### - **Section 4**

#### **Fundamental Provisions**

The Bank's registered capital specified under Section 3 shall be divided into 38,009,852 listed (quoted) ordinary bearer shares, each of a nominal value of CZK 500. All the Bank's shares shall be uncertificated.

### **Article V Rights and Obligations of Shareholders**

#### - **Section 5**

(1) Both legal persons (legal entities) and natural persons (individuals) may become shareholders of the Bank.

(2) Any shareholder is entitled to attend the General Meeting and to vote thereat, to request and receive explanation regarding matters concerning the Bank, if such explanation is necessary for the assessment of the subject on the agenda of the General Meeting, and to file proposals and counter-proposals. A shareholder present at the General Meeting shall have the right to the aforesaid explanation also concerning matters regarding entities controlled by the Bank. Should a shareholder intend to file at the General Meeting counter-proposals relating to proposals, the contents of which have been specified in the notification of the General Meeting, or in the case that the resolution of the General Meeting must be recorded in a notarial record, then the shareholder shall be obliged to deliver their proposal or counter-proposal in writing to the Bank at least five working days prior to the date of the General Meeting. The above shall not apply provided that the proposals regard the election of specific persons to the bodies of the Company. The Board of Directors shall be obliged to make public the shareholder's counter-proposal and the Board's opinion thereon in the same manner as used for convening the General Meeting, and to do so at least three days prior to the date of the General Meeting, if possible.

(3) The shareholders shall be entitled to exercise their rights at the General Meeting either in person or through a natural or legal person (a proxy) under the terms and conditions specified by law (hereinafter referred to as "the Attending Shareholder"). Members of the Bank's Board of Directors or Supervisory Board may not stand proxy for the shareholders. When being registered as present at the General Meeting, the shareholders shall provide evidence of their identity by means of an identity document. When being registered as present at the General Meeting, a proxy shall provide evidence of their identity by means of an identity document and shall submit a written power of attorney, unless



the law provides otherwise. In addition, a proxy that is a legal entity shall submit an updated excerpt from the Commercial Register or another document evidencing their right to act on behalf of the company concerned. When being registered as present at the General Meeting, the heir of a shareholder shall submit an official document confirming their rights.

(4) The General Meeting may be attended by any shareholder registered in the statutory register of securities as a holder of shares of the Bank as of the seventh calendar day prior to the date of the General Meeting (i.e. the decisive date for the right of the shareholder to attend the General Meeting). The Bank's Board of Directors shall place an application for an excerpt from the statutory register of securities as of the decisive date. Persons that are designated by the CNB in the statutory register of securities, persons not mentioned therein, or persons empowered by these persons may not attend the General Meeting.

(5) The voting right belonging to a shareholder is governed by the nominal value of their shares; each CZK 500 of the nominal value of the shares shall represent one vote. The vote shall not be further divisible. The casting of votes shall be carried out by means of ballot. However, the voting shall be carried out in a different manner, if the same is requested by the Board of Directors, the Supervisory Board, the Chairman of the General Meeting or if the same is decided upon by the General Meeting. The Board of Directors' proposal, if any, shall be voted upon first. Should the proposal of the Board of Directors be accepted, other proposals shall not be voted upon. Should the proposal of the Board of Directors not be accepted, votes are cast on the proposal of the Supervisory Board, if any. Other proposals shall be voted upon in the sequence in which they have been filed. If a notarial record is to be drawn up concerning the resolution of the General Meeting, the Chairman of the General Meeting shall be obliged to administer the casting of votes in such a manner that a notarial record of the resolution of the General Meeting containing all statutory requirements may be drawn up.

(6) Any proposals, counter-proposals and requests for explanation shall be made by the Attending Shareholder in writing and placed at a designated place. The Chairman of the General Meeting shall be obliged to ensure that all requests for explanation of matters be answered, as long as such matters form the subject of the agenda of the General Meeting and the requests are made in the course of the General Meeting in accordance with these Articles of Association. The Chairman of the General Meeting shall be obliged to inform the General Meeting of any proposal or counter-proposal made by the Shareholder in compliance with Act No. 513/1991 Coll., the Commercial Code, as amended (hereinafter referred to as "the Commercial Code") and with the Articles of Association. Such a proposal shall be discussed provided that it concerns issues that have been included in the agenda of the General Meeting or provided that all shareholders or their representatives are present and all agree that the proposal be discussed. The sequence in which these proposals and counter-proposals are discussed shall be governed by Section 5, subsection 5 of these Articles of Association. Any Attending Shareholder shall be entitled to request that the minutes clerk of the General Meeting include a protest concerning a resolution of the General Meeting in the minutes of the General Meeting.

(7) The right to receive dividends, the pre-emptive right to subscribe for shares and convertible and priority bonds and the right to the payment of the interest in the liquidation balance otherwise associated with a share may be transferred separately.

(8) The shareholder or shareholders of the Bank holding shares the total nominal value of which exceeds 3% of the Bank's registered capital may request:

- a) that the Board of Directors convene an Extraordinary General Meeting in order to discuss the matters proposed;

- b) that the Board of Directors include issues specified in their request into the agenda of the General Meeting;
- c) that the Supervisory Board examine the discharge of duties by the Board of Directors with regard to the matters specified in the request;
- d) that the Supervisory Board exercise the right to compensation for loss the Bank might have against a member of the Board of Directors;
- e) that a court of justice appoint an expert in order to examine the report on the relationships between the controlled entities and associated entities as specified by the Commercial Code, should there be serious reasons therefor, under the terms and conditions specified by the Commercial Code.

Any request under this subsection shall be in writing and shall be dealt with in accordance with the generally binding legal regulations and with the Articles of Association.

Should the requests under this subsection not be submitted to the Bank in writing, the shareholders concerned shall prove to the Bank, when exercising their respective rights, that they are the authorised shareholders as specified by Section 5, subsection 8 of the Articles of Association as of the date of exercising such right. Should the above-mentioned shareholders fail to evidence such title, the Bank shall verify such data through an excerpt from the statutory register of securities, should the registry make such verification possible. The shareholder shall be obliged to reimburse the Bank for these costs no later than within thirty days from the receipt of the Bank's request to do so.

(9) No shareholder shall be entitled to demand that the investments the shareholder invested in the Bank in order to acquire or increase their holding in the Bank be returned either in the course of the Bank's existence or upon its winding up. However, in the event of the Bank's dissolution and subsequent liquidation, the shareholders shall have the right to an adequate interest in the liquidation balance of the Bank.

(10) Any shareholder shall be entitled to ask the Board of Directors to produce a copy of the minutes of any General Meeting or a part thereof throughout the Bank's existence. Such request shall be in writing. The copy of the minutes or a part thereof shall be made at the expense of the Bank. The copy of the minutes or a part thereof shall be available to the shareholder no later than within sixty days from the date of receipt by the Bank of the shareholder's request, however, not earlier than on the thirtieth day following the end of the General Meeting concerned.

## **Section 6 Dividend Payment**

(1) The shareholder shall be entitled to a proportion of the Bank's profit approved for distribution to the Shareholders by the General Meeting (a dividend) taking into account the Bank's financial results and terms and conditions specified by the generally binding legal regulations.

(2) The Board of Directors may give an order to the person maintaining the register of uncertificated securities for registration of separately transferable rights to a dividend payable.

(3) The right to a dividend shall belong to any shareholder holding shares on the thirtieth calendar day following the date of the General Meeting at which the resolution on the dividend payment was adopted. If the Board of Directors has decided on registration of the right to receive the dividend in the register of uncertificated securities, the right to receive the dividend shall apply to such shareholder whose right in this respect is registered with the registry of uncertificated securities on the thirtieth calendar day following the date of the General Meeting which resolved on the dividend payment. The dividend shall become payable upon expiration of thirty days following the date which is decisive for origination of the shareholder's right hereunder.

(4) The Bank shall pay out the dividends as of the due date of the dividend either:

- a) by sending the Bank's payment document to the address of the shareholder or the administrator, or
- b) by a non-cash transfer from the Bank's account to the account of the shareholder or the administrator (with legal entities, this is the sole manner of dividend payment).

(5) Where dividends are paid through the Bank's payment document, they shall be paid out to the shareholders by any payment point of the Bank.

(6) Where dividends are remitted to legal entities by a non-cash transfer, the Bank shall remit the dividends no later than within five working days of receiving the required documents, however, on the dividend due date at the earliest. The required documents shall be as follows: a request for the dividend payment containing the relevant banking details and an updated and officially verified statement from the Commercial Register (or a similar document evidencing registration with the relevant state authority). The signature of the shareholder's statutory body (or its representative) subscribed at the request for the dividend payment must be attested. In addition, if a shareholder is represented by another legal person or natural person, such representative shall be obliged to deliver officially verified powers of attorney from all entities so represented and its updated and officially verified excerpt from the Commercial Register. If the excerpt from the issuer's register only states the information about the share's administrator, the shareholder shall be obligated to submit an updated account statement of the security's holder. The Bank shall not assume responsibility for the accuracy and completeness of the data stated by the shareholder.

(7) The Bank's obligation to pay the dividend shall be discharged by sending the Bank's payment document to the address of the shareholder or the administrator specified in the register of uncertificated securities or, in the event of a non cash transfer, upon debiting the dividend from the Bank's account.

(8) The right to claim a dividend shall lapse upon expiration of a four-year period following the dividend due date.

***(9) UPON THE RESOLUTION OF THE GENERAL MEETING, THE BOARD OF DIRECTORS SHALL ANNOUNCE THE DATE WHEN THE DIVIDEND IS PAYABLE, AND THE PLACE, METHOD, AND THE DECISIVE DATE FOR THE DIVIDEND PAYMENT AS SPECIFIED IN SECTION 39 OF THE ARTICLES OF ASSOCIATION.***

## **Article VI Bodies of the Bank**

### **Section 7 General Meeting**

The General Meeting shall be the supreme body of the Bank.

### **Section 8 Powers of the General Meeting**

It is within the powers of the General Meeting to:

- a) decide on amendments to and alterations of the Articles of Association, with the exception of alteration in consequence of an increase in the registered capital by the Board of Directors or on the basis of other legal facts determined by law;
- b) to decide on the increase in the registered capital, with the exception of the procedure specified under Section 31 hereof, or on setting off a monetary claim towards the Bank against a claim to be used for payment of the issue price.
- c) elect and recall members of the Supervisory Board, with the exception of the election and recall of members elected by the Bank's employees under Section 13 of the Articles of Association;
- d) approve the Board of Directors' reports regarding the Bank's business activities and the Bank's assets, at least once per accounting period;

- e) decide on a decrease in the registered capital provided that a prior consent of the Czech National Bank has been given, unless the decrease to cover a loss is concerned;
- f) decide on a change in the class or type of the shares;
- g) decide to issue bonds of the Bank if the law requires so;
- h) decide to modify the rights attached to individual classes of the shares;
- i) approve the Annual Financial Statements, Extraordinary Financial Statements, Consolidated Financial Statements and Interim Financial Statements when required by law;
- j) decide on distribution of the profit or coverage of the loss, and to determine royalties;
- k) decide on the financial remuneration of members of the Board of Directors and the Supervisory Board unless the law provides otherwise;
- l) decide on merger of the Bank, provided that a prior consent of the Czech National Bank has been given;
- m) decide to wind up the Bank with the prior consent of the Czech National Bank;
- n) approve proposed distribution of the liquidation balance of the Bank's assets;
- ~~o) decide to register participation securities of the Bank in accordance with special legal regulation and to terminate the registration thereof;~~
- p) decide on concluding a contract the subject matter of which is a transfer of the entity or a part thereof and the lease thereof by the Bank, provided that the conclusion of the said contract on sale of an entity or a part thereof shall be subject to the prior consent of the Czech National Bank, or to decide on conclusion of such contract by a controlled entity;
- q) charge the Board of  
Directors to decide on increase in the registered capital under the conditions specified in the Commercial Code and the Articles of Association (Section 31);
- r) decide to acquire the Bank's own shares in accordance with the relevant provisions of the Commercial Code;
- s) decide on elimination or restriction of the pre-emptive right to acquire convertible or priority bonds, elimination or restriction of the pre-emptive right to subscribe for new shares in accordance with the Commercial Code;
- t) approve a controlling contract, contract on transfer of profits and contract on silent partnership, and alterations thereof;
- u) approve the acquisition or alienation of assets, when the law so requires;
- v) decide on other matters which, according to the generally binding legal regulations or the Articles of Association, are part of the powers of the General Meeting.

## - Section 9

### **Convening the General Meeting**

(1) The Regular General Meeting is held at least once a year, however no later than six months from the last day of each accounting period. The General Meeting shall be convened by the Board of Directors or, as the case may be, by a member of the Board of Directors if the Board of Directors fails to agree without undue delay on its convening and the law stipulates a duty to convene the same or if the Board of Directors lacks a quorum long term, unless the generally binding legal regulations specify otherwise.

(2) The Extraordinary General Meeting shall be held if so requested by the shareholders as specified under Section 5, subsection 8. The Extraordinary General Meeting shall also be held should it be convened by the Board of Directors when urgent matters falling within the authority of the General Meeting need to be dealt with.

(3) The Supervisory Board shall convene the General Meeting if it is in the interest of the Bank. The Supervisory Board shall then submit necessary proposals to the General Meeting.

(4) The Annual General Meeting shall be convened by means of a public notice published in *Hospodarske noviny* and on notice boards in the Bank's registered office at least thirty days prior to the date of the General Meeting. Such notice shall contain at least the following:

- a) trade name and registered office of the Bank;
- b) venue, date and time of the General Meeting;

- c) specification as to whether the Annual General Meeting, Extraordinary General Meeting or Substitute General Meeting will be held;
- d) agenda of the General Meeting;
- e) decisive date for participation in the General Meeting;
- f) other data required by law.

Should any alteration of the Articles of Association be on the agenda of the General Meeting, the notification on the General Meeting shall either include the draft amended Articles of Association or outline essential aspects of such proposed alterations; and the draft amended Articles of Association must be available to the shareholders in the registered office of the Bank within the time limit specified for the convening of the General Meeting. The shareholders shall be entitled to ask that a copy of the draft amended Articles of Association be sent to them at their own expense and risk. The shareholders must be advised of these rights in the notification of the holding of the General Meeting.

(5) When the Board of Directors is requested by the shareholders specified under Section 5, subsection 8 to convene the Extraordinary General Meeting, such General Meeting must be convened so that it takes place within forty days of the date on which the request to such effect is delivered to the Board of Directors. Should the Board of Directors fail to convene the Extraordinary General Meeting within such period of time, such shareholders may apply to the relevant court of justice for an order to authorise the shareholders to convene the Extraordinary General Meeting and to execute any acts associated therewith. The notices on the General Meeting shall be made public in the manner specified under Section 9, subsection 4; care shall be taken to ensure that the shareholders are informed of the Extraordinary General Meeting at least fifteen days prior to the date of the Extraordinary General Meeting.

(6) Should a substitute General Meeting be convened due to the failure to constitute a quorum at the Regular General Meeting, Section 11, subsection 2 of the Articles of Association shall apply to the process of the convening.

(7) Upon the request of the shareholders specified under Section 5, subsection 8, the Board of Directors shall declare the matter specified by these shareholders to be the subject of the agenda of the General Meeting. Should such request be delivered after the convening of the General Meeting has been announced, the Board of Directors shall publish an amendment to the agenda of the General Meeting at least ten days prior to the date of the General Meeting in the manner stipulated for the convening of the General Meeting by the Commercial Code and the Articles of Association. If such an announcement is no longer possible, such issue may be included in the agenda of the General Meeting only as specified in the following subsection.

(8) The Board of Directors shall inform the Supervisory Board about the day of the general meeting no later than within the period of time specified by the Commercial Code for a general meeting to be convened.

(9) The proposed agenda of the General Meeting prepared by the Board of Directors shall be communicated to the Supervisory Board so as to make it possible for the Supervisory Board to exercise its right to amend the agenda of the General Meeting.

***(10) THE GENERAL MEETING MAY BE REVOKED OR POSTPONED. THE REVOCATION OR POSTPONEMENT OF THE GENERAL MEETING SHALL BE COMMUNICATED IN THE MANNER STIPULATED BY THE COMMERCIAL CODE AND THE ARTICLES OF ASSOCIATION FOR THE CONVENING OF THE GENERAL MEETING NO LATER THAN ONE WEEK PRIOR TO THE SCHEDULED DATE OF THE GENERAL MEETING; OTHERWISE THE BANK SHALL BE OBLIGED TO REIMBURSE ALL REASONABLE EXPENSES OF THE SHAREHOLDERS WHO ARRIVED IN ACCORDANCE WITH THE ORIGINAL NOTICE. THE GENERAL MEETING MAY ONLY BE CANCELLED BY THE BODY OF THE BANK THAT CONVENED THE SAME. THE EXTRAORDINARY GENERAL MEETING CONVENED UPON A REQUEST OF THE SHAREHOLDERS SPECIFIED UNDER SECTION 5, SUBSECTION 8 MAY BE REVOKED OR POSTPONED ONLY IF THE SHAREHOLDERS CONCERNED SO REQUEST. A NEW DATE FOR THE GENERAL MEETING SHALL BE DETERMINED IN ACCORDANCE WITH THE PERIOD OF TIME SPECIFIED HEREUNDER REGARDING THE CONVENING OF THE REGULAR OR EXTRAORDINARY GENERAL MEETING.***

## **Section 10 Proceeding at the General Meeting**

(1) The Attending Shareholders or their representatives shall sign an attendance list which shall contain the following details: trade name or name and registered office if a shareholder is a legal person (legal entity), or name and residential address if a shareholder is a natural person (an individual) or a shareholder's proxy on the basis of a power of attorney; nominal value of the shares that constitute the entitlement to vote and, as the case may be, a statement that the shares have no voting rights attached thereto. Should the Bank refuse to enter a certain person in the list of attending shareholders, this fact shall be noted in the list together with the reasons therefor. The accuracy of the attendance list shall be certified by the signatures of the Chairman of the General Meeting and the minutes clerk elected by a majority of votes of the Attending Shareholders.

(2) Members of the Supervisory Board and members of the Board of Directors shall attend the General Meeting of the Bank. The General Meeting may be attended by other persons invited by the convener, unless the General Meeting decides not to permit such attendance.

(3) The Board of Directors may authorise employees of the Bank or third parties (hereinafter referred to as "the Authorised Persons") to attend the General Meeting in order to ensure the same in terms of organisational and technical aspects. The Board of Directors shall be obliged to bind such Authorised Persons to maintain confidentiality concerning confidential facts and information that might cause loss to the Bank. The Authorised Persons shall be, in particular, entitled to examine the right of the shareholder or their proxy to attend the General Meeting as specified by the generally binding legal regulations and the Articles of Association. Until scrutineers are elected, the Authorised Persons shall be entitled to perform their duties

(4) The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board. The person who opens the General Meeting shall arrange for the election of the Chairman of the General Meeting, two verifiers of the minutes, the minutes clerk and the persons to count votes cast (scrutineers). The election shall be governed by the provisions of Section 5, subsection 5. The Chairman of the General Meeting shall then preside the General Meeting. Rules concerning the technique of the procedure and voting of the general meeting as well as other details can be specified by the Rules of Procedure if such Rules of Procedure are approved by the general meeting.

(5) Should any of the elected officers, in accordance with subsection 4, cease to hold their office during the General Meeting, the General Meeting shall elect a new officer. Such election shall be organised by the Chairman of the General Meeting or a person authorised for this purpose by the Board of Directors or by the Supervisory Board.

(6) The Board of Directors shall ensure that the minutes of the General Meeting are produced within a period of thirty days from the date of the conclusion of the General Meeting. The minutes shall contain:

- a) trade name and registered office of the Bank;
- b) venue and time of the General Meeting;
- c) names of the Chairman of the General Meeting, the minutes clerk, the verifiers of the minutes, and scrutineers;
- d) comments made on individual items on the agenda;
- e) resolutions of the General Meeting and results of voting;
- f) contents of any objection of a shareholder, a member of the Board of Directors or the Supervisory Board concerning the resolution of the General Meeting, if the same is requested by the person raising such objection.

Proposals and statements presented for discussion at the General Meeting along with the attendance sheet shall be attached to the minutes of the General Meeting. The minutes shall be signed by the minutes clerk, the Chairman of the General Meeting and two verifiers.

***(7) THE MINUTES OF THE GENERAL MEETING TOGETHER WITH THE RESPECTIVE NOTICE ON THE HOLDING OF THE GENERAL MEETING AND THE LIST OF THE ATTENDING SHAREHOLDERS SHALL BE KEPT IN THE BANK'S ARCHIVES THROUGHOUT THE BANK'S***

***EXISTENCE. THE LIQUIDATOR SHALL ARRANGE THAT SUCH MINUTES ARE ARCHIVED OR KEPT IN CUSTODY FOR A PERIOD OF TEN YEARS FOLLOWING THE WINDING-UP OF THE BANK.***

## **Section 11 Constituting Quorum and Casting Votes at the General Meeting**

(1) The General Meeting shall constitute a quorum if the Attending Shareholders hold shares whose total nominal value exceeds 30% of the registered capital of the Bank, provided that voting rights are attached thereto.

***(2) SHOULD THE GENERAL MEETING FAIL TO CONSTITUTE A QUORUM, THE BOARD OF DIRECTORS (OR THE SUPERVISORY BOARD, SHOULD IT BE THE CONVENOR OF THE GENERAL MEETING, OR SHAREHOLDERS AUTHORISED BY A COURT OF JUSTICE TO CONVENE AN EXTRAORDINARY GENERAL MEETING IN ACCORDANCE WITH THE COMMERCIAL COURT) SHALL CONVENE A SUBSTITUTE GENERAL MEETING. THE SUBSTITUTE GENERAL MEETING SHALL BE CONVENED BY MEANS OF A NEW NOTICE IN THE MANNER SET OUT IN SECTION 9, SUBSECTION 4 OF THE ARTICLES OF ASSOCIATION; THE TIME LIMIT SO SPECIFIED SHALL BE SHORTENED TO FIFTEEN DAYS. THE SUBSTITUTE GENERAL MEETING SHALL BE HELD WITHIN SIX WEEKS OF THE DATE ON WHICH THE ORIGINALLY CONVENED GENERAL MEETING SHOULD HAVE BEEN HELD. THE SUBSTITUTE GENERAL MEETING SO CONVENED SHALL HAVE THE SAME AGENDA AND SHALL CONSTITUTE A QUORUM IRRESPECTIVE OF THE PROVISIONS OF SECTION 11, SUBSECTION 1.***

(3) The General Meeting shall pass resolutions by majority of votes of the Attending Shareholders unless legal regulations require a qualified majority of votes.

(4) When assessing the capacity of the General Meeting to make decisions and at each particular vote casting at the General Meeting, the shares with no voting rights or the shares where the voting rights cannot be exercised shall not be taken into account.

## **Section 12 Powers of the Supervisory Board**

(1) The Supervisory Board shall oversee the exercise by the Board of Directors of their powers and the carrying on of the business activities of the Bank. The Supervisory Board shall oversee the efficiency and effectivity of the internal management and control system of the Bank as a whole.

(2) The Supervisory Board shall, in particular:

- a) convene an Extraordinary General Meeting when the Bank's interests so require (Section 9, subsection 3) and propose the General Meeting necessary measures to be taken;
- b) elect and recall members of the Board of Directors;
- c) approve contracts on performance of duties of members of the Board of Directors and consideration provided to members of the Board of Directors, evaluate fulfilment of contracts on performance of duties concluded with members of the Board of Directors;
- d) examine ordinary, extraordinary, interim, and consolidated Financial Statements, proposals for the distribution of profit or the coverage of loss, and submit its opinion to the General Meeting;
- e) be entitled to inspect, through one of its members, all documents and records related to the activity of the Bank;
- f) check whether the books and records are maintained properly and in accordance with the actual state and whether the business activities of the Bank are carried on in compliance with the generally binding legal regulations, the Bank's Articles of Association, and resolutions and instructions of the General Meeting;
- g) provide the Board of Directors with its position on the choice of an external auditor;
- h) represent the Bank before court or other authorities in disputes with members of the Board of Directors;
- ~~i) inform the General Meeting of the results of its supervisory activity;~~

- j) be entitled to restrict the right on the part of the Board of Directors to act on behalf of the Bank, including acting in any single matter; any such restriction, however, shall not be effective against third parties;
- k) provide the Board of Directors with its prior position on status, conception, and annual plan of activities of the Internal Audit Unit;
- m) l) approve acquisition or alienation of assets in the cases stipulated by law .examine the report on relations between the supervised and the supervisor as provided by the Commercial Code and submit the information on the examination of the report to the general meeting if so required by law;
- n) evaluate the effectivity of the internal management\_and control system of the Bank as a whole;
- o) define the principles of remuneration of the Director of Internal Audit.

### **Section 13 Election and Recall of Members of the Supervisory Board**

(1) The Supervisory Board shall consist of nine members, natural persons, who meet the conditions specified by the generally binding legal regulations. The term of office of a member of the Supervisory Board shall be four years. Two thirds of the members of the Supervisory Board shall be elected and recalled by the General Meeting and one third by the Bank' s employees. Any member of the Supervisory Board shall be entitled to resign, however, he/she shall be obliged to inform the Supervisory Board thereabout. Such a member shall cease to perform their duties as from the date on which their resignation was discussed or was to be discussed by the Supervisory Board. Should a resigning member of the Supervisory Board announce their resignation at a meeting of the Supervisory Board, their office shall terminate after expiration of two months following such notification, unless the Supervisory Board approves, upon request of such a member, another date of the term of office termination. The Supervisory Board shall announce the resignation of its member at the forthcoming General Meeting. Details of the election and recall of the Supervisory Board members elected by the employees shall be contained in the Election Rules.

(2) If a member of the Supervisory Board dies, abdicates, is recalled or their term of office terminates otherwise, the Bank's General Meeting shall elect a new member of the Supervisory Board within a period of three months. Unless the number of the Supervisory Board members elected by the General Meeting falls under one half, the Supervisory Board may appoint, upon the proposal of the Remuneration and Personnel Committee of the Supervisory Board, substitute members to hold the office until the forthcoming the General Meeting is held.

#### **- Section 14**

#### **- Rights and Obligations of Members of the Supervisory Board**

(1) The Supervisory Board shall exercise its rights either jointly through all its members or through its individual members. The Supervisory Board may decide that the exercise of the supervisory duties be divided among its members. The Supervisory Board shall inform the General Meeting and the Board of Directors thereabout. The Supervisory Board members shall be entitled to enter the Bank's premises and to request relevant documents and records for supervisory purposes. The division of the supervisory duties shall affect neither liability of the Supervisory Board member nor their right to perform other supervisory activities.

(2) The Supervisory Board shall be entitled to require that the Board of Directors members attend a meeting of the Supervisory Board and explain any matter relating to the Bank or its activities.



(3) The Supervisory Board shall observe all principles and instructions approved by the General Meeting insofar as they are in accordance with the generally binding legal regulations and the Articles of Association. Any breach of the approved principles or instructions shall not impact upon effectiveness of the Supervisory Board members' acts against third parties.

***(4) MEMBERS OF THE SUPERVISORY BOARD SHALL BE OBLIGED TO EXERCISE THEIR RANGE OF POWERS WITH DUE CARE AND DILIGENCE AND ALWAYS OBSERVE THE BANK'S BEST INTERESTS. THEY SHALL BE OBLIGED TO MAINTAIN CONFIDENTIALITY REGARDING CONFIDENTIAL INFORMATION AND FACTS THAT ARE SUBJECT TO BANKING SECRECY AND OTHER FACTS THE DISCLOSURE OF WHICH TO THIRD PARTIES MIGHT RESULT IN A LOSS TO THE BANK. THOSE MEMBERS OF THE SUPERVISORY BOARD WHO CAUSED DAMAGE TO THE BANK BY BREACHING THEIR OBLIGATIONS OR ASSUMED LIABILITIES WHILE EXERCISING THEIR SUPERVISORY DUTIES SHALL BE LIABLE FOR SUCH LOSS JOINTLY AND SEVERALLY. HOWEVER, THE MEMBERS OF THE SUPERVISORY BOARD SHALL BE LIABLE FOR DAMAGE CAUSED TO THE BANK BY THEIR EXECUTION OF A SPECIFIC INSTRUCTION GIVEN BY THE GENERAL MEETING ONLY PROVIDED THAT SUCH INSTRUCTION CONTRAVENES LEGAL REGULATIONS. FURTHER LIABILITY OF THE SUPERVISORY BOARD MEMBERS SHALL BE SPECIFIED BY THE COMMERCIAL CODE.***

(5) Members of the Supervisory Board, who are responsible to the Bank for damage, shall be liable jointly and severally if the member of the Supervisory Board concerned failed to settle such damage and creditors cannot satisfy their claims from the Bank's property due to its insolvency or because the Bank stopped making payments. The extent of such liability shall be limited by the extent of the duty of the Supervisory Board members to provide compensation for damage. Liability of the Supervisory Board members is discharged when they settle the damage caused.

(6) A member of the Supervisory Board may not carry on a business activity which is identical with or similar to the business of the Bank or enter into business relations with the Bank, may not act as an intermediary for other persons in transactions with the Bank, may not participate in the business activity of another entity as a partner with unlimited liability or as a person controlling other persons engaged in business identical with or similar to the business activities of the Bank, may not act as or be a member of the statutory body or other body of another legal entity engaged in an identical or similar business activity as the Bank, unless such legal entity is a holding-type group. Members of the Supervisory Board may conclude banking deals as individuals (clients) provided that such banking deals are concluded under the terms and conditions customary in trade.

***(7) THE BREACH OF THE DUTIES STATED ABOVE SHALL ENTITLE THE BANK TO DEMAND THAT THE BREACHING MEMBER OF THE SUPERVISORY BOARD ASSIGN THEIR TRADE TO THE BANK OR RENDER THE PROCEEDS THEREOF OR, AS THE CASE MAY BE, TRANSFER THEIR RIGHTS TO THE BANK. THIS SHALL NOT AFFECT THE BANK'S RIGHT TO DAMAGES OR OTHER CONSEQUENCES ARISING OUT OF OR IN CONNECTION WITH A BREACH OF THESE DUTIES. SUCH ENTITLEMENT OF THE BANK SHALL CEASE TO EXIST IF THE BANK DOES NOT EXERCISE THE SAME WITHIN A PERIOD OF THREE MONTHS OF THE DAY ON WHICH THE BANK WAS INFORMED OF THE BREACH OF THE DUTIES, HOWEVER, NOT LATER THAN ONE YEAR FROM THE DATE OF ITS ORIGIN. THE PROVISIONS CONTAINED IN THE PREVIOUS SENTENCE SHALL NOT APPLY TO THE RIGHT TO CLAIM DAMAGES.***

(8) The Bank shall be obliged to reimburse the Supervisory Board members for the expenses which have been necessary or which have been spent purposefully while discharging the office of a member of the Supervisory Board.

(9) Should a member of the Supervisory Board cease to meet the terms and conditions required by the generally binding legal regulations and the Articles of Association for the holding of the office of the Supervisory Board member, such member shall be obliged to inform the Bank thereabout without delay.

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- **Section 15**

### **Meetings of the Supervisory Board**

***(1) THE SUPERVISORY BOARD SHALL ELECT FROM AMONG ITS MEMBERS A CHAIRMAN AND VICE-CHAIRMAN OF THE SUPERVISORY BOARD. THE CHAIRMAN AND VICE-CHAIRMAN OF THE SUPERVISORY BOARD MUST BE ELECTED BY AN ABSOLUTE MAJORITY OF VOTES OF ALL MEMBERS OF THE SUPERVISORY BOARD. THE CHAIRMAN OF THE SUPERVISORY BOARD OR, IN HIS ABSENCE, THE VICE-CHAIRMAN SHALL CONVENE THE MEETINGS OF THE SUPERVISORY BOARD. THE CHAIRMAN MAY AUTHORISE A MEMBER OF THE SUPERVISORY BOARD TO CONVENE THE SUPERVISORY BOARD MEETING. THE SUPERVISORY BOARD MUST ALSO BE CONVENEED IF ANY MEMBER THEREOF SO REQUESTS.***

(2) The Supervisory Board shall constitute a quorum if at least five members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted if they are approved by absolute majority of all members of the Supervisory Board.

(3) Meetings of the Supervisory Board shall be held at least once in three calendar months and shall be convened in writing. All members must receive an invitation with documents to be discussed no later than seven calendar days prior to the scheduled date of the meeting.

(4) A member of the Supervisory Board may not be represented by any other person in the performance of their office.

(5) Minutes shall be taken of the meetings of the Supervisory Board. The minutes shall be signed by the Chairman and by the minutes clerk. The minutes shall also contain opinions of a minority of members, if they so require; a divergent opinion by the members of the Supervisory Board elected by the employees shall be always included in the minutes. The minutes must be archived throughout the existence of the Bank. The minutes shall specify the transactions of the meeting and all resolutions taken.

***(6) THE SUPERVISORY BOARD SHALL EXERCISE ITS POWERS OVER THE BODIES OF THE BANK BY MEANS OF ITS RESOLUTIONS.***

(7) A meeting of the Supervisory Board may be convened by means of communication media or in another suitable manner. The convening of such a meeting of the Supervisory Board must be communicated to all members of the Supervisory Board. In such an event, the seven-day time limit for presentation of the documents shall not apply and the documents may be submitted at the meeting itself.

(8) The Chairman or, in his absence, the Vice-Chairman of the Supervisory Board, or a member of the Supervisory Board charged therefor may request that all members of the Supervisory Board take a per rollam resolution by voting in writing or by means of communication media, provided that all members of the Supervisory Board agree with this manner of voting. Such resolution shall be adopted if at least 5 members of the Supervisory Board voted for. Such a per rollam resolution must be recorded in the minutes at the forthcoming meeting of the Supervisory Board.

(9) Details of the conduct of the meetings shall be set forth in the Rules of Procedure of the Supervisory Board.

## **Section 16 Committees of the Supervisory Board**

(1) The Supervisory Board shall set up at least the following two committees (hereinafter „Supervisory Board Committees,“) as advisory and recommending bodies:

- a) Remuneration and Personnel Committee, and
- b) Audit Committee;

(2) The Remuneration and Personnel Committee as well as Audit Committee shall each have three members.

(3) Members of the Supervisory Board Committees shall be members of the Supervisory Board and shall be elected and recalled by the Supervisory Board.

(4) The Remuneration and Personnel Committee shall:

- a) provide recommendations to the Supervisory Board regarding election and recall of the Board of Directors members,
- b) provide the Supervisory Board with its position on the proposal by the Board of Directors regarding the contracts on the discharge of office made with the Board of Directors members and the consideration paid to the Board of Directors members,
- c) evaluate the fulfilment of the contracts on the discharge of office made with the Board of Directors members,
- d) provide its position on the proposal for the distribution of royalties between the members of the Bank bodies,
- e) propose motions to the Supervisory Board concerning occupation of offices in the Supervisory Board Committees.

(5) The Audit Committee shall:

- a) inspect accounting documents and records, and monitor whether the books are kept properly, particularly whether the accounting records fairly reflect actual state;
- b) co-operate with the Internal Audit Unit of the Bank and external auditors of the Bank, and make use of the facts thereby ascertained for its supervising activities.

(6) Each of the Committees of the Supervisory Board shall elect its Chairman and Vice-Chairman, who shall represent the Chairman in case of the Chairman's absence.

(7) The Supervisory Board Committees shall meet when necessary, however, at least once in a year.

(8) The meeting of the Supervisory Board Committee shall be convened by the Chairman of the respective Committee or its Vice-Chairman in the Chairman's absence, or by an authorised member of the respective Committee.

(9) The Supervisory Board Committees shall constitute a quorum if all members of the Committee have been duly invited to the meeting of the Committee and if a simple majority of all members of the Committee is present at the meeting.

***(10) RESOLUTIONS OF ANY COMMITTEE OF THE SUPERVISORY BOARD SHALL BE ADOPTED BY AN ABSOLUTE MAJORITY OF ALL ITS MEMBERS.***

(11) Minutes shall be taken of the meetings of the Supervisory Board Committees signed by the Chairman or Vice-Chairman or another authorised member of the Committee. The minutes shall also include opinions of a minority of the Committee members if they so require. The minutes must be archived throughout the existence of the Bank.

(12) Details concerning the procedure of the Supervisory Board Committee meeting shall be set forth in the Rules of Procedure of each Supervisory Board Committees.

## **Section 17 Board of Directors**

(1) The Board of Directors is a statutory body which manages the Bank's activities and acts in its name. The Board of Directors shall ensure business management, including proper maintenance of the accounting records of the Bank. The Board of Directors shall further ensure the implementation of the internal control system, systematically monitor its functionality, and create conditions for the independent and objective performance of compliance and of the internal audit.

(2) The Board of Directors shall observe the generally binding legal regulations, the Articles of Association, and the resolutions and instructions approved by the General Meeting, provided that these comply with legal regulations and the Articles of Association. Any breach of the approved instructions shall not impact upon effectiveness of the acts of the Board of Directors members against third parties

***(3) THE MANNER OF ACTING OF THE BOARD OF DIRECTORS IS SET FORTH IN SECTION 38 HEREOF.***

## **Section 18**

(1) The Board of Directors consists of six members, natural persons, who meet the conditions provided in legal regulations and who are elected by the absolute majority of all Supervisory Board members at recommendation of the Remuneration and Personnel Committee. The term of office of the members of the Board of Directors shall be four years.

(2) If a member of the Board of Directors dies, abdicates, is recalled, or their term of office terminates otherwise, the Supervisory Board shall elect a new member of the Board of Directors no later than within three months from the date when the member's term of office expires or terminates otherwise.

(3) The Supervisory Board shall be whenever entitled to decide by the absolute majority of all its members to recall a member of the Board of Directors. The decision of the Supervisory Board is based on a proposal of the Remuneration and Personnel Committee of the Supervisory Board. The term of office of a member of the Board of Directors shall terminate upon delivery of the notice of recall, either in person or by mail to the address specified in the contract on the discharge of duties unless a later date is specified in the recalling notice. The of recall notice shall be deemed delivered also in the case when the document is returned to the Bank by the post office as undeliverable or when the Board of Directors member by their acting or failure to act shall prevent that the notice is delivered.

(4) Any member of the Board of Directors may resign from their office by written notice delivered to the Board of Directors or the Supervisory Board. In such a case the term of office shall terminate as of the date on which their resignation is discussed or was to be discussed by the Supervisory Board. The Supervisory Board shall be obliged to discuss their resignation at the meeting immediately following the receipt of the notice. Should the resigning member of the Board of Directors announce their resignation at the meeting of the Supervisory Board, their term of office shall terminate after expiration of two months following such notification, unless the Supervisory Board approves, upon request of this member, different time for the term of office termination.

***(5) THE BOARD OF DIRECTORS SHALL ELECT FROM AMONG ITS MEMBERS A CHAIRMAN AND VICE-CHAIRMAN OF THE BOARD OF DIRECTORS. IF NO CHAIRMAN OR VICE-CHAIRMAN OF THE BOARD OF DIRECTORS IS ELECTED, THE BOARD OF DIRECTORS SHALL AUTHORISE ANY OF THE MEMBERS OF THE BOARD OF DIRECTORS TO HOLD THE OFFICE OF THE CHAIRMAN OR VICE-CHAIRMAN OF THE BOARD OF DIRECTORS. THE CHAIRMAN AND VICE-CHAIRMAN OF THE BOARD OF DIRECTORS MUST BE ELECTED BY AN ABSOLUTE MAJORITY OF VOTES OF ALL MEMBERS OF THE BOARD OF DIRECTORS.***

(6) Meetings of the Board of Directors shall be regularly convened, at least 20 times a year, and presided over by the Chairman or, in his absence, the Vice-Chairman of the Board of Directors. If the Chairman and Vice-Chairman are not present, the meeting shall be convened and presided over by a member of the Board of Directors authorised therefor by the Board of Directors. Any member of the Board of Directors may ask that the Board of Directors meeting be convened provided that such member gives reasons therefor. If the meeting is not convened within a period of five days of the delivery of the request to the Chairman or Vice-Chairman of the Board of Directors, the Board of Directors member concerned shall be entitled to convene and preside the meeting.

***(7) THE MEETING OF THE BOARD OF DIRECTORS SHALL BE CONVENED IN WRITING. EACH MEMBER OF THE BOARD OF DIRECTORS MUST RECEIVE AN INVITATION WITH THE DOCUMENTS TO BE DISCUSSED AT LEAST THREE CALENDAR DAYS PRIOR TO THE DATE OF THE MEETING. THE INVITATION SHALL CONTAIN THE PLACE, DATE AND AGENDA OF THE***

**MEETING. MEMBERS OF THE BOARD OF DIRECTORS MAY NOT BE REPRESENTED BY ANY THIRD PARTY IN THE DISCHARGE OF THEIR DUTIES. A MATTER NOT INCLUDED IN THE AGENDA OF THE MEETING OF THE BOARD OF DIRECTORS SHALL BE DISCUSSED BY THE BOARD OF DIRECTORS ONLY IF ALL MEMBERS OF THE BOARD OF DIRECTORS AGREE.**

**(8) A MEETING OF THE BOARD OF DIRECTORS MAY BE CONVENED BY MEANS OF COMMUNICATION MEDIA OR IN ANOTHER SUITABLE MANNER. THE CONVENING OF SUCH A MEETING OF THE BOARD OF DIRECTORS MUST BE COMMUNICATED TO ALL MEMBERS OF THE BOARD OF DIRECTORS. IN SUCH AN EVENT, THE THREE-DAY TIME LIMIT FOR PRESENTATION OF THE DOCUMENTS SHALL NOT APPLY AND THE DOCUMENTS MAY BE SUBMITTED AT THE MEETING ITSELF. MEMBERS OF THE BOARD OF DIRECTORS MAY AGREE ON HOLDING REGULAR MEETINGS OF THE BOARD OF DIRECTORS ON THE AGREED UPON DATES.**

(9) The Board of Directors shall constitute a quorum if an absolute majority of the Board members is present.

(10) Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present. The chairperson's vote shall be decisive in the event of a tie within the intention of section 18, subsection 6.

(11) The Chairman or, in his absence, the Vice-Chairman of the Board of Directors, or a member of the Board of Directors authorised therefor may request that all members of the Board of Directors take a per rollam resolution by voting in writing or by means of communication media, provided that all members of the Board of Directors agree with this manner of voting. Such resolution shall be adopted if majority of all members of the Board of Directors voted for. Such a per rollam resolution must be recorded in the minutes at the forthcoming meeting of the Board of Directors.

**(12) MINUTES SHALL BE TAKEN OF ALL MEETINGS OF THE BOARD OF DIRECTORS. THE MINUTES SHALL BE SIGNED BY THE CHAIRMAN, BY ANOTHER MEMBER OF THE BOARD OF DIRECTORS AS A VERIFIER, AND BY THE MINUTES CLERK. THE MINUTES OF THE MEETING SHALL CONTAIN NAMES OF THE MEMBERS OF THE BOARD OF DIRECTORS WHO VOTED AGAINST THE RESOLUTIONS OF THE BOARD OF DIRECTORS OR ABSTAINED FROM THE VOTING. UNLESS DOCUMENTED OTHERWISE, MEMBERS NOT LISTED SHALL BE DEEMED TO HAVE VOTED FOR THE RESOLUTION. THE MINUTES SHALL NOT BE DESTROYED AND MUST BE ARCHIVED THROUGHOUT THE EXISTENCE OF THE BANK. THE MINUTES SHALL DESCRIBE THE COURSE OF CONDUCT OF THE MEETING AND ALL ADOPTED RESOLUTIONS.**

(13) Details of the conduct of the meetings of the Board of Directors shall be set forth in the Rules of Procedure of the Board of Directors.

## - Section 19

### **Powers of the Board of Directors**

- (1) It is within the exclusive powers of the Board of Directors to:
- a) convene the General Meeting and implement its resolutions;
  - b) submit to the General Meeting for approval the ordinary, extraordinary and consolidated Financial Statements and the interim Financial Statements along with a proposal for the distribution of profit (the same must be available to the shareholders for inspection at least thirty days prior to the date of the General Meeting) or a proposal for the coverage of loss;
  - c) submit to the General Meeting proposals for amendments to and alterations of the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
  - d) submit to the General Meeting a Report on the Bank's Business Activities, the state of the Bank's assets, and to do so at least once for each accounting period;
  - e) to decide to grant and revoke procuration;
  - f) decide on the appointment, recall and remuneration of selected managers of the Bank;
  - g) APPROVE ACTS IN CONNECTION WITH THE REALISATION OF SECURITY INSTRUMENTS FOR THE BANK'S CLAIMS WHOSE PRICE EXCEEDED CZK 100,000,000 AS AT THE DATE OF THE CLAIM ORIGIN AND THE PRESUMED REALISATION PRICE THEREOF IS LOWER THAN**

***50% OF THE SECURITY INSTRUMENT PRICE ASCERTAINED UPON THE CONCLUSION OF THE LOAN AGREEMENT;***

- h) submit to the Supervisory Board for information quarterly and semi-annual financial statements;
- i) decide on acts which are outside the scope of common trade relations of the Bank;
- j) define, approve, and make a regular evaluation of the Bank's overall strategy, to approve annual plans and budgets as well as strategic and annual plans of legal entities controlled by the Bank under the Banking Act;
- k) approve the choice of an external auditor;
- l) inform the Supervisory Board of the General Meeting day no later than within the period specified by the Commercial Code for a general meeting to be convened;
- m) decide on the issue of bonds of the Bank with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by the law;
- n) decide on an increase in the registered capital if so authorised by the General Meeting;
- o) conclude a collective agreement;
- p) decide on providing loans or guarantees to persons with a special relationship to the Bank pursuant to the Banking Act;
- q) approve the conception and annual plan of activities of the Internal Audit Unit and submit the same to the Supervisory Board for review;
- r) approve the Annual Reports of the Bank;
- s) approve the security policy of the Bank;
- t) decide on establishing other funds and on the rules governing creation and usage thereof;
- u) approve the report on relations between the supervised and the supervisor within the intention of the Commercial Code.
- v) approve the Bank's organisation structure and to make a regular assessment of its functionality;
- w) approve the principles of the personnel and remuneration policy;
- x) approve the Internal Audit's statute.

(2) In addition to the above mentioned, the Board of Directors shall:

- a) manage activities of the Bank and conduct its business affairs;
- b) ensure that the Bank's accounting is maintained properly;
- c) exercise employer's rights;
- d) exercise rights in respect of the Bank's property interests resulting from the ownership holdings of the Bank;
- e) approve the acquisition or alienation of fixed assets of the Bank exceeding CZK 30,000,000 as a single case or as a total of related cases;
- f) approve the plan for securing the continuity of business activities and the fire protection plan.

**Section 20**  
**Obligations of the Members of the Board of Directors**

(1) Members of the Board of Directors shall be obliged to exercise their range of powers with due care and diligence and always observe the Bank's best interests. They shall be obliged to maintain confidentiality regarding confidential information and facts the disclosure of which to third parties might result in a loss to the Bank. Those members of the Board of Directors who caused damage to the Bank by breaching their obligations or assumed liabilities while exercising their duties of the Board of Directors members shall be liable for such loss jointly and severally. However, the members of the Board of Directors shall be liable for damage caused to the Bank by their execution of an instruction given by the General Meeting only provided that such instruction contravenes legal regulations.

(2) Members of the Board of Directors, who are responsible to the Bank for damage, shall be liable jointly and severally if the member of the Board of Directors concerned failed to settle such damage and creditors cannot satisfy their claims from the Bank's property due to its insolvency or because the Bank stopped making payments. The extent of such liability shall be limited by the extent of the duty of the Board of Directors members to provide compensation for damage. The liability of the Board of Directors members is discharged when they settle the damage caused.

(3) A member of the Board of Directors may not carry on a business activity which is identical with or similar to the business of the Bank or enter into business relations with the Bank, may not act as an

intermediary for other persons in transactions with the Bank, may not participate in the business activity of another entity as a partner with unlimited liability or as a person controlling other persons engaged in business identical with or similar to the business activities of the Bank, may not act as or be a member of the statutory body or other body of another legal entity engaged in an identical or similar business activity as the Bank, unless such legal entity is a holding-type group. Members of the Board of Directors may conclude banking deals as individuals (clients) unless they conclude such banking deal in the name of the Bank and provided that such banking deal is concluded under the terms and conditions customary in trade. The breach of the duty stated above shall entitle the Bank to demand that the breaching member of the Board of Directors render the proceeds of the trade to the Bank or, as the case may be, transfer respective rights to the Bank. This shall not affect the Bank's right to damages or other consequences arising out of or in connection with a breach of this duty.

(4) Such entitlement of the Bank shall cease to exist if the Bank does not exercise the same within a period of three months of the day on which the Bank was informed of the breach of the duty, however, not later than one year from the date of its origin.

(5) Furthermore, a member of the Board of Directors must not be at the same time a statutory body or member of a statutory body or a member of the Supervisory Board of another legal entity which is engaged in business, unless he is a member of a statutory body or the Supervisory Board of a financial institution controlled by the Bank or a legal entity entitled to organise the supply and demand for securities or a company providing support banking services pursuant to the Banking Act.

(6) The Board of Directors shall convene the General Meeting without undue delay when it ascertains that a settlement of a loss shown in any of the financial statements from the Bank's disposable funds would still leave an unsettled amount representing a half of the Bank's registered capital, or that could be envisaged taking into account all the circumstances, or if the Board of Directors establishes that the Bank has become insolvent, in which case it will recommend the General Meeting to wind up the Bank with liquidation or adopt another measure, unless special legal regulations specify otherwise.

(7) Based on a resolution of the General Meeting convened in accordance with subsection 6, the Board of Directors shall be obliged to file without undue delay with the relevant court a petition in bankruptcy or a proposal for permission of composition provided that the terms and conditions stipulated by the generally binding legal regulations have been met. Should the members of the Board of Directors fail to comply with the above obligation, they shall be liable to the creditors for any loss incurred by the creditors in consequence thereof, unless the Board of Directors members prove that the loss was not caused by them.

(8) Should a member of the Board of Directors cease to meet the terms and conditions required by the generally binding legal regulations and the Articles of Association for the holding of the office of the Board of Directors member, such member shall be obliged to inform the Bank there about without delay.

## **Article VII External udit**

### **Section 21**

(1) The Bank shall be obliged to ensure that auditors primarily:

- a) verify the Bank's Financial Statements;
- b) verify the management and control system of the Bank including the risk management system;
- c) compile Auditor's Report on verification of the Bank's Financial Statements and systems in compliance with par. b) of this provision.

in compliance with the generally binding legal regulations and with International Accounting Standards.

(2) The Bank shall ensure the submission of the reports to the Czech National Bank by the set deadlines.

( 3) The Board of Directors shall ask the Supervisory Board for its opinion as to the choice of an external auditor.

## **Article VIII Financial Management of the Bank**

### **Section 22**

The accounting period shall commence on 1 January and end on 31 December of the calendar year, unless a legal regulation specifies otherwise.

### **Section 23 Financial Statements**

(1) The Bank shall maintain its accounts in the prescribed manner and in accordance with the generally binding legal regulations. The proper maintenance of the accounts shall be ensured by the Board of Directors which shall submit ordinary, extraordinary and consolidated Financial Statements to the auditors, together with a request for verification of the Bank's financial management for the respective year. Having received the auditors' report on verification of the Financial Statements and the Bank's financial management for the respective year, the Board of Directors shall forthwith pass the Financial Statements along with the auditors' report and a proposal for the distribution of profit or for the coverage of loss to the Supervisory Board for review.

(2) The ordinary, extraordinary, consolidated and, as the case may be, interim Financial Statements shall be submitted by the Board of Directors to the General Meeting for approval. The Supervisory Board shall examine the ordinary, extraordinary, consolidated and, as the case may be, interim Financial Statements and the proposal for the distribution of profit or coverage of loss and shall present its position statement to the General Meeting.

(3) The Bank shall be obliged to publish the main data from the Financial Statements verified by the auditor and to issue the Annual Report for the purpose of publication thereof in accordance with the generally binding legal regulations.

### **Section 24 The Bank's Accounting Statements**

***THE BOARD OF DIRECTORS SHALL BE OBLIGED TO SUBMIT TO THE SUPERVISORY BOARD THE QUARTERLY AND SEMI-ANNUAL ACCOUNTING STATEMENTS FORMING, AS SPECIFIED BY THE RELEVANT ACCOUNTING RULES, THE FINANCIAL STATEMENTS OF THE BANK, I.E. BALANCE SHEET AND PROFIT AND LOSS STATEMENT, ALWAYS WITHIN A PERIOD OF THIRTY DAYS OF THE END OF THE RESPECTIVE CALENDAR QUARTER OR HALF-YEAR.***

### **Section 25 Distribution of Profit**

(1) The distribution of profit of the Bank shall be decided by the General Meeting upon the Board of Directors' proposal; such proposal shall first be reviewed by the Supervisory Board.



(2) The General Meeting may distribute the Bank's profit after tax particularly in the manner specified below. The order of the methods of the profit distribution stated herein shall not be binding on the General Meeting unless the General Meeting decides otherwise in compliance with the generally binding legal regulations:

- a) allocation to the reserve fund under Section 27 of the Articles of Association;
- b) allocation to the Bank's funds;
- c) payments of dividends;
- d) payments of royalties to the members of the Board of Directors and the Supervisory Board;
- e) increase in the registered capital of the Bank;
- f) payment of employees' shares in profit (if approved by the General Meeting);
- g) undistributed profit;
- h) coverage of loss from previous years;
- i) issue of bonds with the bond holder's participation in profit;
- j) payment of profit under a silent partnership contract.

(3) Provisions of subsection 2, paragraphs b), c), d), e), f) and h) may be applied also to the distribution of undistributed profit from previous years. The Bank shall not be entitled to distribute any profit or any other Bank's own resources among its shareholders if the amount of the shareholders' capital as shown by the ordinary or extraordinary Financial Statements would not reach the minimum level at which, in accordance with the Commercial Code, the Bank is entitled to distribute any profit or any other Bank's own resources among its shareholders.

(4) The amount of the profit to be distributed shall not exceed the amount of the profit for the accounting period shown in the Financial Statements decreased by the statutory allocation to the reserve fund and by the unsettled loss of previous years, and increased by the undistributed profit of previous years and the profit-based funds which the Bank may use at its discretion.

## **Section 26 Method of Settlement of Loss**

(1) The General Meeting shall decide on the method of the loss coverage.

(2) A loss arising from the Bank's annual accounting statement shall be covered, in particular, as follows:

- a) from the undistributed profit from previous years;
- b) from the Bank's reserve fund;
- c) from other funds of the Bank;
- d) by decreasing the registered capital of the Bank.

***THE ORDER IN WHICH THE METHODS FOR THE LOSS COVERAGE ARE STATED ABOVE SHALL NOT BE BINDING UPON THE GENERAL MEETING.***

## **Section 27 Reserve Fund**

(1) The reserve fund of the Bank shall consist of the following funds:

- a) reserve fund created from net profit;
- b) reserve fund created by acquisition of own shares.

(2) The reserve fund created from the net profit shall be created by the Bank to the amount of 20% of the registered capital of the Bank. Should the fund not reach this amount, the Bank shall be obliged to replenish the fund annually with 5% of the Bank's net profit until the target amount is achieved. Should the amount of the reserve fund derived from the profit fall below 20% of the registered capital, due to the use thereof or due to an increase in the registered capital of the Bank, the obligation of the

Bank to replenish the reserve fund annually with 5 % of its profit shall be renewed until the amount of 20% of the registered capital has been reached. The reserve fund of the Bank created from the net profit shall serve exclusively to cover losses. The use of the reserve fund shall be decided on by the General Meeting.

(3) The reserve fund created by acquisition of the Bank's own shares shall be created by the Bank in the amount of the value of its own shares shown in the Balance Sheet in assets. The Bank shall create such reserve fund from profit or from other funds available to the Bank. The Board of Directors shall be obliged to decrease this reserve fund if the Bank alienates its own shares in total or in part or if the Bank uses the same to decrease the registered capital.

## **Section 28 Creation of Other Funds**

The Bank may also create other funds. The creation of other funds shall be decided on by the Board of Directors. The Board of Directors shall specify the rules for the generation and disbursement of the funds. If such funds are generated or replenished from the profit, the allocation into such funds shall be approved by the General Meeting.

## **Section 29 Increase in the Registered Capital**

(1) Any increase in the registered capital shall be decided on by the General Meeting or the Board of Directors on the basis of authorisation thereto by the General Meeting in accordance with Section 31.

(2) The notice on the convening of the General Meeting at which an increase in the registered capital is to be discussed shall also contain, in addition to the particulars of such a notice required under Section 9, subsection 4 of the Articles of Association, the reasons for the proposed increase in the registered capital, the method and extent of such increase, the proposed class, form, type and number of shares to be newly issued, the nominal value of the new shares or new nominal value of the existing shares and, if the increase in the registered capital proposed is to be carried out by subscription for new shares, the time limit for such subscription and the issue price proposed or a method of the determination of such price or information concerning the fact that such price shall be determined by the Board of Directors, including the minimum amount which the Board of Directors may fix for the issue price. If an issue of a new class of shares is proposed, the rights attached to such shares shall be specified as well as the consequences which the issue thereof will have for the rights attached to shares previously issued. Where the issue price is to be settled by non-monetary contributions, the notice on the convening of the General Meeting shall specify the object of such contributions and valuation thereof specified in a report of an expert/experts in accordance with the Commercial Code. If a proposal is submitted to the General Meeting to approve a set-off of a claim to be used for the issue price payment against a claim towards the Bank, the notice shall specify the claims to be set off as well as the reasons for the proposed set-off. Where a restriction or exclusion of the pre-emptive right is proposed to the General Meeting, the notice shall specify the reason why the pre-emptive right is to be restricted or excluded.

(3) Each shareholder of the Bank shall have a pre-emptive right to subscribe for a part of the Bank's new shares, if these are intended to increase the registered capital, such part being proportionate to their share in the registered capital of the Bank provided that such shares are to be subscribed for by monetary investments. The pre-emptive right shall be separately transferable as from the date when the resolution of the General Meeting regarding the increase in the registered capital is entered in the Commercial Register. The shareholder shall also have a pre-emptive right to acquire convertible and priority bonds. The pre-emptive right of shareholders to subscribe for new shares or to acquire convertible and priority bonds may be excluded or restricted by a resolution of the General Meeting only if so required by the material interests of the Bank. If the General Meeting has to

decide on the restriction or exclusion of the pre-emptive right of shareholders, the Board of Directors shall submit to the General Meeting a written report stating the reasons for the exclusion or restriction of the pre-emptive rights of the shareholders and substantiation of the proposed issue price, the method of the determination thereof, or the authorisation of the Board of Directors to determine the issue price of new shares.

(4) Detailed terms and conditions for the subscription for shares shall be determined by a resolution of the General Meeting. The implementation of the resolution shall be ensured by the Board of Directors.

(5) Within thirty days of the General Meeting's resolution on increasing the registered capital by subscription for shares, the Board of Directors shall be obliged to file a petition for entering the resolution in the Commercial Register. As soon as the entry is made, the Board of Directors shall make such resolution public without undue delay. The subscription for shares may not commence prior to entry of the General Meeting's resolutions in the Commercial Register, except when such petition has already been filed and the share subscription depends on a condition subsequent in the form of a legally effective ruling dismissing the petition for such entry of the General Meeting's resolutions in the Commercial Register.

(6) The Board of Directors shall be obliged to file a petition for entry of the new amount of the registered capital in the Commercial Register after the shares have been subscribed in the amount corresponding to the proposed increase of the registered capital and the payment thereon.

(7) A subscriber shall be obliged to pay the total issue price of the shares subscribed for by this subscriber within the period of time determined by the Articles of Association or the General Meeting. Should the subscriber fail to settle the total issue price of the shares within the determined time limit, the subscription for the shares in question shall become ineffective.

(8) Subscription for shares to increase the registered capital by non-monetary contributions shall only be possible if required by material interests of the Bank. Permission to make a non-monetary contribution may be granted by the General Meeting in compliance with the generally binding legal regulations. The Board of Directors shall submit to the General Meeting a written report stating the reasons for the subscription for shares by way of non-monetary contributions and justifying the proposed issue price or the method of determination of the same. Should a non-monetary contribution be permitted, the list of subscribers shall contain the subject of the investment and its value assessment in the amount approved by the General Meeting. The non-monetary contributions must be provided prior to filing a petition for entry of the increased registered capital in the Commercial Register.

***(9) WHEN THE GENERAL MEETING DECIDES TO ISSUE CONVERTIBLE BONDS OR PRIORITY BONDS, IT SHALL CONCURRENTLY DECIDE ON A CONDITIONAL INCREASE IN THE REGISTERED CAPITAL OF THE BANK IN THE EXTENT TO WHICH THE RIGHTS OF EXCHANGE ARISING FROM THE CONVERTIBLE BONDS (I.E. BONDS ASSOCIATED WITH THE RIGHT TO EXCHANGE THE SAME FOR THE BANK'S SHARES) OR PRE-EMPTIVE RIGHTS ARISING FROM THE PRIORITY BONDS (I.E. BONDS ASSOCIATED WITH THE PRIORITY RIGHTS TO SUBSCRIBE FOR THE BANK'S SHARES) MAY BE EXERCISED. THE AMOUNT OF THE CONDITIONAL INCREASE IN THE REGISTERED CAPITAL OF THE BANK SHALL NOT EXCEED ONE HALF OF THE REGISTERED CAPITAL ENTERED IN THE COMMERCIAL REGISTER AS OF THE DATE OF THE RESPECTIVE RESOLUTION OF THE GENERAL MEETING. THOSE TERMS AND CONDITIONS OF THE ISSUE OF THE BONDS AND THE CONDITIONAL INCREASE IN THE REGISTERED CAPITAL WHICH ARE NOT STIPULATED BY THE GENERALLY BINDING LEGAL REGULATIONS OR BY ANY RESOLUTION OF THE GENERAL MEETING SHALL BE DETERMINED BY THE BOARD OF DIRECTORS.***

(10) The Board of Directors shall file a petition for entry of the General Meeting's resolution on the conditional increase in the registered capital in the Commercial Register within thirty days of the date when the General Meeting passed this resolution. The issue of convertible and priority bonds shall not start until the General Meeting's resolution is entered in the Commercial Register and until it is made public in accordance with Section 39 of the Articles of Association. The right to exchange a bond for shares shall be exercised by delivering a written application for the exchange of the bonds for the Bank's shares. The delivery of such written application to the place and within the time limit

determined by the General Meeting shall substitute the subscription for and payment on the shares. The pre-emptive right shall be exercised by subscription for the Bank's shares. The procedure concerning the subscription for shares shall be governed by Section 29, subsection 6, and Section 32 of the Articles of Association; detailed terms and conditions shall be specified by a resolution of the General Meeting. The Bank shall issue shares in the amount of the exercised exchange and pre-emptive rights only after the increase in the registered capital has been entered in the Commercial Register.

### **Section 30 Increase in the Registered Capital from the Bank's Own Resources**

Under the terms and conditions specified by relevant provisions of the generally binding legal regulations, the General Meeting may decide, upon a proposal of the Board of Directors, to increase the registered capital from the Bank's own resources.

### **Section 31 Increase in the Registered Capital by Resolution of the Board of Directors**

Under the conditions stipulated in the Commercial Code and the Articles of Association, the General Meeting may authorise the Board of Directors to increase the registered capital by subscription for shares or from the Bank's own resources, but by no more than one third of the amount of the registered capital at the time when the General Meeting authorises the Board of Directors to increase the registered capital. The Board of Directors shall be entitled to decide on amending the Articles of Association if the amendment results from an increase in the registered capital by the Board of Directors as stipulated in the Articles of Association (Section 31).

### **Section 32 Payment for Shares**

(1) If the shares are subscribed for by monetary contributions, the subscriber shall be obliged to pay the entire nominal value of the shares subscribed by them, as well as share premium if any, within five business days of the subscription date, unless the General Meeting resolves otherwise. Should the subscriber fail to do so, the subscription for shares shall be ineffective and the Bank shall return to the subscriber the amount paid to that date including interest thereon in the amount specified by the Commercial Code. Should the shares be subscribed for on the basis of a public offer, the shares shall be subscribed for by an entry in the list of subscribers provided that the entry contains the data required by generally binding legal regulations. The subscribed shares shall be paid, in case of monetary contributions, by a transfer to the account opened by the Board of Directors of the Bank.

(2) Should the subscribed shares be paid by non-monetary contributions, the shares may be subscribed for only by such non-monetary contributions and at such value thereof as approved by the General Meeting. Non-monetary contributions must be paid prior to the filing of a petition for entering the increase in the registered capital in the Commercial Register.

### **Section 33 Consequences of Default in Shares Payment**

If a subscriber fails to pay the value of the issue price of the shares in due time, the subscription for shares shall be ineffective and the Bank may refrain from the issue of the shares with respect to which the subscriber is in default of the payment of the issue price, in the manner stipulated by the Commercial Code.

### **Section 34 Decrease in Registered Capital**

(1) A decrease in the registered capital shall be decided on by the General Meeting by a two-thirds majority of the votes of the Attending Shareholders. The decrease in the registered capital shall be subject to a prior consent of the Czech National Bank unless the registered capital is being decreased in order to cover a loss. The registered capital of the Bank may be decreased as follows:

- a) by decreasing the nominal value of the Bank's shares;
- b) by withdrawing the shares from the market upon a proposal to shareholders;
- c) by refraining from the issue of shares under Section 33 of the Articles of Association;
- d) by cancelling or by destroying own shares held by the Bank.

(2) The notice on the General Meeting convening shall specify the reasons for the proposed decrease in the registered capital and the manner and extent of such a decrease, as well as the method of using the amount of such reduction. If the registered capital is to be decreased—upon a proposal made to the shareholders, the notice shall also include additional data in compliance with the generally binding legal regulations.

(3) Within thirty days of passing the General Meeting's resolution to decrease the registered capital, the Board of Directors shall file a petition for entry of this resolution in the Commercial Register.

### **Section 35**

#### **Decrease in the Nominal Value of Shares**

***THE NOMINAL VALUE OF THE SHARES SHALL BE REDUCED BY MODIFYING THE NOMINAL VALUE OF SUCH SHARES ON THE BASIS OF THE BANK'S INSTRUCTION TO THE STATUTORY REGISTER OF UNCERTIFICATED SECURITIES.***

### **Section 36**

#### **Withdrawal of Shares from the Market based on a Public Offer**

The manner of withdrawing the shares from the market on the basis of a public offer to purchase the shares shall be decided by the General Meeting. The resolution of the General Meeting may determine that the registered capital shall be reduced by the extent of the nominal value of the shares withdrawn from the market or by a fixed amount.

### **Article IX**

#### **Common, Interim and Closing Provisions**

### **Section 37**

#### **Winding-up and Cessation of the Bank**

(1) The Bank may be wound up based on

- a) resolution of the General Meeting on the winding-up of the Bank and its merger, transfer of the Bank's assets, or division thereof;
- b) resolution of the General Meeting on the dissolution of the Bank and subsequent liquidation thereof;
- c) resolution of a court of justice on the winding-up of the Bank;

d) cancellation of a  
bankruptcy order upon fulfilment of the distribution arrangement, cancellation of a bankruptcy order due to a lack of the Bank's assets to cover the costs of the bankruptcy proceedings, or rejection of a bankruptcy petition due to a lack of the Bank's assets.

The resolution of the General Meeting under paragraph a) and paragraph b) above shall be subject to a prior consent of the Czech National Bank.

(2) Should the Bank be dissolved with subsequent liquidation, the process of liquidation shall be governed by relevant generally binding legal regulations. The distribution of the liquidation balance among the shareholders shall be decided upon by the General Meeting according to the shareholders' interests in the registered capital of the Bank.

(3) The Bank shall cease to exist as of the date when it is struck off from the Commercial Register.

### **Section 38 Acting on Behalf of the Bank**

The Board of Directors as the statutory body shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members of the Board jointly.

### **Section 39 Disclosure and Publication Duty**

If publication of certain data is required by the Commercial Code, Part Two, or by the Articles of Association, such data must be published both in the daily *Hospodarske noviny* and on the Bank's official notice boards (marked as „Information for shareholders,“) in the registered office of the Bank. Should generally binding legal regulations require that some data be published in the Commercial Bulletin ("*Obchodni vestnik*"), the Bank shall release the said data therein.

### **- Section 40**

#### **Structure and Organisation of the Bank**

1) The general organisational division of Komerční banka is as follows:

- a) Head Office;
- b) Sales Network.

#### Head Office of Komerční banka

The powers of the Head Office of the Bank shall include, in particular, carrying on business activities of the Bank by means of provision of products and services to clients, and by carrying out other activities relating to the management, methodological guidance and co-ordination of all organisational units of the Bank. The Head Office units shall be entitled to include into their powers (both temporarily and permanently) any matters which fall within the powers of the Sales Network units. The Head Office shall be formed by organisational units of the Head Office. Details shall be set forth in the internal regulations.

Various Bank Committees can be established at the Head Office. The Board of Directors shall decide about the establishment and dissolution of the Bank Committees. The membership of the Bank's committees and its changes are approved by the Chief Executive Officer.

## Sales Network

***THE SALES NETWORK SHALL BE FORMED BY ORGANISATIONAL UNITS OF THE SALES NETWORK, IN PARTICULAR THE SALES POINTS AND THE SALES NETWORK MANAGEMENT UNITS IN THE REGIONS WHICH CARRY OUT THE SALE OF PRODUCTS AND SERVICES IN THE RESPECTIVE REGION OR A PART THEREOF. POWERS OF THE ORGANISATIONAL UNITS ARE SPECIFIED IN THE INTERNAL BANK REGULATIONS AND BY AUTHORISATIONS AND RESOLUTIONS OF THE BOARD OF DIRECTORS OR OFFICERS OF THE BANK AUTHORISED THEREFOR BY THE BOARD OF DIRECTORS.***

## **(2) INTERNAL REGULATIONS**

The basic internal regulations of the Bank elaborate the corresponding provisions of the Articles of Association that pertain to the organisational structure and management of the Bank. The regulations can be amended based on the decision of the Board of Directors if the Bank's needs so require and if the organisational structure of the Bank laid down by the Articles of Association is respected. The range of powers of the different organisational parts of the Bank within the framework of the basic organisational division of the Bank mentioned above and the division of the basic parts into different organisational units (including the specification of their range of powers, authorities, obligations, and liabilities) shall be specified in more details also in other internal regulations of the Bank.

### **Section 41**

#### **Authorities and Responsibilities of the Bank Executive Officers**

(1) Pursuant to the Banking Act, the Chief Executive Officer and his Deputy Chief Executive and those of the executive officers directly subordinated to the two that are responsible for the management of the different Bank Arms specified in the internal regulations shall be the Bank's executive officers.

(2) The Bank's executive officer may perform an office of a member of the Bank's Board of Directors; a member of the Bank's Board of Directors must be an executive officer of the Bank. However, the Chief Executive Officer does not need to be the Chairman of the Bank's Board of Directors.

(3) The Chief Executive Officer shall take decisions on priorities concerning the Bank management. Within the scope of instructions of the Bank's Board of Directors, he shall charge other executive officers of the Bank with duties and shall co-ordinate their activities, take decisions on the Bank activities within the scope of the approved business plan and strategy of the Bank and instructions of the Board of Directors, and shall ensure performance thereof by means of charging other Bank employees with duties; he shall ensure communication between the Bank executive officers and the Board of Directors and the Supervisory Board in accordance with the legal regulations, Articles of Association and internal regulations of the Bank and instructions of the Board of Directors. Details of the powers, authorities and liabilities of the Chief Executive Officer shall be governed by the Bank's internal regulations.

(4) The other Bank's executive officers shall, in particular, take part in the executive management (control) of the Bank, co-ordinate activities of subordinated employees and, for this purpose, support the Board of Directors, supervise fulfilment of the Bank's business plan and strategy as well as the tasks assigned by the Board of Directors, the Chief Executive Officer and the Deputy Chief Executive. They shall ensure communication with the subordinated employees and within the Bank in accordance with legal regulations, the Articles of Association and internal regulations of the Bank, instructions of the Board of Directors or the Chief Executive Officer of the Bank. Details of the powers, authorities

and liabilities of the Chief Executive Officer and of and the other Bank's executive officers shall be governed by the Bank's internal regulations.

#### **Section 42** **Authorities and Liabilities of Other Employees of the Bank**

(1) For the purpose of the Articles of Association of the Bank, "banking deals" shall mean transactions which form part of the subject of the business of the Bank to which the Bank is entitled under Section 2 hereof.

(2) Banking deals within the Bank may be transacted by employees specified in the internal regulations of the Bank. Such employees shall be liable for the performance of their respective obligations to their respective superior employees, in accordance with legal regulations and internal regulations. The powers and obligations of the employees entitled to transact banking deals shall include in particular the following operations:

- a) when transacting banking deals, to proceed independently within the scope of their respective powers, the job definition, and other internal regulations of the Bank, in accordance with the legal regulations in force, the Articles of Association of the Bank, internal regulations of the Bank, instructions given by the executive officers or, as the case may be, by other senior employees, taking into account the interests of the Bank in order to achieve the best possible profit;
- b) according to the instructions of the executive officers of the Bank or, as the case may be, senior employees, and in accordance with the legal regulations, the Articles of Association of the Bank and the internal regulations of the Bank, to prepare data for the banking deals, should the same be necessary for the conclusion of such banking deals;
- c) to transact business with clients of the Bank and when doing so, to protect the good reputation of the Bank and just interests of the Bank and the clients;
- d) to act on behalf of the Bank within the scope of their powers and job definition within the scope determined by the internal regulations of the Bank to the extent common when discharging the duties and authorities assigned.

The authorities and liabilities of the employees entitled to transact banking deals shall be specified in more details in the internal regulations of the Bank.

#### **Section 43** **Organisation of the Internal Management and Control System**



(1) The Internal Management and Control System (hereinafter the "IMCS") shall include all activities through which it will be ascertained whether the activities carried out and the results achieved correspond to the planned and determined activities and results, whether they comply with the Bank's overall strategy while spending optimal costs, and whether they comply with the corresponding laws and regulations. The IMCS shall further integrate all operations and activities that guarantee that the information used by the Bank for its decision-making processes and provided to third parties shall be up-to-date, reliable, and complete. The IMCS includes all organisational units of the Bank.

(2) The IMCS shall be a process implemented by the Board of Directors, by respective executive officers, by other Bank's employees, and by members of all Bank's bodies all of which are responsible therefor. The Board of Directors shall be finally responsible for creating, maintaining, and evaluating an adequate and efficient IMCS. The monitoring and evaluation of the IMCS is made on all management levels and by the Internal Audit Unit and makes a part of everyday banking activities. The requirements dealing with the IMCS shall be specified in the internal regulations of the Bank.

(3) Basic elements of the IMCS shall be as follows:

- a. supervisory and management bodies and supervisory environment
  - a1) Board of Directors of the Bank
  - a2) Executive officers
  - a3) Supervisory Board and its Audit Committee
  - a4) Internal Audit Unit
  - a5) Compliance Unit
- b. risk management
- c. checks and separation of irreconcilable functions
  - c1) check carried out by the executive officers on all levels of the Bank
  - c2) checks carried out by specialised units integrated into various parts of the Bank
  - c3) checks made by the of Internal Control Unit
  - c4) physical checks focusing on Bank's assets (tangible assets, securities, etc.)
  - c5) checks made by every employee while performing his job
- d. information system and communication
- e. monitoring and evaluating the efficiency and effectivity of the IMCS and correction of defects

(4) Extent of authorities, powers, and liabilities of the different elements of the IMCS shall be governed by the internal regulations of the Bank.

#### **Section 44 Internal Audit**

(1) The Internal Audit Unit has a special position within the Bank's organisational structure. The Internal Audit Director, organisationally subordinated to the Bank's Chief Executive Officer, is appointed and recalled by the Bank's Board of Directors after a prior consent of the Supervisory Board. The Internal Audit Unit exercises its activity independently of the Bank's executive activities. The activity of the Internal Audit can only be performed upon the request of and tasks to the Internal Audit can only be assigned by the following bodies of the Bank:

- Chief Executive Officer and Chairman of the Board of Directors
- Bank's Board of Directors
- Supervisory Board and its Audit Committee
- Director of Internal Audit

The Director of Internal Audit shall notify the audit findings to the Bank's Board of Directors, the Audit Committee, and the Supervisory Board.

(2) The Internal Audit carries out an independent, objective, assuring, and consultancy activity aiming at the increase in the value and at the perfection of the process in the organisation. The Internal Audit helps the organisation to attain its goals by setting forth a systematic methodical

approach to the assessment and enhancement of the effectivity of the risk management, of the management and control systems, and of the organisation administration and management. This basic scope of the Internal Audit's activities is exercised by carrying out the following activities: formal audits, independent risk assessment, submission of managerial reports, special projects and examinations, and monitoring and corrective actions tracking.

(3) The detailed extent of powers and the activities of the Internal Audit Unit are governed by the Bank's Internal Audit Statute that shall be approved by the Bank's Board of Directors after a prior position of the Supervisory Board. The Internal Audit shall have the following powers to carry on its activity:

- a. The Internal Audit shall abide by its own procedures and assessment criteria to carry on auditor's activities.
- b. The Internal Audit shall have access to all premises where audited activities take place.
- c. The Internal Audit shall have access to all Bank's documents, information, and papers on the audited entity, including information and documents generated by the audited entity itself. However, the rights stemming from the corresponding legislation have to be respected.
- d. Auditors can make copies of all documents containing relevant information and can record the running of discussions. However, the rights stemming from the corresponding legislation have to be respected.
- e. The Internal Audit can request the co-operation of any Bank's employee within the framework of the performance of auditor's activities.
- f. Within the framework of the continued monitoring of the Bank's activity, the Internal Audit can request from any Bank's unit current information on the activities of this Bank's unit, on any breach of internal or external rules, on the result of the supervision of an external entity.
- g. The Internal Audit shall have the right and obligation to find out information on the fulfillment of the measures recommended in the auditor's report or in the report on the supervision of an external entity.
- h. The Director of Internal Audit shall have a right to notify the audit findings to all entities with substantial interest in the Bank's operation, such as the Board of Directors, the Audit Committee, and the Supervisory Board. If the findings might have a substantial negative impact on the Bank's performance, the Director of Internal Audit has a right to initiate an extraordinary meeting of the Supervisory Board.

(4) Serious shortcomings of the IMCS discovered in any manner shall be notified to the Bank's Board of Directors, to the Audit Committee, and to the Supervisory Board.

## **Section 45 Legal Status of the Bank and Settlement of Disputes**

(1) The establishment, legal status and winding-up of the Bank as well as any and all legal relationships arising from the Bank's Articles of Association, labour law relations and other relationships within the Bank, including those concerning the Bank's employees' health insurance and social security, shall be governed by the generally binding legal provisions.

(2) Any dispute which may arise between the shareholders and the Bank, between the Bank and members of the Bank's bodies, or among shareholders in connection with their holdings in the Bank, shall be settled by conciliation. Should the parties fail to settle such dispute amicably, the dispute shall be referred to and resolved by a court of respective jurisdiction.

## **Section 46 Interpretation Provision**

***SHOULD ANY OF THE PROVISIONS OF THE ARTICLES OF ASSOCIATION PROVE TO BE INVALID, INEFFECTIVE OR DISPUTABLE – WITH RESPECT TO THE EXISTING LEGAL SYSTEM OR TO THE ALTERATION THEREOF – OR SHOULD ANY PROVISION BE MISSING, THE REMAINING PROVISIONS SHALL BE UNAFFECTED THEREBY. IN SUCH CASES, THOSE PROVISIONS OF THE RELEVANT GENERALLY BINDING LEGAL REGULATIONS***

***CORRESPONDING MOST CLOSELY TO THE NATURE AND PURPOSE OF THE ARTICLES OF ASSOCIATION SHALL APPLY, OR WHERE NO SUCH PROVISION EXISTS, THE PROVISIONS SHALL BE DERIVED FROM ESTABLISHED BUSINESS CUSTOMS AND PRACTICE.***

#### **Section 47 Amendment of the Bank's Articles of Association**

(1) Should the agenda of the General Meeting include any amendment to the Articles of Association of the Bank, the notification on the General Meeting shall at least describe the nature of the proposed amendments, and the proposed amendment to the Articles of Association must be available to the shareholders in the registered office of the Bank at least within a period of time specified for the convening of the General Meeting. The shareholders shall be entitled to request that a copy of the draft amended Articles of Association be sent to them at their expense and risk. The shareholders must be notified of such right in the notification of the General Meeting.

(2) Should a shareholder intend to file at the General Meeting counter-proposals relating to the proposal for alteration of the Articles of Association, then the shareholder shall be obliged to deliver their proposal or counter-proposal in writing to the Bank at least five business days prior to the date of the General Meeting. The Board of Directors shall be obliged to make the counter-proposals of the shareholder and the Board's opinion thereon public at least three days prior to the date of the General Meeting, if possible, using the manner identical with that used for the convening of the General Meeting,

(3) The amendment to the Articles of Association may be adopted by the General Meeting by a two-thirds majority of the votes of the Attending Shareholders upon a proposal made by the Board of Directors, Supervisory Board, a shareholder or shareholders in accordance with the Commercial Code and the Articles of Association. The Bank shall be obliged to inform the Czech National Bank of the intended amendment to the Articles of Association regarding the facts which must be specified in the Articles of Association as required by the Commercial Code or by the Banking Act.

#### **- Section 48**

#### **Closing Provision**

***THESE AMENDED ARTICLES OF ASSOCIATION SHALL BECOME VALID AND EFFECTIVE ON THE DATE WHEN ADOPTED BY THE GENERAL MEETING OF THE BANK, UNLESS OTHERWISE SPECIFIED BY THE COMMERCIAL CODE.***

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**ORDINARY GENERAL MEETING OF KOMERCNI BANKA, a. s.,  
HELD ON 19 JUNE 2003**

#### **Document No. 7**

**REMUNERATION OF THE BODIES OF KOMERCNI BANKA,  
A. S.**

**Board of Directors**

	Fixed annual remuneration for the discharge of office	Annual bonus for the discharge of office
Alexis Juan	CZK 3 600 000	CZK 0 – 4 800 000
Guy Poupet	CZK 2 460 000	CZK 0 – 3 000 000
Peter Palecka	CZK 2 460 000	CZK 0 – 3 000 000
Matus Pull	CZK 2 460 000	CZK 0 – 3 000 000
Philippe Rucheton	CZK 2 460 000	CZK 0 – 3 000 000
Olivier Flourens	CZK 2 460 000	CZK 0 – 3 000 000
Patrice Cheroutre*	CZK 2 460 000	CZK 0 – 2 000 000

\* Considering his termination of the discharge of office, the remuneration of Mr. Patrice Cheroutre was only paid out proportionally for January 2003.

The awarding of the annual bonus and of its amount shall be subjected to the decision of the Supervisory Board.

### Supervisory Board

	Supervisory Board Chairman	Supervisory Board Member
<b>Pecuniary consideration</b>		
Fixed annual remuneration	CZK 600,000	CZK 240,000
Annual remuneration for the attendance (for the maximum of 6 meetings a year)	CZK 225,000	CZK 90,000
<b>In-kind consideration</b>		
Use of a cellular phone	no	yes