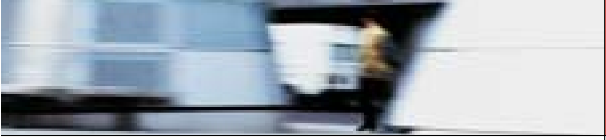
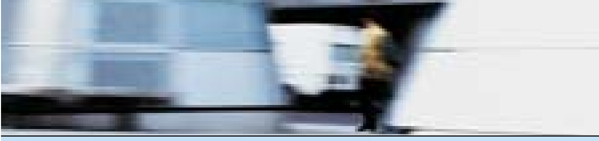


Annual Report

# 2002

Komerční banka, a. s.

KB



8,763

Net profit reached the amount of CZK 8,763 million, representing an increase of 246.1% compared to the year-end 2001.

12.5%

In 2002, the Bank managed to increase its operating income by 12.5% to CZK 9,837 million.

4.3%

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


# 101%

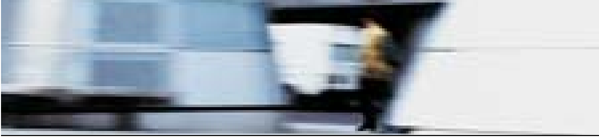
In 2002, Komerční banka shares appreciated by 101% significantly outperforming the PX-50 Index – the main index of the Prague Stock Exchange.

# 1,262

At the end of 2002, Komerční banka was serving 1,262 thousand clients, representing a year-on-year increase of 18 thousand clients.

# 391

Direct banking services were used by over 391 thousand clients, which is almost a third of all KB clients at the end of 2002.





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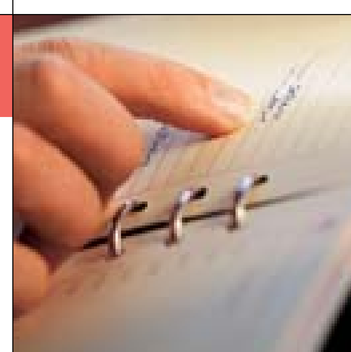





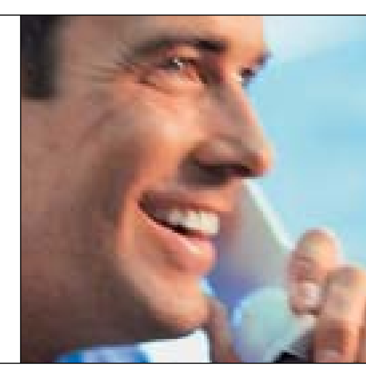

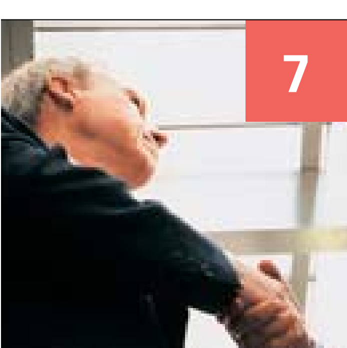





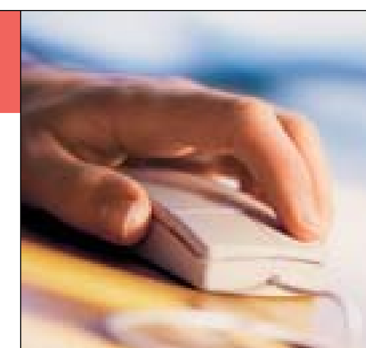

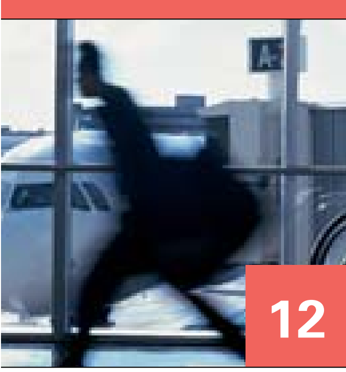

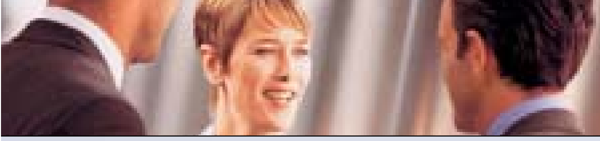

1

Company Profile

# Company Profile

Komerční banka (the Bank) is one of the major banking institutions not just in the Czech Republic, but throughout the whole of Central and Eastern Europe. Since 1992, when it was transformed from a state financial institution into a public limited company, it has become one of the main pillars of the banking system in the Czech Republic. The privatisation of the Bank was successfully completed in October 2001 and the Komerční banka Group (including its subsidiaries) became a member of the French-based Société Générale (SG).

The Komerční banka Group provides global financial services to clients in the area of retail, corporate and investment banking. With an extensive network of 331 points of sale and direct banking channels, Komerční banka offers services to one and a quarter million corporate and retail clients.

## Retail Banking

Komerční banka’s retail banking provides complex financial services to Individuals and Small Businesses. Through its relationship managers, branches and direct banking, the Bank offers clients deposit products, loans and payment services. Besides standard banking products, clients can also draw on insurance services, supplementary pension plans, building savings, leases, or unit trust investment services.

## Corporate Banking

In this area the Bank offers services to Medium Enterprises, Municipalities and Corporates. Through its relationship managers and direct banking facilities, Komerční banka provides payment services, trade finance, leasing, factoring, loans, asset management, capital market services, financial consulting and other services based on clients’ specific needs.

By becoming a member of Société Générale, Komerční banka is now consolidated into one of the largest and most profitable banking groups in Europe. In its 3,100 branches worldwide, SG now offers over 15 million clients a high quality, all-inclusive financial service comprising retail banking, asset management, private banking, corporate banking and investment banking.

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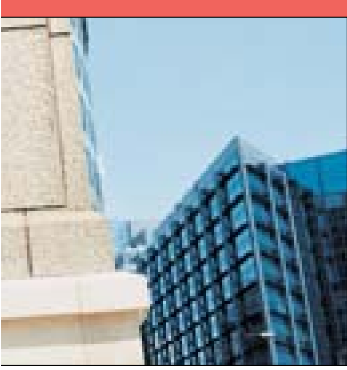
# Financial Highlights

| Unconsolidated data<br>IFRS, CZK million | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Financial Results** | | | |
| Total Operating Income | 22,597 | 23,809 | 21,805 |
| Total Operating Costs * | (12,760) | (15,065) | (13,783) |
| Net Profit/(Loss) | 8,763 | 2,532 | (19) |
| **Balance Sheet** | | | |
| Total Assets | 439,753 | 421,720 | 402,205 |
| Loans and Advances to Customers (net) | 121,154 | 135,197 | 126,943 |
| Amounts Due to Customers | 341,114 | 321,345 | 287,624 |
| Total Shareholders' Equity | 33,758 | 23,598 | 20,211 |

* Including restructuring costs.

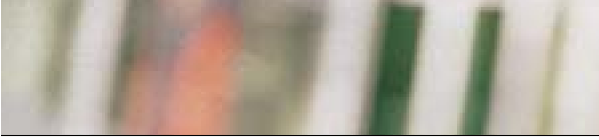
| IFRS, % | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Ratios** | | | |
| Return on Average Equity, ROAE | 30.6 | 11.6 | x |
| Return on Average Assets, ROAA | 2.0 | 0.6 | x |
| Capital Adequacy – CNB | 13.4 | 15.2 | 14.4 |
| Net Interest Margin | 3.3 | 3.6 | 3.6 |
| Cost/Income Ratio | 56.5 | 63.3 | 63.2 |

IFRS – International Financial Reporting Standards



| | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Other data** | | | |
| Number of Employees, FTE | 8,935 | 9,873 | 11,865 |
| Number of Points of Sale | 331 | 323 | 342 |
| Number of ATMs | 440 | 335 | 297 |
| Number of EFT-POS | 8,480 | 6,019 | 4,440 |

| Rating | Short-term | Long-term |
|---|---|---|
| Fitch | F2 | BBB+ |
| Moody's | Prime-1 | A1 |
| Standard & Poor's | A-3 | BBB- |





# Interview with the Chairman of the Board and Chief Executive Officer

**Komerční banka underwent major changes in 2002. It was a year in which an extensive transformation programme was launched at the Bank. What is the specific objective of this programme?**

Komerční banka launched an extensive transformation programme with the aim of becoming the leading financial institution in the retail business (the mass market and the corporate market) and the core local provider of investment banking services to corporate clients. We can achieve this with a customer-oriented mindset, the development of a broad range of customised products, the enhancement of our multi-channel strategy (branch network and direct banking) and the restructuring of the Bank's financial group to promote cross-selling potential. The transformation programme also focuses on productivity improvement, cost control and the enhancement of the loan portfolio quality.

One of the key tasks last year was to build a new image based on Société Générale's global image while respecting Komerční banka's existing brand. The new corporate identity, i.e. the new logo, relates to all our activities and the Bank's everyday operations. The new logo also serves as uniform identity signage for all Komerční banka's fully-owned subsidiaries.

**An important aspect of the Bank's transformation concerns its sales network. What will the most important changes be? What will clients get out of the transformation of the sales network?**

The Bank's transformation programme is mainly designed to benefit our clients. The changes in the sales network are based on three fundamental principles.

– First, the Bank's accessibility, which requires in-depth development of direct banking to enable clients to reach the Bank any time, any place, any way. Direct banking channels (Phone, Internet and PC banking) make the Bank as accessible for clients as possible.
– The second principle is to foster greater affinity with clients. From May 2003, each of our clients will have their own relationship manager. This is the most important change in Komerční banka's development over the past few years.
– The third principle is professionalism. Komerční banka is keen to provide services of the highest standard.

**You have described the key tasks of the transformation programme and the benefits for customers, but what will the transformation programme mean for Komerční banka's shareholders?**

First of all I would like to stress the profitability of Komerční banka. In 2002 the Bank managed to increase its net operating income by 12.5% to CZK 9.8 billion. Thanks to the low cost of risk and a few non-recurring items (release of a general reserve, recognition of deferred tax assets) the Bank posted a net profit of CZK 8.8 billion (EUR 277 million). After a break of several years, the Bank started distributing dividends again in 2002; having seen the results for 2002 I expect this policy to continue.

I would also like to highlight the outstanding performance of the Komerční banka share price. In 2002 the share price appreciated by 101%, easily breaking through the threshold of two thousand crowns per share, and became the most traded stock on the Prague Stock Exchange.

As for the financial results achieved by the transformation programme in the years to come, we are targeting an increase in total revenues of 5% per year and a continuation of our successful cost control (a 5% reduction in total operating costs per year). Add to this the quality improvements in the loan portfolio and the Bank should achieve its target of a 25% return on equity at the end of 2004, assuming a flat Tier one ratio.

Alexis Juan

I can assure you that all the current changes are motivated by our efforts to do all we can to serve our clients well and to offer them the most advanced and best quality service.

**Komerční banka's activities have also taken on a broader societal dimension. The Bank has defined its sponsorship strategy. What are the main principles of this strategy?**

The arts, amateur sports, and support for education have become the core areas of Komerční banka's interest. The new sponsorship strategy must reflect the Bank's three main values: professionalism, innovation, and team spirit. Komerční banka has become the general partner of the National Theatre. This relationship is not a chance marriage; the two institutions have a lot in common. Komerční banka is a Czech bank. The National Theatre symbolises the Czech nation's fight for independence. Who better to stand alongside this cultural institution than a Bank that has been involved since its very inception in the economic development of an independent Czech state.

Komerční banka has also supported certain Prague Symphony Orchestra FOK projects, in particular a benefit concert designed to help the renovation of parts of the country hit by the floods.

**You mentioned the devastating floods of August last year. How did Komerční banka and its employees cope with the disaster?**

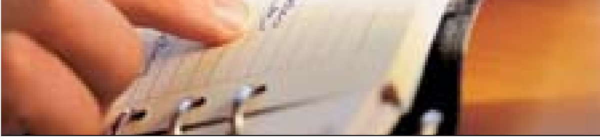
I am proud to say that everyone at the Bank coped with the situation admirably. In places where we had to close down branches we served our clients on makeshift premises or at different offices of the Bank. Our employees revealed their amazing loyalty and extreme commitment. This, too, confirms that they put clients first and we are sure that this will continue to be the case in the future.

**To close, do you, in your capacity of Komerční banka's Chairman and Chief Executive Officer, have any special words for the Bank and its customers?**

I would like to thank all our clients for choosing and staying loyal to Komerční banka. I can assure you that all the current changes are motivated by our efforts to do all we can to serve our clients well and to offer them the most advanced and best quality service.

My thanks also go to KB employees for their hard work, motivation and commitment, especially as 2002 was a very challenging year.

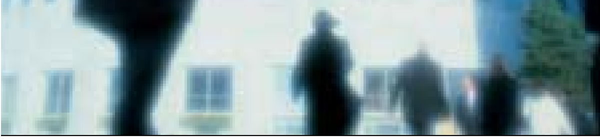
Last but not least, the full support of the Société Générale Group, wielding financial strength and solidity complemented with a broad scope of activities and long-standing professional experience, makes Komerční banka a powerful business partner on the market. Therefore I believe that the ties between Société Générale and Komerční banka will be beneficial for our clients, shareholders and employees in the years to come.





# Major Events in 2002

| | |
|---|---|
| Transformation Programme | At the beginning of the year, the Bank launched a transformation programme aimed at transforming the Bank into a leading provider of banking services to retail clients and consolidating its position on the corporate and investment banking market. |
| Extraordinary General Meeting | An Extraordinary General Meeting of Komerční banka, held on 28 March 2002, approved the acquisition of Société Générale's Prague branch. The General Meeting also approved an amendment to the Articles of Association, increasing the number of members of the Board of Directors from five to six. |
| Annual General Meeting | The Annual General Meeting, held on 26 June 2002, approved the financial statements of the Bank and the Report of the Board of Directors on the Business Activities for 2001. The General Meeting also approved the payment of a dividend for the year 2001. |
| Restructuring of Komerční pojišťovna | Komerční pojišťovna sold its portfolio of motor third-party liability insurance (MTPL) and car accident insurance (CASCO) to the insurance company Kooperativa. This move was fully in line with the insurer's new strategic focus on life insurance. |
| Products for individuals and businesses affected by the floods | In the aftermath of the vast floods in the Czech Republic in August, the Bank decided to offer those clients who fell victim to the disaster interest-free bridging loans, preferential-rate mortgages, special loans for post-flood reconstruction, individual payment schedules, zero fees for early drawing and individual solutions to financial problems. |
| New corporate identity | The Bank launched its new corporate identity embodying its new strategy and membership of the international Société Générale Group. |
| New client segmentation and organisation of the distribution network | The Bank introduced new client segmentation and the related reorganisation of the KB distribution network, aiming to improve the standard of services. |
| Extended product offer | Over the course of the year, the Bank launched several new products, the most important being *Perfekt konto* – a new package designed for personal clients for their everyday financial management requirements, Vital – a savings scheme with life insurance, Optimum Medicum and Premium Medicum – two new financial product packages designed for the self-employed and legal entities in the medical sector, and *Garantovaná platba* – an electronic chip-card payment system product. |
| General partner of the National Theatre | In November, Komerční banka and the Czech National Theatre signed a Partnership Agreement, making Komerční banka the General Partner of the National Theatre. |
| Improved rating | In the second half of the year, three leading rating agencies – Fitch, Moody's and Standard & Poor's – improved the rating of Komerční banka, expressing their confidence in the transformation programme and appreciating the integration of Komerční banka into the Société Générale Group. |
| Sale of the portfolio of non-performing loans | The Board of Directors of Komerční banka decided to sell a portfolio of the Bank's non-performing receivables to GE Capital Corporation. |



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# Komerční banka Share

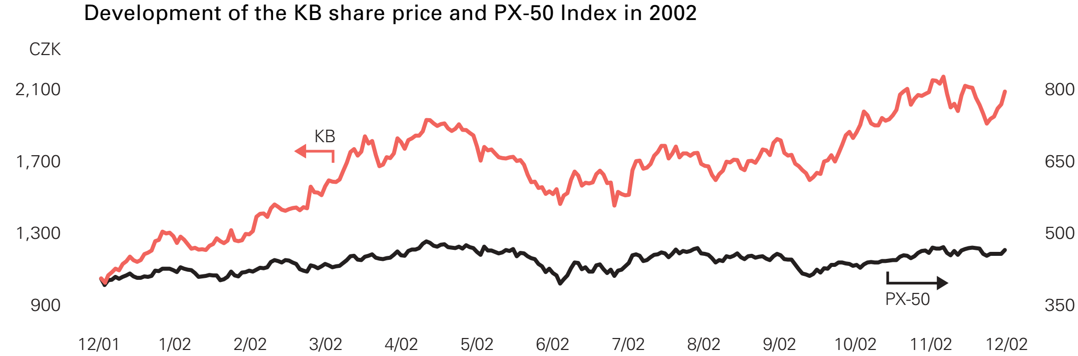
## Trading in Komerční banka Shares

Komerční banka shares are traded under the ISIN: CZ0008019106 on public capital markets in the Czech Republic organised by the Prague Stock Exchange and the RM-SYSTÉM. The shares are listed on the main market of the Prague Stock Exchange. Shares of Komerční banka are also traded in the form of Global Depository Receipts (GDRs) on the London Stock Exchange and in the PORTAL system (of the National Association of Securities Dealers, Inc.), USA.

## Share Price Development

In 2002, Komerční banka shares appreciated by 101% significantly outperforming the PX-50 Index – the main index of the Prague Stock Exchange. The Komerční banka share price at the end of 2002 was CZK 2,078 per share, compared with CZK 1,036 per share at the end of 2001. As at 31 December 2002, the price-to-book value was 2.3 times the net book value per share (the net book value per share was CZK 888). The market capitalisation of the Bank amounted to CZK 79 billion as at the same date.

**Development of the KB share price and PX-50 Index in 2002**




In 2002, Komerční banka shares were the most liquid stock on the Prague Stock Exchange's main market. The average daily traded volume was approximately CZK 387 million.

Information on Komerční banka Shares

| | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|
| Number of outstanding shares [1] | 38,009,852 | 38,009,852 | 38,009,852 | 19,004,926 |
| Market capitalisation [CZK billion] | 79.0 | 39.4 | 34.7 | 11.6 |
| EPS [CZK] [2] | 230.5 | 66.6 | (0.5) | (514.7) |
| Share price [CZK] | | | | |
| maximum | 2,161.0 | 1,184.0 | 1,152.0 | 993.6 |
| minimum | 1,016.0 | 806.7 | 612.5 | 264.1 |
| closing price at the end of period | 2,078.0 | 1,036.0 | 912.1 | 612.5 |

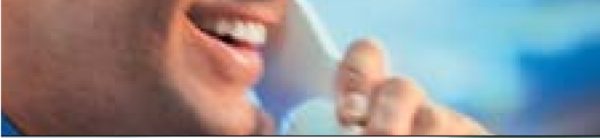
[1] Nominal value per share CZK 500
[2] Earnings per share (IFRS unconsolidated)

## Dividend Payment

In June 2002, the Komerční banka General Meeting approved the payment of a dividend for 2001 of CZK 11.50 per share before tax. This decision was a gesture of the majority shareholder's confidence in the further positive development of Komerční banka. Following up on this decision, the management of Komerční banka will propose that the General Meeting of Shareholders scheduled for June 2003 approves payment of a dividend for 2002.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Dividend [CZK] [1] | 11.5 | 0 | 0 |
| Payout ratio [%] [2] | 17.3 | 0 | 0 |

[1] Dividend per share before tax; the statutory tax rate applicable is 15%
[2] Dividend/Earnings per share (IFRS, unconsolidated)



# 6

Macroeconomic Development

Following banking sector consolidation in 2001, Czech banks started to function as standard financial institutions in 2002.

# Macroeconomic Development

The gross domestic product continued to grow in 2002, this time by 2.0%, which was faster than in the economies of most of the Czech Republic's major partners but slower than in 2001. The key driver was private consumption, which remained the most dynamic and stable factor of Czech economic growth. Investment demand slowed as an indirect result of weak foreign demand. The contribution of the external sector was again negative due to low foreign demand combined with the strong exchange rate of the CZK and the post-flood increased demand for imports, but this negative impact was lower than in 2001.

2002 was a year of record-low inflation in the history of the Czech Republic. Throughout the year, the momentum of price developments decelerated significantly due to a combination of the strong currency, declining import prices and weaker foreign and domestic demand. At the end of 2002, the consumer price index stood at 0.6% (and the producer price index at -0.7%). The average index of consumer prices for the whole year declined to 1.8%, its lowest level since 1990.

In 2002, the nominal appreciation of the Czech currency accelerated. The CZK appreciated against the EUR by 9.6%, compared to the average 2001 exchange rate. The strong currency hit the performance of a certain group of Czech exporters, but only to some degree. The trend of rapid CZK appreciation halted at the end of 2002 and the Czech crown returned to its January 2002 level.

A combination of the strong exchange rate, weak foreign demand and relatively low world raw material prices led to a decline in imports and exports. In 2002, the trade deficit amounted to CZK 74.5 billion, which is more than CZK 42 billion less than in 2001. Trade figures indicate that exporters were able to compete on the foreign markets despite being burdened by the strong currency. The current account deficit for 2002 stood at 5.3% of GDP.

Industry registered solid growth in 2002, with industrial output increasing by 4.8%. Foreign-controlled companies in particular have been propelling industrial growth forward; this sector is the most dynamic part of Czech industry. The share of foreign-controlled companies in industrial sales amounted to 46% at the end of 2002; these companies are helping to keep Czech exports competitive. Weaker demand also hit construction, with construction output increasing by 2.5% in 2002. Strong consumer demand boosted retail sales, which increased by 2.7% in 2002.

Following their consolidation in 2001, Czech banks started to function as standard financial institutions in 2002. The competition in the Czech banking sector increased and the quality of services improved. Because of the record low interest rates, mortgages and consumer loans surged and the range of products provided to the corporate sector widened.

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# Report of the Board of Directors

## 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 Société Générale, 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, Komerční banka introduced its new corporate identity, in line with its new strategy and membership of the worldwide Société Générale Group. The Komerční banka Group logo leverages the global image of Société Générale 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 Komerční banka Group

The implementation of the new Société Générale 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 Komerční 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 Société Générale. 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.

## Expected developments in the financial situation

The completion of the strategic plan described above enjoys the full support of the majority shareholder Société Générale and, together with anticipated market developments, will improve the Bank's performance. In the next three years, Komerční banka expects the Transformation Programme to have a positive impact on the Bank's financial and business performance, as well as on the quality of services and number of clients.



# Business Activities

## Clients

At the end of 2002, Komerční 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

Komerční 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 Komerční 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.

#

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.

KB also continued to develop its network of ATMs. The number of ATMs grew a 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 *profi*banka users increased fivefold over the year to 18 thousand clients. *Moje*banka, 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 *Přímý kanál* enhances the functionality of the *moje*banka and *profi*banka 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 Société Générale's new corporate identity.



## Market share

Komerční banka's market share in the Czech-banking sector is quite stable. Based on CNB methodology the Bank represents more than 18% of the Czech market by total assets, deposits and loans. Komerční banka holds a significantly higher share (27%) on the mortgage market.

**Market share as at 31 December 2002**

| % | |
|---|---|
| Total assets | 18.3 |
| Total deposits | 18.5 |
| Retail deposits | 15.2 |
| Total loans | 18.5 |
| Retail loans | 14.8 |

# 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 pojišťovna 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 Société Générale Prague Branch

At the end of March, Komerční banka approved the acquisition of the Prague branch of Société Générale. 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 Société Générale 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.

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.

### Financial markets

Komerční banka can offer a full range of financial market products. In co-operation with Société Générale 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

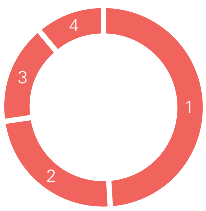
Komerční banka arranges complex financing of client projects, from structuring to the arranging and underwriting of debt transactions through either syndicated loan or bond issuance. In 2002 significant transactions in the area of syndicated loans were:

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

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



Client structure by volume of invested assets




| | | |
|---|---|---|
| 1 | Municipalities | 49% |
| 2 | Financial Institutions | 24% |
| 3 | Individuals | 16% |
| 4 | Companies | 11% |

### 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 Société Générale Group.

In credit origination, the Bank successfully continued to develop a system of credit risk assessment.

## Credit Risk Management

In co-operation with Société Générale, 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 Konsolidační banka concluded a guarantee agreement following a decision of the Czech Government dated 18 December 2000. Under this agreement, Konsolidační banka (now Česká konsolidační 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 konsolidační 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 Société Générale Group. Market risk division according to the SG model includes two platforms: market risk and counterparty risk of capital market activities.
Market risks at Komerční 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 Komerční banka adopted a new concept for the measurement of counterparty exposure arising from derivative products, which was developed by Société Générale 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. Komerční banka is exposed to the following types of market risks: interest rate risk, foreign exchange risk, equity risk, credit spread risk and liquidity risk.

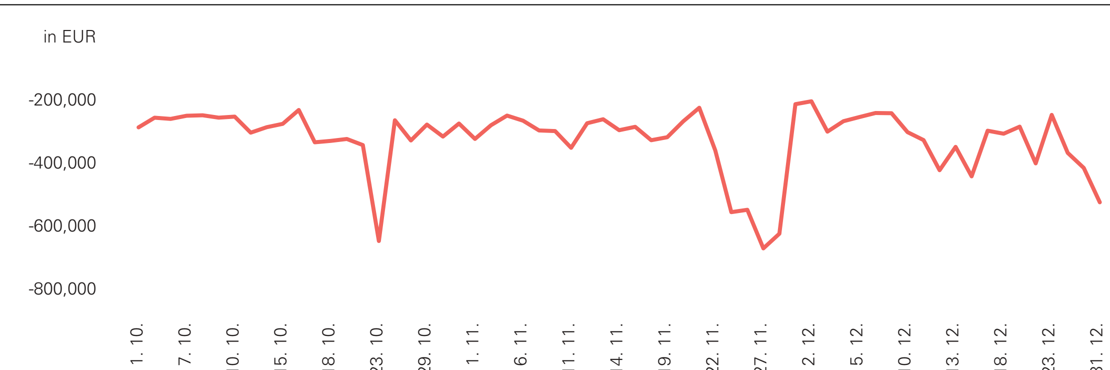
The main mission of the market risk unit is to facilitate the Bank's market activities development and its returns in the context of well mastered risks.

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.

The evolution of Value at Risk at Komerční banka during 2002 (VaR 99%, 1 day, figures since the integration of KB's VaR into SG Group's regulatory VaR) was as follows:




**The stress-tests risk exposure as at 31 December 2002 was as follows:**

| Type of stress-test | Underlying hypothesis | Stress-test exposure (Worst case) as at 31. 12. 2002 (in EUR) |
|---|---|---|
| Directional interest rate risk | Scenarios defined by currency category. With category-B currency (CZK), a relative variation in interest rates ranging from 250% up and 70% down for O/N position to +/-25% for maturities over 10 years. | (1,262,719) |
| Pivot risk | Scenarios defined by currency category. Deformation in the yield curve on the basis of fluctuations on the curve at 2, 5 and 10 years. | (2,579,316) |

### 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).

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 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 (Všeobecná stavební spořitelna KB) or by the National Bank of Slovakia (KB Bratislava), by the Czech Securities Commission (IKS KB) or the Ministry of Finance (Komerční pojišťovna), 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, on-line payment card authorisation, EDI), and the functionality of existing products – *moje*banka, *profi*banka 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.

In addition to the important activities described above, other activities of the IT Division include the successful integration of the Société Générale Prague branch into the structure of Komerční banka in the first half of 2002. The key success factor behind this operation was the integration of the Société Générale Prague branch information system into the information systems of Komerční banka, including the migration of client data.

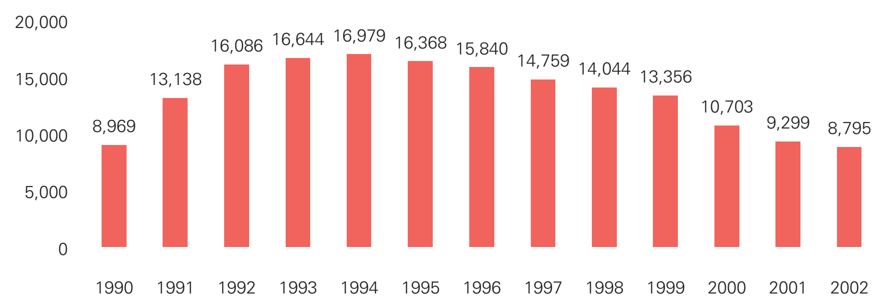
The IT Division also took part in the successful management of the period after the floods in August 2002. Owing to the good co-operation with other divisions and the KB sales network, operations in unaffected areas continued uninterrupted and the operation of information systems in locations affected by the floods was resumed promptly.



## 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.

### Headcount Development of the Bank




In 2002, Komerční banka continued implementing its three-year plan for the rationalisation and optimisation of the number of staff.

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 Société Générale 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 of 2002.

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 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 communication skills and information technology. Some of these courses were prepared and developed with the support of Société Générale.

– 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 Société Générale 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 FOK.
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 Société Générale 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.

In its role of sponsor, Komerční banka will focus on the arts, amateur sport, and education.

# 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 Česká konsolidační 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 Česká pojišťovna, 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 Pojišťovna.

### 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

The main factor behind 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.

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, Société Générale SA, purchased by the Bank under an initial offering in the 4th quarter of 2002 (CZK 14.0 billion).

Due from Česká konsolidační agentura

Due from Česká konsolidační agentura decreased during the course of 2002 by 28.8% as a result of the regular repayment of loans and as at 31 December 2002 they amounted to CZK 35.4 billion. Loans granted by Komerční banka to Česká konsolidační agentura, formerly Konsolidační banka Praha, s. p. ú., 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 re-paid 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 Konsolidační banka Praha, s. p. ú, concluded in December 2000. In the agreement, Konsolidační banka, now Česká konsolidační 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 Česká konsolidační 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 Otevřený podílový fond Globální (Globální 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 Komercni 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 Komerční pojišťovna by Komerční banka and net creation of provisions for this ownership interest to cover the losses of Komerční pojišťovna 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.

Structure of KB Group

**Komerční banka, a. s.**

**Core business**

| | |
|---|---|
| Komerční pojišťovna, a. s. | 100.0% |
| Všeobecná stavební spořitelna KB, a. s. | 40.0% |
| Komerční banka Bratislava, a. s. | 100.0% |
| CAC Leasing, a. s. | 50.0% |
| Penzijní fond KB, a. s. | 100.0% |
| Factoring KB, a. s. | 100.0% |
| Investiční kapitálová společnost KB, a. s. | 100.0% |
| CAC Leasing Slovakia, a. s. | 10.0% |

| | |
|---|---|
| DLB Leasing s. r. o. | 100.0% |
| CAC Leastrade, s. r. o. | 51.0% |
| ALL Risk – CAC pojišťovací makléřská, s. r. o. | 50.0% |
| RENAULT Leasing CZ, s. r. o. | 50.0% |

40.0%

20.0%

**Support services**

2.69%

| | |
|---|---|
| MUZO, a. s. | 49.9% |
| Komercni Finance, B. V. | 100.0% |
| ASIS, a. s. | 100.0% |
| Reflexim, a. s. | 100.0% |
| ALL IN, a. s. | 100.0% |

| | |
|---|---|
| Společnost pro informační databáze, a. s. | 100.0% |
| AIREL IMMO, s. r. o. (in bankruptcy) | 100.0% |
| ALL IN REAL ESTATE Leasing, a. s. | 100.0% |



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 Českomoravská 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

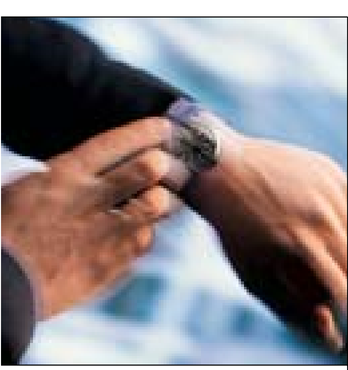
2002 was a year of change for the KB Group. An ambitious restructuring process was launched with the aim of replicating the successful business model adopted by Société Générale in other regions. The plan is to make a significant improvement to the range and quality of products offered by the KB Group 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 Société Générale 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 Société Générale 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 Société Générale 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.

## Consolidation

Pursuant to the change in Czech accounting legislation, consolidation was performed in accordance with IFRS. Czech consolidated accounts were not prepared for 2002.

The table below discloses the method of consolidation applied to each KB Group entity – either full consolidation or equity consolidation. In addition, certain KB Group companies were not included in the consolidation. The reasons for non-inclusion in the consolidation are as follows:

– Penzijní fond Komerční banky: although Komerční banka exercises full control over the company, in line with Czech legislation on pension insurance only 10% of the reported annual profits are distributable to shareholders. The remaining 90% of profits are distributable to policyholders (85%) and to the reserve fund (5%). Therefore the management does not consider it appropriate to consolidate this entity.

– ALL IN and Czech Banking Credit Bureau: were not consolidated on grounds of materiality.

### Subsidiaries and associate companies in the KB Group

| Company | Consolidation method (CZK thousand) | Share capital (CZK thousand) | KB participation in the share capital – nominal (CZK thousand) | KB participation in the share capital – relative (%) | Net book value (CZK thousand) | Nominal value per share (CZK thousand) |
|---|---|---|---|---|---|---|
| DOMESTIC PARTICIPATION | | | | | | |
| Komerční pojišťovna, a. s. | full | 752,000 | 752,000 | 100 | 381,189 | 100 or 50 |
| Všeobecná stavební spořitelna Komerční banky, a. s. | equity | 500,000 | 200,000 | 40 | 220,000 | 100 |
| CAC LEASING, a. s. | equity | 226,000 | 113,000 | 50 | 110,900 | 100 or 500 |
| Penzijní fond Komerční banky, a. s. | none | 200,000 | 200,000 | 100 | 230,000 | 100 |
| MUZO, a. s. | full | 102,000 | 50,900 | 49.9 | 60,998 | 1 |
| Factoring Komerční banky, a. s. | full | 84,000 | 84,000 | 100 | 90,000 | 100 or 10 |
| Investiční kapitálová společnost Komerční banky, a. s. | full | 50,000 | 50,000 | 100 | 75,000 | 100 |
| ASIS, a. s. | full | 1,000 | 1,000 | 100 | 1,000 | 100 |
| Reflexim, a. s. | full | 1,000 | 1,000 | 100 | 1,000 | 100 |
| Czech Banking Credit Bureau, a. s. | none | 1,200 | 240 | 20 | 0 | 10 |
| ALL IN, a. s., in liquidation | none | 44,517 | 44,517 | 100 | 0 | 213 |
| **Subtotal** | – | – | **1,496,657** | – | **1,170,087** | – |
| FOREIGN PARTICIPATION | | | | | | |
| Komerční banka Bratislava, a. s. | full | 375,895* | 375,895 | 100 | 413,485 | 100,000 SKK |
| CAC LEASING Slovakia, a. s. | equity | 3,759* | 3,759 | 10 | 3,759 | 100,000 SKK |
| Komercni Finance, B.V. | full | 574** | 574 | 100 | 574 | 453.8 EUR |
| **Subtotal** | – | – | **380,228** | – | **417,818** | – |
| **TOTAL** | – | – | **1,876,885** | – | **1,587,905** | – |

* CZK/SKK exchange rate 0.75179 as at 31 December 2002 (CNB).

** CZK/EUR exchange rate 31.60 as at 31 December 2002 (CNB).



## Investiční kapitálová společnost KB, a. s.

**Shareholder structure:** KB share 100%

**Core business:** Asset management

**Market position:** Third position on the market by assets under management (22% of the market)

**External rating:** Baa/czAa according to CRA Rating agency

**Funds under management:**

IKS peněžní trh – money market fund, investment period up to 1 year
IKS dluhopisový – fixed income and money market fund, investment period 1+ years
IKS Plus bondový – fixed income fund, investment period of 2+ years
IKS globální – mixed fund, investment period 3+ years
IKS balancovaný – mixed fund, investment period 3+ years
IKS fond fondů – fund of funds, investment period 5+ years
IKS fond světových indexů – equity fund, investment period 5+ years
IKS Dividendový – fixed income fund, investment period up to 1 year

**Main developments in 2002:**

Increase in the volume of assets under management by 33%
Launch of new IKS fund for corporate clients – IKS Dividendový
Transfer of KB Pension Fund assets under IKS management

**Key plans for 2003:**

Funds' participation certificates dematerialisation
Establishment of guarantee fund – customers will be offered guaranteed rate of return

**Financial summary:**

| CAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 336,273 | 241,055 |
| Shareholders' equity | 246,623 | 196,402 |
| Share capital | 50,000 | 50,000 |
| Assets under management | 31,849,151 | 17,210,018 |
| Management fee income | 372,590 | 270,767 |
| Profit before tax | 119,111 | 36,193 |
| Profit after tax | 78,706 | 28,711 |

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## Factoring KB, a. s.

| | |
|---|---|
| **Shareholder structure:** | KB share 100% |
| **Core business:** | Factoring |
| **Market position:** | Third position on the factoring market by size of factoring portfolio |
| **Key products:** | Domestic factoring<br>Foreign factoring |
| **Main developments in 2002:** | Signature of new contract with EGAP to support domestic and international trade<br>Co-operation with Factor Chain International (association of international factoring companies)<br>Established co-operation with CGA Paris (factoring business line within Société Générale Group), especially in strategic and procedural issues |
| **Key plans for 2003:** | Establishment of four business centres in co-operation with Komerční banka to improve the coverage of the market<br>Launch of new factoring products |

**Financial summary:**

| CAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 2,188,081 | 2,197,940 |
| Factoring portfolio | 2,082,142 | 2,112,812 |
| Shareholders' equity | 118,534 | 108,036 |
| Share capital | 84,000 | 84,000 |
| Net factoring income | 119,784 | 133,046 |
| Profit before tax | 16,201 | 20,133 |
| Profit after tax | 10,182 | 9,528 |

Contact:

**Factoring KB, a. s**
Na Poříčí 36, P.O.Box 59
110 02 Prague 1
Czech Republic
Reg. No. 25148290

Phone: +420 222 825 111
Fax: +420 224 814 628
E-mail: factoring_kb@mbox.vol.cz
Internet: www.factoringkb.cz



## Komerční banka Bratislava, a. s.

**Shareholder structure:**
KB share 100%

**Core business:**
Complete banking services for corporate clients
Trade finance and settlement between the Czech Republic and the Slovak Republic

**Market position:**
Niche position on the Slovak market (below 1% of the market), focus corporate clients

**Key products:**
Current, term and saving accounts (Ideal package, A-plus account, V-account)
Domestic and international payments with a special regime
Cash operations
Loans and guarantees
Foreign exchange instruments (spot, forward)
Interest rate instruments (forward rate agreements, swaps)
Money Market deposits/loans
Capital Market activities
Issuance agent for EuroCard/MasterCard

**Main developments in 2002:**
Restructuring programme implementation including reduction of headcount, points of sale, improvements in efficiency and implementation of new IT support
Implementation of new strategic model focusing on corporate clients

**Key plans for 2003:**
Development of client base – aimed at multinationals and selected Slovak enterprises
Support of the activities of Société Générale Group on the Slovak market

**Financial summary:**

| IAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 3,932,813 | 4,656,858 |
| Loans to customers | 1,651,441 | 1,466,542 |
| Deposits from customers and financial institutions | 1,237,857 | 2,120,530 |
| Shareholders' equity | 473,774 | 447,366 |
| Share capital | 375,895 | 375,895 |
| Net interest income | 91,707 | 110,919 |
| Profit after tax | 26,408 | 43,488 |

CZK/SKK exchange rate 0.75179 as at 31 December 2002 (CNB)

Contact:

**Komerční banka Bratislava, a. s.**
Medená 6, P.O.Box 137
811 02 Bratislava
Slovak Republic
Reg. No. 31395074

Phone: +421 2 5293 2153–6
Fax: +421 2 5296 1959
E-mail: koba@koba.sk
Internet: www.koba.sk

## Penzijní fond Komerční banky, a. s.

| | |
|---|---|
| **Shareholder structure:** | KB share 100% |
| **Core business:** | Pension fund |
| **Market position:** | Second position on the pension fund market by assets under management<br>Fifth position on the pension market by number of clients |
| **External rating:** | Baa/czAa according to CRA Rating agency (the highest rating among Czech pension funds) |
| **Key products:** | State-subsidised pension insurance<br>Product package for employees of KB corporate clients, where pension insurance is included as an optional part of the package (DOMINO) |
| **Main developments in 2002:** | Total number of clients exceeded 255,000 and accounted for 10% of the total pension fund market<br>Assets under management increased by 19%<br>Expected return on investments in 2002 is 7.6% |
| **Key plans for 2003:** | Increase sales through KB network<br>Co-operation with KB on preparation of new product packages<br>New product offer under consideration – pension insurance as an optional part of Expreskonto for retail clients |

**Financial summary:**

| CAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 9,691,507 | 8,115,043 |
| Total volumes on client accounts | 8,754,401 | 7,363,910 |
| Shareholders' equity | 788,390 | 592,050 |
| Share capital | 200,000 | 200,000 |
| Net financial income | 622,041 | 522,533 |
| Profit before tax | 418,409 | 327,225 |
| Profit after tax | 420,323 | 327,102 |

Contact:

**Penzijní fond Komerční banky, a. s.**
Lucemburská 7/1170
130 11 Prague 3
Czech Republic
Reg. No. 61860018

Phone: +420 272 173 111, +420 272 173 173–5
Fax: +420 272 173 176, +420 272 173 171
E-mail: pf-kb@pf-kb.cz
Internet: www.pfkb.cz



## Komerční pojišťovna, a. s.

**Shareholder structure:**
KB share 100%

**Core business:**
Life insurance products
Travel insurance
Credit card insurance
Residual industrial insurance

**Key products:**
Capital life insurance (VITAL)
Accident insurance for consumer loans (CONSUMER CREDIT)
Accident life insurance for mortgage loans (MORTAGES)

**Main developments in 2002:**
Sale of car insurance portfolio to Kooperativa, a. s.
Intense restructuring (reduction of headcount, network restructuring, run-off of the industrial portfolio)
Introduction of complete range of new life insurance products

**Key plans for 2003:**
Focus on sale of life insurance products
Exclusive distribution of Komerční pojišťovna products through Komerční banka network
Completion of restructuring programme

**Financial summary:**

| CAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 3,826,000 | 2,908,000 |
| Technical reserves | 2,764,000 | 2,449,000 |
| Shareholders' equity | 534,000 | (433,000) |
| Share capital | 752,000 | 450,000 |
| Gross premiums written | 2,349,000 | 2,580,000 |
| Investment income | 141,000 | 116,000 |
| Net profit/(loss) | (41,000) | (713,000) |

Contact:

**Komerční pojišťovna, a. s.**
Jindřišská 17
111 21 Prague 1
Czech Republic
Reg. No. 63998017

Phone: +420 222 095 111
Fax: +420 224 236 696
E-mail: servis@komercpoj.cz
Internet: www.komercpoj.cz

## MUZO, a. s.

**Shareholder structure:**

KB share 49.9%
Tarpa Securities share 20.9%
Československá obchodní banka share 9.9%
GE Capital Bank share 9.9%
CAC Leasing share 2.69%

**Core business:**

Banking and card support services

**Market position:**

Dominant position on the market

**Key products:**

Authorisation of payment cards (front office)
Database administration
Controlling and transaction processing of payment cards (back office)
Installation and servicing of automated tellers and payment terminals in domestic and international payment system

**Main developments in 2002:**

Number of managed ATM units increased by 40%
Number of Points of Sale (POS) increased by 30%
Volume of transactions increased by 25%

**Key plans for 2003:**

Development and implementation of a new long-term strategy
Regional expansion

**Financial summary:**

| CAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 1,072,092 | 1,079,770 |
| Fixed assets | 792,169 | 793,156 |
| Shareholders' equity | 471,952 | 406,528 |
| Share capital | 102,000 | 102,000 |
| Sales of services and goods | 900,647 | 839,443 |
| Profit before tax | 247,335 | 170,856 |
| Profit after tax | 191,719 | 125,038 |

Contact:

**MUZO, a. s.**
V Olšinách 80/626
100 00 Prague 10
Czech Republic
Reg. No. 00001155

Phone: +420 267 197 111
Fax: +420 267 197 590
E-mail: obo@muzo.com
Internet: www.muzo.com



## CAC Leasing, a. s.

**Shareholder structure:**
Komerční banka share 50%
Bank Austria Creditanstalt Leasing GmbH share 50%

**Core business:**
Leasing

**Market position:**
Third position on the leasing market by number of newly concluded contracts

**Key products:**
Automotive leasing
Technology leasing
Lease purchase

**Main developments in 2002:**
25,000 newly concluded contracts
CAC was awarded the "Rhodos" prize for company image

**Key plans for 2003:**
Expansion of product range in order to sustain the market position

**Financial summary:**

| CAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 19,846,993 | 19,690,075 |
| Fixed assets | 18,938,737 | 19,271,542 |
| Shareholders' equity | 958,824 | 636,066 |
| Share capital | 226,000 | 226,000 |
| Leasing revenues | 13,100,411 | 12,896,676 |
| Profit before tax | 401,513 | 292,606 |
| Profit after tax | 269,809 | 155,719 |

Contact:

**CAC LEASING, a. s.**
Janáčkovo nábřeží 55/140,
150 05 Prague 5
Czech Republic
Reg. No. 15886492

Phone: +420 257 091 111
Fax: +420 257 328 881
E-mail: leasinfo@cac.cz
Internet: www.cac.cz

## Všeobecná stavební spořitelna Komerční banky, a. s.

**Shareholder structure:**

BHW Holding AG share 50%
KB share 40%
Česká pojišťovna share 10%

**Core business:**

Building society

**Market position:**

Third position on the building savings market by number of contracts concluded
Second position on the market by volume of loans granted

**Key products:**

State-subsidised building savings accounts
Bridging loans
Building savings loans

**Main developments in 2002:**

252,000 newly concluded contracts with total target saving amount of CZK 33 billion
810,000 active customers with total target saving amount of CZK 137 billion
20,700 new bridging loans with a face value of CZK 4 billion
23,222 new building savings loans with a face value of CZK 5 billion

**Key plans for 2003:**

Implement the existing plan of substantial distribution expansion through KB network
Complete the cost-optimisation programme

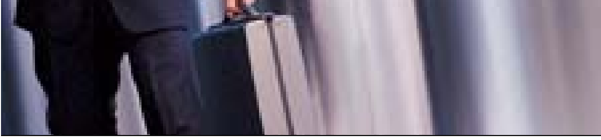
**Financial summary:**

| CAS, CZK thousand | 31 December 2002 | 31 December 2001 |
|---|---|---|
| Total assets | 34,075,303 | 28,236,774 |
| Total loans | 12,131,581 | 11,088,266 |
| Shareholders' equity | 1,350,745 | 1,311,561 |
| Share capital | 500,000 | 500,000 |
| Interest margin | 638,036 | 597,039 |
| Profit before tax | 232,487 | 201,502 |
| Profit after tax | 205,285 | 206,171 |

Contact:

**Všeobecná stavební spořitelna Komerční banky, a. s.**
Bělehradská 128, No. 222
P.O.Box 40, 120 21 Prague 2
Czech Republic
Reg. No. 60192852

Phone: +420 222 824 111
Fax: +420 222 824 113
E-mail: info@vsskb.cz
Internet: www.vsskb.cz
www.modrapyramida.cz



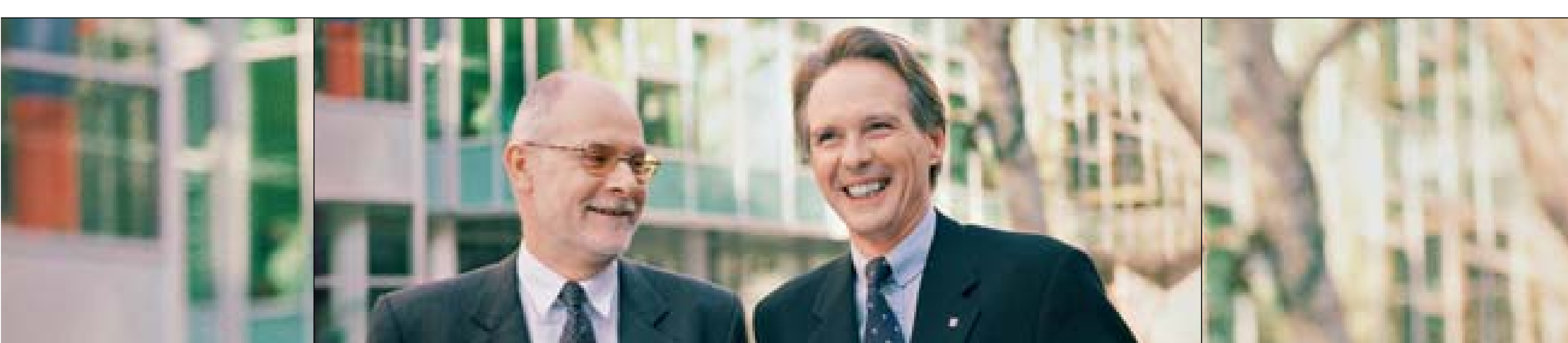
8



# Statutory Bodies and Organisation Structure

Alexis Juan Peter Palečka

Olivier Flourens Guy Poupet



Matúš Púll Philippe Rucheton

# Board of Directors

| | |
|---|---|
| **Alexis Juan** | Chairman of the Board of Directors since 5 October 2001 |
| **Guy Poupet** | Vice-Chairman of the Board of Directors since 9 October 2002 |
| **Olivier Flourens** | Member of the Board of Directors since 1 February 2003 |
| **Peter Palečka** | Member of the Board of Directors since 5 October 2001 |
| **Matúš Púll** | Member of the Board of Directors since 5 October 2001 |
| **Philippe Rucheton** | Member of the Board of Directors since 2 May 2002 |

as at 30 April 2003

**Alexis Juan**
Chairman of the Board of Directors
Born 11 June 1943,
resident in Prague.

Chairman of the Board of Directors since 5 October 2001. Graduate of the Faculty of Public Law, Paris, and of the Institute for Political Sciences, Grenoble. He joined Société Générale in 1968; he first worked in central supervision, later as an attaché of the Financial Directorate, between 1973 and 1976 he was a Deputy Managing Director of an SG branch in Tokyo, between 1976 and 1977 he managed operations in Latin America. From 1978 until 1980 he was the Managing Director of Korean French Banking Corporation in Seoul. In 1980 – 1984, he was Managing Director of Société Générale, Athens, in 1984 – 1987 he was the Deputy CEO of Société Générale, UK and in 1987 – 1990 a Director of the Société Générale Banking Group, Bordeaux. From 1990 until 1995, he was the Société Générale appointee for the region of western France and from 1996 until he was elected a member of the Komerční banka Board of Directors he was the Acting Director of the French network and Société Générale Distribution Networks. Since 1998, he has also been a member the General Management Committee of the Société Générale Group.

**Guy Poupet**
Vice-Chairman of the Board
of Directors
Born 5 January 1952,
resident in Prague.

A member of the Board of Directors since 25 June 2002. Graduate of the Institute for Political Sciences in Paris, Public Law Licenciate of the University of Paris and the Centre of European Community Studies of the University of Paris. He joined Société Générale in 1975, initially working from 1975 to 1983 in General Inspection. Later, between 1983 and 1987, he was the Deputy Managing Director of Groupe du Havre. From 1987 to 1992 he was the Deputy CEO at Banco Supervielle Société Générale, Argentina. Between 1992 and 1994 he was a member of the Executive Board and the CEO of SOCIETE Générale de Banques, Senegal, and from 1995 to 1998 he managed an information technology project in international management. From 1998 until he was elected a member of the Komerční banka Board of Directors, he was the Director of Securities Services Management. In October 2002 he was elected Vice-Chairman of the Board of Directors of Komerční banka, a. s.

**Olivier Flourens**
Member of the Board
of Directors
Born 1 July 1959,
resident in Prague.

Member of the Board of Directors since 1 February 2003. Graduate of the French Business School H.E.C. His carrier is bound up with Société Générale where he has been working since June 1984. Soon after joining SG he started to work in General Inspection, first as an internal auditor and from June 1991 as one of its managers. From April 1995 to March 1998 he was managing director of Société Générale Bank & Trust Luxembourg in charge of commercial and capital market activities. In April 1998 he became Chief Executive of SG branch in Milan and was responsible for all the activities of Investment Banking in Italy. From July to October 2002 he was the head of the Société Générale Investment Banking commercial loans portfolio management project. From October to the end of 2002 he joined the management team of the Risk Department of SG Paris. Since January 2003 he has worked for Komerční banka and has been Head of Group Risk since 1 February 2003.



**Peter Palečka**
Member of the Board of Directors
Born 3 November 1959, resident in Černošice.

Member of the Board of Directors since 5 October 2001. Graduate of the University of Economics, Bratislava. From 1982 to 1988, he worked for foreign trade enterprises. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federal Republic. Between 1992 and 1994, he was the Permanent Representative of the Czech and Slovak Federal Republic, and the Czech Republic respectively, to GATT, and from 1995 to 1998 he was the Permanent Representative of the Czech Republic to the World Trade Organisation. He joined Komerční banka, a. s. in 1998 as the Director for Strategy. In October 1999 he was elected a member and in April 2000 Vice-Chairman of the Komerční banka Board of Directors. On 5 October 2001 he resigned from this position and was re-elected on 5 October 2001 as a member and Vice-Chairman of the Board of Directors. At present, he is a member of the Board of Directors and Corporate Secretary.

**Matúš Púll**
Member of the Board of Directors
Born 25 June 1949, resident in Vrané nad Vltavou.

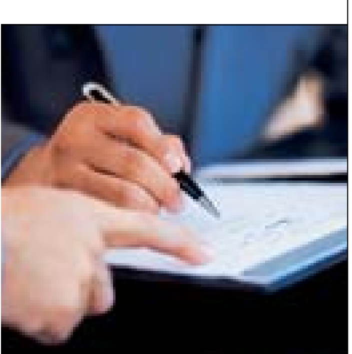
Member of the Board of Directors since 5 October 2001. Graduate of the University of Economics, Prague. In the period between 1972 and 1977, he worked for Fincom, a. s., Praha, a foreign trade company. Between 1977 and 1982, he worked at the Head Office of the State Bank of Czechoslovakia. From 1982 to 1995 he was managing representation office of Société Générale in Prague. From 1991 until he was elected a member of the Komerční banka Board of Directors he was a member of the executive management of Société Générale Komerční banka, later Société Générale banka and Société Générale, Prague branch, respectively.

**Philippe Rucheton**
Member of the Board of Directors
Born 9 September 1948, resident in Prague.

Member of the Board of Directors since 2 May 2002. Graduate of the High Military-Technical College École Polytechnique, Institut Supérieur des Affaires and of the Pantheón Sorbonne University. From 1972 to 1980 he worked as an adviser and senior manager in the banking operation of the BRED Group, from 1980 to 1988 at Louis-Dreyfus Bank. Between 1988 and 1995 he was the CFO and Deputy CEO of SG Europe Computer Systemes, an SG subsidiary. From 1995 until he was elected a member of the Komerční banka Board of Directors, he worked for Société Générale as Director of Assets and Liabilities Management.

Personnel changes in the Board of Directors during 2002 and 2003 up to the publication of the Annual Report:

| | |
|---|---|
| **Tomas Spurny** | Member of the Board of Directors and Senior Executive, Strategy and Finance (until 30 April 2002) |
| **Patrice Cheroutre** | Member of the Board of Directors and Senior Executive, Risk Management (until 31 January 2003) |



## Executive Committee

The Executive Committee has a mandate to decide on all important matters of the Bank's everyday operations. Its members are appointed by the Board of Directors and as at 30 April 2003 the committee consisted of the following members:

| | |
|---|---|
| Alexis Juan | Chairman of the Board of Directors and Chief Executive Officer |
| Guy Poupet | Vice-Chairman of the Board of Directors and Deputy Chief Executive (since 1 August 2002) |
| Peter Palečka | Member of the Board of Directors and Senior Executive, Corporate Secretary and TPO |
| Philippe Rucheton | Member of the Board of Directors and Chief Financial Officer (since 4 June 2002) |
| Matúš Púll | Member of the Board of Directors and Senior Executive, Corporate Banking |
| Olivier Flourens | Member of the Board of Directors and Senior Executive, Risk Management (since 1 February 2003) |
| Pascal Dupont | Senior Executive, Risk Management |
| Karel Vašák | Senior Executive, Human Resources |
| Martin Čejka | Senior Executive, Internal Audit and Control (since 15 November 2002) |
| Jitka Pantůčková | Senior Executive, Operations (since 1 November 2002) |
| Otakar Smolík | Senior Executive, Support Services (since 4 June 2002) |
| Christian Rouso | Senior Executive, Information Technology (since 1 August 2002) |
| André Léger | Senior Executive, Marketing |
| Michel Fenot | Senior Executive, Distribution Channels |
| Jan Pokorný | Deputy Senior Executive, Distribution Channels and Senior Executive, Distribution Network (since 31 January 2002) |
| Philippe Delacarte | Senior Executive, Medium Enterprises and Municipalities |
| Jan Kubálek | Senior Executive, Direct Channels |
| Marek Stefanowicz | Senior Executive, Capital Markets and Corporate Finance |
| Miloš Adámek | Senior Executive, Communication (since 1 February 2003) |

Personnel changes in the Executive Committee during 2002 and 2003 up to the publication of the Annual Report:

| | |
|---|---|
| Radomír Lašák | Senior Executive, Distribution Network (until 30 January 2002) |
| Tomas Spurny | Member of the Board of Directors and Senior Executive, Strategy and Finance (until 30 April 2002) |
| Jiří Huml | Senior Executive, Support Services (until 30 April 2002) |
| Vlastimil Nigrin | Senior Executive, Operations (from 1 August 2002 until 31 October 2002) |
| Michal Heřman | Senior Executive, Finance (until 30 November 2002) |
| Patrice Cheroutre | Member of the Board of Directors and Senior Executive, Risk Management (until 31 January 2003) |

## Supervisory Board

| | |
|---|---|
| Didier Alix | Chairman of the Supervisory Board (since 8 October 2001) |
| Jean-Louis Mattei | Vice-Chairman of the Supervisory Board (since 8 October 2001) |
| Séverin Cabannes | Member of the Supervisory Board (since 8 October 2001) |
| Jan Juchelka | Member of the Supervisory Board (from 31 May 1999 until 8 October 2001; re-elected 8 October 2001) |
| Pavel Krejčí* | Member of the Supervisory Board (since 27 May 2001) |
| Jan Kučera* | Member of the Supervisory Board (since 27 May 2001) |
| Petr Laube | Member of the Supervisory Board (since 8 October 2001) |
| Christian Poirier | Member of the Supervisory Board (since 8 October 2001) |
| Miroslava Šmídová* | Member of the Supervisory Board (since 27 May 2001) |

* elected by KB employees



# Organisational Chart

as at 31 December 2002

**Chairman & CEO**

Internal Audit

Strategy and Finance

Risk Managemet

CEO Office

Communication

Corporate Secretariat

Human Resources

Transformation Programme Office

**Vice Chairman & Deputy CEO**

Informational Technology

Operations

Support services

**Retail Banking**

Marketing Individuals & MEM

Distribution Channels

- Direct Channels
- Distribution Network
- Medium Enterprises and Municipalities

**Investment Banking**

Corporate Banking

Capital Markets & Corporate Finance

# Shareholders

## Shareholder Structure

Major shareholders of Komerční banka, a. s. with over 5% of the share capital as at 31 December 2002

| Shareholder | Proportion of share capital (%) |
|---|---|
| Société Générale S. A. | 60.35 |
| The Bank of New York ADR Department | 6.27 |

Of the Bank's total share capital, i.e. CZK 19,004,926,000 (38,009,852 shares of a nominal value of CZK 500), Société Générale S. A. holds 60.35%.
The Bank of New York ADR Department is, with the permission of the Czech National Bank, the holder of those shares for which Global Depository Receipts (GDRs) have been issued and which are in the possession of a significant number of foreign investors. The shares in the administration of The Bank of New York ADR Department make up 6.27% of the Bank's share capital.
At the end of 2002, the number of shareholders comprised 51,231 corporate entities and private individuals.

Shareholder Structure of Komerční banka (according to the statement from the Securities Register Prague as at 31 December 2002)

| | Number of shareholders | Proportion of number of shareholders (%) | Proportion of share capital (%) |
|---|---|---|---|
| **Number of shareholders** | **51,231** | **100.00** | **100.00** |
| of which: corporate entities | 222 | 0.43 | 82.55 |
| private individuals | 50,878 | 99.31 | 3.56 |
| unidentified shareholder accounts registered | 131 | 0.26 | 13.89 |
| **Corporate entities** | **222** | **100.00** | **82.55** |
| of which: from the Czech Republic | 130 | 58.56 | 1.55 |
| from other countries | 92 | 41.44 | 81.00 |
| **Private individuals** | **50,878** | **100.00** | **3.56** |
| of which: from the Czech Republic | 46,009 | 90.43 | 3.42 |
| from other countries | 4,869 | 9.57 | 0.14 |

## Major Decisions and Results of the General Meetings held in 2002

**In 2002, two General Meetings of Komerční banka, a. s. were held:**
On 28 March 2002, a General Meeting of Komerční banka, a. s., was held. Shareholders resolved to enter into an agreement for the sale of the Société Générale S. A., Prague branch to Komerční banka and approved an amendment to the Bank's Articles of Association.

At the General Meeting of Komerční banka held on 26 June 2002 shareholders approved the financial statements of the Bank for 2001 and resolved to distribute the profit for 2001, in the amount of CZK 2,624 million (CAS). Shareholders resolved to pay out a dividend of CZK 11.50 before tax per share.
The General Meeting also approved:
– The Report of the Board of Directors on the business activities of the Bank and the state of its assets for 2001,
– The consolidated financial statements of Komerční banka for 2001,
– Acquisition of the Bank's own shares under precisely defined conditions,
– An amendment to the Bank's Articles of Association,
– Emoluments for members of the Bank's statutory bodies and an agreement on the holding of an office in the Bank's Supervisory Board,
– Agreement on the sale of Komerční banka, státní peněžní ústav, to Komerční banka, a. s.



# Report of the Supervisory Board

Throughout 2002, the Supervisory Board carried out tasks as defined by law and the Articles of Association of the company. It performed its supervisory functions with regard to the Bank's activities and passed its opinions to the Board of Directors.
Having checked the Bank's financial statements for the period from 1 January 2002 to 31 December 2002, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in accordance with legal requirements on banks and with the Bank's own Articles of Association and present a full and accurate picture of the Bank's financial situation

Deloitte & Touche performed an audit of the Bank's financial statements:
– Under current Czech Accounting Standards, which declared that assets and liabilities and the financial result as at 31 December 2002 were fairly and correctly stated. The report was unqualified.
– Under International Financial Reporting Standards. The report was unqualified.

The Supervisory Board recommends that the General Meeting approve the financial result for the year 2002.

Prague, 27 March 2003

On behalf of the Supervisory Board:

Didier Alix
Chairman of the Supervisory Board

Deloitte & Touche

# Auditors' Report for Shareholders of Komerční banka

Deloitte & Touche spol s r.o.
Týn 641/4
110 00 Prague 1
Czech Republic
Phone: +420 224 895 500
Fax: +420 224 895 555
www.deloitteCE.com
Entered in the Commercial Register by the Municipal Court in Prague, Section C, File No. 24349.
ID: 49620592
TID: 001-49620592

We have audited the financial statements of Komerční banka, a. s. for the year ended 31 December 2002 as follows:
– Unconsolidated financial statements prepared in accordance with the Act on Accounting No. 563/1991 Coll., and applicable Czech regulations, which are included in this annual report on pages 62 to 114;
– Consolidated financial statements prepared in accordance with International Financial Reporting Standards which are included in this annual report on pages 119 to 167;
– Unconsolidated financial statements prepared in accordance with International Financial Reporting Standards, from which the summarised financial statements included in this annual report on pages 115 to 118 were derived.

The summarised unconsolidated financial statements prepared in accordance with International Financial Reporting Standards included in this annual report were derived from the audited unconsolidated financial statements, on which we issued unqualified audit opinion dated 13 March 2003. In our opinion, these summarised financial statements are consistent, in all material respects, with the audited financial statements. For a better understanding of the financial position of Komerční banka, a. s. and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the consolidated financial statements from which the summarised financial statements were derived and our audit report thereon.

We have reviewed the factual accuracy of information included in the Report on Transactions with Related Parties included in this annual report on pages 179 to 187. This report is the responsibility of the Company's Board of Directors. Based on our review nothing has come to our attention that indicates that there are material factual inaccuracies in the information contained in the report.

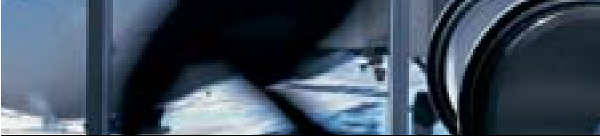
We have also read other financial information included in this annual report for consistency with the audited financial statements. The responsibility for the completeness and correctness of the annual report rests with the Company's Board of Directors. In our opinion, this information is consistent, in all material respects, with the audited financial statements.

Prague, 20 May 2003

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

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

Deloitte Touche Tohmatsu





# Sworn Statement

Komerční banka, a. s. hereby declares that all information and data contained in this annual report are accurate and correct. It further confirms that this document contains all facts that may be important for decisions taken by investors.

Komerční banka, a. s. also declares that as at the date on which the annual report was compiled no negative changes had occurred in the financial situation, nor were there any other changes which might have affected the accurate and correct assessment of the Bank's financial situation.

Prague, 30 April 2003

Signed on behalf of the Board of Directors:

**Alexis Juan**
Chairman of the Board of Directors and CEO

**Philippe Rucheton**
Member of the Board of Directors and CFO

# Financial Statements

Deloitte & Touche

# Unconsolidated Financial Statements under CAS as of 31 December 2002

Deloitte & Touche spol s r.o.
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Entered in the Commercial Register by the Municipal Court in Prague, Section C, File No. 24349.
ID: 49620592
TID: 001-49620592

## Auditor's Report to the Shareholders of Komerční banka, a. s.

We have audited the accompanying financial statements of Komerční banka, a. s. for the year ended 31 December 2002. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Bank in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of Komerční banka, a. s. as of 31 December 2002 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

Prague, 13 March 2003

Deloitte & Touche

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

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

Deloitte Touche Tohmatsu

# Unconsolidated Profit and Loss Statement For the Year Ended 31 December 2002

CZK thousand

| Item no. | Name of item | Note | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| 1. | Interest income and similar income | 4 | 25,457,111 | 28,686,825 | 29,095,527 |
| | of which: interest income from debt securities | | 1,921,948 | 2,805,224 | 1,608,048 |
| 2. | Interest expense and similar expense | 4 | (12,843,367) | (15,121,580) | (16,751,661) |
| | of which: interest expense from debt securities | | (2,176,179) | (2,460,861) | (2,081,195) |
| 3. | Income from shares and equity investments | | 220,519 | 222,102 | 453,120 |
| (a) | Income from equity investments in associates | | 93,101 | 138,913 | 210,464 |
| (b) | Income from equity investments from subsidiaries | | 89,588 | 82,798 | 240,160 |
| (c) | Income from other shares and equity investments | | 37,830 | 391 | 2,496 |
| 4. | Commission and fee income | 5 | 6,755,060 | 6,486,429 | 5,426,949 |
| 5. | Commission and fee expense | 5 | (523,139) | (505,042) | (1,005,225) |
| 6. | Net profit or loss on financial operations | 6 | 2,710,984 | 1,691,082 | 3,293,622 |
| 7. | Other operating income | 7 | 2,510,919 | 1,663,925 | 676,291 |
| 8. | Other operating expenses | 7 | (1,272,287) | (1,722,639) | (1,564,078) |
| 9. | Administrative expenses | 8 | (10,432,727) | (10,343,504) | (9,457,502) |
| (a) | Staff costs | | (5,003,152) | (5,936,897) | (5,290,049) |
| (aa) | Wages and salaries | | (3,722,616) | (4,418,105) | (3,910,700) |
| (ab) | Social security and health insurance | | (1,280,536) | (1,518,792) | (1,379,349) |
| (b) | Other administrative costs | | (5,429,575) | (4,406,607) | (4,167,453) |
| 10. | Use of reserves and provisions for tangible and intangible fixed assets | 9 | 914,840 | 352,587 | 1,200 |
| (a) | Use of reserves for tangible fixed assets | | 41,809 | 0 | 1,200 |
| (b) | Use of provisions for tangible fixed assets | | 631,391 | 83,573 | 0 |
| (c) | Use of provisions for intangible fixed assets | | 241,640 | 269,014 | 0 |
| 11. | Depreciation/amortisation, charge for reserves and provisions for tangible and intangible fixed assets | 9 | (2,060,154) | (3,308,753) | (2,191,440) |
| (a) | Depreciation of tangible fixed assets | | (1,098,284) | (1,234,190) | (1,478,233) |
| (b) | Charge for reserves for tangible fixed assets | | 0 | (41,809) | 0 |
| (c) | Charge for provisions for tangible fixed assets | | (334,336) | (1,145,983) | (152,000) |
| (d) | Amortisation of intangible fixed assets | | (546,010) | (558,108) | (340,207) |
| (e) | Charge for provisions for intangible fixed assets | | (81,524) | (328,663) | (221,000) |
| 12. | Use of provisions and reserves for receivables and guarantees, income from transferred receivables and recoveries of receivables previously written off | 9 | 13,345,368 | 8,674,873 | 65,694,446 |
| (a) | Use of reserves for receivables and guarantees | | 2,868,823 | 491,913 | 146,025 |
| (b) | Use of provisions for receivables and receivables from guarantees | | 9,411,370 | 5,924,530 | 28,478,705 |
| (c) | Income from transferred receivables and recoveries of receivables previously written off | | 1,065,175 | 2,258,430 | 37,069,716 |
| 13. | Write-offs, charge for provisions and reserves for receivables and guarantees | 9 | (12,444,140) | (12,747,659) | (73,569,691) |
| (a) | Charge for provisions for receivables and receivables from guarantees | | (6,033,731) | (8,022,589) | (16,531,676) |
| (b) | Charge for reserves for guarantees | | (1,073,724) | (2,736,419) | (2,622,323) |
| (c) | Write-offs of receivables and amounts due from guarantee payments, losses from the transfer of receivables | | (5,336,685) | (1,988,651) | (54,415,692) |
| 14. | Use of provisions for equity investments in subsidiaries and associates | 9 | 266,808 | 177,548 | 0 |
| 15. | Charge for provisions for equity investments in subsidiaries and associates | 9 | (687,167) | (395,759) | (533,836) |
| 16. | Use of other reserves | 9 | (2,075,158) | 2,510,208 | 1,208,269 |
| 17. | Charge for other reserves | 9 | (2,902,298) | (2,627,772) | (914,526) |
| 18. | Use of other provisions | 9 | 276,670 | 239,759 | 48,582 |
| 19. | Charge for other provisions | 9 | (5,858) | (545,738) | (41,975) |
| 20. | Profit/(loss) for the period from ordinary activities before taxes | | 11,362,300 | 3,386,892 | (131,928) |
| 21. | Extraordinary income | 10 | 2,496,872 | 0 | 0 |
| 22. | Extraordinary expenses | 10 | (1,983,921) | 0 | 0 |
| 23. | Profit/(loss) for the period from extraordinary activities before taxes | | 512,951 | 0 | 0 |
| 24. | Income tax | 11 | (2,646,165) | (763,250) | (17,408) |
| 25. | Share of profits/(losses) of subsidiaries and associates | | 0 | 0 | 0 |
| 26. | Net profit/(loss) for the period | | 9,229,086 | 2,623,642 | (149,336) |

# Unconsolidated Balance Sheet as of 31 December 2002
## ASSETS

CZK thousand

| Item no. | Name of item | Note | 2002 Gross | 2002 Adjustment | 2002 Net | 2001 | 2000 |
|---|---|---|---|---|---|---|---|
| 1. | **Cash in hand, balances with central banks** | 12 | **13,359,675** | **0** | **13,359,675** | **17,259,842** | **19,787,027** |
| 2. | **State zero-coupon bonds and other securities eligible for refinancing with the CNB** | 12 | **14,214,077** | **0** | **14,214,077** | **7,151,795** | **19,039,812** |
| (a) | State securities | | 14,214,077 | 0 | 14,214,077 | 7,151,795 | 19,039,812 |
| (b) | Other | | 0 | 0 | 0 | 0 | 0 |
| 3. | **Amounts due from banks and savings associations** | 13 | **200,283,040** | **11,016** | **200,272,024** | **156,875,056** | **177,035,202** |
| (a) | Repayable on demand | | 5,983,214 | 0 | 5,983,214 | 215,475 | 777,073 |
| (b) | Other receivables | | 194,299,826 | 11,016 | 194,288,810 | 156,659,581 | 176,258,129 |
| 4. | **Amounts due from customers and members of savings associations** | 14 | **175,377,585** | **11,571,777** | **163,805,808** | **193,774,317** | **133,977,196** |
| (a) | Repayable on demand | | 2,443,663 | 0 | 2,443,663 | 1,926,844 | 1,040,821 |
| (b) | Other receivables | | 172,933,922 | 11,571,777 | 161,362,145 | 191,847,473 | 132,936,375 |
| 5. | **Debt securities** | 15 | **19,667,295** | **0** | **19,667,295** | **26,988,554** | **31,160,108** |
| (a) | Issued by state institutions | | 838,565 | 0 | 838,565 | 1,896,828 | 4,881,571 |
| (b) | Issued by other entities | | 18,828,730 | 0 | 18,828,730 | 25,091,726 | 26,278,537 |
| 6. | **Shares, participation certificates and other holdings** | 15 | **2,261,856** | **0** | **2,261,856** | **4,326,334** | **4,743,569** |
| 7. | **Equity holdings in associates** | 16 | **334,899** | **240** | **334,659** | **334,460** | **489,730** |
| (a) | In banks | | 220,000 | 0 | 220,000 | 220,000 | 280,000 |
| (b) | In other entities | | 114,899 | 240 | 114,659 | 114,640 | 209,730 |
| 8. | **Equity holdings in subsidiaries** | 16 | **2,425,264** | **1,172,019** | **1,253,245** | **888,128** | **1,135,189** |
| (a) | In banks | | 413,485 | 0 | 413,485 | 411,433 | 438,366 |
| (b) | In other entities | | 2,011,779 | 1,172,019 | 839,760 | 476,695 | 696,823 |
| 9. | **Intangible fixed assets** | 17 | **3,183,356** | **2,086,806** | **1,096,550** | **1,124,257** | **872,579** |
| (a) | of which: Incorporation costs | | 0 | 0 | 0 | 0 | 0 |
| (b) | Goodwill | | 0 | 0 | 0 | 0 | 0 |
| (c) | Other | | 3,183,356 | 2,086,806 | 1,096,550 | 1,124,257 | 872,579 |
| 10. | **Tangible fixed assets** | 17 | **20,204,478** | **10,718,686** | **9,485,792** | **10,137,435** | **12,207,521** |
| (a) | Land and buildings for operating activities | | 11,619,188 | 4,037,926 | 7,581,262 | 7,697,478 | 9,279,966 |
| (b) | Other | | 8,585,290 | 6,680,760 | 1,904,530 | 2,439,957 | 2,927,555 |
| 11. | **Other assets** | 18 | **19,710,905** | **289,905** | **19,421,000** | **9,865,038** | **6,131,408** |
| 12. | **Receivables from shareholders and partners** | | **0** | **0** | **0** | **0** | **0** |
| 13. | **Prepayments and accrued income** | 18 | **809,778** | **0** | **809,778** | **933,218** | **978,590** |
| 14. | **TOTAL ASSETS** | | **471,832,208** | **25,850,449** | **445,981,759** | **429,658,614** | **407,557,931** |

# Unconsolidated Balance Sheet as of 31 December 2002
## LIABILITIES

CZK thousand

| Item no. | Name of item | Note | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| 1. | **Amounts owed to banks, savings associations** | 19 | **22,288,064** | **29,131,003** | **39,674,320** |
| (a) | Repayable on demand | | 6,587,126 | 3,553,388 | 6,154,880 |
| (b) | Other payables | | 15,700,938 | 25,577,615 | 33,519,440 |
| 2. | **Amounts owed to customers, members of savings associations** | 20 | **305,788,297** | **289,637,521** | **272,228,259** |
| (a) | Repayable on demand | | 172,474,584 | 147,276,134 | 133,899,742 |
| | of which: savings deposits | | 1,509,802 | 1,493,401 | 1,691,708 |
| (b) | Other payables | | 133,313,713 | 142,361,387 | 138,328,517 |
| | of which: (ba) Savings deposits with maturity | | 1,324,537 | 1,522,754 | 1,614,148 |
| | (bb) Savings deposits repayable at notice | | 14,821,363 | 18,329,554 | 21,535,405 |
| | (bc) Term deposits with maturity | | 110,592,214 | 121,617,572 | 105,127,100 |
| | (bd) Term deposits repayable at notice | | 0 | 0 | 0 |
| 3. | **Payables from debt securities** | 21 | **53,905,012** | **59,427,456** | **51,204,676** |
| (a) | Issued debt securities | | 53,592,708 | 59,427,456 | 51,204,676 |
| (b) | Other payables from debt securities | | 312,304 | 0 | 0 |
| 4. | **Other liabilities** | 22 | **13,455,151** | **8,632,204** | **6,806,228** |
| 5. | **Deferred income and accrued expenses** | 22 | **29,058** | **224,663** | **759,555** |
| 6. | **Reserves** | 9 | **10,612,556** | **11,605,577** | **9,201,697** |
| (a) | For pensions and similar liabilities | | 0 | 0 | 0 |
| (b) | For taxes | | 0 | 0 | 0 |
| (c) | Other | | 10,612,556 | 11,605,577 | 9,201,697 |
| 7. | **Subordinated liabilities** | 23 | **6,100,015** | **7,332,678** | **7,648,861** |
| 8. | **Share capital** | 24 | **19,004,926** | **19,004,926** | **19,004,926** |
| | of which: share capital paid up | | 19,004,926 | 19,004,926 | 19,004,926 |
| 9. | **Treasury shares** | 24 | **(23,445)** | **(178,933)** | **(5,265)** |
| 10. | **Share premium** | 24 | **124,387** | **0** | **0** |
| 11. | **Reserve funds and other funds from profit** | 25 | **1,192,913** | **1,010,592** | **1,184,010** |
| (a) | Mandatory reserve funds | | 689,233 | 558,050 | 558,050 |
| (b) | Reserves for treasury shares | | 0 | 179,000 | 6,000 |
| (c) | Other reserve funds | | 387,550 | 208,550 | 530,886 |
| (d) | Other funds from profit | | 116,130 | 64,992 | 89,074 |
| | of which: funds for risks | | 0 | 0 | 0 |
| 12. | **Revaluation reserve** | | **0** | **0** | **0** |
| 13. | **Capital funds** | | **11** | **0** | **0** |
| 14. | **Gains /(losses) from revaluation** | 26 | **2,344,260** | **1,207,285** | **0** |
| (a) | of assets and liabilities | | 0 | 0 | 0 |
| (b) | hedging derivatives | | 2,397,897 | 1,262,976 | 0 |
| (c) | re-translation of equity holdings | | (53,637) | (55,691) | 0 |
| 15. | **Retained earnings or accumulated losses brought forward** | 25 | **1,931,468** | **0** | **0** |
| 16. | **Profit/(loss) for the period** | | **9,229,086** | **2,623,642** | **(149,336)** |
| 17. | **TOTAL LIABILITIES** | | **445,981,759** | **429,658,614** | **407,557,931** |

# Unconsolidated Off Balance Sheet Accounts as of 31 December 2002
## OFF BALANCE SHEET ASSETS

CZK thousand

| Item no. | Name of item | Note | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **1.** | **Issued commitments and guarantees** | **27** | **97,105,451** | **50,958,363** | **62,801,918** |
| (a) | Commitments | | 74,531,335 | 31,415,083 | 34,702,957 |
| (b) | Guarantees and warranties | | 21,145,843 | 18,070,234 | 26,502,374 |
| (c) | Guarantees from bills of exchange | | 0 | 20,019 | 4,800 |
| (d) | Guarantees under letters of credit | | 1,428,273 | 1,453,027 | 1,591,787 |
| **2.** | **Provided collateral** | **27** | **0** | **0** | **0** |
| (a) | Real estate collateral | | 0 | 0 | 0 |
| (b) | Cash collateral | | 0 | 0 | 0 |
| (c) | Securities | | 0 | 0 | 0 |
| (d) | Other | | 0 | 0 | 0 |
| **3.** | **Amounts due from spot transactions** | **27** | **2,881,467** | **1,985,269** | **4,237,560** |
| (a) | with interest rate instruments | | 0 | 0 | 1,006,937 |
| (b) | with currency instruments | | 2,789,677 | 1,985,269 | 3,230,623 |
| (c) | with equity instruments | | 91,790 | 0 | 0 |
| (d) | with commodity instruments | | 0 | 0 | 0 |
| **4.** | **Amounts due from term transactions** | **27** | **389,299,686** | **375,275,846** | **256,367,336** |
| (a) | with interest rate instruments | | 286,927,454 | 265,599,643 | 184,344,729 |
| (b) | with currency instruments | | 102,372,232 | 109,676,203 | 72,022,607 |
| (c) | with equity instruments | | 0 | 0 | 0 |
| (d) | with commodity instruments | | 0 | 0 | 0 |
| (e) | with credit instruments | | 0 | 0 | 0 |
| **5.** | **Amounts due from option transactions** | **27** | **24,808,709** | **27,122,950** | **12,911,267** |
| (a) | with interest rate instruments | | 5,600,000 | 4,400,000 | 4,400,000 |
| (b) | with currency instruments | | 4,450,867 | 2,216,624 | 8,511,267 |
| (c) | with equity instruments | | 0 | 0 | 0 |
| (d) | with commodity instruments | | 0 | 0 | 0 |
| (e) | with credit instruments | | 14,757,842 | 20,506,326 | 0 |
| **6.** | **Receivables written off** | **27** | **16,787,691** | **18,631,930** | **27,025,021** |
| **7.** | **Assets provided into custody, administration and safe-keeping** | **27** | **30,001** | **5,017,406** | **0** |
| | of which: securities | | 30,001 | 5,017,406 | 0 |
| **8.** | **Assets provided for management** | **27** | **0** | **0** | **0** |
| | of which: securities | | 0 | 0 | 0 |

# Unconsolidated Off Balance Sheet Accounts as of 31 December 2002
## OFF BALANCE SHEET LIABILITIES

CZK thousand

| Item no. | Name of item | Note | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| 1. | **Accepted commitments and guarantees** | 27 | **97,008,735** | **115,543,014** | **99,186,934** |
| (a) | Commitments | | 0 | 0 | 2,000,000 |
| (b) | Guarantees and warranties | | 92,987,466 | 111,008,660 | 93,266,384 |
| (c) | Guarantees from bills of exchange | | 4,021,269 | 4,498,095 | 3,882,737 |
| (d) | Guarantees under letters of credit | | 0 | 36,259 | 37,813 |
| 2. | **Received collateral** | 27 | **316,384,198** | **305,896,124** | **298,728,628** |
| (a) | Real estate collateral | | 129,828,220 | 160,086,342 | 188,303,440 |
| (b) | Cash collateral | | 8,522,261 | 10,278,329 | 19,472,750 |
| (c) | Securities | | 435,160 | 726,810 | 1,031,545 |
| (d) | Other collateral | | 35,014,983 | 40,433,091 | 25,043,943 |
| (e) | Collateral – securities | | 142,583,574 | 94,371,552 | 64,876,950 |
| 3. | **Amounts owed from spot transactions** | 27 | **2,882,055** | **1,987,040** | **4,269,891** |
| (a) | with interest rate instruments | | 0 | 0 | 1,006,937 |
| (b) | with currency instruments | | 2,790,265 | 1,987,040 | 3,262,954 |
| (c) | with equity instruments | | 91,790 | 0 | 0 |
| (d) | with commodity instruments | | 0 | 0 | 0 |
| 4. | **Amounts owed from term transactions** | 27 | **385,890,418** | **373,672,521** | **256,148,235** |
| (a) | with interest rate instruments | | 286,928,228 | 265,600,156 | 184,344,729 |
| (b) | with currency instruments | | 98,962,190 | 108,072,365 | 71,803,506 |
| (c) | with equity instruments | | 0 | 0 | 0 |
| (d) | with commodity instruments | | 0 | 0 | 0 |
| (e) | with credit instruments | | 0 | 0 | 0 |
| 5. | **Amounts owed from option transactions** | 27 | **24,808,709** | **27,122,950** | **12,694,086** |
| (a) | with interest rate instruments | | 5,600,000 | 4,400,000 | 4,400,000 |
| (b) | with currency instruments | | 4,450,867 | 2,216,624 | 8,294,086 |
| (c) | with equity instruments | | 0 | 0 | 0 |
| (d) | with commodity instruments | | 0 | 0 | 0 |
| (e) | with credit instruments | | 14,757,842 | 20,506,326 | 0 |
| 6. | **Assets received into custody, administration and safe-keeping** | 27 | **30,544,399** | **14,380,765** | **15,720,798** |
| | of which: securities | | 30,544,399 | 14,380,765 | 15,720,798 |
| 7. | **Assets received for management** | 27 | **2,400,376** | **0** | **0** |
| | of which: securities | | 2,400,376 | 0 | 0 |

# Statement of Changes in Equity
# For the Year Ended 31 December 2002

CZK thousand

| Item no. | Name of item | Note | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| 1. | **Share capital** | 24 | | | |
| | Opening balance | | 19,004,926 | 19,004,926 | 16,604,291 |
| | Increase | | 0 | 0 | 2,400,635 |
| | Decrease | | 0 | 0 | 0 |
| | Conversion of convertible bonds in shares | | 0 | 0 | 0 |
| | Exercise of options and warrants | | 0 | 0 | 0 |
| | Closing balance | | 19,004,926 | 19,004,926 | 19,004,926 |
| 2. | **Treasury shares** | 24 | **23,445** | **178,933** | **5,265** |
| 3. | **Share premium** | 24 | | | |
| | Opening balance | | 0 | 0 | 6,008,027 |
| | Increase | | 158,433 | 0 | 0 |
| | Decrease | | 34,046 | 0 | 6,008,027 |
| | Closing balance | | 124,387 | 0 | 0 |
| 4. | **Reserve funds** | 25 | | | |
| | Opening balance | | 737,050 | 564,050 | 2,421,156 |
| | Mandatory allocation | | 131,182 | 0 | 0 |
| | Other increase | | 258,341 | 173,000 | 0 |
| | Decrease | | 437,340 | 0 | 1,857,106 |
| | Closing balance | | 689,233 | 737,050 | 564,050 |
| 5. | **Other funds from profit** | 25 | | | |
| | Opening balance | | 273,542 | 619,960 | 1,564,843 |
| | Increase | | 562,983 | 0 | 0 |
| | Decrease | | 332,845 | 346,418 | 944,883 |
| | Closing balance | | 503,680 | 273,542 | 619,960 |
| 6. | **Capital funds** | 25 | **11** | **0** | **0** |
| 7. | **Gains/(losses) from revaluation not included in profit/(loss)** | 26 | | | |
| | Opening balance | | 1,207,285 | 0 | 0 |
| | Increase | | 10,530,251 | 9,403,598 | 0 |
| | Decrease | | 9,393,276 | 8,196,313 | 0 |
| | Closing balance | | 2,344,260 | 1,207,285 | 0 |
| 8. | **Retained earnings** | 25 | | | |
| | Opening balance | | 0 | 0 | 468,886 |
| | Increase | | 2,623,642 | 0 | 0 |
| | Decrease | | 692,174 | 0 | 468,886 |
| | Closing balance | | 1,931,468 | 0 | 0 |
| 9. | **Accumulated losses** | 25 | | | |
| | Opening balance | | 0 | 0 | 0 |
| | Increase | | 0 | 149,336 | 9,241,992 |
| | Decrease | | 0 | 149,336 | 9,241,992 |
| | Closing balance | | 0 | 0 | 0 |
| 10. | **Net profit/(loss) for the period** | | **9,229,086** | **2,623,642** | **(149,336)** |
| 11. | **Dividends** | 25 | **437,113** | **0** | **0** |

These financial statements were approved by the Board of Directors on 13 March 2003.

Signed on behalf of the Board of Directors:

Alexis Juan
Chairman of the Board of Directors and CEO

Philippe Rucheton
Member of the Board of Directors and CFO

# Notes to the Unconsolidated Financial Statements according to CAS as of 31 December 2002

## 1. Principal activities

Komerční banka, a. s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:

I. Providing loans, advances and guarantees in Czech Crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech Crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech Crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions;
VII. Investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its subsidiary Komerční banka Bratislava, a. s.
The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale, a French bank, became the majority shareholder of the Bank on 4 October 2001 following its purchase of a 60 percent shareholding in the Bank which had been held by the Czech Government through the National Property Fund. Société Générale presently holds 60.35% of the Bank's issued share capital.

## 2. Events for the year ended 31 December 2002

**Purchase of Société Générale's Prague branch**
Following the approval by the General Meeting of Shareholders and the Czech National Bank, the Bank purchased the business of Société Générale's Prague branch for CZK 1,030 million as of 1 April 2002.
The Bank purchased Société Générale's Prague branch pursuant to the Share Purchase Agreement entered into between the National Property Fund and Société Générale on 12 July 2001, under which Société Générale undertook to integrate its branch in the Czech Republic into Komerční banka's operations at the earliest opportunity.
As of 31 December 2001, Société Générale's Prague branch had recorded assets of CZK 22,208 million, loans and advances to clients of CZK 4,697 million, and client deposits and bills sold to clients of CZK 10,409 million. Following the purchase of the business, the Bank also took on approximately 150 employees of Société Générale's Prague branch.

**Dividends declared in respect of the year ended 31 December 2001**
At the General Meeting held on 26 June 2002, the shareholders approved a dividend for the year ended 31 December 2001 of CZK 11.50 per share. The dividend was declared in the aggregate amount of CZK 437 million in respect of the net profit of CZK 2,624 million under Czech Accounting Standards for that year.

### Sale of a portfolio of non-performing loans

The Bank entered into a framework agreement for the sale of a portfolio of non-performing loans with the GE Capital Group ("GE") on 29 November 2002.

During January 2003, the Bank and GE signed an amendment to the framework agreement under which the size of the portfolio of the sold non-performing loans was reduced. The Bank has recognized the impact of the transaction and the subsequent amendment in its financial statements for the year ended 31 December 2002.

Pursuant to the amended framework agreement, non-performing loans with an aggregate nominal value of CZK 15,569 million will be assigned for consideration of CZK 2,659 million (including on balance sheet and off balance sheet exposures and receivables fully written off in prior years) in the first half of 2003.

The non-performing loans with a nominal value of CZK 15,569 million consist of the following amounts:

– Exposures of CZK 4,285 million covered by the State Guarantee;
– Other exposures of CZK 4,860 million;
– Loans written off in prior years of CZK 6,424 million.

The purchase price paid by GE was determined by reference to the balances of the loan exposures as of 30 September 2002 on the basis that the Bank will pass to GE all payments of principal amounts and interest of the assigned loans collected subsequent to this date and that GE will pay the Bank a service fee to reimburse it for the relevant portion of costs incurred by the Debt Recovery Division in managing and recovering the transferred loans subsequent between 30 September 2002 to the date of their legal transfer to GE.

The Bank has reflected the impact of the sale of the portfolio of non-performing loans in its financial statements for the year ended 31 December 2002 according to the economic substance of the transaction. The impact on the profit and loss statement was not material. The sold loans have been retained on the Bank's balance sheet and have been remeasured the exposures on the basis of the selling prices negotiated with GE. The sold loans will be removed from the Bank's balance sheet on the date of their assignment to GE. The aggregate net carrying amount of the on balance sheet exposures sold to GE was CZK 1,987 million as of 31 December 2002.

### Flooding in August 2002

The Bank did not incur any significant losses in respect of its business activities or assets as a result of floods. The floods had a slightly adverse impact on the level of fees and commissions collected by the Bank in respect of services and foreign exchange transactions.

### Restructuring of Komerční pojišťovna, a. s.

Following the reporting of significant losses by Komerční pojišťovna, a. s. ("KP") in the year ended 31 December 2001 and in prior years, the Bank has decided to substantially restructure the business.

In September 2002, KP entered into an agreement with Kooperativa, a. s. to sell its third party motor liability insurance and accident insurance portfolios (with aggregate annual insurance premiums written of approximately CZK 1,000 million). As part of the transaction, KP assigned receivables, payables and technical reserves associated with these types of insurance in the amount of CZK 839 million as well as all rights and obligations relating to the re-insurance program underlying third party motor liability insurance.

KP ceased selling industrial insurance policies at the beginning of 2002 and is presently taking steps to discontinue its industrial insurance business.

In the latter half of 2002, KP substantially reduced its sales network and focused on launching the distribution of new life insurance products through the Bank's distribution network.

Following substantial losses incurred by KP in recent years, the Bank increased KP's capital by a total of CZK 989 million during the year ended 31 December 2002.

## 3. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### (a) Basis of accounting

The financial statements are based on the Bank's accounting records which are maintained in accordance with Accounting Act 563/1991 Coll. and relevant regulations and guidance, specifically the regulation of the Czech Finance Ministry no. 282/73 390/2001, which establishes the chart of accounts and the accounting principles for banks effective for the year ended 31 December 2002, which resulted in changes in the accounting treatment for securities, reverse repurchase transactions and provisioning for general banking risks.

The financial statements are prepared on an accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate. The financial statements are prepared under the historical cost convention, as modified by the remeasurement of financial instruments held for trading and available for sale to fair value.

The financial statements are prepared in accordance with the regulation of the Czech Finance Ministry no. 282/73 391/2001 dated 7 December 2001, which establishes the structure and substance of financial statement components and the scope of financial statement disclosures for banks, under which comparative figures for the previous two financial reporting periods are reported reflecting the conditions that exist in the period for which the financial statements are prepared. As such, the Bank has restated the amounts reported for the previous two periods and the presented figures are not necessarily consistent with the balances and amounts presented in the financial statements for the prior periods.

The presentation of financial statements requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheet date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

These financial statements reflect only the results of operations of the Bank and do not reflect the performance of the Bank's subsidiary and associated undertakings, a listing of which can be found at Note 16 to these financial statements. The Bank has also prepared consolidated financial statements under International Accounting Standards which show the consolidated results of the Group.

The reporting currency used in the financial statements is the Czech Crown ('CZK') with accuracy to CZK thousand, unless indicated otherwise.

### (b) Equity investments in subsidiaries and associates

Subsidiary undertakings are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the share capital or otherwise has power to exercise control over the operations of the entity. Associated undertakings are those companies in which the Bank, directly or indirectly, holds 20 – 50 percent of the entity's issued share capital.

The Bank's investments in subsidiary and associated undertakings are recognised at cost less any provisions. Investments, in which the Bank, directly or indirectly, has an equity interest less than 20 percent, are reported as *Shares, participation certificates and other holdings* and are carried at fair value.

Dividends are recorded as declared and included as a receivable in the balance sheet line *Prepayments and accrued income* and in *Income from shares and equity investments* in the profit and loss statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Provisions against equity investments are established as equal to the excess of cost over the Bank's share of the entity's equity balance.

Gains and losses arising from the re-translation of equity investments denominated in foreign currencies are reported on the face of the balance sheet as a component of equity within *Gains or losses from revaluation* and are recognised through the profit and loss statement only after the relevant investments are sold.

(c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Czech Crowns and reported in the financial statements at the exchange rate declared by the Czech National Bank ('CNB') prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Czech Crowns in the underlying accounting system of the Bank and are therefore reported in the financial statements as re-translated at the official exchange rate prevailing as of the date of the transaction. Gains and losses arising from movements in exchange rates after the date of the transaction are recognised in *Net profit/(loss) on financial operations*.

Gains or losses on the revaluation of equity investments denominated in foreign currencies are recorded on the balance sheet as a component of *Gains or losses from revaluation*.

(d) Amounts due from banks and customers

Loans originated by the Bank by providing money directly to a borrower are categorised as loans originated by the Bank and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

Loans and advances to customers and financial institutions are stated net of provisions for loan losses.

Further details about provisioning are set out in Note 27 to these financial statements.

Penalty interest assessed subsequent to 1 January 2001 is accounted for as income in the profit and loss statement and reflected in the on-balance sheet receivable balance.

The Bank writes off loss loans when clients are unable to fulfil their obligations to the Bank in respect of these loans. The loan is written off against the related provision for loan impairment. Subsequent recoveries are credited to the profit and loss statement in *Use of provisions and reserves for receivables and guarantees, income from transferred receivables and recoveries of receivables previously written off* if previously written off.

(e) Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. The Bank has classified securities as *Trading securities*, *Available for sale* and *Held to maturity.* With effect from 2002, the Bank has also carried securities in the category 'Acquired under initial offerings not designated for trading' which are reported together with receivables.

All securities held by the Bank are recognised using settlement date accounting and are measured at cost which, for coupon bonds, includes amortised cost, accrued coupon and an element of direct transaction costs associated to the acquisition of securities. All purchases and sales of securities that do not meet the 'regular way' settlement criterion are treated as financial derivatives and are recognised on the face of the balance sheet upon settlement in fair value. The cost of debt securities is increased or decreased to reflect the accrued interest income or expense using the effective interest rate method. Interest income and expense includes the accrued coupon and the accrued difference between the nominal value of the security and its amortised cost.

Trading and available-for-sale securities are remeasured to fair value. Unrealised gains and losses arising from the remeasurement of securities to fair value as well as realised gains and losses are included in the profit and loss statement line *Net profit/(loss) on financial operations*. Securities held to maturity and acquired under initial offerings not designated for trading are carried at amortised cost and provided for through the profit and loss statement line *Charge for other provisions* if deemed impaired as a result of an increase in credit risk attached to their issuer.

Set out below are impacts of the implementation of regulation of the Czech Finance Ministry no. 282/73 390/2001, which establishes the chart of accounts and the accounting principles for banks and certain financial institutions

As of 1 January 2002, the Bank released provisions carried against the securities held for trading and available for sale and remeasured these securities to fair value. The Bank recognised a one-off gain of

CZK 524,609 thousand as a result of the remeasurement of securities to fair value which the Bank, pursuant to the Transitory Provisions of the Finance Ministry Regulation, recorded as extraordinary income (release of provisions and gains from the fair value remeasurement) and expense (loss on the fair value remeasurement).
In the event of the repurchase of its own certificated debts, the Bank does not recognize these debts as assets but reduces the balance of its own certificated debts reported as liabilities. The difference between the cost and the accrued value of the issued certificated debts is reported as profit or loss. As of 1 January 2002, the Bank incurred a one-off loss of CZK 39,157 thousand from the reversal of its own certificated debts which was posted to extraordinary expenses.
With effect from 1 January 2002, gains or losses arising from the sale of treasury shares have not been recognised through the profit and loss statement but directly impact the Bank's equity. As such, the Bank released the provision for treasury equities established for losses associated with their disposal as equal to the difference of their carrying value and the current market value. The impact of the derecognition of the reserve was immaterial.

### Trading securities

Securities held for trading are financial assets (equity and debt securities, participation certificates) acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. Subsequent to initial recognition, these securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges.
All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

### Investments held to maturity

Investments held to maturity are financial assets with fixed maturities that the Bank has the positive intent and ability to hold to maturity. The Bank carries debt securities in the held-to-maturity portfolio. Held to maturity investments are carried at amortised cost using the effective yield method.
The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and its recoverable amount. When impairment of assets is identified, the Bank recognizes provisions through the profit and loss statement line 'Charge for other provisions.'

### Securities available for sale

Available for sale securities are those financial assets that are not classified as financial assets held for trading or held-to-maturity investments. This portfolio comprises equity securities and debt securities, including asset backed securities, and participation certificates. Securities available for sale are measured on the same basis as securities held for trading.
In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cashflow ratios refined to reflect the specific circumstances of the issuer.

### Securities acquired under initial offerings not designated for trading

Securities acquired under initial offerings not designated for trading are financial assets that have originated as a result of the provision of cash, goods or services directly to the borrower. Securities acquired under initial offerings are carried at amortised cost using the effective yield method. These securities are reported on the balance sheet together with amounts due from banks or customers, as appropriate.

(f) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less provisions for impairment losses. Depreciation is provided on a straight line basis to write off the cost of each asset to their residual values over their estimated useful economic life. The estimated useful economic lives in years are set out below:

| | |
|---|---|
| Machinery and equipment, computers, vehicles | 4 |
| Fixtures, fittings and equipment | 6 |
| Energy machinery and equipment | 12 |
| Buildings and structures | 30 |

Land and assets in the course of construction are not depreciated.

Low value fixed assets and repairs, having the nature of technical improvements, costing less than CZK 40,000 in the case of tangible fixed assets and CZK 60,000 in the case of intangible fixed assets with an estimated useful life greater than one year are charged to the profit and loss statement when the expenditure is incurred. Technical improvements costing greater than CZK 40,000 in respect of tangible fixed assets and greater than CZK 60,000 in respect of intangible fixed assets with an estimated useful life exceeding one year increase the acquisition cost of the related fixed asset. Acquisition costs of know-how greater than CZK 60,000 with an estimated useful life exceeding one year are recorded as intangible fixed assets.

The Bank periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Bank's requirements management assesses the recoverable value by reference to a net selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs. Repairs and renewals are charged directly to the profit and loss statement when the expenditure is incurred.

(g) Leases

Assets held under finance leases are not recognized on the balance sheet over the lease term. These assets are recorded in the off balance sheet records. Amounts related to fixed assets acquired under finance leases are amortised and expensed over the lease term. The future lease payments of the Bank are made by reference to the payment schedule agreed upon within the finance lease arrangement.

At present the Bank does not act as a lessor for finance leases.

(h) Provisions

Provisions are recognised, when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The Bank has carried in its balance sheet a general provision, which was established prior to 1 January 2002, for losses arising from on and off balance sheet loan exposures. Pursuant to applicable legislation (the amended Provisioning Act), the Bank will utilise or release the general provision by 31 December 2005 at no less than 25 percent of its balance on an annual basis.

In addition, the Bank has established a restructuring provision. The Bank recognizes a provision for restructuring costs when it has formulated restructuring plan, and begins to implement the restructuring plan or announces its main features. Information on restructuring costs identified by the Bank is set out in Note 8.

(i) Employment benefits

The Bank provides its employees with loyalty benefits, retirement benefits and disability benefits.

The employees are entitled to claim loyalty benefits in circumstances where they are employed with the Bank for a defined period of time. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or are entitled to receive a disability pension and were employed with the Bank for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amount of social security and health insurance contributions, estimated discount rate).

### (j) Certificated debts

Certificated debts issued by the Bank are stated at amortised costs using the effective interest rate method. Interest expense arising on the issue of certificated debts is included in the profit and loss statement line *Interest expense and similar expense*.

In the event of the repurchase of its own certificated debts, the Bank derecognises these debts so as to reflect the economic substance of the transaction as a repayment of the Bank's commitment and decreases its liabilities in the balance sheet line *Payables from debt securities*. Gains and losses arising as a result of the repurchase of the Bank's own certificated debts are included in *Net profit/(loss) on financial operations*.

### (k) Recognition of income and expense

Interest income and expense are recognized in the profit and loss statement for all interest bearing instruments on an accruals basis in the period to which they relate. Interest income includes coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

Penalty interest is accounted for and included in interest income on a cash basis.

### (l) Taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic based on the profit or loss recognized in the profit and loss statement prepared under Czech Accounting Standards.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from depreciation on tangible fixed assets, specific and general provisions for loans, and tax losses carried forward. Deferred tax assets in respect of unutilised tax losses carried forward and other temporary differences are recognised to the extent that it is probable that future taxable profits will be available against which the tax assets can be utilised.

The Bank additionally accounts for a deferred tax liability in respect of the changes of fair values of hedging financial derivatives which is recognised in the balance sheet line *Gains or losses from revaluation of hedging derivatives*.

### (m) Sale and repurchase agreements

Securities received as collateral under reverse repo transactions are not recognized on the Bank's balance sheet and are stated at fair value in off balance sheet memorandum accounts. The off balance sheet accounts do not reflect collateral that is subject to a short sale. The reverse repo is defined as a standard reverse repurchase transaction and also as a borrowing of securities secured by the transfer of financial assets and a purchase of securities with a concurrently negotiated resale. Securities provided as collateral under repurchase transactions are retained within the portfolio in which they were carried prior to their being provided in the repurchase transaction.

In regard to the sale of a security acquired as collateral under a reverse repurchase transaction, the Bank recognizes in the balance sheet an amount payable from a security which is remeasured to fair value.

### (n) Derivative financial instruments and hedging

In the normal course of business, the Bank enters into contracts for derivative financial instruments which represent a financial instrument that requires a very low initial investment. The derivative financial

instruments used include interest rate and currency forwards, swaps and options. These financial instruments are used by the Bank for trading and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. The Bank also acts as an intermediary provider of these instruments to certain clients.
Derivative financial instruments are initially recognised in the off balance sheet accounts at the value of the underlying instruments and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.
Certain derivatives are embedded in other financial instruments, such as the conversion option in a convertible bond, and are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the profit and loss statement.
Changes in the fair value of derivatives held for trading are included in the profit and loss statement line *Net profit/(loss) on financial operations*.
On the date a derivative contract is entered into, the Bank designates certain derivatives as hedges which are recognised using hedging accounting rules provided that the following criteria are met:
(a) The Bank has developed a risk management strategy;
(b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective;
(c) The hedge is effective, that is, if changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recorded in equity. The balances recognized in equity are taken to the profit and loss statement and classified as income and expenses in the period in which the hedged asset or liability impacts the profit and loss statement.
Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss account along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.
Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains and losses reported in the profit and loss statement *Net profit/(loss) on financial operations*.

### (o) Regulatory requirements

The Bank is subject to the regulatory requirements of the Czech National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk associated with the Bank's clients, liquidity, interest rate and foreign currency position.

### (p) Extraordinary income and expenses

Extraordinary income and expenses represent income or expense arising from extraordinary non-recurring events that do not relate to the principal business of the enterprise. In the year ended 31 December 2002, the Company recognized one-off gains and losses from the remeasurement of securities held for trading and available for sale to fair value and the derecognition of own certificated debts as of 1 January 2002 in accordance with the Transitory Provisions of the Regulation of the Czech Finance Ministry no. 282/73 390/2001, which establishes the chart of accounts and the accounting principles for banks and certain financial institutions.

## 4. Net interest income

Net interest income comprises:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Interest income** | | | |
| – Loans and advances to financial institutions | 10,271,596 | 11,790,100 | 12,704,816 |
| – Loans and advances to customers | 13,263,567 | 14,091,501 | 14,782,663 |
| – Bonds, treasury bills | 1,921,948 | 2,805,224 | 1,608,048 |
| **Total interest income** | **25,457,111** | **28,686,825** | **29,095,527** |
| **Interest expense** | | | |
| – Amounts owed to financial institutions | (2,823,630) | (3,427,126) | (4,386,293) |
| – Amounts owed to customers | (7,843,558) | (9,233,593) | (10,284,173) |
| – Certificated debts | (2,176,179) | (2,460,861) | (2,081,195) |
| **Total interest expense** | **(12,843,367)** | **(15,121,580)** | **(16,751,661)** |
| **Net interest income** | **12,613,744** | **13,565,245** | **12,343,866** |

Interest income also includes accrued interest income from hedging financial derivatives of CZK 3,197,308 thousand (2001: CZK 2,672,483 thousand) and interest expense from hedging financial derivatives of CZK 2,198,448 thousand (2001: CZK 2,325,495 thousand). Net interest income arising from these derivatives amounts to CZK 998,860 thousand (2001: CZK 346,988 thousand).
Interest income on loans and advances to customers as of 31 December 2002 also includes accrued penalty interest of CZK 515,252 thousand (2001: CZK 761,162 thousand), of which CZK 134,457 thousand (2001: CZK 593,208 thousand) remained outstanding as of 31 December 2002. The Bank has established full provisions against outstanding penalty interest.

## 5. Net fees and commissions

Net fees and commissions comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Fees and commissions income | 6,755,060 | 6,486,429 | 5,426,949 |
| Fees and commissions expense | (523,139) | (505,042) | (1,005,225) |
| **Net fees and commissions income** | **6,231,921** | **5,981,387** | **4,421,724** |

Fees and commissions principally consist of fee and commission income from customers.
Of which:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Fee and commission income from the procurement of acquisitions and sales of securities | 45,281 | 40,000 | 43,649 |
| Fee income from management, custody, administration and safe-keeping of assets | 111,452 | 116,682 | 109,311 |
| Fee and commission expense from the sale or any other disposal of securities | (40,878) | (51,356) | (77,164) |

## 6. Net profit/(loss) on financial operations

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net gains/(losses) on securities – realised | 632,619 | 108,758 | (161,899) |
| Net gains/(losses) on securities – unrealised | (901,573) | (1,453,222) | 1,214 ,228 |
| Net income from foreign exchange commissions from clean and documentary payments | 1,289,494 | 1,478,177 | 1,599,801 |
| Net income from commissions from foreign exchange transactions | 798,640 | 882,265 | 1,159,341 |
| Net realised and unrealised gains/(losses) on foreign exchange trading and re-translation of foreign currency accounts | (3,113,020) | (1,416,358) | (151,313) |
| Net realised and unrealised gains/(losses) on currency derivatives | 4,101,283) | 1,855,205 | (210,083) |
| Net realised and unrealised gains/(losses) on interest rate and credit derivatives | (53,282) | 194,358 | (144,696) |
| Net realised and unrealised gains/(losses) on commodity derivatives | 1,965 | 2,339 | 0 |
| Net realised and unrealised gains/(losses) on security derivatives | (45,142) | 39,781 | 0 |
| Net gains/(losses) on securities trading on behalf of customers | 0 | (221) | (11,757) |
| **Net profit/(loss) on financial operations** | **2,710,984** | **1,691,082** | **3,293,622** |

## 7. Other operating income and expenses

Other operating income and expenses comprise:

| CZK thousand | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | Income | Expenses | Income | Expenses | Income | Expenses |
| Income/(expenses) from the sale of assets | 332,950 | (365,427) | 181,437 | (167,260) | 196,032 | (131,256) |
| Income/(expenses) from the sale of equity investments | 0 | (198,675) | 0 | 0 | 150,140 | (64,635) |
| Remuneration to Management and Supervisory Boards | 0 | (31,998) | 0 | (115,397) | 0 | (40,018) |
| Other operating income/(expenses) | 2,177,969 | (676,187) | 1,482,488 | (1,439,982) | 330,119 | (1,328,169) |
| **Total** | **2,510,919** | **(1,272,287)** | **1,663,925** | **(1,722,639)** | **676,291** | **(1,564,078)** |

Other operating expenses include an estimated balance of payments to the Deposit Insurance Fund. With effect from 1 May 2002, the Bank's annual contribution to the Deposit Insurance Fund has decreased from 0.3% to 0.1% pursuant to the amended Banking Act 21/1992 Coll. As a result of the amended Banking Act, the Bank's contribution to the Deposit Insurance Fund decreased by CZK 545 million from CZK 817 million for the year ended 31 December 2001 to CZK 272 million for the year ended 31 December 2002.

For the year ended 31 December 2002, other operating income principally consists of income from realised losses on the portfolio of loans covered under the state guarantee which will be settled to the Bank by mid-2004 (refer also to Note 14).

## 8. Administrative expenses

In addition to wages and salaries and social security costs, administrative expenses in the aggregate amount of CZK 10,432,727 thousand comprise other administrative expenses, such as indirect tax charges, advisory fees and other purchased consumables. Wages and salaries include Management Board bonuses paid under management contracts and compensation paid under the equity compensation scheme. Remuneration to the members of the Management and Supervisory Boards arising from mandate contracts are recorded in the profit and loss statement line *Other operating expenses*.

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Total administrative expenses** | **10,432,727** | **10,343,504** | **9,457,502** |
| **Staff costs** | **5,003,152** | **5,936,897** | **5,290,049** |
| – Wages and salaries | 3,722,616 | 4,418,105 | 3,910,700 |
| – Social security and health insurance costs | 1,280,536 | 1,518,792 | 1,379,349 |
| **Other administrative expenses** | **5,429,575** | **4,406,607** | **4,167,453** |
| – Taxes and fees | 34,292 | 44,867 | 60,484 |
| – Legal, tax services and audit fees | 276,368 | 305,466 | 179,202 |
| – Other fees for advisory services | 729,655 | 191,119 | 72,380 |
| – Other purchased consumables | 4,389,260 | 3,865,155 | 3,855,387 |
| Of which: Rental charges | 811,337 | 900,070 | 978,687 |
| Repairs and maintenance | 786,759 | 685,129 | 617,096 |
| Consumed material and energy | 441,962 | 433,908 | 543,536 |
| Promotion and representation | 360,201 | 310,585 | 338,053 |
| IT and telecommunication services | 735,510 | 695,865 | 718,969 |
| Other services | 1,253,491 | 839,598 | 659,046 |
| Number of employees at the year-end | 8,795 | 9,299 | 10,703 |
| Average number of employees during the year | 8,935 | 9,873 | 11,865 |
| Average cost per employee (CZK) | 559,950 | 601,327 | 445,853 |

### Restructuring costs

Following the entrance of the new shareholder, the Management Board of the Bank approved a new restructuring and transformation plan for the Bank. The objective of transformation program is to re-align the activities, operations and organisation of the Bank to make it compatible with the strategy adopted by the Bank's majority shareholder. The Bank reorganised the structure of and management tools used in the sales network, centralised and rationalised selected activities and changed the Bank's corporate image (the Bank specifically incurred costs in respect of the change of the logo and advisory and consultancy services related to the transformation program). Rationalisation and centralisation of the Bank's activities has involved reducing staffing levels at the Bank and has led to the Bank incurring severance and compensation costs associated with the staff laid off under the restructuring measures. The Bank reviewed the location, appearance and positioning of its branch network and intends to dispose of buildings, owned and leased, in the medium term that are not compatible with its plans.
Restructuring costs comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Redundancy compensation costs | 47,457 | 85,546 | 320,065 |
| Impairment charge relating to the disposal of fixed assets and termination of leases | 44,775 | 1,276,312 | 252,000 |
| Other restructuring costs | 914,684 | 393,427 | 255,044 |
| **Total restructuring costs** | **1,006,916** | **1,755,285** | **827,109** |

Of the aggregate restructuring costs of CZK 1,006,916 thousand (2001: CZK 1,755,285 thousand), CZK 44,400 thousand (2001: CZK 1,278,135 thousand) is included in the charge for/use of provisions for tangible and intangible fixed assets, CZK 145,937 thousand (2001: CZK 396,363 thousand) in the charge for/release of other provisions and reserves, CZK 374 thousand (2001: nil) in depreciation of tangible fixed assets, CZK 108,520 thousand (2001: 80,787 thousand) in staff costs and the remaining amount of CZK 707,685 thousand

(2001: nil) in other administrative expenses, which principally comprise costs of changing the logo and advisory and consultancy services associated with the transformation program.
As of 31 December 2002, the Bank maintained restructuring reserves of CZK 242,000 thousand which cover restructuring costs relating to the restructuring plan approved in 2002 that will be incurred in the following reporting period.

## 9. Reserves and provisions

Set out below is a summary of provisions and reserves:

| CZK thousand | Balance at 1 January 2002 | Charge | Use | Foreign exchange effect | Balance at 31 December 2002 |
|---|---|---|---|---|---|
| **Provisions** | | | | | |
| – Loans | 15,574,774 | 6,033,731 | 9,411,370 | (614,342) | 11,582,793 |
| – Tangible fixed assets | 1,214,410 | 334,336 | 631,391 | 0 | 917,355 |
| – Intangible fixed assets | 280,649 | 81,524 | 241,640 | 0 | 120,533 |
| – Equity investments | 751,900 | 687,167 | 266,808 | 0 | 1,172,259 |
| – Other receivables | 560,717 | 5,858 | 276,670 | 0 | 289,905 |
| **Total provisions** | **18,382,450** | **7,142,616** | **10,827,879** | **(614,342)** | **14,082,845** |
| **Reserves** | | | | | |
| – Loans and guarantees | 10,631,677 | 1,073,724 | 2,868,823 | 23,925 | 8,860,503 |
| – Tangible fixed assets | 41,809 | 0 | 41,809 | 0 | 0 |
| – Equity investments | 280,000 | 144,660 | 424,660 | 0 | 0 |
| – Other | 652,090 | 2,757,638 | 1,650,498 | (7,177) | 1,752,053 |
| **Other reserves** | **11,605,576** | **3,976,022** | **4,985,790** | **16,748** | **10,612,556** |

In the year ended 31 December 2002, the Bank implemented revised accounting and tax policies applicable to provisions and reserves in accordance with amended legislation that took effect as of 1 January 2002 (the regulation of the Czech Finance Ministry no. 281/73 390/2001, which establishes the chart of accounts and the accounting principles for banks and certain financial institutions and Provisioning Act 593/1992 Coll.). Set out below is an analysis of reserves and provisions for loans and guarantees:

| CZK thousand | Balance at 1 January 2002 | Charge | Use | Foreign exchange effect | Balance at 31 December 2002 |
|---|---|---|---|---|---|
| **Provisions for classified loans** | **14,377,676** | **6,020,779** | **9,141,096** | **(607,558)** | **10,649,801** |
| of which: banks | 12,793 | 2,068 | 3,669 | (176) | 11,016 |
| customers | 14,364,883 | 6,018,711 | 9,137,427 | (607,382) | 10,638,785 |
| **Provisions for debtors in bankruptcy** | **1,197,098** | **12,952** | **270,274** | **(6,784)** | **932,992** |
| of which: banks | 0 | 0 | 0 | 0 | 0 |
| customers | 1,197,098 | 12,952 | 270,274 | (6,784) | 932,992 |
| **Total provisions** | **15,574,774** | **6,033,731** | **9,411,370** | **(614,342)** | **11,582,793** |
| of which: banks | 12,793 | 2,068 | 3,669 | (176) | 11,016 |
| customers | 15,561,981 | 6,031,663 | 9,407,701 | (614,166) | 11,571,777 |
| **Total reserves** | **10,631,677** | **1,073,724** | **2,868,823** | **23,925** | **8,860,503** |
| **Reserves and provisions** | **26,206,451** | **7,107,455** | **12,280,193** | **(590,417)** | **20,443,296** |

The Bank has revised its provisioning approach from a portfolio basis, that is, provisioning for groups of loans, to an individual basis, that is, provisions are charged/reversed according to the development of individual exposures. Pursuant to amended tax requirements, the Bank has adopted a new approach to charging tax provisions by classification and portion of loans.
With effect from 1 January 2002, the Bank has ceased to create reserves for on balance sheet loans classified under CNB regulations as 'standard' and off balance sheet exposures classified under CNB regulations as 'standard' and 'watch'. With effect from 2002, the Bank has recorded non-tax deductible reserves for off balance sheet exposures rated as substandard to loss. Reserves for off balance sheet

exposures that meet the criteria set out in the Provisioning Act (guarantees issued by the Bank for loans advanced by other banks) are allowable for tax purposes. Pursuant to the requirement in the Provisioning Act, the Bank will gradually release a tax deductible reserve established prior to the 2001 year-end such that the balance of this reserve is reduced at no less than 25% each year to ensure its full release in the accounting period ending 31 December 2005. As of 31 December 2002, the balance of the general provision for loan and guarantee losses is CZK 8,860,503 thousand, of which the balance of provisions for loan losses and off balance sheet exposures is CZK 6,545,721 thousand and CZK 2,314,782 thousand, respectively.

### General provisions for loan losses

The Bank's loan portfolio includes a number of risks that cannot be specifically identified as such.

As of 31 December 2002, the Bank maintains loan loss general provision of CZK 6,545,721 thousand to cover the risks which may be present in the loan portfolio as of that date but which cannot be allocated to individual exposures. These are principally risks associated with the portfolio of loans advanced to corporate customers with a significant concentration of industry risk and the portfolio of consumer, mortgage and overdraft loans advanced to retail customers. This general provision also covers management's assessment of the estimated risk of losses in connection with a potential impairment of the guaranteed and non-guaranteed portfolios of non-performing loans due to economic cycles and existing weaknesses in the legal framework regarding the enforcement of creditor rights.

### Reserves for off balance sheet exposures

| Risk<br>CZK thousand | Balance |
|---|---|
| Reserve for off balance sheet commitments | 918,370 |
| Reserve for credit instruments and derivatives | 900,710 |
| Reserve for undrawn loan facilities | 410,178 |
| Reserve for the Bank's 5% participation and the present value of the pay-out under the guarantee of the off balance sheet instruments and commitments portfolio | 85,524 |
| **Total** | **2,314,782** |

As of 31 December 2002, the balance of the reserves for off balance sheet exposures and guarantees was CZK 2,314,782 thousand. This provision covers credit risks associated with issued credit commitments, off balance sheet credit instruments and the participation in the estimated losses on the guaranteed portfolio of off balance sheet exposures of the Bank pursuant to the Guarantee Agreement dated 29 December 2000 (refer to Note 14).

Gains/losses arising from transferred and written off receivables:

| CZK thousand | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | Income | Expenses | Income | Expenses | Income | Expenses |
| Income/(expense) from loan receivables from banks written off | 1,179 | (736) | 0 | 0 | 84,746 | 0 |
| Income/(expense) from loan receivables from customers written off | 1,022,703 | (1,288,485) | 2,252,415 | (152,834) | 7,402,840 | (5,161,220) |
| Income/(expense) from other receivables written off | 0 | 0 | 0 | (129,367) | 40 | (46,004) |
| Income/(expense) from transferred receivables | 41,293 | (4,047,464) | 6,015 | (1,706,450) | 29,582,090 | (49,208,468) |
| **Total** | **1,065,175** | **(5,336,685)** | **2,258,430** | **(1,988,651)** | **37,069,716** | **(54,415,692)** |

### Reserves and provisions for tangible and intangible assets

The Bank reviewed the location, appearance and positioning of its branch network and future utilisation of intangible fixed assets in the context of its strategic plans in the medium term through 2004.

As of 31 December 2001, this review identified a number of buildings, owned and leased, whose location and appearance is not compatible with such plans. The Bank's intention is to dispose of these premises and vacate the leases in the medium term. From this review and earlier reviews, the Bank recognized an impairment charge in 2001 which was subsequently reassessed in 2002. The impairment charge as of 31 December 2002 amounts to CZK 917,355 thousand and includes expected losses on the sale of premises presently owned by the Bank, the writedown of leasehold improvements on leased premises for which it intends to sell or terminate the rental agreements and the writedown of the carrying amount of prepaid rentals on buildings that will be vacated.

In addition, the Bank identified intangible fixed assets which it intends to take out of service or replace in the period 2003 to 2004. The impairment charge resulting from this review amounts to CZK 120,533 thousand as of 31 December 2002.

### Reserves and provisions for equity investments

Provisions for equity investments principally comprise provisions charged in respect of Komerční pojišťovna, a. s. In the year ended 31 December 2002, Komerční pojišťovna, a. s. incurred losses specifically in connection with restructuring costs, industrial insurance claims resulting from the floods that affected the Czech Republic in August 2002, and increased charges for life insurance technical reserves within the context of the continued decrease in market interest rates in the Czech Republic during 2002. Further information is presented in Notes 2 and 16 to these financial statements.

### Other reserves

| CZK thousand | Balance at 1 January 2002 | Creation | Use | Foreign exchange effect | Balance at 31 December 2002 |
|---|---|---|---|---|---|
| Restructuring reserve | 96,062 | 1,399,000 | 1,253,062 | 0 | 242,000 |
| Reserves for other contractual commitments | 556,028 | 1,358,638 | 397,436 | (7,177) | 1,510,053 |
| **Total other reserves** | **652,090** | **2,757,638** | **1,650,498** | **(7,177)** | **1,752,053** |

Reserves for other contractual commitments primarily comprise reserves for legal disputes, reserves for contingent liabilities from the transfer of cash associated with the sale of loan receivables to GE (refer also to Note 2) and reserves for bonuses.

## 10. Extraordinary income and extraordinary expenses

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Extraordinary income | 2,496,872 | 0 | 0 |
| Extraordinary costs | (1,983,921) | 0 | 0 |
| **Net extraordinary income** | **512,951** | **0** | **0** |

The Bank recognises as extraordinary income or expenses one-off unrealised gains/(losses) arising from the revised treatment for securities in accordance with the Transitory Provisions of the Regulation of the Czech Finance Ministry no. 282/73 390/2001, which establishes the chart of accounts and the accounting principles for banks and certain financial institutions. Further information about this methodological change and related impacts is given in Note 3.

## 11. Taxation

The major components of corporate income tax expense are as follows:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Tax payable – current year | 3,314,660 | 745,167 | 10,547 |
| Tax paid – prior year | 267,728 | 17,355 | (51) |
| Deferred tax movement | (936,223) | 728 | 6,912 |
| **Total income tax expense** | **2,646,165** | **763,250** | **17,408** |

The tax of CZK 267,728 thousand paid in the prior year primarily represents an increased tax liability for the year ended 31 December 2001 reflected in the tax returns filed in 2002.

The corporate tax rate for the year ended 31 December 2002 is 31% (2001: 31%, 2000: 31%). The Bank's tax liability is calculated based upon the accounting profit/(loss) taking into account tax non-deductible expenses and tax exempt income or income subject to the final withholding tax rate.

The income tax for the year ended 31 December 2002 was also determined having regard to the amendment to Provisioning Act 593/1992 Coll., which impacts the recognition, release and use of provisions and reserves for loan receivables, specifically in respect of the requirement to utilise or release, on an annual basis, tax deductible reserves at 25% of their balance held as of 31 December 2001.

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Profit/(loss) before tax** | **11,875,251** | **3,386,892** | **(131,928)** |
| **Items increasing the tax base** | **7,427,634** | **15,077,761** | **22,539,041** |
| Provisions and losses | 6,473,645 | 13,449,728 | 7,987,121 |
| Costs associated with non-taxable income from securities | 128,117 | 378,604 | 9,125 |
| Write-off of receivables | 349,523 | 155,970 | 14,198,660 |
| Other non-deductible expenses | 476,349 | 1,093,459 | 344,135 |
| **Items decreasing the tax base** | **(8,519,977)** | **(14,188,352)** | **(23,426,530)** |
| Provisions and reserves | (5,896,288) | (11,278,464) | (19,752,448) |
| Non-taxable income from securities | (2,356,474) | (1,247,390) | (1,492,203) |
| Recoveries of receivables written off | (112,917) | (659,262) | (2,052,215) |
| Other non-taxable income | (154,298) | (1,003,236) | (129,664) |
| **Tax base** | **10,782,908** | **4,276,301** | **(1,019,417)** |
| Tax losses carried forward | 0 | (1,800,475) | 0 |
| Items deductible from the tax base | (25,391) | (62,922) | 0 |
| Gifts | (1,000) | (4,215) | 0 |
| **Rounded tax base** | **10,756,517** | **2,408,689** | **0** |
| Tax rate | 31 | 31 | 31 |
| Income tax expense | 3,334,520 | 746,694 | 0 |
| Tax allowance | (20,361) | (4,442) | 0 |
| **Tax from general tax base** | **3,314,159** | **742,252** | **0** |
| Stand-alone tax base | 3,341 | 19,437 | 70,312 |
| Tax rate applied to the stand-alone tax base | 15 | 15 | 15 |
| **Tax from the stand-alone tax base** | **501** | **2,915** | **10,547** |
| Total tax | **3,314,660** | **745,167** | **10,547** |

### Deferred income tax

Deferred income taxes are calculated on all temporary differences using the corporate income tax rate effective for the following year, that is 31% (2001: 31%, 2000: 31%).

In the year ended 31 December 2001, due to uncertainties over the realisation of deferred tax assets, the Bank applied the prudence principle and recognized only a deferred tax liability of CZK 81,119 thousand in its statutory books. The uncertainties principally resulted from the anticipated legislative changes in respect of banking provisions and reserves and securities.

In the year ended 31 December 2002, the Bank recognized a deferred tax asset of CZK 902,079 thousand and reduced the balance of deferred tax liabilities by CZK 34,144 thousand. In addition, the Bank revised its policy of accounting for deferred taxes in respect of changes in fair values of hedging derivatives to bring it into line with International Accounting Standards and recognised a deferred tax liability of CZK 1,077,316 thousand through shareholders' equity.

Deferred tax movements reflected in the financial statements were as follows:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Deferred income tax recognised in the financial statements** | | | |
| **Deferred income tax asset** | | | |
| Balance at the beginning of period | 0 | 0 | 0 |
| Movement in deferred tax assets | 902,079 | 0 | 0 |
| **Balance at the end of period** | **902,079** | **0** | **0** |
| **Deferred income tax liability** | | | |
| Balance at the beginning of period | (81,119) | (80,391) | (73,479) |
| Movement in deferred tax liabilities – P&L impact | 34,144 | (728) | (6,912) |
| Movement in deferred tax liabilities – equity impact | (1,077,316) | 0 | 0 |
| **Balance at the end of period** | **(1,124,291)** | **(81,119)** | **(80,391)** |
| **Increase/(decrease) in deferred income tax – P&L impact** | **936,223** | **(728)** | **(6,912)** |
| **Increase/(decrease) in deferred income tax – equity impact** | **(1,077,316)** | **0** | **0** |

Deferred income tax assets and liabilities are attributable to the following items:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Deferred income tax assets** | **902,079** | **1,310,369** | **3,063,000** |
| Unrealised losses on securities | 0 | 190,848 | 290,000 |
| Banking reserves and provisions | 118,756 | 394,000 | 2,387,000 |
| Provisions for non-banking receivables | 47,739 | 64,395 | 0 |
| Provisions for assets | 309,059 | 450,970 | 0 |
| Non-banking reserves | 336,607 | 124,870 | 0 |
| Tax loss carry forwards | 0 | 0 | 118,000 |
| Other temporary differences | 89,918 | 85,286 | 268,000 |
| **Deferred income tax liabilities** | **(1,124,291)** | **(81,119)** | **(80,391)** |
| Depreciation | (29,326) | (59,267) | (80,391) |
| Penalty interest and contractual penalties | (17,649) | (21,852) | 0 |
| Change in fair value of hedging derivatives – equity impact | (1,077,316) | 0 | 0 |
| **Net deferred income tax assets/(liabilities)** | **(222,212)** | **1,229,250** | **2,982,609** |
| **Net deferred income tax asset/(liability) recognised in the financial statements** | **(222,212)** | **(81,119)** | **(80,391)** |

## 12. Cash in hand, balances with central banks, state zero-coupon bonds and other securities eligible for refinancing with the CNB

Cash and balances with central banks comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Cash in hand | 6,949,960 | 8,687,988 | 7,913,287 |
| Balances with the Czech National Bank | 6,409,715 | 8,571,854 | 11,873,740 |
| **Total cash and balances with central banks** | **13,359,675** | **17,259,842** | **19,787,027** |

Balances with the Czech National Bank include:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Obligatory minimum reserves | 3,785,090 | 6,101,355 | 5,055,577 |
| Deposits repayable on demand | 2,624,625 | 2,470,499 | 6,818,163 |
| **Total** | **6,409,715** | **8,571,854** | **11,873,740** |

## 13. Amounts due from banks

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Term placements and loans to banks | 41,765,523 | 74,700,476 | 104,981,737 |
| Advances due from central banks (repo transactions) | 144,353,462 | 81,235,909 | 70,946,026 |
| Placements with other banks | 144,393 | 951,464 | 1,120,527 |
| Securities acquired under initial offerings not designated for trading | 14,019,662 | 0 | 0 |
| **Total** | **200,283,040** | **156,887,849** | **177,048,290** |
| Specific provisions against balances due from banks | (11,016) | (12,793) | (13,088) |
| **Total due from banks** | **200,272,024** | **156,875,056** | **177,035,202** |

Set out below is an analysis by territory:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Czech Republic | 162,562,975 | 93,065,259 | 127,320,732 |
| Europe | 37,060,428 | 52,878,095 | 37,394,413 |
| Other | 659,637 | 10,944,495 | 12,333,145 |
| **Total** | **200,283,040** | **156,887,849** | **177,048,290** |

Details about loans written off and income from written off loans can be found at Note 9 to these financial statements.

**Securities acquired under initial offerings not designated for trading**
In the last quarter of 2002, pursuant to its investment strategy the Bank acquired, under an initial offering and normal market conditions, bonds issued by the parent company denominated in CZK with an aggregate nominal value of CZK 14,000,000 thousand maturing in 2012. The bonds bear fix interest at 4.27%.

## 14. Amounts due from customers

Amounts due from customers comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Loans and advances to customers | 174,154,033 | 207,550,188 | 144,651,394 |
| Bills of exchange | 662,651 | 912,141 | 1,356,267 |
| Forfaits | 560,901 | 873,969 | 1,676,295 |
| **Total gross loans and advances to customers** | **175,377,585** | **209,336,298** | **147,683,956** |
| Provisions for loan losses | (11,571,777) | (15,561,981) | (13,706,760) |
| **Total amounts due from customers, net*** | **163,805,808** | **193,774,317** | **133,977,196** |

Note: * Of this balance as of 31 December 2002, CZK 1,987 million represents net book values of loans assigned to GE under the sale of a portfolio of non-performing loans. Further information is set out in Note 2.

The loan portfolio of the Bank as of 31 December 2002 comprises the following breakdown by classification:

| CZK thousand | Gross receivable | Collateral applied | Net exposure | Provisions | Carrying value | Provisions % * |
|---|---|---|---|---|---|---|
| Standard | 125,486,379 | 70,207,961 | 55,278,418 | 0 | 125,486,379 | 0 |
| Watch | 22,736,374 | 12,620,708 | 10,115,666 | 665,322 | 22,071,052 | 6.58 |
| Substandard | 12,385,105 | 9,302,287 | 3,082,818 | 730,956 | 11,654,149 | 23.71 |
| Doubtful | 3,443,739 | 908,885 | 2,534,854 | 982,389 | 2,461,350 | 38.76 |
| Loss | 11,325,988 | 90,878 | 11,235,110 | 9,193,110 | 2,132,878 | 81.82 |
| **Total** | **175,377,585** | **93,130,719** | **82,246,866** | **11,571,777** | **163,805,808** | **14.07** |

Note: * Provisioning percentage by category does not conform to the requirement of the Czech National Bank as the 'Collateral' item does not reflect the state guarantee value as described below in this note.

Set out below is the breakdown of loans by sector:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Agriculture | 7,147,776 | 7,966,347 | 9,523,368 |
| Processing industry | 36,384,205 | 47,467,797 | 51,351,373 |
| Distribution and production of energy | 7,056,454 | 8,211,798 | 7,772,629 |
| Construction | 4,317,289 | 3,965,532 | 4,944,530 |
| Trade, catering, transport and communication | 34,144,743 | 34,642,891 | 32,024,323 |
| Insurance, banking | 7,613,808 | 11,296,311 | 11,353,573 |
| Česká konsolidační agentura * | 35,440,045 | 49,765,145 | 0 |
| Other | 43,273,265 | 46,020,477 | 30,714,160 |
| **Total loans to clients** | **175,377,585** | **209,336,298** | **147,683,956** |

Note: * Loans to Česka konsolidacní agentura were carried within the amounts due from banks as of 31 December 2000.

Set out below is an analysis by territory:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Czech Republic | 169,130,735 | 201,139,502 | 136,170,725 |
| Europe | 6,230,381 | 7,953,877 | 11,215,981 |
| Other | 16,469 | 242,919 | 297,250 |
| **Total** | **175,377,585** | **209,336,298** | **147,683,956** |

Set out below is an analysis by category of customers:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Retail customers | 22,374,501 | 15,893,453 | 10,748,078 |
| Corporate customers | 113,840,357 | 141,316,433 | 135,754,194 |
| Public sector | 39,162,727 | 52,126,412 | 1,181,684 |
| **Total** | **175,377,585** | **209,336,298** | **147,683,956** |

Details about loans written off and income from written off loans can be found at Note 9 to these financial statements.

Set out below is an analysis of types of collateral underlying loans and advances to customers:

| CZK thousand | Total client loan collateral 2002 | Discounted client loan collateral value 2002 | Applied client loan collateral value 2002 | Applied client loan collateral value 2001 | Applied client loan collateral value 2000 |
|---|---|---|---|---|---|
| Guarantees of state and governmental institutions | 48,169,358* | 47,711,437 | 43,909,477 | 54,973,068 | 2,751,820 |
| Bank guarantee | 4,649,011 | 3,735,503 | 2,976,403 | 2,386,895 | 2,419,500 |
| Guaranteed deposits | 1,241,777 | 1,239,792 | 961,010 | 1,224,617 | 988,300 |
| Issued debentures in pledge | 336,781 | 336,781 | 336,781 | 12,994,754 | 3,200 |
| Pledge of real estate | 125,451,732 | 46,946,070 | 28,408,918 | 29,567,293 | 45,738,000 |
| Pledge of movable assets | 8,598,093 | 822,697 | 687,256 | 947,858 | 657,714 |
| Guarantee by corporate entity | 15,693,506 | 2,227,158 | 1,848,386 | 1,691,600 | 8,324,944 |
| Guarantee by individual (physical entity) | 5,168,881 | 969,885 | 869,997 | 530,379 | 2,811,803 |
| Pledge of receivables | 22,880,118 | 9,688,957 | 7,568,814 | 6,101,565 | 4,188,052 |
| Insurance of credit risk | 3,484,267 | 3,371,870 | 3,308,797 | 4,939,587 | 6,616,379 |
| Other | 3,803,858 | 2,272,179 | 2,254,880 | 6,988,059 | 8,726,585 |
| **Total nominal value of collateral** | **239,477,382** | **119,322,329** | **93,130,719** | **122,345,675** | **83,226,297** |

Note: * Guarantees of state and governmental institutions include state guarantee for loans granted to Česká konsolidační agentura.

### State guarantee covering losses on the Bank's risk assets

On 29 December 2000, pursuant to the Public Support Act 59/2000 Coll., the Bank entered into an agreement with Konsolidační banka Praha, s.p.ú. under which Konsolidační banka guaranteed a defined portfolio of classified on and off balance sheet exposures. The guarantee applies to the net book values as of 31 December 2000. The guarantee agreement is effective through the end of 2003, with payments of realised losses being settled until mid-2004.

The Bank regularly reports to Česká konsolidační agentura (formerly Konsolidační banka) on the administration of the assets and the expected losses on the guaranteed pool of exposures. Česká konsolidační agentura confirms, on an ongoing basis, its readiness to settle the estimated losses.

The Bank establishes specific and general provisions to cover its participation in the aggregate losses that it estimates will be incurred on the guaranteed portfolio. Further details about the general provisions are given in Note 9.

### Syndicated loans granted

Non-banking syndicated loans

| | Participation (CZK thousand) | Interest rate (%) | Portion of risk (%) |
|---|---|---|---|
| Komerční banka, a. s. | 751,584 | 4.01 | 50.00 |
| Other creditors | 751,584 | | 50.00 |
| **Total to client 1 *** | **1,503,168** | | **100.00** |
| Komerční banka, a. s. | 808,213 | 2.65 | 43.66 |
| Other creditors | 1,042,939 | | 56.34 |
| **Total to client 2 *** | **1,851,152** | | **100.00** |
| Komerční banka, a. s. | 79,092 | 5.75 | 28.19 |
| Other creditors | 201,476 | | 71.81 |
| **Total to client 3 *** | **280,568** | | **100.00** |
| Komerční banka, a. s. | 331,344 | 3.41 | 41.52 |
| Other creditors | 466,691 | | 58.48 |
| **Total to client 4 *** | **798,035** | | **100.00** |
| Komerční banka, a. s. | 25,940 | 4.00 | 33.33 |
| Other creditors | 51,888 | | 66.67 |
| **Total to client 5 *** | **77,828** | | **100.00** |
| Komerční banka, a. s. | 7,991 | 5.02 | 33.33 |
| Other creditors | 15,984 | | 66.67 |
| **Total to client 6 *** | **23,975** | | **100.00** |

Note: * The Bank does not indicate names of its clients as a result of banking secrecy restrictions.

## 15. Debt securities, shares, participation certificates and other holdings

Set out below is a summary of the aggregate balances of debt securities, shares, participation certificates and other holdings:

| CZK thousand | 2002 Carrying value | 2001 Carrying value | 2000 Carrying value |
|---|---|---|---|
| Shares and participation certificates for trading | 154,137 | 168,030 | 172,973 |
| Shares and participation certificates available for sale | 2,107,719 | 4,158,304 | 4,570,596 |
| **Total shares and participation certificates** | **2,261,856** | **4,326,334** | **4,743,569** |
| Debt securities for trading | 936,954 | 1,595,013 | 2,349,436 |
| Debt securities available for sale | 16,254,430 | 24,433,693 | 20,862,522 |
| Debt securities held to maturity | 2,475,911 | 959,848 | 7,948,150 |
| **Total debt securities** | **19,667,295** | **26,988,554** | **31,160,108** |
| **Total debt securities, shares, participation certificates and other holdings** | **21,929,151** | **31,314,888** | **35,903,677** |

### Trading securities

Trading securities comprise:

| CZK thousand | 2002 Fair value | 2002 Cost | 2001 Carrying value | 2001 Cost | 2000 Carrying value | 2000 Cost |
|---|---|---|---|---|---|---|
| **Shares and participation certificates** | **154,137** | **154,144** | **168,030** | **168,294** | **172,973** | **180,171** |
| Fixed income debt securities | 851,172 | 844,862 | 1,302,741 | 1,302,783 | 1,073,282 | 1,076,307 |
| Variable yield debt securities | 85,782 | 85,876 | 292,272 | 292,769 | 1,276,154 | 1,276,663 |
| **Debt securities** | **936,954** | **930,738** | **1,595,013** | **1,595,552** | **2,349,436** | **2,352,970** |
| **Total trading securities** | **1,091,091** | **1,084,882** | **1,763,043** | **1,763,846** | **2,522,409** | **2,533,141** |

Trading shares at fair value (at carrying value in 2001 and 2000) comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Trading shares and participation certificates** | | | |
| – Czech crowns | 154,137 | 168,030 | 172,973 |
| – Other currencies | 0 | 0 | 0 |
| **Trading shares and participation certificates** | **154,137** | **168,030** | **172,973** |

Trading shares at fair value (at carrying value in 2001 and 2000), allocated by issuer, comprise:

| CZK thousand | 2002 | 2001 | 2001 |
|---|---|---|---|
| **Trading shares and participation certificates** | | | |
| – Financial institutions in the Czech Republic | 0 | 0 | 4,639 |
| – Non-banking entities in the Czech Republic | 154,137 | 168,030 | 168,334 |
| **Total trading shares and participation certificates** | **154,137** | **168,030** | **172,973** |

Trading debt securities at fair value (at carrying value in 2001 and 2000) comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Variable yield debt securities** | | | |
| – Czech crowns | 85,782 | 292,272 | 1,040,558 |
| – Other currencies | 0 | 0 | 235,596 |
| **Total variable yield debt securities** | **85,782** | **292,272** | **1,276,154** |
| **Fixed income debt securities** | | | |
| – Czech crowns | 597,802 | 1,302,741 | 700,805 |
| – Other currencies | 253,370 | 0 | 372,477 |
| **Total fixed income debt securities** | **851,172** | **1,302,741** | **1,073,282** |
| **Total trading debt securities** | **936,954** | **1,595,013** | **2,349,436** |

Trading debt securities at fair value (at carrying value in 2001 and 2000), allocated by issuer, comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Trading debt securities issued by** | | | |
| – State institutions in the Czech Republic | 440,189 | 735,271 | 460,850 |
| – Foreign state institutions | 253,370 | 0 | 0 |
| – Financial institutions in the Czech Republic | 47,435 | 82,887 | 61,268 |
| – Foreign financial institutions | 5,446 | 124,852 | 28,910 |
| – Other entities in the Czech Republic | 165,313 | 639,163 | 1,284,558 |
| – Other foreign entities | 25,201 | 12,840 | 513,541 |
| **Total trading debt securities** | **936,954** | **1,595,013** | **2,349,436** |

### Securities available for sale

Securities available for sale comprise:

| CZK thousand | 2002 Fair value | 2002 Cost | 2001 Carrying value | 2001 Cost | 2000 Carrying value | 2000 Cost |
|---|---|---|---|---|---|---|
| **Shares and participation certificates** | **2,107,719** | **2,131,184** | **4,158,304** | **4,239,866** | **4,570,596** | **5,153,312** |
| Fixed income debt securities | 7,607,543 | 7,998,738 | 13,157,070 | 14,061,037 | 13,824,160 | 13,930,410 |
| Variable yield debt securities | 8,646,887 | 10,424,757 | 11,276,623 | 12,418,517 | 7,038,362 | 7,041,494 |
| **Debt securities** | **16,254,430** | **18,423,495** | **24,433,693** | **26,479,554** | **20,862,522** | **20,971,904** |
| **Total securities available for sale** | **18,362,149** | **20,554,679** | **28,591,997** | **30,719,420** | **25,433,118** | **26,125,216** |

Shares and participation certificates available for sale at fair value (at carrying value in 2001 and 2000) comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Shares and participation certificates available for sale** | | | |
| – Czech crowns | 2,102,114 | 4,158,126 | 4,564,371 |
| – Other currencies | 5,605 | 178 | 6,225 |
| **Total shares and participation certificates available for sale** | **2,107,719** | **4,158,304** | **4,570,596** |

Shares and participation certificates available for sale at fair value (at carrying value in 2001 and 2000), allocated by issuer, comprise:

| | 2002 | 2001 | 2001 |
|---|---|---|---|
| **Shares and participation certificates available for sale issued by** | | | |
| – Non-banking entities in the Czech Republic | 2,042,114 | 4,158,126 | 4,564,371 |
| – Financial institutions in the Czech Republic | 60,000 | 0 | 0 |
| – Foreign non-banking entities | 5,605 | 178 | 6,225 |
| **Total shares and participation certificates available for sale** | **2,107,719** | **4,158,304** | **4,570,596** |

Debt securities available for sale at fair value (at carrying value in 2001 and 2000) comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Variable yield debt securities** | | | |
| – Czech crowns | 1,013,660 | 890,957 | 5,340,822 |
| – Other currencies | 7,633,227 | 10,385,666 | 1,697,540 |
| **Total variable yield debt securities** | **8,646,887** | **11,276,623** | **7,038,362** |
| **Fixed income debt securities** | | | |
| – Czech crowns | 4,739,566 | 9,802,671 | 11,808,605 |
| – Other currencies | 2,867,977 | 3,354,399 | 2,015,555 |
| **Total fixed income debt securities** | **7,607,543** | **13,157,070** | **13,824,160** |
| **Total debt securities available for sale** | **16,254,430** | **24,433,693** | **20,862,522** |

Debt securities available for sale at fair value (at carrying value in 2001 and 2000), allocated by issuer, comprise:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Debt securities available for sale issued by** | | | |
| – Financial institutions in the Czech Republic | 353,839 | 3,989,044 | 5,379,127 |
| – Foreign financial institutions | 131,779 | 302,706 | 436,587 |
| – Other entities in the Czech Republic | 1,043,978 | 3,651,450 | 4,047,906 |
| – Other foreign entities | 14,724,834 | 16,490,493 | 10,998,902 |
| **Total debt securities available for sale** | **16,254,430** | **24,433,693** | **20,862,522** |

### Equity securities and participation certificates

As of 31 December 2002, the Bank held 39.15% (2001: 56%) of the issued participation certificates of Otevřený podílový fond Globální ('Globální'). Pursuant to the planned revision of the Bank's strategy in respect of its investment in Globální, the Bank reduced its investment by 51.29% through the redemption of its participation ceritificates in the last quarter of 2002. As of 31 December 2002, the Bank carries its interest in Globální at a fair value of CZK 2,012 million (2001: CZK 4,068 million).

Globální is managed by IKS, a. s., the Bank's asset management subsidiary. Up to 90% of Globální's assets may include equities, participation certificates issued by open-ended mutual funds, bonds and mortgage bonds, term and option contracts, denominated both in Czech crowns or foreign currencies. As of 31 December 2002, Globální's portfolio included 10.20% domestic equity securities, 4.59% international equities, 24.50% local debt securities, and 52.99% foreign debt securities. The remaining portion of the portfolio consists of current receivables, accounts with banks and foreign currency accounts.

As of 31 December 2002, the Bank holds 77.18% (2001: 77.18%) of the issued share capital of Vodní stavby, a. s. v likvidaci, a Czech construction company. The Bank has attributed no value to this shareholding as of 31 December 2002. Pursuant to Section 183 b (4) (a) (2) of the Commercial Code, the Bank does not exercise and does not intend to exercise voting rights, which are equivalent to a 57.22% shareholding, attached to these shares nor will the Bank pass the voting rights to other parties. The Bank disposed of these securities in the first quarter of 2003.

### Asset Backed Securities

The Bank maintains a portfolio of asset backed securities denominated in USD which are carried as available for sale. The securities bear a fixed or floating interest rate based on USD LIBOR.

The Bank establishes the value of these securities by reference to the credit profile of underlying assets using a model which facilitates the simulation of the timing of the credit quality of underlying assets. The model used by the Bank has been validated by valuations obtained from an independent third party which is engaged in trading these securities.

Aggregate unrealised losses of the Bank in respect of the asset backed securities as of 31 December 2002 calculated using the model of valuation of these securities amounted to CZK 2,095,685 thousand. The fair value of the asset backed securities was CZK 10,471,063 thousand as of 31 December 2002.

### Other debt securities

Securities issued by banks include a credit linked note (the 'note') with a nominal value of EUR 9.5 million, issued by an internationally recognised bank, which amortises to zero over the ten years to its maturity pursuant to the payment schedule. The note bears interest based on a margin over three month EURIBOR. This note forms part of a series of credit default swaps under which the Bank sold credit protection to an international financial institution. The maximum exposure of the Bank under this agreement, including the default swaps referred to above, is EUR 100 million. The aggregate exposure amortises over the ten year life of the instrument. Off balance sheet instruments associated with this transaction are shown within issued banking payment guarantees.

Aggregate unrealised losses on the note amounted to CZK 271,450 thousand as of 31 December 2002. The fair value of the note is CZK 30,141 thousand as of 31 December 2002.

The Bank created reserves for the issued banking guarantees for the credit default swap in the amount of CZK 900,710 thousand as of 31 December 2002.

### Investments held to maturity

Investments held to maturity comprise:

| CZK thousand | 2002 Carrying value | 2002 Cost | 2001 Carrying value | 2001 Cost | 2000 Carrying value | 2000 Cost |
|---|---|---|---|---|---|---|
| Fixed income debt securities | 97,114 | 97,114 | 959,848 | 959,848 | 2,607,928 | 2,607,928 |
| Variable yield debt securities | 2,378,797 | 2,378,797 | 0 | 0 | 5,340,222 | 5,340,222 |
| **Total debt securities** | **2,475,911** | **2,475,911** | **959,848** | **959,848** | **7,948,150** | **7,948,150** |

Debt securities held to maturity at carrying value comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Variable yield debt securities** | | | |
| – Czech crowns | 0 | 0 | 0 |
| – Other currencies | 2,378,797 | 0 | 5,340,222 |
| **Total variable yield debt securities** | **2,378,797** | **0** | **5,340,222** |
| **Fixed income debt securities** | | | |
| – Czech crowns | 97,114 | 198,467 | 228,648 |
| – Other currencies | 0 | 761,381 | 2,379,280 |
| **Total fixed income debt securities** | **97,114** | **959,848** | **2,607,928** |
| **Total debt securities held to maturity** | **2,475,911** | **959,848** | **7,948,150** |

Investments held to maturity at carrying value, split by issuer, comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| **Debt securities held to maturity issued by** | | | |
| – State institutions in the Czech Republic | 97,114 | 198,467 | 147,302 |
| – Other entities in the Czech Republic | 0 | 0 | 81,346 |
| – Other foreign entities | 2,378,797 | 761,381 | 7,719,502 |
| **Total debt securities held to maturity** | **2,475,911** | **959,848** | **7,948,150** |

Investments held to maturity consist of mortgage bonds of CZK 97,114 thousand. In the latter half of 2002, the Bank additionally acquired subordinated debts issued by its subsidiary Komercni Finance, B.V. at an aggregate nominal value of USD 78,025 thousand (CZK 2,351,751 thousand), that is, 39.01% of the total nominal value of the issue. Amortised cost of these bonds totals USD 78,922 thousand (CZK 2,378,797 thousand).

## 16. Equity investments in subsidiary and associated undertakings

The following tables presents information about the Bank's subsidiary and associated undertakings as of 31 December 2002:

| Company name and legal status CZK thousand | Registered office | Principal activities | Share capital in 2002 | Share capital in 2001 | Total other equity components (2001) | Total equity (2001) |
|---|---|---|---|---|---|---|
| **Subsidiary undertakings** | | | **1,610,986** | **1,307,127** | **14,643** | **1,321,770** |
| Komerční pojišťovna, a. s. | Jindřišská 17, 111 21, Praha 1 | Insurance activities | 752,000 | 450,000 | (883 464) | (433,464) |
| Komerční banka Bratislava, a. s. | Medená 6, 811 02 Bratislava | Banking activities | 375,895 | 374,030 | 41,863 | 415,893 |
| Penzijní fond Komerční banky, a. s. | Na Příkopě 33, Praha 1 | Pension fund | 200,000 | 200,000 | 392,051 | 592,051 |
| MUZO, a. s. | V Olšinách 80/626, 150 05, Praha 10 | Payment support services | 102,000 | 102,000 | 304,528 | 406,528 |
| Factoring KB, a. s. | Na Poříčí 36, 110 02, Praha 1 | Factoring | 84,000 | 84,000 | 24,036 | 108,036 |
| Investiční kapitálová společnost KB, a. s. | Dlouhá 34, 110 15 Praha 1 | Investment company | 50,000 | 50,000 | 146,402 | 196,402 |
| ASIS, a. s. | Nám. OSN 1/844, 190 02 Praha 9 | Support banking services | 1,000 | 1,000 | 7,042 | 8,042 |
| Reflexim, a. s. | Bolzanova 3, 110 00 Praha 1 | Support banking services | 1,000 | 1,000 | 4,899 | 5,899 |
| Komercni Finance, B. V. (EUR) | Teleportboulevard 140, 1043 EJ Amsterdam, Netherlands | Finance | 574 | 580 | 762 | 1,342 |
| ALL IN, a. s., v likvidaci | Truhlářská 18, 110 00 Praha 1 | In liquidation | 44,517 | 44,517 | (23,476) | 21,041 |
| **Associated undertakings** | | | **764,790** | **763,403** | **1,358,521** | **2,121,924** |
| Všeobecná stavební spořitelna KB, a. s. | Bělehradská 128, 120 21 Praha 2 | Building society | 500,000 | 500,000 | 811,561 | 1,311,561 |
| CAC LEASING, a. s. | Janáčkovo nábřeží 55/140, 150 05 Praha 5 | Leasing | 226,000 | 226,000 | 410,066 | 636,066 |
| CAC LEASING Slovakia, a. s. | Hurbanovo nám. 1 811 06 Bratislava | Leasing | 37,590 | 37,403 | 136,894 | 174,297 |
| Czech Banking Credit Bureau, a. s. | Sokolovská 77, 180 00 Praha 8 | Collection of data for credit risk analysis | 1,200 | x | x | x |

Note: Figures reported in respect of Komerční banka Bratislava, a. s., CAC LEASING Slovakia, a. s., and Komercni Finance, B.V. were re-translated into Czech Crowns using the CNB exchange rate ruling as of 31 December 2002 and 2001. The balance of equity of Penzijní fond Komerční banky, a. s. is reported pursuant to the methodology ruling for the year ended 31 December 2002.

| Company name and legal status | Direct holding in equity (%) | Nominal value of shares (CZK thousand) | Number of shares held by the Bank (pcs) | Share of share capital (CZK thousand) | Cost of shares or holdings (CZK thousand) |
|---|---|---|---|---|---|
| Subsidiary undertakings | | | | 1,559,886 | 2,425,265 |
| Komerční pojišťovna, a. s. | 100 | 63 | 12,020 | 752,000 | 1,508,691 |
| Komerční banka Bratislava, a. s. | 100 | SKK 100 thousand | 5,000 | 375,895 | 413,485 |
| Penzijní fond Komerční banky, a. s. | 100 | 100 | 2,000 | 200,000 | 230,000 |
| Factoring KB, a. s. | 100 | 10 | 8,400 | 84,000 | 90,000 |
| MUZO, a. s. | 49.9 | 1 | 50,900 | 50,900 | 60,998 |
| Investiční kapitálová společnost KB, a. s. | 100 | 100 | 500 | 50,000 | 75,000 |
| ASIS, a. s. | 100 | 100 | 10 | 1,000 | 1,000 |
| Reflexim, a. s. | 100 | 100 | 10 | 1,000 | 1,000 |
| Komerci Finance, B.V. | 100 | EUR 454 | 40 | 574 | 574 |
| ALL IN, a. s., v likvidaci | 100 | 213 | 209 | 44,517 | 44,517 |
| Associated undertakings | | | | 316,999 | 334,899 |
| CAC LEASING, a. s. | 50 | 100 | 1,130 | 113,000 | 110,900 |
| Všeobecná stavební spořitelna KB, a. s. | 40 | 100 | 2,000 | 200,000 | 220,000 |
| CAC LEASING Slovakia, a. s. | 10 | SKK 100 thousand | 50 | 3,759 | 3,759 |
| Czech Banking Credit Bureau, a. s. | 20 | 10 | 24 | 240 | 240 |

Note: Direct holding in equity is identical with the direct holding of voting rights in all entities.

Set out below is an overview of year-on-year movements in equity holdings, by issuer:

| Company name and legal status<br>CZK thousand | Cost at 1 January 2002 | Change for the period – additions | Change for the period – disposals | Foreign exchange differences | Cost at 31 December 2002 |
|---|---|---|---|---|---|
| Komerční pojišťovna, a. s. | 520,000 | 988,691 | | | 1,508,691 |
| Komerční banka Bratislava, a. s. | 411,433 | | | 2,052 | 413,485 |
| Penzijní fond Komerční banky, a. s. | 230,000 | | | | 230,000 |
| Factoring KB, a. s. | 90,000 | | | | 90,000 |
| MUZO, a. s. | 60,998 | | | | 60,998 |
| Investiční kapitálová společnost KB, a. s. | 75,000 | | | | 75,000 |
| ASIS, a. s. | 1,000 | | | | 1,000 |
| Reflexim, a. s. | 1,000 | | | | 1,000 |
| Komerci Finance, B.V. | 580 | | | (6) | 574 |
| ALL IN, a. s., v likvidaci | 40,017 | 4,500 | | | 44,517 |
| A-TRADE, a. s. | 210,000 | | 210,000 | | 0 |
| Total subsidiary undertakings | 1,640,028 | 993,191 | 210,000 | 2,046 | 2,425,265 |
| Všeobecná stavební spořitelna KB, a. s. | 220,000 | | | | 220,000 |
| CAC LEASING, a. s. | 110,900 | | | | 110,900 |
| CAC LEASING Slovakia, a. s. | 3,740 | | | 19 | 3,759 |
| Czech Banking Credit Bureau, a. s. | | 240 | | | 240 |
| Total associated undertakings | 334,640 | 240 | | 19 | 334,899 |
| Total equity holdings | 1,974,668 | 993,431 | 210,000 | 2,065 | 2,760,164 |

| Company name and legal status CZK thousand | Investments | Provisions | Net book value |
|---|---|---|---|
| Subsidiary undertakings | | | |
| Komerční pojišťovna, a. s. | 1,508,691 | (1,127,502) | 381,189 |
| Komerční banka Bratislava, a. s. | 413,485 | | 413,485 |
| Penzijní fond Komerční banky, a. s. | 230,000 | | 230,000 |
| Factoring KB, a. s. | 90,000 | | 90,000 |
| Investiční kapitálová společnost KB, a. s. | 75,000 | | 75,000 |
| MUZO, a. s. | 60,998 | | 60,998 |
| ASIS, a. s. | 1,000 | | 1,000 |
| Reflexim, a. s. | 1,000 | | 1,000 |
| Komercni Finance, B.V. | 574 | | 574 |
| ALL IN, a. s., v likvidaci | 44,517 | (44,517) | 0 |
| Total subsidiary undertakings as of 31 December 2002 | 2,425,265 | (1,172,019) | 1,253,246 |
| Total subsidiary undertakings as of 31 December 2001 | 1,640,028 | (751,900) | 888,128 |
| Total subsidiary undertakings as of 31 December 2000 | 1,664,003 | (528,814) | 1,135,189 |
| Associated undertakings | | | |
| Všeobecná stavební spořitelna KB, a. s. | 220,000 | | 220,000 |
| CAC LEASING, a. s. | 110,900 | | 110,900 |
| CAC LEASING Slovakia, a. s. | 3,759 | | 3,759 |
| Czech Banking Credit Bureau, a. s. | 240 | (240) | 0 |
| Total associated undertakings as of 31 December 2002 | 334,899 | (240) | 334,659 |
| Total associated undertakings as of 31 December 2001 | 334,640 | 0 | 334,640 |
| Total associated undertakings as of 31 December 2000 | 494,752 | (5,022) | 489,730 |
| Total equity investments as of 31 December 2002 | 2,760,164 | (1,172,259) | 1,587,905 |
| Total equity investments as of 31 December 2001 | 1,974,668 | (751,900) | 1,222,768 |
| Total equity investments as of 31 December 2000 | 2,158,755 | (533,836) | 1,624,919 |

### Changes in equity investments in subsidiary undertakings

In the first half of 2002, the Bank, as the sole shareholder of Komerční pojišťovna, boosted Komerční pojišťovna's equity by a total of CZK 989 million. This support took the form of two increases of share capital and share premium amounts with the objective of offsetting losses incurred by the entity in prior years. The first capital increase amounted to CZK 289,000 thousand, the second capital increase amounted to CZK 700,000 thousand. Refer to Note 2.

In August 2002, the Bank disposed of its 75% shareholding in A-TRADE, a. s. The Bank incurred a loss of CZK 1.1 million as a result of the disposal of this investment.

The Bank has presented its interest in MUZO, a. s. as of 31 December 2002 as an equity interest in a subsidiary. Management considers that the Bank has the power to exercise control over the financial and operating policies of MUZO.

### Changes in equity investments in associated undertakings

Pursuant to an agreement with another four banks, the Bank has acquired 20% of the issued share capital of Czech Banking Credit Bureau, a. s. The entity incurred losses for the year ended 31 December 2002 as a result of incorporation costs. As such, the Bank established full provision against this equity investment.

## 17. Tangible and intangible fixed assets

Tangible fixed assets:

| CZK thousand | Land | Buildings | Other | Acquisition of assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 31 December 2000 | 368,191 | 12,108,718 | 7,602,514 | 723,331 | 20,802,754 |
| Additions | 159,902 | 231,897 | 206,706 | 795,338 | 1,393,843 |
| Disposals | 10,922 | 54,031 | 523,845 | 1,151,133 | 1,739,931 |
| 31 December 2001 | 517,171 | 12,286,584 | 7,285,375 | 367,536 | 20,456,666 |
| Additions | 517 | 57,858 | 335,959 | 521,314 | 915,648 |
| Disposals | 135,541 | 303,419 | 334,542 | 394,334 | 1,167,836 |
| **31 December 2002** | **382,147** | **12,041,023** | **7,286,792** | **494,516** | **20,204,478** |
| **Accumulated depreciation and provisions** | | | | | |
| 31 December 2000 | 0 | 2,671,130 | 5,924,104 | 0 | 8,595,234 |
| Additions – accumulated depreciation | 0 | 487,673 | 746,517 | 0 | 1,234,190 |
| Disposals – accumulated depreciation | 0 | 54,031 | 518,574 | 0 | 572,604 |
| Provisions | 0 | 1,016,841 | 5,251 | 40,319 | 1,062,411 |
| 31 December 2001 | 0 | 4,121,613 | 6,157,298 | 40,319 | 10,319,231 |
| Additions – accumulated depreciation | 0 | 479,298 | 618,986 | 0 | 1,098,284 |
| Disposals – accumulated depreciation | 0 | 96,497 | 304,276 | 0 | 401,773 |
| Provisions | 0 | (330,778) | 33,117 | 605 | (297,056) |
| **31 December 2002** | **0** | **4,175,636** | **6,502,125** | **40,924** | **10,718,686** |
| **Net book value** | | | | | |
| 31 December 2000 | 368,191 | 9,437,589 | 1,678,410 | 723,331 | 12,207,521 |
| 31 December 2001 | 517,171 | 8,164,970 | 1,128,078 | 327,217 | 10,137,435 |
| **31 December 2002** | **382,147** | **7,865,387** | **784,667** | **453,592** | **9,485,792** |

Intangible fixed assets:

| CZK thousand | Intangible fixed assets | Acquisition of assets | Total |
|---|---|---|---|
| **Cost** | | | |
| 31 December 2000 | 1,649,115 | 317,334 | 1,966,449 |
| Additions | 874,986 | 967,312 | 1,842,298 |
| Disposals | 3,300 | 972,834 | 976,134 |
| 31 December 2001 | 2,520,801 | 311,812 | 2,832,613 |
| Additions | 345,021 | 358,238 | 703,259 |
| Disposals | 7,495 | 345,021 | 352,516 |
| **31 December 2002** | **2,858,327** | **325,029** | **3,183,356** |
| **Accumulated amortisation and provisions** | | | |
| 31 December 2000 | 872,870 | 221,000 | 1,093,870 |
| Additions – accumulated amortisation | 558,108 | 0 | 558,108 |
| Disposals – accumulated amortisation | 3,270 | 0 | 3,270 |
| Provisions | 219,537 | (159,889) | 59,648 |
| 31 December 2001 | 1,647,245 | 61,111 | 1,708,356 |
| Additions – accumulated amortisation | 546,010 | 0 | 546,010 |
| Disposals – accumulated amortisation | 7,444 | 0 | 7,444 |
| Provisions | (99,005) | (61,111) | (160,116) |
| **31 December 2002** | **2,086,806** | **0** | **2,086,806** |
| **Net book value** | | | |
| 31 December 2000 | 776,245 | 96,334 | 872,579 |
| 31 December 2001 | 873,556 | 250,701 | 1,124,257 |
| **31 December 2002** | **771,521** | **325,029** | **1,096,550** |

Tangible fixed assets held under finance leases:

| CZK thousand | |
|---|---|
| **Cost at 31 December 2000** | **873,403** |
| Additions for 2001 | 432,527 |
| Disposals for 2001 | (227) |
| **Cost at 31 December 2001** | **1,305,702** |
| Additions for 2002 | 130,465 |
| Disposals for 2002 | (639,857) |
| **Cost at 31 December 2002** | **796,310** |

| CZK thousand | |
|---|---|
| Instalments paid including lease advances and prepaid rent in 2002 | 581,220 |
| Breakdown of future lease payments | 298,343 |
| Of which: up to 1 year | 195,598 |
| up to 5 years | 102,746 |
| over 5 years | 0 |

## 18. Other assets, prepayments and accrued income

### Other assets

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Positive fair values of derivative transactions | 13,789,869 | 7,850,739 | 3,312,219 |
| Settlement balances | 6,820 | 347,347 | 154,000 |
| Other receivables from securities trading | 311,044 | 3,238 | 32,155 |
| Estimated receivables | 2,530,628 | 572,097 | 35,597 |
| Other assets | 3,072,544 | 1,652,334 | 2,852,175 |
| **Total** | **19,710,905** | **10,425,755** | **6,386,146** |
| Provisions | (289,905) | (560,717) | (254,738) |
| **Total other assets** | **19,421,000** | **9,865,038** | **6,131,408** |

### Prepayments and accrued income

As of 31 December 2002, the aggregate balance of prepayments and accrued income was CZK 809,778 thousand (2001: CZK 1,266,529 thousand, 2000: CZK 3,772,856 thousand). In 2002, these prepayments and accrued income principally comprise lease payments, other rental payments, credit insurance, invoices from foreign suppliers and fees in respect of received loans.

## 19. Amounts owed to banks

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Amounts owed to banks – current accounts | 1,253,660 | 1,056,545 | 1,156,868 |
| Account with the Czech National Bank | 2,631,080 | 2,496,843 | 4,998,012 |
| Other amounts owed to banks | 18,403,324 | 25,577,615 | 33,519,440 |
| Of which: repayable on demand | 2,702,386 | 0 | 0 |
| **Total amounts owed to banks** | **22,288,064** | **29,131,003** | **39,674,320** |

## 20. Amounts owed to customers

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Current accounts | 170,964,781 | 141,478,693 | 122,453,117 |
| Savings accounts | 17,655,702 | 21,345,709 | 24,841,235 |
| of which: on demand | 1,509,802 | 1,493,401 | 1,691,708 |
| Term deposits | 111,467,386 | 122,328,835 | 106,114,560 |
| Loans from customers | 584,525 | 180,243 | 9,597,628 |
| Other payables to customers | 5,115,903 | 4,304,041 | 9,221,719 |
| **Total amounts owed to customers** | **305,788,297** | **289,637,521** | **272,228,259** |

## 21. Payables from debt securities

Certificates of deposit and issued debt comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Bonds | 11,208,272 | 20,614,925 | 18,919,532 |
| Mortgage bonds | 7,058,200 | 7,104,647 | 6,900,090 |
| **Total debt securities** | **18,266,472** | **27,719,572** | **25,819,622** |
| Other payables from debt securities | 312,304 | 0 | 0 |
| Depository promissory notes | 35,326,236 | 31,707,884 | 25,385,054 |
| **Total** | **53,905,012** | **59,427,456** | **51,204,676** |

Debt securities are repayable, according to remaining maturity, as follows:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Less than 1 year | 0 | 10,145,778 | 0 |
| From 1 to 2 years | 16,979,547 | 0 | 9,168,494 |
| From 2 to 3 years | 0 | 16,240,313 | 0 |
| From 3 to 4 years | 0 | 0 | 15,551,128 |
| Over 4 years | 1,286,925 | 1,333,481 | 1,100,000 |
| **Total debt securities** | **18,266,472** | **27,719,572** | **25,819,622** |

The bonds and medium-term notes detailed above include the following bonds and notes issued by the Bank:

| Name of bond | Interest rate | Issue date | Maturity date | 2002 (CZK thousand) | 2001 (CZK thousand) | 2000 (CZK thousand) |
|---|---|---|---|---|---|---|
| Bonds of Komerční banka, a. s., CZ0003700429 | 6M PRIBOR plus 15 basis points (bps) | 10 February 1997 | 10 February 2002 | 0 | 6,124,021 | 5,374,592 |
| Zero coupon bonds of Komerční banka, a. s., 770970000947 | Zero coupon (issued with discount for CZK 3,805 million) | 8 August 1997 | 8 August 2004 | 6,088,618 | 5,542,076 | 5,070,514 |
| Bonds of Komerční banka, a. s., CZ0003700452 | 6M PRIBOR plus 10 basis points | 29 September 1997 | 29 September 2002 | 0 | 4,021,757 | 3,543,827 |
| Mortgage bonds of Komerční banka, a. s., CZ0002000110 | 8.125% (mortgage bonds 2) | 13 May 1999 | 13 May 2004 | 4,205,567 | 4,205,834 | 4,181,873 |
| Mortgage bonds of Komerční banka, a. s., CZ0002000102 | 8.0% (mortgage bonds 1) | 15 June 1999 | 15 June 2004 | 1,565,333 | 1,565,333 | 1,568,202 |
| Bonds of Komerční banka, a. s., CZ0003700528 | 8.0% | 10 September 1999 | 10 September 2004 | 5,120,029 | 4,927,070 | 4,930,599 |
| Mortgage bonds of Komerční banka, a. s., CZ0002000151 | 6M PRIBOR plus 350 basis points (mortgage bonds 3) | 15 September 2000 | 15 September 2007 | 1,286,925 | 1,333,481 | 1,150,015 |
| **Total bonds** | | | | **18,266,472** | **27,719,572** | **25,819,622** |

Note: Six-month PRIBOR was 255 basis points as of 31 December 2002 (2001: 448 basis points, 2000: 557 basis points).

## 22. Other liabilities, deferred income and accrued expenses

### Other liabilities

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Negative fair values of derivative transactions | 6,078,211 | 4,295,952 | 2,701,642 |
| Settlement balances and outstanding balances | 17,460 | 0 | 349,867 |
| Other trading payables | 343,118 | 528,625 | 458,345 |
| Other liabilities | 826,834 | 1,284,802 | 3,071,694 |
| Estimated payables | 2,268,760 | 1,768,713 | 144,289 |
| Corporate income tax | 2,796,477 | 672,993 | 0 |
| Deferred tax | 1,124,291 | 81,119 | 80,391 |
| **Total** | **13,455,151** | **8,632,204** | **6,806,228** |

### Deferred income and accrued expenses

As of 31 December 2002, accruals and deferred income amounted to CZK 29,058 thousand (2001: CZK 826,799 thousand, 2000: CZK 2,530,932 thousand). In 2002, these balances principally consisted of the purchase of receivables and fees received in respect of collection services.

## 23. Subordinated liabilities

As of 31 December 2002, the Bank had commitments from long-term accepted loans of a special nature relating to a subordinated debt at a carrying amount of CZK 6,100,015 thousand (a nominal value of USD 200,000 thousand). In 1998, Komercni Finance, B.V. (a wholly owned subsidiary of the Bank) issued guaranteed step-up callable notes due 15 May 2008, bearing interest at 9 percent per annum to 15 May 2003 and then interest at a rate per annum equal to the sum of the six-month dollar deposit LIBOR for the relevant payment period plus 5 percent. The notes constitute direct, unsecured, unconditional, subordinated obligations of Komercni Finance, B.V. which are irrevocably, fully and, subject to subordination, unconditionally guaranteed as to principal, premium and interest by the Bank. The notes are redeemable at the option of Komercni Finance, B.V. in whole on any interest payment date on or after 15 May 2003.
In the latter half of 2002, the Bank acquired subordinated debt securities issued by Komercni Finance, B.V. to finance a subordinated debt with an aggregate nominal value of USD 78,025 thousand (CZK 2,351,751 thousand). The Bank carries these subordinated debt securities on the balance sheet as a component of assets. The purchased debt securities were not netted against the subordinated debt.

## 24. Share capital, treasury shares and share premium

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926 thousand and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).
Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2002:

| Name of the entity | Registered office | Ownership (%) |
|---|---|---|
| SOCIÉTÉ GÉNÉRALE S. A. | 29 BLVD HAUSSMANN, PARIS | 60.353 |
| The Bank of New York ADR Department | 101 Barclay Street, New York | 6.270 |

Société Générale S. A., being the only entity with a qualified holding in the Bank, is a French joint stock company registered in the Register of Companies (Registre du Commerce et Sociétés) under no. RCS Paris 552 120 222. Société Générale operates as a licensed bank pursuant to a resolution issued on 4 May 1864 and is subject to the regulatory requirements of the French Companies Act (Loi sur les Sociétés Commerciales 66–537, 24 July 1966) and the French Banking Act (Loi Bancaire 84–46, 24 January 1984).
In December 2002, the Bank sold 135,940 treasury shares which it had acquired to meet its potential commitments under an equity compensation program (refer to Note 29). The Bank reassessed the requirements resulting from the equity compensation program within the context of the change of a significant portion of this program and decided to dispose of the treasury shares. The Bank made a gain of CZK 116,178 thousand on this transaction which resulted in an increase in the Company's equity through share premium accounts. In connection with the remaining equity call options under the existing equity compensation program, the Bank purchased 42,890 treasury shares, of which 32,000 treasury shares were acquired subsequent to 31 December 2002 and hence are not reflected on the Bank's balance sheet.

## 25. Retained earnings, reserve funds and other funds created from profit

The Bank has generated a profit of CZK 9,229,086 thousand in respect of the year ended 31 December 2002. Management of the Bank has not yet approved the allocation of the Bank's profit for the year ended 31 December 2002.

## 26. Gains or losses from revaluation

| CZK thousand | 1 January 2002 | Increase | Decrease | 31 December 2002 |
|---|---|---|---|---|
| Gains or losses from revaluation: | | | | |
| – Of assets and liabilities | 0 | 0 | 0 | 0 |
| – Of hedging derivatives | 1,262,976 | 10,340,331 | 8,128,094 | 3,475,213 |
| – Of deferred taxes in respect of hedging derivatives | 0 | 0 | 1,077,316 | (1,077,316) |
| – Of re-translation of equity holdings | (55,691) | 189,920 | 187,866 | (53,637) |
| **Total** | **1,207,285** | **10,530,251** | **9,393,276** | **2,344,260** |

## 27. Risk management and financial instruments

### (A) Credit risk

#### Credit rating of borrowers

The Bank quantifies counterparty risk using ratings on the basis of a number of criteria depending upon the type and size of the borrower. The rating of the borrower serves as a basis for calculating anticipated risk expenses taking into account the type of the credit product and underlying collateral. The Bank rates corporate borrowers based upon quantitative (financial statements of an enterprise) and qualitative (gradings assigned by financial analysts) criteria. The quantitative analysis of the financial statements is undertaken using various ratios depending upon the size of the borrower (turnover) and type of business (manufacturing, leasing, municipality). The Bank additionally refers to ratings published by external rating agencies. Special teams regularly assess the ratings assigned to individual borrowers for correctness and accuracy. In respect of retail clients, the Bank principally uses quantitative criteria to arrive at the rating.
The Bank monitors credit risk concentrations on an aggregate basis in respect of all on and off balance sheet positions. The Bank specifically monitors credit risk concentrations by industry and groups of economically linked entities. With a view to identifying significant credit risk concentrations, the Bank compares the proportion of industries to its on and off balance sheet position and the proportion of industries in the Czech Republic (share of GDP). With regard to groups of economically linked entities, the Bank monitors the proportion of credit exposures to the groups to the Bank's capital.

#### Receivables that are not categorised

The Bank does not classify other amounts due from customers pursuant to the applicable regulation issued by the Czech National Bank. These amounts are recorded in accounting class 34 and consist of non-loan receivables that originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically prepayments made to social authorities and amounts due from these authorities. As a general policy, the Bank records full provisions against these balances if they are overdue by three months or greater.

#### Provisioning for receivables

The Bank charges provisions against amounts due from borrowers by reference to the uncovered exposure which represent the balance receivable after deducting eligible collateral. The provisioning charge is equal to the greater of the provision calculated pursuant to the CNB Regulation, which provides guidance on loan classification and provisioning for loans on the basis of their classification, and the provision determined on the basis of the Bank's internal estimate of the expected recovery rates of individual receivables. The Bank uses this approach both in respect of on and off balance sheet exposures. The Bank also establishes full provisions against interest payments that are in default for more than 30 days.

Pursuant to the applicable CNB regulation, loan classification grades are determined using the following parameters: 'Number of overdue days', 'Provision of information by the client' and 'Restructuring of the receivable'. An internal assessment of the loan is determined using a counterparty rating and ratings prepared by analysts. Larger loan exposures are discussed by the Provisioning Committees (a significant proportion of the Bank's loan portfolio are reviewed by these Committees).

### Loan collateral

Collateral values are determined by the Risk Management Division based upon discount factors used in valuing collateral received. Information about collateral values is transferred to relevant client accounts and is used to calculate uncovered exposures in respect of individual loans for provisioning purposes.

The Bank monitors collateral values using two methods. The first method involves monitoring actual market conditions, and changes to legal regulations that have a direct impact on collateral values. Under the second method, the Risk Management Division re-assesses collateral values on a quarterly basis. This re-assessment involves comparing the actual recoverability of collateral to the original values carried in the Bank's books.

A significant proportion of the Bank's loan portfolio is collateralised by real estate which presently represents more than 50 percent of aggregate collateral values.

### Recovery of amounts due from borrowers

The Bank has set up a special work-out division. The Debt Recovery Division is engaged in restructuring loans, recovering and selling loans and realising collateral in accordance with the agreement entered into between the Bank and the relevant borrower.

### Credit risk reallocation instruments

The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

### Revocable contractual commitments

The Bank monitors revocable contractual commitments on the same basis as irrevocable commitments. The risk is identified on a client basis and is monitored on a monthly basis but no provisions or reserves are established. These commitments account for 6 percent of all the Bank's contracted undrawn commitments.

### Credit risk of financial derivatives

Credit exposure or replacement cost of financial derivative instruments represents the Bank's credit exposure from derivative contracts that is, it indicates the estimated maximum potential losses of the Bank in the event that counterparties fail to perform their obligations. It is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to a newly implemented methodology Current Average Risk ('CAR') as the average of estimated potential exposures which the Bank may have over the remaining term of the contract. Credit risk is established depending on the type of contract and takes into account, among other things, the market value of the contract and its maturity. The Bank assesses credit risks of all financial instruments on a daily basis.

As of 31 December 2002, the Bank has a potential credit exposure of CZK 20,791 million (2001: 10,860 million, 2000: CZK 5,947 million, the figures are not comparable due to changes in the basis of the calculation) in the event of non-performance by counterparties to its financial derivative instruments. This amount represents the gross replacement cost at market rates as of 31 December 2002 of all outstanding agreements in the event of all counterparties defaulting and does not allow for the effect of netting arrangements.

### (B) Market risk

#### Segmentation of the Bank's financial operations

For market risk management purposes, the Bank has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes transactions entered into by the Bank's dealers in the interbank markets and instruments acquired for trading purposes. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.

In order to measure market risk, the Bank primarily operates a system of limits that reflect the Bank's needs as well external requirements.

#### Products traded by the Bank

The Bank trades the following products that carry an element of market risk: loans and deposits in the interbank market, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, currency swaps, FRAs), treasury bills and Government bonds, corporate bonds and other specific products, such as bills of exchange/bill programs, cash management for selected clients, etc. The Bank enters into back-to-back transactions with options.

The Bank enters into transactions with financial derivative instruments for proprietary purposes as well as on clients' accounts. In addition, the Bank uses derivative instruments to hedge positions that expose the Bank to market risk.

In order to hedge its own positions, the Bank primarily uses interest rate swaps, FRAs and currency swaps.

The Bank has also entered into a number of structured financial derivative transactions for its clients which are designed to meet the clients' hedging needs. These products are measured using internal models; market risk is eliminated by closing the position through a back-to-back deal.

Financial derivative instruments are traded only on over-the-counter markets. The Bank trades no stock exchange derivatives.

#### Market risk in the Market Book

In order to measure market risk inherent in the Market Book, the Bank uses, inter alia, the Value at Risk concept. Value at Risk is calculated using historical simulations and represents a maximum potential loss on the portfolio over a given time period (typically one trading day) with a confidence level of 99 percent.

The Bank has also implemented daily analyses of shock scenarios ('stress testing') of all open positions in the Market Book. The Bank has defined shock scenarios for principal groups of currencies.

The Global Value at Risk over the holding period of one day with a confidence level of 99 percent was EUR 289,993 as of 31 December 2002. The average Global Value at Risk for the period from 20 August 2002 to 31 December 2002 was EUR 381,579. The Value at Risk limits were determined by management of the Bank for risk management.

#### Market risk in the Structural Book

The foreign exchange position is monitored on a daily basis in accordance with the CNB Regulation on capital adequacy of banks including credit and market risk. Within its Structural Book, the Bank manages foreign exchange risk so as to achieve minimum risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard cross-currency instruments in the interbank market, such as cross-currency spots and forwards. Pursuant to regulatory requirements, the Bank reports, on a monthly basis, on its foreign currency and Czech crown position to the Czech National Bank.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis and Earnings at Risk ('EaR') for net interest income which is monitored separately for CZK and foreign currencies. This indicator shows the maximum departure of the planned net interest income over a one year period attributable to the movements in interest rates with a 99 percent confidence level from the initial value. EaR is set using stochastic simulations of random scenarios of interest rate developments and a change in interest income relative to the initial value is established for each scenario. The calculation of EaR to net interest income involves a stress-testing approach to interest rate risk within the Structural Book.

In order to hedge interest rate risk within the Structural Book the Bank uses both standard derivative instruments available in the interbank market (such as FRAs and interest rate swaps) and appropriate investment in securities or selection of interest rate parameters of other assets and liabilities.

### (C) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict exposure to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure. Further information about the monitoring of risks attached to financial derivatives is provided above.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading derivatives:

| CZK thousand | 2002 Assets | Notional value 2002 Liabilities | 2001 Assets | Notional value 2001 Liabilities | 2000 Assets | Notional value 2000 Liabilities |
|---|---|---|---|---|---|---|
| Interest rate instruments | | | | | | |
| Interest rate swaps | 66,306,598 | 66,306,598 | 60,508,758 | 60,508,758 | 55,207,286 | 55,207,286 |
| Forward rate agreements | 150,841,410 | 150,841,410 | 135,051,675 | 135,051,675 | 80,790,339 | 80,790,339 |
| Options | 5,600,000 | 5,600,000 | 4,400,000 | 4,400,000 | 4,400,000 | 4,400,000 |
| **Total** | **222,748,008** | **222,748,008** | **199,960,433** | **199,960,433** | **140,397,625** | **140,397,625** |
| Foreign currency instruments | | | | | | |
| Currency swaps | 80,157,685 | 80,020,891 | 82,884,023 | 82,265,676 | 58,675,430 | 58,475,408 |
| Cross currency swaps | 18,212,014 | 14,997,095 | 22,278,989 | 21,371,741 | 638,111 | 694,080 |
| Currency forwards | 4,002,534 | 3,944,204 | 4,513,191 | 4,434,948 | 7,687,982 | 7,612,511 |
| Call options | 2,213,348 | 2,237,519 | 1,231,239 | 1,344,426 | 8,511,268 | 8,294,086 |
| Put options | 2,237,519 | 2,213,348 | 985,386 | 872,199 | 0 | 0 |
| **Total** | **109,823,100** | **103,413,057** | **111,892,828** | **110,288,990** | **75,512,791** | **75,076,085** |
| Other instruments | | | | | | |
| Credit options | 14,757,842 | 14,757,842 | 20,506,326 | 20,506,326 | 0 | 0 |
| Forwards on debt securities | 1,138,557 | 1,139,332 | 1,812,609 | 1,813,122 | 0 | 0 |
| **Total** | **15,896,399** | **15,897,174** | **22,318,935** | **22,319,448** | **0** | **0** |
| TOTAL | **345,467,507** | **342,058,239** | **334,172,196** | **332,568,871** | **215,910,416** | **215,473,710** |

| CZK thousand | 2002 Positive | Fair value 2002 Negative | 2001 Positive | Fair value 2001 Negative | 2000 Positive | Fair value 2000 Negative |
|---|---|---|---|---|---|---|
| Interest rate instruments | | | | | | |
| Interest rate swaps | 2,661,387 | 2,709,194 | 1,872,470 | 1,847,390 | 1,573,008 | 1,135,596 |
| Forward rate agreements | 267,034 | 332,495 | 512,362 | 488,344 | 52,132 | 49,016 |
| Options | 216,200 | 226,990 | 94,256 | 88,573 | 59,964 | 54,794 |
| **Total** | **3,144,621** | **3,268,679** | **2,479,088** | **2,424,307** | **1,685,104** | **1,239,406** |
| Foreign currency instruments | | | | | | |
| Currency swaps | 2,431,484 | 2,307,651 | 2,202,620 | 1,633,788 | 1,319,786 | 1,084,104 |
| Cross currency swaps | 3,374,270 | 165,815 | 993,256 | 109,603 | 1,171 | 67,134 |
| Currency forwards | 86,709 | 30,171 | 89,170 | 24,063 | 143,158 | 169,829 |
| Call options | 36,598 | 0 | 25,964 | 0 | 31,661 | 21,739 |
| Put options | 0 | 36,460 | 0 | 25,964 | 0 | 0 |
| **Total** | **5,929,061** | **2,540,097** | **3,311,010** | **1,793,418** | **1,495,776** | **1,342,806** |
| Other instruments | | | | | | |
| Forwards on debt securities | 1,261 | 2,952 | 395 | 409 | 0 | 0 |
| **Total** | **1,261** | **2,952** | **395** | **409** | **0** | **0** |
| TOTAL | **9,074,943** | **5,811,728** | **5,790,493** | **4,218,134** | **3,180,880** | **2,582,212** |

Financial derivative instruments designated as held for trading at nominal values per remaining maturity:

| CZK thousand | Less than 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest rate instruments | | | | |
| Interest rate swaps | 23,437,265 | 30,935,803 | 11,933,530 | 66,306,598 |
| Forward rate agreements | 105,591,410 | 45,250,000 | 0 | 150,841,410 |
| Options | 0 | 1,600,000 | 4,000,000 | 5,600,000 |
| **Total** | **129,028,675** | **77,785,803** | **15,933,530** | **222,748,008** |
| Foreign currency instruments | | | | |
| Swaps | 80,157,685 | 0 | 0 | 80,157,685 |
| Cross currency swaps | 8,224,291 | 9,766,523 | 221,200 | 18,212,014 |
| Forwards | 3,943,880 | 58,654 | 0 | 4,002,534 |
| Call options | 2,181,748 | 31,600 | 0 | 2,213,348 |
| Put options | 2,205,019 | 32,500 | 0 | 2,237,519 |
| **Total** | **96,712,623** | **9,889,277** | **221,200** | **106,823,100** |
| Other instruments | | | | |
| Credit options | 14,757,842 | 0 | 0 | 14,757,842 |
| Forwards on debt securities | 1,138,557 | 0 | 0 | 1,138,557 |
| **Total** | **15,896,399** | **0** | **0** | **15,896,399** |
| TOTAL | **241,637,697** | **87,675,080** | **16,154,730** | **345,467,507** |

Note: The remaining maturity of forward rate agreements (FRA) covers the period to the fixing date when off balance sheet exposures are reversed.

Financial derivative instruments designated as hedging:

| CZK thousand | 2002 Assets | Notional value 2002 Liabilities | 2001 Assets | Notional value 2001 Liabilities | 2000 Assets | Notional value 2000 Liabilities |
|---|---|---|---|---|---|---|
| Foreign currency instruments | | | | | | |
| Swaps | 0 | 0 | 0 | 0 | 3,235,833 | 3,130,857 |
| Cross currency swaps | 0 | 0 | 0 | 0 | 1,785,250 | 1,890,650 |
| **Total** | **0** | **0** | **0** | **0** | **5,021,083** | **5,021,507** |
| Interest rate instruments | | | | | | |
| Interest rate swaps | 68,640,888 | 68,640,888 | 65,426,600 | 65,426,600 | 38,147,104 | 38,147,104 |
| Forward rate agreements | 0 | 0 | 2,800,000 | 2,800,000 | 10,200,000 | 10,200,000 |
| **Total** | **68,640,888** | **68,640,888** | **68,226,600** | **68,226,600** | **48,347,104** | **48,347,104** |
| TOTAL | **68,640,888** | **68,640,888** | **68,226,600** | **68,226,600** | **53,368,187** | **53,368,611** |

| CZK thousand | 2002 Positive | Fair value 2002 Negative | 2001 Positive | Fair value 2001 Negative |
|---|---|---|---|---|
| Foreign currency instruments | | | | |
| Swaps | 0 | 0 | 0 | 0 |
| Cross currency swaps | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **0** | **0** |
| Interest rate instruments | | | | |
| Interest rate swaps | 4,714,926 | 266,482 | 2,033,260 | 77,818 |
| Forward rate agreements | 0 | 0 | 26,986 | 0 |
| **Total** | **4,714,926** | **266,482** | **2,060,246** | **77,818** |
| TOTAL | **4,714,926** | **266,482** | **2,060,246** | **77,818** |

Remaining maturity of derivatives designated as hedging:

| CZK thousand | Less than 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest rate swaps | 11,028,200 | 33,456,200 | 24,156,488 | 68,640,888 |
| **Total** | **11,028,200** | **33,456,200** | **24,156,488** | **68,640,888** |

(D Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section B of this note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have contractual maturity date or are not interest-bearing were grouped in the 'maturity undefined' category.

| CZK thousand | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash in hand, balances with central banks | 6,199,501 | 0 | 0 | 0 | 7,160 174 | 13,359,675 |
| State zero-coupon bonds and other securities eligible for refinancing with the CNB | 2,798,777 | 5,324,361 | 2,219,995 | 3,870,944 | 0 | 14,214,077 |
| Amounts due from banks | 176,289,350 | 9,705,685 | 243,485 | 14,000,000 | 33,504 | 200,272,024 |
| Amounts due from customers | 95,130,571 | 29,657,935 | 34,791,642 | 3,698,262 | 527,398 | 163,805,808 |
| Debt securities | 8,510,429 | 4,500,469 | 2,575,947 | 4,080,450 | 0 | 19,667,295 |
| Shares, participation certificates and other holdings | 0 | 0 | 0 | 0 | 2,261,856 | 2,261,856 |
| Equity holdings in associates | 0 | 0 | 0 | 0 | 334,659 | 334,659 |
| Equity holdings in subsidiaries | 0 | 0 | 0 | 0 | 1,253,245 | 1,253,245 |
| Intangible fixed assets | 0 | 0 | 0 | 0 | 1,096,550 | 1,096,550 |
| Tangible fixed assets | 0 | 0 | 0 | 0 | 9,485,792 | 9,485,792 |
| Other assets | 0 | 0 | 0 | 0 | 19,421,000 | 19,421,000 |
| Receivables from shareholders and partners | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepayments and deferred income | 0 | 0 | 0 | 0 | 809,778 | 809,778 |
| **Total assets** | **288,928,628** | **49,188,450** | **38,831,069** | **25,649,656** | **42,383,956** | **445,981,759** |

| CZK thousand | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|
| Liabilities | | | | | | |
| Amounts owed to banks | 15,237,199 | 4,019,692 | 260,899 | 112,285 | 2,657,989 | 22,288,064 |
| Amounts owed to customers | 109,243,067 | 3,374,266 | 977,568 | 132,745 | 192,060,651 | 305,788,297 |
| Payables from debt securities | 36,149,353 | 0 | 17,495,510 | 0 | 260,149 | 53,905,012 |
| Other liabilities | 2,363,516 | 0 | 0 | 0 | 11,091,635 | 13,455,151 |
| Deferred income and accrued expenses | 0 | 0 | 0 | 0 | 29,058 | 29,058 |
| Reserves | 0 | 0 | 0 | 0 | 10,612,556 | 10,612,556 |
| Subordinated liabilities | 0 | 6,100,015 | 0 | 0 | 0 | 6,100,015 |
| **Total liabilities** | **162,993,135** | **13,493,973** | **18,733,977** | **245,030** | **216,712,038** | **412,178,153** |
| **On balance sheet interest rate sensitivity gap at 31 December 2002** | **125,935,493** | **35,694,477** | **21,097,092** | **25,404,626** | **(174,328,082)** | **33,803,606** |
| Off balance sheet assets * | 172,435,042 | 50,054,126 | 45,819,856 | 24,218,430 | 0 | 292,527,454 |
| Off balance sheet liabilities * | 212,784,620 | 56,144,131 | 19,141,126 | 4,458,351 | 0 | 292,528,228 |
| **Net off balance sheet interest rate sensitivity gap at 31 December 2002** | **(40,349,578)** | **(6,090,005)** | **26,678,730** | **19,760,079** | **0** | **(774)** |
| **Cumulative interest rate sensitivity gap at 31 December 2002** | **85,585,915** | **115,190,387** | **162,966,209** | **208,130,914** | **33,802,832** | **x** |
| Total assets at 31 December 2001 | 277,393,041 | 43,077,425 | 54,144,798 | 13,365,787 | 41,677,563 | 429,658,614 |
| Total liabilities at 31 December 2001 | 207,187,321 | 10,426,377 | 26,551,622 | 264,007 | 161,561,775 | 405,991,102 |
| Net on balance sheet interest rate sensitivity gap at 31 December 2001 | 70,205,720 | 32,651,048 | 27,593,176 | 13,101,780 | (119,884,212) | 23,667,512 |
| Net off balance sheet interest rate sensitivity gap at 31 December 2001 | (34,946,827) | (17,516,197) | 42,586,697 | 9,876,327 | 0 | 0 |
| Cumulative interest rate sensitivity gap at 31 December 2001 | 35,258,893 | 50,393,744 | 120,573,617 | 143,551,724 | 23,667,512 | x |

Note: * Off balance assets and liabilities include amounts receivable and payable arising from interest rate derivative instruments including derivatives for bonds and treasury bills.

### (E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Management Board which complies with the CNB Regulation on banking liquidity management principles and covers the other needs/requirements of the Bank in respect of liquidity risk management. Liquidity is monitored on a bank wide level, with the Market Book also having a stand-alone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank provides the Czech National Bank with a 'Summary of actual remaining maturities of assets and liabilities' and a 'Summary of estimated remaining maturity of assets and liabilities' on a monthly basis.

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date pursuant to CNB methodology. Those assets and liabilities that do not have a contractual maturity date are grouped together in the 'maturity undefined' or 'on demand' category. The 'on demand' category principally consists of all current accounts of banks and clients.

| CZK thousand | On demand to 7 days | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash in hand, balances with central banks | 9,574,585 | 0 | 0 | 0 | 0 | 3,785,090 | 13,359,675 |
| State zero-coupon bonds and other securities eligible for refinancing with the CNB | 0 | 2,847,820 | 5,376,831 | 2,180,304 | 3,809,122 | 0 | 14,214,077 |
| Amounts due from banks | 67,232,494 | 109,416,646 | 8,851,754 | 381,611 | 14,000,000 | 389,519 | 200,272,024 |
| Amounts due from customers | 13,301,605 | 7,727,951 | 16,406,777 | 60,464,946 | 27,585,101 | 38,319,428 | 163,805,808 |
| Debt securities | 0 | 69,892 | 1,866,145 | 3,415,769 | 14,315,489 | 0 | 19,667,295 |
| Shares, participation certificates and other holdings | 0 | 0 | 0 | 0 | 0 | 2,261,856 | 2,261,856 |
| Equity holdings in associates | 0 | 0 | 0 | 0 | 0 | 334,659 | 334,659 |
| Equity holdings in subsidiaries | 0 | 0 | 0 | 0 | 0 | 1,253,245 | 1,253,245 |
| Intangible fixed assets | 0 | 0 | 0 | 0 | 0 | 1,096,550 | 1,096,550 |
| Tangible fixed assets | 0 | 0 | 0 | 0 | 0 | 9,485,792 | 9,485,792 |
| Other assets | 571,826 | 0 | 513,933 | 0 | 0 | 18,335,241 | 19,421,000 |
| Receivables from shareholders and partners | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepayments and deferred income | 0 | 0 | 0 | 0 | 0 | 809,778 | 809,778 |
| **Total assets** | **90,680,510** | **120,062,309** | **33,015,440** | **66,442,630** | **59,709,712** | **76,071,158** | **445,981,759** |
| Liabilities | | | | | | | |
| Amounts owed to banks | 7,961,697 | 3,537,716 | 3,833,572 | 3,757,221 | 3,197,858 | 0 | 22,288,064 |
| Amounts owed to customers | 225,599,632 | 49,420,780 | 21,178,405 | 9,430,082 | 159,398 | 0 | 305,788,297 |
| Payables from debt securities | 35,631,153 | 23,152 | 399,811 | 17,850,896 | 0 | 0 | 53,905,012 |
| Other liabilities | 7,376,940 | 0 | 0 | 0 | 0 | 6,078,211 | 13,455,151 |
| Deferred income and accrued expenses | 29,058 | 0 | 0 | 0 | 0 | 0 | 29,058 |
| Reserves | 0 | 0 | 0 | 0 | 0 | 10,612,556 | 10,612,556 |
| Subordinated liabilities | 0 | 0 | 71,815 | 0 | 6,028,200 | 0 | 6,100,015 |
| Share capital | 0 | 0 | 0 | 0 | 0 | 19,004,926 | 19,004,926 |
| Treasury shares | 0 | 0 | 0 | 0 | 0 | (23,445) | (23,445) |
| Share premium | 0 | 0 | 0 | 0 | 0 | 124,387 | 124,387 |
| Reserve funds and other funds from profit | 0 | 0 | 0 | 0 | 0 | 1,192,913 | 1,192,913 |
| Revaluation reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital funds | 0 | 0 | 0 | 0 | 0 | 11 | 11 |
| Gains or losses from revaluation | 0 | 0 | 0 | 0 | 0 | 2,344,260 | 2,344,260 |
| Retained earnings or accumulated losses brought forward | 0 | 0 | 0 | 0 | 0 | 1,931,468 | 1,931,468 |
| Profit/(loss) for the period | 0 | 0 | 0 | 0 | 0 | 9,229,086 | 9,229,086 |
| **Total liabilities** | **276,598,481** | **52,981,648** | **25,483,603** | **31,038,199** | **9,385,456** | **50,494,373** | **445,981,759** |
| **On balance sheet net liquidity gap at 31 December 2002** | **(185,917,971)** | **67,080,661** | **7,531,837** | **35,404,431** | **50,324,256** | **25,576,785** | **0** |
| Off balance sheet assets * | 143,385 | 9,729,166 | 132,267,369 | 28,345,087 | 12,739,633 | 23,493,587 | 206,718,227 |
| Off balance sheet liabilities * | 0 | 112,087 | 98,640,252 | 9,320,958 | 1,144,873 | 1,006,421 | 110,224,591 |
| **Off balance sheet net liquidity gap at 31 December 2002** | **143,385** | **9,617,079** | **33,627,117** | **19,024,129** | **11,594,760** | **22,487,166** | **96,493,636** |
| Total assets at 31 December 2001 | 92,570,601 | 109,483,403 | 29,963,487 | 80,644,664 | 41,552,706 | 75,443,753 | 429,658,614 |
| Total liabilities at 31 December 2001 | 251,084,820 | 69,837,635 | 32,762,332 | 27,285,123 | 13,415,618 | 35,273,086 | 429,658,614 |
| On balance sheet net liquidity gap at 31 December 2001 | (158,514,219) | 39,645,768 | (2,798,845) | 53,359,541 | 28,137,088 | 40,170,667 | 0 |
| Off balance sheet net liquidity gap at 31 December 2001 | 1,214,013 | 4,772,153 | 9,939,103 | 8,059,027 | 12,809,229 | 15,766,904 | 52,560,429 |

Note: * Off balance assets and liabilities include amounts receivable and payable arising from foreign exchange spots, derivatives instruments, and receivables and payables from guarantees, letters of credit and loan commitments.

(F) Aggregate assets and liabilities in foreign currencies

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Assets | | | |
| CZK | 385,157,275 | 338,731,920 | 330,572,957 |
| Foreign currency | 60,824,484 | 90,926,694 | 76,984,974 |
| **Total assets** | **445,981,759** | **429,658,614** | **407,557,931** |
| Liabilities | | | |
| CZK | 394,217,430 | 366,450,188 | 344,788,052 |
| Foreign currency | 51,764,329 | 63,208,426 | 62,769,879 |
| **Total liabilities** | **445,981,759** | **429,658,614** | **407,557,931** |
| Off balance sheet assets | | | |
| CZK | 449,656,798 | 394,297,572 | 266,602,091 |
| Foreign currency | 92,713,017 | 84,694,192 | 96,741,011 |
| **Total off balance sheet assets** | **542,369,815** | **478,991,764** | **363,343,102** |
| Off balance sheet liabilities | | | |
| CZK | 753,293,675 | 720,535,237 | 569,978,292 |
| Foreign currency | 106,625,215 | 118,067,177 | 116,770,280 |
| **Total off balance sheet liabilities** | **859,918,890** | **838,602,414** | **686,748,572** |

(G) Operating risk

The Bank does not presently monitor and manage operating risk centrally. Operating risk is monitored at the level of organisational units. Pursuant to the anticipated introduction of a capital requirement in respect of operating risk and in an effort to improve the monitoring and management of operating risk, the Bank is planning to monitor the risk centrally and put tools in place for measuring and managing operating risk.

(H) Legal risk

The Bank regularly monitors and evaluates legal disputes filed against it. The Bank categorises the estimated risk of loss in the disputes into three categories: low risk (below 50 percent), medium risk and high risk. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a reserve equal to the claimed amount in respect of all litigations, where it is named as a defendant and the likelihood of loss has been estimated to exceed 50 percent. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

## 28. Off balance sheet commitments and liabilities

### Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank makes provisions against these instruments on the same basis as is applicable to loans.

### Commitments arising from the issuance of letters of credit

Documentary letters of credit, which are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under open letters of credit are considerably less than the commitments under issued guarantees, avals or stand-by letters of credit. However, the Bank records provisions against these instruments on the same basis as is applicable to loans.

**Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans**

Off balance sheet exposures principally comprise unutilised overdrafts, and approved overdraft loans, undrawn loans and commitments to extend credit. The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, undrawn portions of authorised loans and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

Financial commitments and contingencies comprise:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Non-payment guarantees including commitments to issued non-payment guarantees | 7,540,646 | 5,522,736 | 4,768,047 |
| Payment guarantees including commitments to issued payment guarantees | 13,605,197 | 12,547,498 | 21,734,327 |
| Letters of credit uncovered | 941,762 | 666,869 | 884,228 |
| Stand by letters of credit uncovered | 471,047 | 781,459 | 616,011 |
| **Commitments from guarantees** | **22,558,652** | **19,518,562** | **28,002,613** |
| Received bills of exchange/acceptances and endorsements of bills of exchange | 0 | 20,019 | 4,800 |
| **Total contingent liabilities** | **22,558,652** | **19,538,581** | **28,007,413** |
| Committed facilities | 13,716,634 | 15,648,180 | 15,788,239 |
| Undrawn credit commitments | 23,742,737 | 15,766,903 | 18,914,718 |
| Confirmed letters of credit | 15,464 | 4,699 | 91,548 |
| Unutilised overdrafts and approved overdraft loans | 26,393,213 | 20,855,560 | 17,666,859 |
| Unutilised discount facilities | 908,035 | 0 | 0 |
| Unutilised limits under Framework agreements to provide financial services * | 9,770,717 | 0 | 0 |
| **Total other commitments and unutilised overdrafts** | **74,546,800** | **52,275,342** | **52,461,364** |
| Letters of credit covered | 96,066 | 298,269 | 331,828 |
| Stand by letters of credit covered | 59,378 | 0 | 0 |
| **Total contingent revocable and irrevocable commitments** | **97,260,896** | **72,112,192** | **80,800,605** |

Note: * This line shows the Bank's unutilised limits in connection with the provision of a new product which the Bank provides to its customers following its acquisition of Société Générale's Prague branch.

Of the Bank's aggregate committed facilities and guarantees, CZK 5,852,221 thousand (2001: CZK 8,971,180 thousand, 2000: CZK 7,565,129 thousand) is revocable. All other committed facilities, undrawn credit commitments, unutilised overdrafts and approved overdraft loans are irrevocable and are not subject to further approvals by the Bank.

As of 31 December 2002, payment guarantees include guarantees provided to Komercni Finance, B.V. in the amount of CZK 6,028,200 thousand (2001: CZK 7,251,800 thousand, 2000: CZK 17,015,850 thousand) in connection with the issued subordinated debt and a payment guarantee of EUR 100 million (2001: EUR 100 million) relating to a credit default swap agreement. As of 31 December 2002, the Bank additionally recorded payment guarantees and undrawn loan facilities with Factoring KB, a. s. totalling CZK 893,703 thousand.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As of 31 December 2002, the Bank created provisions for these risks amounting to CZK 2,314,782 thousand (2001: CZK 1,851,560 thousand, 2000: CZK 1,361,300 thousand).

### Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2002. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 458 million (2001: CZK 75 million) for these legal disputes. The Bank has also recorded an accrual of CZK 64 million (2001: CZK 24 million) for costs associated with a potential payment of interest on one of the pursued claims.
As of 31 December 2002, the Bank has assessed legal actions filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Capital commitments

As of 31 December 2002, the Bank had capital commitments of CZK 202 million (2001: CZK 88 million, 2000: CZK 34 million) in respect of current capital investment projects. Management is confident that future net revenues and funding will be sufficient to cover this commitment.

## 29. Related parties

The following table summarises loans issued to Group companies and their deposits with the Bank:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Company | | | |
| Komerční banka Bratislava, a. s. | 605 | 86,430 | 131,382 |
| CAC LEASING, a. s. | 886,265 | 889,511 | 867,489 |
| A-TRADE, a. s. | 0 | 0 | 62,555 |
| ALL IN REAL ESTATE LEASING, s. r. o. | 0 | 0 | 22,360 |
| Factoring KB, a. s. | 198,660 | 310,489 | 639,513 |
| Investiční kapitálová společnost KB, a. s. | 0 | 0 | 112,404 |
| Všeobecná stavební spořitelna Komerční banky, a. s. | 237,729 | 662,338 | 0 |
| MUZO, a. s. | 406,600 | 494,800 | 583,135 |
| **Total loans** | **1,729,859** | **2,443,568** | **2 418,838** |
| Komerční pojišťovna, a. s. | 484,310 | 274,706 | 167,112 |
| Komerční banka Bratislava, a. s. | 130,573 | 11,346 | 131,992 |
| CAC LEASING, a. s. | 12,057 | 5,781 | 0 |
| Factoring KB, a. s. | 84,277 | 56,468 | 1,655 |
| Investiční kapitálová společnost KB, a. s | 24,631 | 26,096 | 9,794 |
| Všeobecná stavební spořitelna Komerční banky, a. s. | 1,964 | 82,143 | 0 |
| MUZO, a. s. | 54,933 | 80,554 | 0 |
| ASIS, a. s. | 51,135 | 18,173 | 0 |
| Reflexim, a. s. | 14,900 | 17,286 | 0 |
| Penzijní fond Komerční banky, a. s. | 440,841 | 74,976 | 75,990 |
| A-TRADE, a. s. | 0 | 29,016 | 65,713 |
| **Total deposits** | **1,299,621** | **676,545** | **452,256** |

### Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

| CZK thousand | |
|---|---|
| Company | |
| Société Générale London | 362,003 |
| Société Générale Paris | 18,742,890 |
| Société Générale Tokyo | 80,360 |
| Sogelease ČR, a. s. | 9,477 |
| **Total** | **19,194,730** |

Principal balances owed to the Société Générale Group entities include:

| CZK thousand | |
|---|---|
| **Company** | |
| Franfinance Czech Republic s. r. o. | 357,000 |
| SG Finance Praha, a. s. | 76,090 |
| SGBT Luxembourg | 19,115 |
| Société Générale Warsaw | 31,112 |
| Société Générale Paris | 1,281,601 |
| Société Générale Prague branch | 45,242 |
| Sogelease ČR, a. s. | 56,173 |
| **Total** | **1,866,333** |

Amounts due to and from the Société Générale Group entities principally comprise balances of current accounts, nostro and loro accounts, issued loans, interbank market loans and placements, and debt securities acquired under initial offerings not designated for trading (refer also to Note 13).

As of 31 December 2002, the Bank also carried off balance sheet exposures to Société Générale, of which off balance sheet notional assets and liabilities amounted to CZK 8,069,049 thousand and CZK 11,481,422 thousand, respectively. These amounts principally relate to currency forwards, spot transactions and interest rate swaps.

As of 31 December 2002, the Bank also carried other amounts due to and from the Société Générale Group entities which are not significant.

Amounts due from the Bank's related parties:

| | Average contracted maturity 2002 | Average interest rate 2002 | 2002 (CZK thousand) | 2001 (CZK thousand) |
|---|---|---|---|---|
| Members of the Supervisory Board | – | 7 | 13 | 75 |
| Members of the Management Board | – | – | 0 | 3,067 |
| **Total** | – | – | **13** | **3,142** |

Amounts due from the Bank's related parties:

| CZK thousand | |
|---|---|
| Balance at 1 January 2002 | 3,142 |
| Repayments | 3,142 |
| Loans newly granted | 13 |
| **Balance at 31 December 2002** | **13** |

**Remuneration and equity compensation scheme of the members of the Management and Supervisory Boards**

Remuneration paid to the members of the Management and Supervisory Boards during the years was as follows:

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Remuneration to the Management Board members * | 41,144 | 205,417 | 31,930 |
| Remuneration to the Supervisory Board members ** | 3,668 | 29,416 | 8,088 |
| Remuneration to the Executive Committee members *** | 66,083 | 21,218 | 0 |
| **Total** | **110,896** | **256,051** | **40,018** |

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2002 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2002, figures for expatriate members of the Management Board include a portion of remuneration net of bonuses for 2002 and other compensations and benefits arising from expatriate relocation contracts.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2002 to the current and former members of the Supervisory Board.

*** Remuneration to the Executive committee members represents the sum of compensations and benefits paid in 2002 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Executive Committee.

| CZK thousand | 2002 | 2001 | 2000 |
|---|---|---|---|
| Number of the Management Board members | 6 | 5 | 7 |
| Number of the Supervisory Board members | 7 | 9 | 12 |
| Number of the Executive Committee members | 18 * | 15 * | 0 |

Note: * These figures include all members of the Management Board who are also members of the Executive Committee.

As of 31 December 2002, the Bank recorded a reserve of CZK 34,853 thousand (2001: CZK 8,822 thousand, 2000: CZK 53,000 thousand) for an equity compensation program designed for the Management Board, Supervisory Board and selected managers, and an estimated payable of CZK 15,222 thousand (2001: CZK 11,122 thousand, 2000: CZK nil) for Management Board bonuses.

As of 31 December 2002, the Bank operated an equity compensation program, designed to incentivise selected managers and members of the Supervisory Board under the rules put in place in 1999, and an extended equity compensation program designed to provide compensation to selected members of the Supervisory Board modified and approved by the General Meeting in 2000. The terms of the program, refined to reflect the requirements of the amended Commercial Code, were approved by the General Meetings held in 2001. The extended equity compensation program for members of the Management Board under the terms approved in 2000 and 2001 was terminated in 2002.

Under the pre-existing equity compensation scheme selected members of the Bank's management and Supervisory board have a right to purchase annually a pre-determined number of ordinary shares of the Bank. Management estimates that the cumulative rights as of 31 December 2002 amount to approximately 24,650 shares. The program will expire in mid-2003.

Under the extended equity compensation program, certain members of the Supervisory Board of the Bank have a right to purchase during 2003 and 2004 a pre-determined number of ordinary shares of the Bank at CZK 500 per share ('call options'). The members of the Supervisory Board have a right, but not the obligation, to put these shares on the Bank at a price of CZK 1,000 per share after these shares have been held by Board members for a minimum period ('put options'). The cost of the exercise of these options is borne by the Bank. Options held by the participants of the equity compensation scheme amount to 18 240 shares. The extended equity compensation program will expire in mid-2004.

## 30. Post balance sheet events

No significant events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

# Unconsolidated Financial Statements under IFRS

## Unconsolidated Profit and Loss Statement For the Year Ended 31 December 2002

| CZK million | 2002 | 2001 |
|---|---|---|
| Interest income | 25,315 | 28,147 |
| Interest expense | (12,868) | (15,158) |
| **Net interest income** | **12,447** | **12,989** |
| | | |
| Net fees and commissions | 8,320 | 8,394 |
| Net profit/(loss) on financial operations | 1,426 | 1,551 |
| Other income | 404 | 875 |
| **Total operating income** | **22,597** | **23,809** |
| | | |
| Administrative expenses | (10,100) | (10,954) |
| Depreciation and other provisions | (1,653) | (2,356) |
| Restructuring costs | (1,007) | (1,755) |
| **Total operating costs** | **(12,760)** | **(15,065)** |
| **Profit before provision for loan and investment losses and income taxes** | **9,837** | **8,744** |
| Provision for loan losses | 2,532 | (2,865) |
| Provision for losses on securities | (759) | (1,970) |
| Provision for investments in subsidiaries and associates | (339) | (498) |
| Provisions for loan and investment losses | 1,434 | (5,333) |
| **Profit/(loss) before income taxes** | **11,271** | **3,411** |
| **Income taxes** | **(2,508)** | **(879)** |
| **Net profit/(loss)** | **8,763** | **2,532** |
| **Earnings/(loss) per share (in CZK)** | **230.55** | **66.62** |

# Unconsolidated Balance Sheet as of 31 December 2002

| CZK million | 2002 | 2001 |
|---|---|---|
| **Assets** | | |
| Cash and balances with the central bank | 14,377 | 18,211 |
| Amounts due from banks | 199,729 | 155,602 |
| Trading securities | 9,277 | 3,763 |
| Positive fair value of financial derivative transactions | 13,790 | 7,851 |
| Due from Česká konsolidační agentura | 35,440 | 49,765 |
| Loans to customers, net | 121,154 | 135,197 |
| Securities available for sale | 24,390 | 34,274 |
| Investments held to maturity | 2,476 | 960 |
| Prepayments, accrued income and other assets | 5,704 | 3,191 |
| Deferred tax asset | 902 | 0 |
| Investments in subsidiaries and associates | 1,588 | 1,223 |
| Tangible and intangible fixed assets, net | 10,926 | 11,683 |
| **Total assets** | **439,753** | **421,720** |
| | | |
| **Liabilities** | | |
| Amounts due to banks | 22,549 | 28,860 |
| Amounts due to customers | 341,114 | 321,345 |
| Negative fair value of financial derivative transactions | 6,078 | 4,296 |
| Certificated debt | 18,267 | 27,771 |
| Accruals, provisions and other liabilities | 7,947 | 7,295 |
| Income taxes payable | 2,796 | 673 |
| Deferred tax liability | 1,144 | 630 |
| Subordinated debt | 6,100 | 7,252 |
| **Total liabilities** | **405,995** | **398,122** |
| | | |
| **Shareholders' equity** | | |
| Share capital | 19,005 | 19,005 |
| Share premium and reserves | 14,753 | 4,593 |
| **Total shareholders' equity** | **33,758** | **23,598** |
| **Total liabilities and shareholders' equity** | **439,753** | **421,720** |

# Unconsolidated Statement of Changes in Shareholders' Equity For the Year Ended 31 December 2002

| CZK million | Share capital | Capital and reserve funds and undistributed profit * | Compensation reserve | Hedging reserve | Revaluation reserve | Total |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2000** | **19,005** | **1,153** | **53** | **0** | **0** | **20,211** |
| Effect of adoption of IAS 39, net of tax | | | | | | |
| – derivative instruments reclassified from hedging derivatives | 0 | 140 | 0 | 0 | 0 | 140 |
| – hedging instruments | 0 | 0 | 0 | 136 | 0 | 136 |
| – available for sale securities | 0 | 94 | 0 | 0 | 0 | 94 |
| **Restated balance at 1 January 2001** | **19,005** | **1,387** | **53** | **136** | **0** | **20,581** |
| Cash flow hedging: | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 975 | 0 | 975 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (239) | 0 | (239) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | (56) | (56) |
| Other treasury shares | 0 | (151) | 0 | 0 | 0 | (151) |
| Equity compensation program reserve | 0 | 0 | (44) | 0 | 0 | (44) |
| **Net profit for the period** | **0** | **2,532** | **0** | **0** | **0** | **2,532** |
| **Balance at 31 December 2001** | **19,005** | **3,768** | **9** | **872** | **(56)** | **23,598** |
| Cash flow hedging: | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 2,216 | 0 | 2,216 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (689) | 0 | (689) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | 2 | 2 |
| Other treasury shares | 0 | 280 | 0 | 0 | 0 | 280 |
| Equity compensation program reserve | 0 | 0 | 26 | 0 | 0 | 26 |
| Dividends | 0 | (437) | 0 | 0 | 0 | (437) |
| **Net profit for the period** | **0** | **8,763** | **0** | **0** | **0** | **8,763** |
| **Balance at 31 December 2002** | **19,005** | **12,373** | **35** | **2,398** | **(54)** | **33,758** |

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit and retained earnings.

# Unconsolidated Cash Flow Statement
# For the Year Ended 31 December 2002

| CZK million | 2002 | 2002 | 2001 | 2001 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest and commission receipts | 36,758 | | 37,375 | |
| Interest and commission payments | (12,378) | | (14,618) | |
| Other income receipts | 1,107 | | 2,036 | |
| Cash payments to employees and suppliers | (8,107) | | (10,341) | |
| **Operating cash flow before changes in operating assets and operating liabilities** | **17,380** | | **14,453** | |
| Due from financial institutions | (43,842) | | (30,068) | |
| Loans and advances to customers | 27,686 | | (11,459) | |
| Securities held for trading | (5,598) | | 10,565 | |
| Other assets | (1,535) | | (5,714) | |
| **(Increase)/decrease in operating assets** | **(23,289)** | | **(36,677)** | |
| Amounts due to financial institutions | (6,642) | | (10,418) | |
| Amounts due to customers | 19,105 | | 29,167 | |
| Other liabilities | (1,952) | | (808) | |
| **Increase/(decrease) in operating liabilities** | **10,511** | | **17,941** | |
| Net cash flow from operating activities before taxes | 4,602 | | (4,283) | |
| Income taxes paid | (1,417) | | (28) | |
| **Net cash flows from operating activities** | | **3,185** | | **(4,311)** |
| **Cash flows from investing activities** | | | | |
| Dividends received | 221 | | 222 | |
| Net purchase of investments held to maturity | (1,562) | | (761) | |
| Net sale of securities available for sale | 7,004 | | 4,752 | |
| Net purchase of tangible and intangible fixed assets | (507) | | (392) | |
| Net purchase investments in subsidiaries and associates | (978) | | 60 | |
| **Net cash flow from investing activities** | | **4,178** | | **3,881** |
| **Cash flows from financing activities** | | | | |
| Paid dividends | (437) | | 0 | |
| Subordinated debt | (585) | | (943) | |
| Certificated debts | (10,372) | | (922) | |
| **Net cash flow from financing activities** | | **(11,394)** | | **(1,865)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(4,030)** | | **(2,295)** | |
| **Cash and cash equivalents at beginning of year** | **17,154** | | **19,449** | |
| **Cash and cash equivalents at end of year** | | 13,124 | | 17,154 |

Deloitte & Touche

# Consolidated Financial Statements under IFRS

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TID: 001-49620592

## Independent Auditor's Report to the Shareholders of Komerční banka, a. s.

We have audited the accompanying consolidated balance sheets of Komerční banka, a. s. and subsidiaries ("the Group") as of 31 December 2002 and 2001, and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002 and 2001, and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards.

Prague, 13 March 2003

Deloitte & Touche

Deloitte & Touche

Deloitte Touche Tohmatsu

# Consolidated Profit and Loss Statement For the Year Ended 31 December 2002

| CZK million | Notes | 2002 | 2001 |
|---|---|---|---|
| Interest income | 4 | 25,595 | 29,019 |
| Interest expense | 4 | (12,904) | (15,816) |
| **Net interest income** | | **12,691** | **13,203** |
| | | | |
| Net fees and commissions | 6 | 8,595 | 8,379 |
| Net profit/(loss) on financial operations | 7 | 1,433 | 1,521 |
| Other income | 8 | 3,201 | 3,330 |
| **Net operating income** | | **25,920** | **26,433** |
| | | | |
| Administrative expenses | 9 | (12,461) | (12,461) |
| Depreciation and other provisions | 10 | (2,371) | (4,086) |
| Restructuring costs | 11 | (1,085) | (1,755) |
| **Total operating costs** | | **(15,917)** | **(18,302)** |
| Profit/(loss) attributable to exclusion of companies from consolidation | 12 | (1) | (17) |
| Income from share of associated undertakings | | 21 | 761 |
| **Profit before provision for loan and investment losses and income taxes** | | **10,023** | **8,875** |
| Provision for loan losses | | 2,522 | (2,922) |
| Provision for losses on securities | | (759) | (1,970) |
| Provision for investments in subsidiaries and associates | | (5) | (35) |
| Provisions for loan and investment losses | 13 | 1,758 | (4,927) |
| **Profit/(loss) before income taxes** | | **11,781** | **3,948** |
| **Income taxes** | **14** | **(2,661)** | **(986)** |
| **Net profit/(loss) before minority interest** | | **9,120** | **2,962** |
| **Profit/(loss) attributable to minority interest** | | **(94)** | **(58)** |
| **Net profit/(loss)** | | **9,026** | **2,904** |
| **Earnings/(loss) per share (in CZK)** | | **237** | **76** |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet as of 31 December 2002

| CZK million | Notes | 2002 | 2001 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with the central bank | 17 | 14,508 | 18,361 |
| Amounts due from banks | 18 | 200,239 | 156,909 |
| Trading securities | 19 | 9,786 | 4,481 |
| Positive fair value of financial derivative transactions | 38 | 13,815 | 7,819 |
| Due from Česká konsolidační agentura | 20 | 35,440 | 49,765 |
| Loans to customers, net | 21 | 122,978 | 136,681 |
| Securities available for sale | 22 | 27,037 | 36,107 |
| Investments held to maturity | 23 | 243 | 1,453 |
| Prepayments, accrued income and other assets | 24 | 7,504 | 5,318 |
| Deferred tax asset | | 905 | 0 |
| Investments in associates and unconsolidated subsidiaries | 25 | 1,643 | 1,724 |
| Tangible and intangible fixed assets, net | 26 | 11,994 | 12,815 |
| **Total assets** | | **446,092** | **431,433** |
| | | | |
| **Liabilities** | | | |
| Amounts due to banks | 27 | 24,297 | 30,918 |
| Amounts due to customers | 28 | 341,708 | 323,018 |
| Negative fair value of financial derivative transactions | 38 | 6,131 | 4,309 |
| Certificated debt | 29 | 17,943 | 27,492 |
| Accruals, provisions and other liabilities | 30 | 12,687 | 11,869 |
| Income taxes payable | 14 | 2,840 | 693 |
| Deferred tax liability | 31 | 1,168 | 664 |
| Subordinated debt | 32 | 3,720 | 7,335 |
| **Total liabilities** | | **410,494** | **406,298** |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 33 | 19,005 | 19,005 |
| Share premium and reserves | | 16,361 | 5,922 |
| **Total shareholders' equity** | | **35,366** | **24,927** |
| **Minority interest** | | **232** | **208** |
| **Total liabilities and shareholders' equity** | | **446,092** | **431,433** |

The accompanying notes are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 13 March 2003.

Signed on behalf of the Board of Directors:

Alexis Juan
Chairman of the Board of Directors and CEO

Philippe Rucheton
Member of the Board of Directors and CFO

# Consolidated Statement of Changes in Shareholders' Equity For the Year Ended 31 December 2002

| CZK million | Share capital | Capital and reserve funds and undistributed profit * | Compensation reserve | Hedging reserve | Revaluation reserve | Total |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2000** | **19,005** | **2,107** | **53** | **0** | **0** | **21,165** |
| Effect of adoption of IAS 39, net of tax | | | | | | |
| – derivative instruments reclassified from hedging derivatives | 0 | 140 | 0 | 0 | 0 | 140 |
| – hedging instruments | | 0 | 0 | 139 | 0 | 139 |
| – available for sale securities | 0 | 96 | 0 | 0 | 0 | 96 |
| **Restated balance at 1 January 2001** | **19,005** | **2,343** | **53** | **139** | **0** | **21,540** |
| Cash flow hedging: | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 969 | 0 | 969 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (236) | 0 | (236) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | (56) | (56) |
| Treasury shares | 0 | (151) | 0 | 0 | 0 | (151) |
| Equity compensation program reserve | 0 | 0 | (44) | 0 | 0 | (44) |
| Net profit for the period | 0 | 2,904 | 0 | 0 | 0 | 2,904 |
| **Balance at 31 December 2001** | **19,005** | **5,096** | **9** | **872** | **(56)** | **24,927** |
| Cash flow hedging: | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 2,232 | 0 | 2,232 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (689) | 0 | (689) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | 1 | 1 |
| Other treasury shares | 0 | 280 | 0 | 0 | 0 | 280 |
| Equity compensation program reserve | 0 | 0 | 26 | 0 | 0 | 26 |
| Dividends | 0 | (437) | 0 | 0 | 0 | (437) |
| Net profit for the period | 0 | 9,026 | 0 | 0 | 0 | 9,026 |
| **Balance at 31 December 2002** | **19,005** | **13,966** | **35** | **2,415** | **(55)** | **35,366** |

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit and retained earnings.

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement
# For the Year Ended 31 December 2002

| CZK million | 2002 | 2002 | 2001 | 2001 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest and commission receipts | 37,020 | | 38,544 | |
| Interest and commission payments | (12,243) | | (16,024) | |
| Other income receipts | 4,083 | | 4,834 | |
| Cash payments to employees and suppliers | (10,784) | | (10,639) | |
| **Operating cash flow before changes in operating assets and operating liabilities** | **18,076** | | **16,715** | |
| Due from banks | (43,607) | | (29,559) | |
| Loans to customers | 27,550 | | (10,917) | |
| Securities held for trading | (5,402) | | 10,715 | |
| Other assets | (934) | | (8,536) | |
| **(Increase)/decrease in operating assets** | **(22,393)** | | **(38,297)** | |
| Amounts due to banks | (6,874) | | (10,799) | |
| Amounts due to customers | 18,219 | | 38,884 | |
| Other liabilities | (2,683) | | (2,540) | |
| **Increase/(decrease) in operating liabilities** | **8,662** | | **25,545** | |
| Net cash flow from operating activities before taxes | 4,345 | | 3,963 | |
| Income taxes paid | (1,499) | | (90) | |
| **Net cash flows from operating activities** | | **2,846** | | **3,873** |
| **Cash flows from investing activities** | | | | |
| Dividends received | 153 | | 107 | |
| Net purchase of investments held to maturity | (1,257) | | (761) | |
| Net sale of securities available for sale | 6,136 | | 5,494 | |
| Net purchase of tangible and intangible fixed assets | (592) | | (422) | |
| Net sale of investments in subsidiaries and associates | 11 | | 60 | |
| **Net cash flow from investing activities** | | **4,451** | | **4,478** |
| **Cash flows from financing activities** | | | | |
| Share capital | 0 | | 0 | |
| Dividends paid | (437) | | 0 | |
| Certificated debts | (10,915) | | (10,801) | |
| **Net cash flow from financing activities** | | **(11,352)** | | **(10,801)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(4,055)** | | **(2,450)** | |
| **Cash and cash equivalents at beginning of year** | **17,315** | | **19,765** | |
| **Cash and cash equivalents at end of year (see Note 34)** | | **13,260** | | **17,315** |

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements For the Year Ended 31 December 2002 According to IFRS

## 1. Principal activities

The Financial Group of Komerční banka, a. s. (the 'Group') consists of Komerční banka, a. s. (the 'Bank') and 14 subsidiaries and associated undertakings. The parent enterprise is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:
I. Providing loans, advances and guarantees in Czech Crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech Crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech Crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The Bank generates a substantial proportion of income and represents substantially all of the assets and liabilities of the Group.
The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1, Czech Republic. In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its subsidiary Komerční banka Bratislava, a. s. and in the Netherlands through its subsidiary Komercni Finance, B.V. (a special purpose vehicle used to raise funds for the Group on the international financial markets).
The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale, a French bank, became the majority shareholder of the Bank on 4 October 2001 following its purchase of a 60 percent shareholding in the Bank which had been held by the Czech Government through the National Property Fund. Société Générale presently holds 60.35 percent of the Bank's issued share capital.

**The main activities of subsidiary companies of the Bank as of 31 December 2002**

| Company's name | Direct holding (%) | Group holding (%) | Principal activity | Registered office |
|---|---|---|---|---|
| ALL IN, a. s. v likvidaci | 100 | 100 | Valuation services | Prague |
| Investiční kapitálová společnost KB, a. s. | 100 | 100 | Collective investment scheme manager | Prague |
| Penzijní fond Komerční banky, a. s. | 100 | 100 | Pension fund | Prague |
| Komerční banka Bratislava, a. s. | 100 | 100 | Banking services | Bratislava |
| Komerční pojišťovna, a. s. | 100 | 100 | Insurance activities | Prague |
| Komercni Finance, B.V. | 100 | 100 | Finance | Amsterdam |
| Factoring KB, a. s. | 100 | 100 | Factoring | Prague |
| Reflexim, a. s. | 100 | 100 | Support activities (operations services) | Prague |
| ASIS, a. s. | 100 | 100 | Support activities (information technologies) | Prague |
| MUZO, a. s. | 49.9 | 51.25 | Payment support services | Prague |

In August 2002, the Bank disposed of its 75 percent shareholding in A-TRADE, a. s. The Bank incurred a loss of CZK 1.1 million as a result of the disposal of this investment.
The Bank has presented its interest in MUZO, a. s. as of 31 December 2002 as an equity interest in a subsidiary. Management considers that the Bank, directly or indirectly, has the power to exercise control over the financial and operating policies of MUZO.

### Restructuring of Komerční pojišťovna, a. s.

Following the reporting of significant losses by Komerční pojišťovna, a. s. ("KP") in the year ended 31 December 2001 and in prior years, the Bank has decided to substantially restructure the business.
In September 2002, KP entered into an agreement with Kooperativa, a. s. to sell its third party motor liability insurance and accident insurance portfolios (with aggregate annual insurance premiums written of

approximately CZK 1,000 million). As part of the transaction, KP assigned receivables, payables and technical reserves associated with these types of insurance in the amount of CZK 839 million as well as all rights and obligations relating to the re-insurance program underlying third party motor liability insurance.

KP ceased selling industrial insurance policies at the beginning of 2002 and is presently taking steps to discontinue its industrial insurance business.

In the latter half of 2002, KP substantially reduced its sales network and focused on launching the distribution of new life insurance products through the Bank's distribution network.

Following substantial losses incurred by KP in recent years, the Bank increased KP's capital by a total of CZK 989 million during the year ended 31 December 2002.

**The main activities of associated companies of the Bank as of 31 December 2002**

| Company's name | Direct holding (%) | Group holding (%) | Principal activity | Registered office |
|---|---|---|---|---|
| CAC LEASING, a. s. | 50 | 50 | Leasing | Prague |
| Všeobecná stavební spořitelna Komerční banky, a. s. | 40 | 40 | Building society | Prague |
| CAC LEASING Slovakia, a. s. | 10 | 50 | Leasing | Bratislava |
| Czech Banking Credit Bureau, a. s. | 20.0 | 20.0 | Data services | Prague |

Pursuant to an agreement with another four banks, the Bank has acquired 20 percent of the issued share capital of Czech Banking Credit Bureau, a. s. The entity incurred losses for the year ended 31 December 2002 as a result of incorporation costs. As such, the Bank established full provision against this equity investment.

## 2. Developments during the year ended 31 December 2002

### Purchase of Société Générale's Prague branch

Following the approval by the General Meeting of Shareholders and the Czech National Bank, the Bank purchased the business of Société Générale's Prague branch for CZK 1,030 million as of 1 April 2002.

The Bank purchased Société Générale's Prague branch pursuant to the Share Purchase Agreement entered into between the National Property Fund and Société Générale on 12 July 2001, under which Société Générale undertook to integrate its branch in the Czech Republic into Komerční banka's operations at the earliest opportunity.

As of 31 December 2001, Société Générale's Prague branch had recorded assets of CZK 22,208 million, loans and advances to clients of CZK 4,697 million, and client deposits and bills sold to clients of CZK 10,409 million.

Following the purchase of the business, the Bank also took on approximately 150 employees of Société Générale's Prague branch.

### Dividends declared in respect of the year ended 31 December 2001

At the General Meeting held on 26 June 2002, the shareholders approved a dividend for the year ended 31 December 2001 of CZK 11.50 per share. The dividend was declared in the aggregate amount of CZK 437 million in respect of the net profit of CZK 2,624 million under Czech Accounting Standards for that year.

### Sale of a portfolio of non-performing loans

The Bank entered into a framework agreement for the sale of a portfolio of non-performing loans with the GE Capital Group ("GE") on 29 November 2002.

During January 2003, the Bank and GE signed an amendment to the framework agreement under which the size of the portfolio of the sold non-performing loans was reduced. The Bank has recognised the impact of the transaction and the subsequent amendment in its financial statements for the year ended 31 December 2002.

Pursuant to the amended framework agreement, non-performing loans with an aggregate nominal value of CZK 15,569 million will be assigned for consideration of CZK 2,659 million (including on balance sheet and off balance sheet exposures and receivables fully written off in prior years) in the first half of 2003.

The non-performing loans with a nominal value of CZK 15,569 million consist of the following amounts:
– Exposures of CZK 4,285 million covered by the State Guarantee;
– Other exposures of CZK 4,860 million;
– Loans written off in prior years of CZK 6,424 million.

The purchase price paid by GE was determined by reference to the balances of the loan exposures as of 30 September 2002 on the basis that the Bank will pass to GE all payments of principal amounts and interest of the assigned loans collected subsequent to this date and that GE will pay the Bank a service fee to reimburse it for the relevant portion of costs incurred by the Debt Recovery Division in managing and recovering the transferred loans between 30 September 2002 and the date of their legal transfer to GE.
The Group has reflected the impact of the sale of the portfolio of non-performing loans in its consolidated financial statements for the year ended 31 December 2002 according to the economic substance of the transaction. The impact on the profit and loss statement was not material. The sold loans have been retained on the Bank's balance sheet and have been remeasured on the basis of the selling prices negotiated with GE. The sold loans will be removed from the Bank's balance sheet on the date of their assignment to GE. The aggregate net carrying amount of the on balance sheet exposures sold to GE was CZK 1,987 million as of 31 December 2002.

#### Flooding in August 2002

The Group did not incur any significant losses in respect of its business activities or assets as a result of floods. The floods had a slightly adverse impact on the level of fees and commissions collected by the Group in respect of services and foreign exchange transactions. In addition, the Group sustained increased financial costs of claims incurred in respect of insurance of industrial risks.

## 3. Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

#### (a) Basis of accounting

The consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards ('IFRS') effective for the year ended 31 December 2002. The consolidated financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements.
The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities held for trading and all derivative contracts.
The Group maintains its books of accounts and prepares statements for regulatory purposes in accordance with Czech accounting principles and those of other jurisdictions in which the Group operates. The accompanying financial statements are based on the accounting records, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS. In certain instances, the reported amounts relating to the previous accounting period have been reclassified to conform to the current year's presentation.
The presentation of consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and

disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.
The reporting currency used in the unconsolidated financial statements is the Czech Crown ('CZK') with accuracy to CZK million.

### (b) Basis of consolidation

Subsidiary undertakings, which are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All intercompany transactions have been eliminated.
Investments in unconsolidated subsidiaries are recognised in the consolidated balance sheet at cost less any provisions.
Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings in which the Group has between 20 percent and 50 percent of the voting rights, and over which the Group exercises significant influence, but which it does not control. Equity accounting involves recognising in the profit and loss statement the Group's share of the associates' profit or loss for the period. The Group interest in the associate is carried in the balance sheet at an amount that reflects its share of net assets of the associate and includes goodwill on acquisition.

### (c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into CZK and reported in the financial statements at the exchange rate declared by the Czech National Bank ('CNB') prevailing as of the balance sheet date. Income and expenses denominated in foreign currencies are recorded in Czech Crowns in the underlying accounting system of the Bank and are therefore reported in the financial statements at the official exchange rate prevailing as of the date of the transaction. Gains and losses arising from movements in exchange rates after the date of the transaction are recognised in *Net profit/(loss) on financial operations*. Net gains on the revaluation of fixed asset investments are recorded as a component of equity in *Revaluation reserve*.

### (d) Originated loans and provisions for loan impairment

Loans originated by the Group by providing money directly to a borrower are categorised as loans originated by the Group and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.
Loans and advances to customers and financial institutions are stated net of provisions for loan losses. Further details about provisioning are set out in Note 38 to these financial statements.
The Group charges penalty interest to borrowers when a portion of the loan falls overdue. Pursuant to the Group's policies, penalty interest is not covered by the collateral set aside against the loan of the borrower. Penalty interest is accounted for on a cash basis in *Interest income*.
The Group has established a general provision for losses arising from on and off balance sheet loan exposures. A portion of the general provision relating to the on balance sheet assets is established to cover losses that are judged by the management of the Group to be present in the loan portfolio as of the balance sheet date, but which have not been allocated to specific or individual exposures.
The Group writes off loss loans when clients are unable to fulfil their obligations to the Group in respect of these loans. The loan is written off against the related provision for loan impairment. Subsequent recoveries are credited to the profit and loss statement in *Provision for loan losses* if previously written off.

### (e) Securities

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of the securities and pursuant to the Group's security investment strategy. On the adoption of IAS

39 in 2001, the Group developed security investment strategies and, reflecting the intent of the acquisition, allocated securities to the 'Held for trading' portfolio, the 'Available for sale' portfolio and the 'Held to maturity' portfolio. The Group has also carried securities in the category 'Acquired under initial offerings not designated for trading' which are reported together with receivables. The principal difference among the portfolios relates to the measurement approach of securities and the recognition of their fair values in the financial statements.
All securities held by the Group are recognised using settlement date accounting and initially measured at their cost including transaction costs.

### Trading securities

Securities held for trading are financial assets (equity and debt securities, treasury bills, participation certificates) acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices. Subsequent to the initial recognition these securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges. The Group monitors changes in fair values of securities on a daily basis and includes unrealised gains and losses in *Net profit/(loss) on financial operations*. Interest earned on trading securities is accrued on a daily basis and reported as *Interest income* in the profit and loss statement. Dividends on trading securities are recorded when declared and included as a receivable in the balance sheet line *Prepayments, accrued income and other assets* and in *Net profit/(loss) on financial operations* in the profit and loss statement.
All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

### Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity. This portfolio comprises treasury bills and debt securities. Held to maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.
The Group assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and its recoverable amount. When an impairment of assets is identified, the Group recognises provisions through the profit and loss statement line *Provision for losses on securities*.

### Available for sale securities

Available for sale securities are those financial assets that are not classified as financial assets held for trading or held-to-maturity investments. This portfolio comprises equity securities and debt securities, including asset backed securities and participation certificates. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cashflow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes on the fair value of securities classified as available-for-sale are recognised as they arise in the profit and loss statement line *Net profit/(loss) on financial operations*.
Where the impairment of securities available for sale associated with credit risk is other than temporary, the carrying amount of the security is immediately written down to its recoverable value. This writedown is included in the profit and loss statement line *Provisions for losses on securities*. Interest earned whilst

holding available-for-sale securities is accrued on a daily basis and reported as *Interest income* in the profit and loss statement. Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line *Prepayments, accrued income and other assets* and in *Net profit/(loss) on financial operations* in the profit and loss statement. Upon payment of the dividend, the receivable is offset against the collected cash.

#### Securities acquired under initial offerings not designated for trading

Securities acquired under initial offerings not designated for trading are financial assets that have originated as a result of the provision of cash, goods or services directly to the borrower. Securities acquired under initial offerings are carried at amortised cost using the effective yield method. These securities are reported on the balance sheet together with amounts due from banks or customers, as appropriate.

### (f) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses. Fixed assets are depreciated through the accumulated depreciation charge. Depreciation is calculated on a straight line basis to write off the cost of each asset to their residual values over their estimated useful economic life. Land and assets in the course of construction are not depreciated. The estimated useful economic lives in years are set out below:

| | |
|---|---|
| Machinery and equipment, computers, vehicles | 4 |
| Fixtures, fittings and equipment | 6 |
| Energy machinery and equipment | 12 |
| Buildings and structures | 30 |

The Group periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Group's requirements management assesses the recoverable value by reference to a net selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs. Repairs and renewals are charged directly to the profit and loss statement when the expenditure is incurred.

### (g) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the profit and loss statement over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the profit and loss statement on a straight line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### (h) Provisions for charges and for guarantees and other off balance sheet credit related commitments

The Group recognises a provision when:

- It has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

In addition, the Group has established a restructuring provision. The Group recognises a provision for restructuring costs when it has formulated restructuring plan, and started to implement the restructuring plan or announced its main features. Information on restructuring costs identified by the Group is given in Note 11.

In the normal course of business, the Group enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Specific provisions are made for estimated losses on these commitments on the same basis as set out in note 3 (d). The Group makes a general provision for risks that are judged by the management of the Group to be present as of the balance sheet date, but which have not been allocated to specific or individual exposures.

(i) Employment benefits

The Group provides its employees with loyalty benefits, retirement benefits and disability benefits.
The employees are entitled to claim loyalty benefits in circumstances where they are employed with the Group for a defined period of time. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or are entitled to receive a disability pension and were employed with the Group for a minimum defined period.
Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to that used in respect of defined benefit pension plans. In determining the parameters of the model, the Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amount of social security and health insurance contributions, estimated discount rate).

(j) Certificated debts

Certificated debts issued by the Group are stated at amortised costs using the effective interest rate method. Interest expense arising on the issue of certificated debts is included in the profit and loss statement line *Interest expense*.
In the event of the repurchase of its own certificated debts the Group de-recognises these debts so as to reflect the economic substance of the transaction as a repayment of the Group's commitment and decrease its liabilities in the balance sheet line *Certificated debt*. Gains and losses arising as a result of the repurchase of the Group's own certificated debts are included in *Net profit/(loss) on financial operations*.

(k) Recognition of income and expense

Interest income and expense are recognised in the profit and loss statement for all interest bearing instruments on an accruals basis using the effective interest rate. Interest income includes coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest on non-performing loans is recognised on a case by case basis and the Group records a specific provision for this balance. Penalty interest is accounted for and included in interest income on a cash basis.

(l) Taxation and deferred taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and other jurisdictions in which the Group operates, based on the profit or loss recognised in the profit and loss statement prepared pursuant to Czech accounting standards and accounting standards of other jurisdictions.
Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from depreciation on property, plant and equipment, specific and general provisions for loans, and tax losses carried forward. Deferred tax assets in respect of tax losses carried forward and other temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.
Deferred tax related to cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss statement together with the deferred gain or loss.

### (m) Sale and repurchase agreements

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the balance sheet lines *Securities held for trading* and *Securities available for sale* and the counterparty liability is included in *Amounts due to banks* or *Amounts due to customers* as appropriate. Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the balance sheet line *Due from banks* or *Loans to customers* as appropriate, with the corresponding decrease in cash being included in *Cash and balances with the central bank*. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

In regard to the sale of a security acquired as collateral under a reverse repurchase transaction, the Group recognises in the balance sheet an amount payable from a security which is remeasured to fair value.

### (n) Derivative financial instruments and hedging

In the normal course of business, the Group enters into contracts for derivative financial instruments which represent a financial instrument that requires a very low initial investment. The derivative financial instruments used include interest rate and currency forwards, swaps and options. These financial instruments are used by the Group for trading and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. The Group also acts as an intermediary provider of these instruments to certain clients.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in other financial instruments, such as the conversion option in a convertible bond, and are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the profit and loss statement

Changes in the fair value of derivatives held for trading are included in the line *Net profit/(loss) on financial operations*.

On the date a derivative contract is entered into, the Group designates certain derivatives as either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge) or (ii) a hedge of a future cashflow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group's criteria for a derivative instrument to be accounted for as a hedge include:

(a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

(b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and

(c) the hedge is effective on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the profit and loss statement line *Net profit/(loss) on financial operations.*

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to net profit and loss over the period to maturity.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the reserve in shareholders' equity. Amounts deferred in equity are transferred to the profit and loss statement and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the profit and loss statement. The ineffective element of the hedge is charged directly to the profit and loss line *Net profit/(loss) on financial operations*.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income in line *Net profit/(loss) on financial operations*.
The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 38.

(o) Regulatory requirements
The banks within the Group are subject to the regulatory requirements of the respective national central banks. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk, liquidity, interest rate and foreign currency position.
Similarly, other Group companies are subject to regulatory requirements specifically in relation to insurance and collective investment schemes.

(p) Fiduciary activities
Assets arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

(q) Share capital and treasury stock
Where the Group purchases its own share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs net of income taxes is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are charged or credited to the treasury share account in equity.

## 4. Net interest income

Net interest income comprises:

| CZK million | 2002 | 2001 |
|---|---|---|
| Interest income | | |
| – Loans and advances to financial institutions | 10,225 | 11,694 |
| – Loans and advances to customers * | 13,321 | 13,714 |
| – Bonds, treasury bills and other fixed income securities | 2,049 | 3,611 |
| **Total interest income** | **25,595** | **29,019** |
| Interest expense | | |
| – Amounts owed to financial institutions | (2,896) | (2,647) |
| – Amounts owed to customers | (7,825) | (9,581) |
| – Certificated debts | (2,183) | (3,588) |
| **Total interest expense** | **(12,904)** | **(15,816)** |
| **Net interest income** | **12,691** | **13,203** |

Note: * Interest income from loans and advances to customers also includes interest received and accrued from Česká konsolidační agentura (the Czech Consolidation Agency, henceforth 'ČKA').

Interest income and expense also includes accrued interest income from hedging financial derivatives of CZK 3,197 million (2001: CZK 2,673 million) and accrued interest expense from hedging financial derivatives of CZK 2,198 million (2001: CZK 2,329 million). Net interest income from these derivatives amounts to CZK 999 million (2001: CZK 344 million).

## 5. Source of profits and losses

All income included in operating income was substantially generated from the provision of banking services in the Czech Republic. The Group considers that its products and services arise from one segment of business, that is, the provision of banking services.

## 6. Net fees and commissions

Net fees and commissions comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Net fees and commission income from services and transactions | 6,484 | 5,990 |
| Net gain/(losses) from foreign exchange commissions from clean and documentary payments | 1,309 | 1,504 |
| Net gain/(losses) from commissions from foreign exchange transactions | 802 | 885 |
| **Total net fees and commissions** | **8,595** | **8,379** |

Net fees and commissions comprise foreign exchange commissions from clean and documentary payments and client cash exchange and conversion transactions as equal to the difference between the purchase/sale rate of foreign currencies determined by the Group and the official exchange rates as promulgated by the Czech National Bank used under the requirements of the Accounting Act in re-translating transactions denominated in foreign currencies. The Group includes foreign exchange commissions in *Net fees and commissions* because these revenues represent significant recurring income from payment and exchange transactions effected with the Group's customers.

## 7. Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises:

| CZK million | 2002 | 2001 |
|---|---|---|
| Net realised gains/(losses) on securities | 663 | 137 |
| Net unrealised gains/(losses) on securities | (150) | 927 |
| Dividend income on securities held for trading and available for sale | 38 | 0 |
| Net realised and unrealised gains/(losses) on security derivatives | (84) | 40 |
| Net realised and unrealised gains/(losses) on interest rate and credit derivatives | (15) | (15) |
| Net realised and unrealised gains/(losses) on trading commodity derivatives | 2 | 2 |
| Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities | 979 | 430 |
| **Net profit/(loss) on financial operations** | **1,433** | **1,521** |

## 8. Other income

Other income comprises:

| CZK million | 2002 | 2001 |
|---|---|---|
| Other income | 3,201 | 2,965 |
| Exceptional net income | 0 | 365 |
| **Total other income** | **3,201** | **3,330** |

Other income primarily includes the receipt of underwritten insurance premiums of CZK 1,641 million (2001: CZK 1,697 million), authorisation and maintenance services connected with payment cards system totalling CZK 603 million (2001: CZK 592 million), fees collected in respect of mutual fund management of CZK 309 million (2001: CZK 273 million).

For the year ended 31 December 2001, exceptional net income principally consisted of non-recurring income from the write-off and write back of receivables and payables held in suspense and clearing accounts. A significant proportion of these balances arose as a result of payment transactions at the beginning of the 1990's in connection with the Bank's migration to a new banking system for domestic payments and unsettled amounts that were due to the clean and documentary payment system being effected through a local banking intermediator.

## 9. Administrative expenses

Administrative expenses comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Wages, salaries and bonuses | 4,345 | 4,792 |
| Social security costs | 1,649 | 1,664 |
| **Employees' expenses** | **5,994** | **6,456** |
| Other administrative expenses | 6,467 | 6,005 |
| **Total administrative expenses** | **12,461** | **12,461** |
| Number of employees at the end of the period | 9,951 | 10,995 |
| Average number of employees during the period | 10,361 | 11,525 |
| **Average cost per employee (CZK)** | **578,516** | **560,174** |

Social security costs include retirement pension insurance costs paid by the Group of CZK 44 million (2001: CZK 45 million).

*Wages, salaries and bonuses* include a reserve of CZK 67 million for the loyalty benefits program established in accordance with IAS 19 'Employee Benefits'.

Other administrative expenses comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Insurance of deposits and transactions | 320 | 863 |
| Marketing and representation | 679 | 481 |
| Staff costs | 254 | 263 |
| Property rent | 564 | 562 |
| Property maintenance | 1,344 | 1,209 |
| IT support | 215 | 290 |
| Office equipment | 144 | 174 |
| Telecommunications, post and shipping services | 489 | 502 |
| External advisory services | 542 | 483 |
| Other expenses | 1,916 | 1,178 |
| **Total other administrative expenses** | **6,467** | **6,005** |

Other administrative expenses include an estimated balance of payments to the Deposit Insurance Fund. With effect from 1 May 2002, the Bank's annual contribution to the Deposit Insurance Fund has decreased from 0.3 percent to 0.1 percent pursuant to the amended Banking Act 21/1992 Coll. As a result of the amended Banking Act, the Bank's contribution to the Deposit Insurance Fund decreased by CZK 545 million from CZK 817 million for the year ended 31 December 2001 to CZK 272 million for the year ended 31 December 2002.

## 10. Depreciation and other provisions

Depreciation and other provisions comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Depreciation of tangible and intangible fixed assets | 2,076 | 2,255 |
| Other provisions, net | 295 | 1,831 |
| **Total depreciation and other provisions** | **2,371** | **4,086** |

Other net provisions principally consist of technical insurance provisions recorded by Komerční pojišťovna, a. s. in the amount of CZK 316 million (2001: CZK 1,414 million).

## 11. Restructuring costs

Following the entrance of the new shareholder, the Management Board of the Bank approved a new restructuring and transformation plan for the Bank. The objective of transformation program is to re-align the activities, operations and organisation of the Bank to make it compatible with the strategy adopted by the Bank's majority shareholder. The Bank reorganised the structure of and management tools used in the sales network, centralised and rationalised selected activities and changed the Bank's corporate image (the Bank specifically incurred costs in respect of the change of the logo and advisory and consultancy services related to the transformation program). Rationalisation and centralisation of the Bank's activities has involved reducing staffing levels at the Bank and has led to the Bank incurring severance and compensation costs associated with the staff laid off under the restructuring measures. The Bank reviewed the location, appearance and positioning of its branch network and intends to dispose of buildings, owned and leased, in the medium term that are not compatible with its plans. As of 31 December 2002, Komerční pojišťovna, a. s. additionally established a provision for restructuring costs associated with the termination of certain non-life insurance activities and the restructuring of its distribution network.
Restructuring costs comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Redundancy compensation costs | 96 | 86 |
| Impairment charge relating to branch network and termination of leases | 45 | 1,276 |
| Other | 944 | 393 |
| **Total restructuring costs** | **1,085** | **1,755** |

As of 31 December 2002, the Group maintained restructuring reserves of CZK 321 million which cover restructuring costs relating to the restructuring plan approved in 2002 that will be incurred in the following reporting period.

## 12. Profit/(loss) attributable to exclusion of companies from consolidation

The Group has excluded A-TRADE, a. s. from the consolidated results for the year ended 31 December 2002 because the company was sold. The company was excluded from consolidation in the value of its equity at the date of exclusion. The loss arising from exclusion of this company from consolidation amounted to CZK (1) million.

## 13. Provisions for loan and investment losses

### Provisions for loans and other credit commitments

The movement in the provisions was as follows:

| CZK million | 2002 | 2001 |
|---|---|---|
| Balance at 1 January | (25,756) | (22,172) |
| Net release/(creation) of provisions loan losses | 2,522 | (2,922) |
| Impact of loans written off and transferred | 2,300 | (902) |
| Exchange rate differences attributable to provisions | 587 | 250 |
| Re-allocation of provisions from other assets | 0 | (10) |
| **Balance at period end** | **(20,347)** | **(25,756)** |

During the year ended 31 December 2002, the aggregate balance of provisions decreased by CZK 5,409 million compared to the balance at the end of 2001.
The balance of provisions as of 31 December 2002 and 2001 comprises:

| CZK million | 2002 | 2001 |
|---|---|---|
| Specific provisions for loans to customers | (10,718) | (15,044) |
| General provisions for loans to customers | (6,609) | (8,848) |
| Reserve for other credit risks | (692) | 0 |
| Provisions for loans to financial institutions | (11) | (13) |
| Provisions for guarantees and other credit related commitments | (2,317) | (1,851) |
| **Total** | **(20,347)** | **(25,756)** |

The balance of reserves for loans to customers reflects a reserve for contingent liabilities from the transfer of cash associated with the sale of loan receivables amounting to CZK 692 million.

### Provisions for securities

The balance of provisions for asset backed securities and a credit linked note comprises:

| CZK million | 2002 | 2001 |
|---|---|---|
| Balance at 1 January | (1,959) | 0 |
| Net provisioning against securities | (759) | (1,970) |
| Exchange rate differences attributable to provisions | 351 | 11 |
| **Balance at period end** | **(2,367)** | **(1,959)** |

This portfolio of securities is held as securities available for sale and further information is given in Note 22.

### Provisions for investments in subsidiaries and associates

As of 31 December 2002, the Group maintains provisions of CZK 45 million (2001: CZK 40 million) for investments in subsidiaries and associates.

The balance of provisions for investments in subsidiaries and associates recognised on the face of the profit and loss statement comprises the following:

| CZK million | 2002 | 2001 |
|---|---|---|
| Creation of provisions | (5) | (40) |
| Release of provisions | 0 | 5 |
| **Total provision for investments in subsidiaries and associates** | **(5)** | **(35)** |

The balance of provisions is as follows:

| CZK million | 2002 | 2001 |
|---|---|---|
| Balance at 1 January | (40) | (5) |
| Creation of provisions | (5) | (40) |
| Release of provisions | 0 | 5 |
| **Balance at 31 December** | **(45)** | **(40)** |

## 14. Taxation

The major components of corporate income tax expense are as follows:

| CZK million | 2002 | 2001 |
|---|---|---|
| Tax payable – current year | (3,458) | (857) |
| Tax paid – prior year | (266) | (17) |
| Deferred tax movement | 1,063 | (112) |
| **Total tax expense** | **(2,661)** | **(986)** |

| CZK million | 2002 | 2001 |
|---|---|---|
| Profit before tax (current tax rate) | 11,575 | 3,909 |
| Profit before income tax (special tax rate) | 206 | 39 |
| Profit before tax | 11,781 | 3,948 |
| Theoretical tax credit calculated at a tax rate of 31% and 15%, respectively (2001: 31%) | 3,619 | 1,222 |
| Income not taxable, primarily interest | (2 911) | (4,401) |
| Expenses not deductible for tax purposes | 2 749 | 4,706 |
| Utilisation of tax losses carried forward | 0 | (558) |
| Unconsolidated tax losses | 0 | 150 |
| Other | (9) | 16 |
| Movement in deferred tax | (1,063) | 112 |
| Tax allowance | (32) | (15) |
| Consolidation effect | 11 | (302) |
| **Income tax expense** | **2,364** | **930** |
| Other tax expense (15% foreign dividend tax) | 1 | 3 |
| Prior period tax expense | 266 | 17 |
| Witholding tax (15% dividend tax) | 30 | 36 |
| **Total income tax expense** | **2,661** | **986** |

The tax of CZK 266 million paid in the prior year primarily represents an increased tax liability for the year ended 31 December 2001 reflected in the tax returns filed in 2002.

The corporate tax rate for the year ended 31 December 2002 is 31 percent (2001: 31 percent). The Group's tax liability is calculated based upon the accounting profit/(loss) taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 31.

## 15. Distribution of net profit

The Group generated a net profit of CZK 9,026 million in the accounting period to 31 December 2002. Distribution of net profit for the year ended 31 December 2002 will be approved by the General meetings of the Group companies.

## 16. Earnings/(loss) per share

Earnings per share of CZK 237 (2001: CZK 76 per share) have been calculated by dividing the net profit of CZK 9,026 million (2001: CZK 2,904 million) by the weighted average number of shares in issue, that is 38,009,852.

## 17. Cash and balances with the central bank

Cash and balances with the central bank comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Cash and cash equivalents | 7,465 | 9,457 |
| Balances with central banks | 6,468 | 8,667 |
| Current accounts with other banks | 575 | 237 |
| **Total cash and balances with the central bank** | **14,508** | **18,361** |

Current accounts with other banks include nostro accounts maintained with correspondent banks. Given the liquidity of these funds management has included them within the same caption as cash.
Balances with central banks include:

| CZK million | 2002 | 2001 |
|---|---|---|
| Obligatory minimum reserves | 3,843 | 6,196 |
| Deposits repayable on demand | 2,625 | 2,471 |
| Total | **6,468** | **8,667** |

Obligatory minimum reserves have borne interest effective from September 2001. The year-end interest rate was 2.75 percent. Obligatory minimum reserves with the Slovak National Bank bore interest at 1.5 percent per annum.

## 18. Amounts due from banks

Balances due from banks comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Loans and advances to banks | 2,146 | 3,100 |
| Securities of banks acquired under initial offerings not designated for trading | 14,020 | 0 |
| Advances due from central banks (repo transactions) | 144,801 | 82,432 |
| Term placements with other banks | 39,283 | 71,390 |
| Total | **200,250** | **156,922** |
| Specific provisions | (11) | (13) |
| Total due from banks | **200,239** | **156,909** |

Advances due from central banks are collateralised by treasury bills and other debt securities issued by the national central banks or the Ministry of Finance.

**Securities acquired under initial offerings not designated for trading**

In the last quarter of 2002, pursuant to its investment strategy the Group acquired, under an initial offering and normal market conditions, bonds issued by the parent company denominated in CZK with an aggregate nominal value of CZK 14,000 million maturing in 2012. The bonds bear fix interest at 4.27 percent.

## 19. Trading securities

Trading securities comprise:

| CZK million | 2002 Fair value | 2002 Cost | 2001 Fair value | 2001 Cost |
|---|---|---|---|---|
| **Shares and participation certificates** | **200** | **200** | **168** | **168** |
| Fixed income debt securities | 1,759 | 1,721 | 2,029 | 2,025 |
| Variable yield debt securities | 86 | 86 | 293 | 293 |
| Treasury bills | 7,741 | 7,730 | 1,991 | 1,990 |
| **Total debt securities** | **9,586** | **9,537** | **4,313** | **4,308** |
| **Total trading securities** | **9,786** | **9,737** | **4,481** | **4,476** |

The Group's portfolio of trading securities includes treasury bills at a fair value of CZK 7,741 million (2001: CZK 1,991 million) issued by the Czech National Bank.

As of 31 December 2002, the portfolio of trading securities includes securities at a fair value of CZK 1,999 million (2001: CZK 2,490 million) that are publicly listed on stock exchanges and securities at a fair value of CZK 7,787 million (2001: CZK 1,991 million) that are not publicly listed.

Trading shares and participation certificates at fair value comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Shares and participation certificates | | |
| – Czech crowns | 200 | 168 |
| **Total trading shares and participation certificates** | **200** | **168** |

Trading shares and participation certificates at fair value, allocated by issuer, comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Trading shares and participation certificates issued by | | |
| – Other entities in the Czech Republic | 200 | 168 |
| **Total trading shares and participation certificates** | **200** | **168** |

Debt trading securities at fair value comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Variable yield debt securities | | |
| – Czech crowns | 86 | 293 |
| **Total variable yield debt securities** | **86** | **293** |
| Fixed income debt securities (including treasury bills) | | |
| – Czech crowns | 8,784 | 3,302 |
| – Other currencies | 716 | 718 |
| **Total fixed income debt securities** | **9,500** | **4,020** |
| **Total trading debt securities** | **9,586** | **4,313** |

Debt trading securities at fair value, allocated by issuer, comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| **Debt trading securities issued by** | | |
| – State institutions in the Czech Republic | 8,626 | 2,730 |
| – Foreign state institutions | 716 | 718 |
| – Financial institutions in the Czech Republic | 48 | 83 |
| – Foreign financial institutions | 6 | 126 |
| – Other entities in the Czech Republic | 165 | 643 |
| – Other foreign entities | 25 | 13 |
| **Total trading debt securities** | **9,586** | **4,313** |

## 20. Due from Česká konsolidační agentura

Amounts due from Česká konsolidační agentura comprised loans of CZK 35,440 million as of 31 December 2002 (2001: CZK 49,765 million).

Česká konsolidační agentura was formed as the legal successor to Konsolidační banka Praha, s. p. ú. pursuant to Czech Consolidation Agency Act No. 239/2001 Coll., which took effect on 1 September 2001 (the 'Act'). ČKA was established as the legal successor of Konsolidační banka under Section 19 of the Act. Under Section 1 of the Act, the commitments of ČKA, as was the case with its legal predecessor Konsolidační banka (under Section 44a of Banking Act No. 21/1992 Coll.), are guaranteed by the Czech State.

The following table sets out the principal terms and conditions of the loans advanced by the Bank to ČKA to refinance the transfers of assets in August 1999 and March 2000 as of 31 December 2002:

| Term | Loan dated 31 August 1999 | Loan dated 25 March 2000 |
|---|---|---|
| Maturity | 31 August 2004 | 24 March 2005 |
| Total amounts: | CZK 8,089 million | CZK 26,037 million |
| – Czech crowns | CZK 8,089 million | CZK 25,857 million |
| – US dollars | CZK 0 million | CZK 66 million |
| – Euro | CZK 0 million | CZK 114 million |
| Interest rates | Market benchmark rate plus contractual margin | Market benchmark rate plus contractual margin |
| Interest repayment | Fixed interest rate – annual<br>Variable interest rate – semi-annual | Fixed interest rate – annual<br>Variable interest rate – semi-annual |
| Principal repayment | Four annual instalments<br>First due 31 August 2001 | 13 quarterly instalments<br>First due 25 March 2002 |

The remaining balance of loans of CZK 1,314 million represents loans advanced to ČKA not connected with the refinancing of a transfer of receivables.

Amounts due from ČKA include interest due of CZK 1,239 million (2001: CZK 1,618 million). The aggregate balance of interest for 2002 and 2001 represents accrued interest that is not overdue.

## 21. Loans to customers

Loans to customers comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Loans to customers | 139,080 | 158,709 |
| Bills of exchange | 663 | 981 |
| Forfaits | 562 | 883 |
| **Total gross loans to customers** | **140,305** | **160,573** |
| Provisions for loan losses | (17,327) | (23,892) |
| **Total loans to customers, net** | **122,978** | **136,681** |

The total forfaits of CZK 562 million (2001: CZK 883 million) include no forfaits issued by foreign debtors (2001: CZK 35 million).

Loans to customers include interest due of CZK 979 million (2001: CZK 1,195 million), of which CZK 774 million (2000: CZK 960 million) relates to overdue interest.

The loan portfolio of the Group as of 31 December 2002 comprises the following breakdown by classification:

| CZK million | Gross receivable | Collateral applied | Net exposure | Provisions | Carrying value | Provisions (%) |
|---|---|---|---|---|---|---|
| Standard | 90,649 | 34,768 | 55,881 | 0 | 90,649 | 0 |
| Watch | 23,093 | 12,621 | 10,472 | (664) | 22,429 | 6 |
| Substandard | 12,418 | 9,302 | 3,116 | (740) | 11,678 | 24 |
| Doubtful | 3,412 | 910 | 2,502 | (948) | 2,464 | 38 |
| Loss | 10,733 | 91 | 10,641 | (8,366) | 2,367 | 79 |
| **Total** | **140,305** | **57,692** | **82,612** | **(10,718)** | **129,587** | |
| General provision for loan losses | | | | (6,609) | | |
| **Total provisions** | | | | **(17,327)** | **122,978** | |

Loans classified as loss in the above table include amounts of CZK 5,540 million (2001: CZK 4,934 million), on which interest is not being accrued.

Set out below is an analysis of types of collateral underlying on balance sheet loans to customers:

| CZK million | Total client loan collateral 2002 | Discounted client loan collateral value 2002 | Applied client loan collateral value 2002 | Total client loan collateral 2001 | Discounted client loan collateral value 2001 | Applied client loan collateral value 2001 |
|---|---|---|---|---|---|---|
| Guarantees of state and governmental institutions | 12,342 | 11,884 | 8,470 | 10,485 | 9,039 | 5,288 |
| Bank guarantee | 4,649 | 3,735 | 2,976 | 3,733 | 2,810 | 2,387 |
| Guaranteed deposits | 1,254 | 1,252 | 961 | 1,639 | 1,637 | 1,311 |
| Issued debentures in pledge | 526 | 394 | 337 | 13,035 | 13,007 | 12,995 |
| Pledge of real estate | 125,980 | 47,052 | 28,410 | 156,700 | 45,396 | 29,567 |
| Pledge of movable assets | 8,913 | 854 | 687 | 10,332 | 1,054 | 948 |
| Guarantee by corporate entity | 15,845 | 2,243 | 1,848 | 17,475 | 1,820 | 1,692 |
| Guarantee by individual (physical entity) | 5,171 | 970 | 870 | 4,821 | 536 | 530 |
| Pledge of receivables | 23,653 | 9,998 | 7,569 | 17,887 | 7,331 | 6,102 |
| Insurance of credit risk | 3,484 | 3,372 | 3,309 | 5,043 | 4,972 | 4,940 |
| Other | 4,217 | 2,366 | 2,255 | 13,656 | 9,039 | 6,987 |
| **Total nominal value of collateral** | **206,034** | **84,120** | **57,692** | **254,806** | **96,641** | **72,747** |

Pledges on industrial real-estate represent 48 percent of total pledges on real estate (2001: 57 percent).

### State guarantee covering losses on the Bank's risk assets

On 29 December 2000, pursuant to the Public Support Act 59/2000 Coll., the Bank entered into an agreement with Konsolidační banka Praha, s.p.ú. under which Konsolidační banka guaranteed a defined portfolio of classified on and off balance sheet exposures. The guarantee applies to the net book values as of 31 December 2000. The guarantee agreement is effective through the end of 2003, with payments of realised losses being settled until mid-2004.

The Bank regularly reports to Česká konsolidační agentura (formerly Konsolidační banka) on the administration of the assets and the expected losses on the guaranteed pool of exposures. Česká konsolidační agentura confirms, on an ongoing basis, its readiness to settle the estimated losses.

The Bank establishes specific and general provisions to cover its participation in the aggregate losses that it estimates will be incurred on the guaranteed portfolio. Further details about the general provision are given further in this note.

### General provision for risks and uncertainties inherent in the loan portfolio

The Group's loan portfolio includes a number of risks that cannot be specifically identified as such.

As of 31 December 2002, the Group maintains loan loss general provision of CZK 6,609 million (2001: CZK 8,848 million) to cover the risks which may be present in the loan portfolio as of that date but which cannot be allocated to individual exposures. These are principally risks associated with the portfolio of loans advanced to corporate customers with a significant concentration of industry risk and the portfolio of consumer, mortgage and overdraft loans advanced to retail customers. This general provision also covers management's assessment of the estimated risk of losses in connection with a potential impairment of the guaranteed and non-guaranteed portfolios of non-performing loans due to economic cycles and existing weaknesses in the legal framework regarding the enforcement of creditor rights.

### Trade finance losses

During 1999, the Group incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Bank.

As of 31 December 2002, on balance sheet loans and advances to this client included an amount of CZK 2,035 million (2001: CZK 2,993 million) that was fully provided for. Included within the Group's off balance sheet receivables from this client are documentary letters of credit of CZK 431 million (2001: CZK 519 million), which are provided for to the value of CZK 409 million (2001: CZK 422 million). The provision is shown under Note 30 *Accruals, provisions and other liabilities* within the line *Provision for other credit commitments.*

The Group is continuing to take actions in all relevant jurisdictions to recover its funds.

## 22. Securities available for sale

Securities available for sale comprise:

| CZK million | 2002 Fair value | 2002 Cost | 2001 Fair value | 2001 Cost |
|---|---|---|---|---|
| **Shares and participation certificates** | **2,191** | **2,196** | **4,238** | **4,304** |
| Fixed income debt securities | 15,364 | 15,647 | 19,767 | 19,849 |
| Variable yield debt securities | 9,482 | 11,262 | 12,102 | 13,584 |
| **Total debt securities** | **24,846** | **26,909** | **31,869** | **33,433** |
| **Total securities available for sale** | **27,037** | **29,105** | **36,107** | **37,737** |

As of 31 December 2002, the available-for-sale portfolio includes securities at a fair value of CZK 10,674 million (2001: CZK 18,305 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 16,363 million (2001: CZK 17,802 million) that are not publicly traded.

Shares and participation certificates available for sale at fair value comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Shares and participation certificates | | |
| – Czech Crowns | 2,185 | 4,238 |
| – Other currencies | 6 | 0 |
| Total shares and participation certificates available for sale | 2,191 | 4,238 |

Shares and participation certificates available for sale at fair value, allocated by issuer, comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Shares and participation certificates available for sale issued by | | |
| – Non-banking entities in the Czech Republic | 2,125 | 4,238 |
| – Banks in the Czech Republic | 60 | 0 |
| – Non-banking foreign entities | 6 | 0 |
| Total shares and participation certificates available for sale | 2,191 | 4,238 |

Debt securities available for sale at fair value comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Variable yield debt securities | | |
| – Czech crowns | 1,849 | 1,792 |
| – Other currencies | 7,633 | 10,310 |
| Total variable yield debt securities | 9,482 | 12,102 |
| Fixed income debt securities | | |
| – Czech crowns | 12,496 | 16,321 |
| – Other currencies | 2,868 | 3,446 |
| Total fixed income debt securities | 15,364 | 19,767 |
| Total debt securities available for sale | 24,846 | 31,869 |

Debt securities available for sale at fair value, allocated by issuer, comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Debt securities available for sale issued by | | |
| – State institutions in the Czech Republic | 7,531 | 6,141 |
| – Financial institutions in the Czech Republic | 594 | 4,792 |
| – Foreign financial institutions | 598 | 304 |
| – Other entities in the Czech Republic | 1,398 | 3,972 |
| – Other foreign entities | 14,725 | 16,660 |
| Total debt securities available for sale | 24,846 | 31,869 |

### Equity securities

As of 31 December 2002, the Group held 39.15 percent (2001: 56 percent) of the issued participation certificates of Otevřený podílový fond Globální ('Globální'). Pursuant to the planned revision of the Group's strategy in respect of its investment in Globální, the Group reduced its investment by 51.29 percent through the redemption of its participation certificates in the last quarter of 2002. As of 31 December 2002, the Group carries its interest in Globální at a fair value of CZK 2,012 million (2001: CZK 4,068 million).

Globální is managed by IKS, a. s., the Bank's asset management subsidiary. Up to 90 percent of Globální's assets may include equities, participation certificates issued by open-ended mutual funds, bonds and mortgage bonds, term and option contracts, denominated both in Czech crowns or foreign currencies. As of 31 December 2002, Globální's portfolio included 10.20 percent domestic equity securities, 4.59 percent international equities, 24.50 percent local debt securities, and 52.99 percent foreign debt securities. The remaining portion of the portfolio consists of current receivables, accounts with banks and foreign currency accounts.

As of 31 December 2002, the Group holds 77.18 percent (2001: 77.18 percent) of the issued share capital of Vodní stavby, a. s. v likvidaci, a Czech construction company. The Group has attributed no value to this shareholding as of 31 December 2002. Pursuant to Section 183 b (4) (a) (2) of the Commercial Code, the Group does not exercise and does not intend to exercise voting rights, which are equivalent to a 57.22 percent shareholding, attached to these shares nor will the Bank pass the voting rights to other parties. The Group disposed of these securities in the first quarter of 2003.

### Asset Backed Securities

The Group maintains a portfolio of asset backed securities denominated in USD which are carried as available for sale. The securities bear a fixed or floating interest rate based on USD LIBOR.
The Group establishes the value of these securities by reference to the credit profile of underlying assets using a model which facilitates the simulation of the timing of the credit quality of underlying assets. The model used by the Group has been validated by valuations obtained from an independent third party which is engaged in trading these securities.
The Group established a provision for impairment of CZK 2,096 million as of 31 December 2002 (2001: CZK 1,959 million) against the asset backed securities, the carrying value of which, net of impairment, is CZK 10,471 million (2001: CZK 13,522 million). Management considers that this impairment charge represents its best estimate of the net recoverable value of these assets and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio. The Group used the same model for the fair value of the credit linked note (refer to *Other debt securities* below).

### Other debt securities

Securities issued by banks include a credit linked note (the 'note') with a nominal value of EUR 9.5 million, issued by an internationally recognised bank, which amortises to zero over the ten years to its maturity pursuant to the payment schedule. The note bears interest based on a margin over three month EURIBOR. This note forms part of a series of credit default swaps under which the Group sold credit protection to an international financial institution. The maximum exposure of the Group under this agreement, including the default swaps referred to above, is EUR 100 million. The aggregate exposure amortises over the ten year life of the instrument. Off balance sheet instruments associated with this transaction are shown within issued banking payment guarantees.
The Group created provisions for this financial instrument in the amount of CZK 271 million as of 31 December 2002. As such, the carrying value, net of impairment provisions, is CZK 30 million as of 31 December 2002.
The Group created reserves for the issued banking guarantees for the credit default swap in the amount of CZK 901 million as of 31 December 2002.

## 23. Investments held to maturity

Investments held to maturity comprise:

| CZK million | 2002 Carrying value | 2002 Cost | 2001 Carrying value | 2001 Cost |
|---|---|---|---|---|
| Fixed income debt securities | 243 | 236 | 1,108 | 1,107 |
| Treasury bills | 0 | 0 | 345 | 345 |
| **Total investments held to maturity** | **243** | **236** | **1,453** | **1,452** |

As of 31 December 2002, the held-to-maturity portfolio includes securities of CZK 243 million (2001: CZK 1,108 million) that are publicly traded on stock exchanges and no securities (2001: CZK 345 million) that are not publicly traded.

Debt securities held to maturity comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| **Fixed income debt securities** | | |
| – Czech Crowns | 97 | 199 |
| – Other currencies | 146 | 1,254 |
| **Total fixed income debt securities** | **243** | **1,453** |
| **Total debt securities held to maturity** | **243** | **1,453** |

Investments held to maturity, allocated by issuer, comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| **Debt securities held to maturity issued by** | | |
| – State foreign institutions | 146 | 493 |
| – Financial institutions in the Czech Republic | 97 | 199 |
| – Other foreign entities | 0 | 761 |
| **Total debt securities held to maturity** | **243** | **1,453** |

## 24. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Prepayments and accrued income | 757 | 1,932 |
| Settlement balances | 7 | 347 |
| Other receivables from securities trading | 330 | 3 |
| Other assets | 6,410 | 3,036 |
| **Total prepayments, accrued income and other assets** | **7,504** | **5,318** |

The increase of other assets for the year ended 31 December 2002, is primarilly caused by the receivable to Česká konsolidační agentura totaling CZK 2,430 million from realised losses on the portfolio of loans covered under the state guarantee which will be settled to the Bank by mid-2004 (refer also to Note 21).

## 25. Investments in associates and unconsolidated subsidiaries

Investments in associates and unconsolidated subsidiaries comprise:

| CZK million | 2002 | 001 |
|---|---|---|
| Shares in subsidiary undertakings | 231 | 231 |
| Shares in associated undertakings | 1,412 | 1,493 |
| **Total investments in subsidiaries and associates** | **1,643** | **1,724** |

| CZK million | Group's ownership interest (%) | 2002 | 2002 | 2001 | 2001 |
|---|---|---|---|---|---|
| Subsidiary companies | | Cost of investment | Net book value | Cost of investment | Net book value |
| ALL IN, a. s., v likvidaci | 100.00 | 45 | 0 | 40 | 0 |
| Penzijní fond Komerční banky, a. s. | 100.00 | 230 | 230 | 230 | 230 |
| Společnost pro informační databáze, a. s. | 100.00 | 1 | 1 | 1 | 1 |
| **Subsidiary companies total** | | **276** | **231** | **271** | **231** |
| | | | | | |
| Associated undertakings | | Cost of investment | Share of net assets | Cost of investment | Share of net assets |
| CAC LEASING GROUP | 50.00 | 122 | 872 | 122 | 968 |
| Všeobecná stavební spořitelna Komerční banky, a. s. | 40.00 | 220 | 540 | 220 | 525 |
| **Associated undertakings total** | | **342** | **1,412** | **342** | **1,493** |
| | | | | | |
| Companies with minority interest | | Cost of investment | Net book value | Cost of investment | Net book value |
| Czech Banking Credit Bureau, a. s. | 20.00 | 0 | 0 | 0 | 0 |
| **Companies with minority interest total** | | **0** | **0** | **0** | **0** |
| **Investments in associates and unconsolidated subsidiaries** | | **618** | **1,643** | **613** | **1,724** |

## 26. Tangible and intangible fixed assets

The movements during the year ended 31 December 2002 are as follows:

| CZK million | Intangible fixed assets | Land | Buildings | Fixtures, fittings and equipment | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 31 December 2001 | 2,774 | 563 | 13,090 | 9,249 | 619 | 26,295 |
| Additions | 392 | 1 | 58 | 595 | 1,027 | 2,073 |
| Disposals | (31) | (138) | (339) | (1,023) | (899) | (2,430) |
| 31 December 2002 | 3,135 | 426 | 12,809 | 8,821 | 747 | 25,938 |
| **Accumulated depreciation** | | | | | | |
| 31 December 2001 | 1,801 | 0 | 4,304 | 7,273 | 101 | 13,479 |
| Additions | 588 | 0 | 541 | 947 | 0 | 2,076 |
| Disposals | (32) | 0 | (128) | (951) | 0 | (1,111) |
| Impairment charge | (99) | 0 | (374) | 33 | (60) | (500) |
| 31 December 2002 | 2,258 | 0 | 4,343 | 7,302 | 41 | 13,944 |
| **Net book value** | | | | | | |
| 31 December 2001 | 973 | 563 | 8,786 | 1,976 | 518 | 12,815 |
| 31 December 2002 | 877 | 426 | 8,466 | 1,519 | 706 | 11,994 |

As of 31 December 2002, the net book value of assets held by the Group under finance lease agreements was CZK 444 million (2001: CZK 564 million).

The Group reviewed the location, appearance and positioning of its branch network and future utilisation of intangible fixed assets in the context of its strategic plans in the medium term through 2004.

As of 31 December 2001, this review identified a number of buildings, owned and leased, whose location and appearance is not compatible with such plans. The Group's intention is to dispose of these premises and vacate the leases in the medium term. From this review and earlier reviews, the Group recognised an impairment charge in 2001 which was subsequently reassessed in 2002. The impairment charge included within accumulated depreciation as of 31 December 2002 amounts to CZK 917 million and includes expected losses on the sale of premises presently owned by the Group, the writedown of leasehold improvements on leased premises for which it intends to sell or terminate the rental agreements and the writedown of the carrying amount of prepaid rentals on buildings that will be vacated.

In addition, the Group identified intangible fixed assets which it intends to take out of service or replace in the period 2003 to 2004. The impairment charge resulting from this review amounts to CZK 121 million as of 31 December 2002.

## 27. Amounts due to banks

Amounts due to banks comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Current accounts | 1,248 | 1,046 |
| Amounts due to banks | 23,049 | 29,872 |
| **Total amounts due to banks** | **24,297** | **30,918** |

## 28. Amounts due to customers

Amounts due to customers, by type of deposit, comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Current accounts | 171,345 | 142,249 |
| Savings accounts | 17,717 | 21,392 |
| Term deposits | 111,549 | 123,198 |
| Loans from customers | 35,911 | 31,888 |
| Other payables to customers | 5,186 | 4,291 |
| **Total amounts due to customers** | **341,708** | **323,018** |

Amounts due to customers, by type of customer, comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Private companies | 97,998 | 113,794 |
| Other financial institutions, non-banks | 1,190 | 4,258 |
| Insurance companies | 2,781 | 2,699 |
| Public administration | 1,918 | 8,551 |
| Individuals | 123,964 | 118,779 |
| Non-residents | 5,224 | 5,509 |
| Deposits – bills of exchange | 35,326 | 31,607 |
| Private entrepreneurs | 16,399 | 16,732 |
| Government agencies | 30,751 | 6,440 |
| Other | 26,157 | 14,649 |
| **Total amounts due to customers** | **341,708** | **323,018** |

## 29. Certificated debt

Certificated debts comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Bonds | 10,885 | 20,433 |
| Mortgage bonds | 7,058 | 7,059 |
| **Total certificated debts** | **17,943** | **27,492** |

Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.
Certificated debts are repayable, according to remaining maturity, as follows:

| CZK million | 2002 | 2001 |
|---|---|---|
| In less than one year | 0 | 9,985 |
| In one to two years | 16,656 | 0 |
| In two to three years | 0 | 16,173 |
| In three to four years | 0 | 0 |
| Five years and thereafter | 1,287 | 1,334 |
| **Total certificated debts** | **17,943** | **27,492** |

The bonds and medium-term notes detailed above include the following bonds and notes issued by the Group:

| Name | Interest rate | Issue date | Maturity date | 2002 (CZK million) | 2001 (CZK million) |
|---|---|---|---|---|---|
| Bonds of Komerční banka, a. s., CZ0003700429 | 6M PRIBOR plus 15 basis points (bps) | 10 February 1997 | 10 February 2002 | 0 | 6,124 |
| Zero coupon bonds of Komerční banka, a. s., 770970000947 | Zero coupon (issued with discount for CZK 3,805 million) | 8 August 1997 | 8 August 2004 | 6,089 | 5,581 |
| Bonds of Komerční banka, a. s., CZ0003700452 | 6M PRIBOR plus 10 basis points | 29 September 1997 | 29 September 2002 | 0 | 3,861 |
| Mortgage bonds of Komerční banka, a. s., CZ0002000110 | 8.125% (mortgage bonds 2) | 13 May 1999 | 13 May 2004 | 4,206 | 4,160 |
| Mortgage bonds of Komerční banka, a. s. CZ0002000102 | 8.0% (mortgage bonds 1) | 15 June 1999 | 15 June 2004 | 1,565 | 1,565 |
| Bonds of Komerční banka, a. s., CZ0003700528 | 8.0% | 10 September 1999 | 10 September 2004 | 4,796 | 4,867 |
| Mortgage bonds of Komerční banka, a. s., CZ0002000151 | 6M PRIBOR plus 350 basis points (mortgage bonds 3) | 15 September 2000 | 15 September 2007 | 1,287 | 1,334 |
| **Total bonds** | | | | **17,943** | **27,492** |

Note: Six-month PRIBOR was 255 basis points as of 31 December 2002 (2001: 448 basis points).

## 30. Accruals, provisions and other liabilities

Accruals, provisions and other liabilities comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Settlement balances | 18 | 3 |
| Other payables from securities trading and issues of securities | 393 | 529 |
| Other liabilities | 2,962 | 5,116 |
| Provisions, accruals and deferred income | 2,374 | 1,141 |
| Provision for other credit commitments | 3,009 | 1,851 |
| Other provisions | 3,931 | 3,229 |
| **Total accruals, provisions and other liabilities** | **12,687** | **11,869** |

As of 31 December 2002, the balance of the provision for other credit commitments was CZK 2,317 million (2001: CZK 1,851 million). This covers credit risks associated with issued credit commitments, off balance sheet credit instruments and the estimated participation in the expected losses on the guaranteed portfolio of off balance sheet exposures of the Group pursuant to the Guarantee Agreement dated 29 December 2000 (refer also to Note 21). Provisions for other credit commitments also include a provision for contingent liabilities from the transfer of cash associated with the sale of loan receivables to GE amounting to CZK 692 million.
Set out below is an analysis of this provision:

| CZK million<br>Risk | Balance |
|---|---|
| Provision for off balance sheet commitments | 920 |
| Provision for credit instruments and derivatives | 901 |
| Provision for undrawn loan facilities | 410 |
| Provision for the Bank's 5 percent participation and the present value of the pay-out under the guarantee of the off balance sheet instruments and commitments portfolio | 86 |
| **Total** | **2,317** |

Other provisions are composed of the following balances:

| CZK million | 1 January 2002 | Creation | Release | Foreign exchange difference | 31 December 2002 |
|---|---|---|---|---|---|
| Restructuring provision | 96 | 1,478 | (1,253) | 0 | 321 |
| Provisions for contracted commitments | 3,133 | 4,588 | (4,104) | (7) | 3,610 |
| **Total** | **3,229** | **6,066** | **(5,357)** | **(7)** | **3,931** |

Provisions for contracted commitments principally comprise the provision for outstanding vacation days, legal disputes, termination of rental agreements, the provision for bonuses and technical reserve for life and non-life insurance in the amount of CZK 2,674 million (2001: CZK 2,449 million CZK).

## 31. Deferred income taxes

Deferred income taxes are calculated from all temporary differences under the liability method using a principal tax rate effective for the following year, that is 31 percent (2001: 31 percent).
Deferred income tax assets and liabilities are attributable to the following items:

| CZK million | 2002 | 2001 |
|---|---|---|
| **Deferred income tax assets** | **1,268** | **1,918** |
| Depreciation | 32 | 22 |
| Unrealised losses on securities | 1 | 207 |
| Banking reserves and provisions | 122 | 421 |
| Provisions for non-banking receivables | 51 | 64 |
| Provisions for assets (including securities) | 343 | 454 |
| Non-banking reserves | 363 | 236 |
| Loss brought forward from previous periods | 258 | 428 |
| Other temporary differences | 98 | 86 |
| | | |
| **Deferred tax liabilities** | **(1,168)** | **(665)** |
| Depreciation | (49) | (83) |
| Leases | (18) | 0 |
| Unrealised profit on securities – profit and loss impact | 0 | (170) |
| Change in fair value of hedging derivatives - equity impact | (1,077) | (391) |
| Other temporary differences | (24) | (21) |
| **Net deferred income tax assets/(liabilities)** | **89** | **1,253** |

Deferred tax recognised in the financial statements:

| CZK million | 2002 | 2001 |
|---|---|---|
| **Deferred tax asset** | | |
| Balance at the beginning of period | 0 | 0 |
| Movement in deferred tax assets | 905 | 0 |
| **Balance at the end of period** | **905** | **0** |
| | | |
| **Deferred tax liability** | | |
| Balance at the beginning of period | (664) | (200) |
| Consolidation adjustments of deferred taxes (transfer) | 24 | |
| Movement in deferred tax liabilities – profit and loss impact | 158 | (112) |
| Movement in deferred tax liabilities – equity impact | (686) | (352) |
| **Balance at the end of period** | **(1,168)** | **(664)** |
| | | |
| **Increase/(decrease) in deferred tax – profit and loss impact** | **1,063** | **(112)** |
| **Increase/(decrease) in deferred tax - equity impact** | **(686)** | **(352)** |

In the year ended 31 December 2001, due to uncertainties over the realisation of deferred tax assets in future accounting periods, the Group 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.
In the year ended 31 December 2002, the Group recognised a deferred tax asset of CZK 905 million and reduced the balance of deferred tax liabilities by CZK 158 million. In addition, the Group recognised, as a component of equity, an increase in the deferred tax liability of CZK 686 million arising from the change in fair values of hedging derivatives.

## 32. Subordinated debt

In 1998, Komercni Finance, B.V. (a wholly owned subsidiary of the Bank) issued guaranteed step-up callable notes due 15 May 2008, bearing interest at 9 percent per annum to 15 May 2003 and then interest at a rate per annum equal to the sum of the six-month dollar deposit LIBOR for the relevant payment period plus 5 percent. The notes constitute direct, unsecured, unconditional, subordinated obligations of Komercni Finance, B.V. which are irrevocably, fully and, subject to subordination, unconditionally guaranteed as to principal, premium and interest by the Bank. The notes are redeemable at the option of Komercni Finance, B.V. in whole on any interest payment date on or after 15 May 2003. The nominal value of the subordinated debt is USD 200 million.

## 33. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926 thousand and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).
Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2002:

| Name of the entity | Registered office | Ownership (%) |
|---|---|---|
| SOCIÉTÉ GÉNÉRALE S. A. | 29 BLVD HAUSSMANN, PARIS | 60.353 |
| The Bank of New York ADR Department | 101 Barclay Street, New York | 6.270 |

Société Générale S. A., being the only entity with a qualified holding in the Bank, is a French joint stock company registered in the Register of Companies (Registre du Commerce et Sociétés) under no. RCS Paris 552 120 222. Société Générale operates as a licensed bank pursuant to a resolution issued on 4 May 1864 and is subject to the regulatory requirements of the French Companies Act (Loi sur les Sociétés Commerciales 66-537, 24 July 1966) and the French Banking Act (Loi Bancaire 84-46, 24 January 1984).
In December 2002, the Group sold 135,940 treasury shares which it had acquired to meet its potential commitments under an equity compensation program (refer also to Note 36). The Group reassessed the requirements resulting from the equity compensation program within the context of the change of a significant portion of this program and decided to dispose of the treasury shares. The Group made a gain of CZK 116 million on this transaction which resulted in an increase in the Group's equity through share premium accounts. In connection with the remaining equity call options under the existing equity compensation program, the Group purchased 42,890 treasury shares, of which 32,000 treasury shares were acquired subsequent to 31 December 2002 and hence are not reflected on the Group's balance sheet.

## 34. Composition of cash and cash equivalents as reported in the cash flow statement

| CZK million | 2002 | 2001 | Change in the year |
|---|---|---|---|
| Cash and balances with central banks | 13,933 | 18,124 | (4,191) |
| Current accounts with other banks | 575 | 237 | 338 |
| Amounts owed to banks | (1,248) | (1,046) | (202) |
| **Total** | **13,260** | **17,315** | **(4,055)** |

## 35. Commitments and contingent liabilities

### Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2002. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 511 million (2001: CZK 75 million) for these legal disputes. The Group has also recorded an accrual of CZK 64 million (2001: CZK 24 million) for costs associated with a potential payment of interest on one of the pursued claims.
As of 31 December 2002, the Group has assessed legal actions filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Group makes provisions against these instruments on the same basis as is applicable to loans.

### Capital commitments

As of 31 December 2002, the Group had capital commitments of CZK 202 million (2001: CZK 88 million) in respect of current capital investment projects. Management is confident that future net revenues and funding will be sufficient to cover this commitment.

### Commitments arising from the issuance of letters of credit

Documentary letters of credit, which are written irrevocable undertakings by the Group on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under open letters of credit are considerably less than the commitments under issued guarantees, avals or stand-by letters of credit. However, the Group records provisions against these instruments on the same basis as is applicable to loans.

### Commitments to extend credit, undrawn loan commitments, unutilised overdrafts and approved overdraft loans

The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Group represent issued loan commitments or guarantees, undrawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Group which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

Financial commitments and contingencies comprise:

| CZK million | 2002 | 2001 |
|---|---|---|
| Non-payment guarantees including commitments to issued non-payment guarantees | 7,541 | 5,524 |
| Payment guarantees including commitments to issued payment guarantees | 7,029 | 5,307 |
| Letters of credit uncovered | 942 | 667 |
| Stand by letters of credit uncovered | 471 | 781 |
| **Commitments from guarantees** | **15,983** | **12,279** |
| Received bills of exchange/acceptances and endorsements of bills of exchange | 0 | 20 |
| **Total contingent liabilities** | **15,983** | **12,299** |
| Committed facilities | 13,533 | 15,648 |
| Undrawn credit commitments | 23,831 | 15,773 |
| Confirmed letters of credit | 15 | 5 |
| Unutilised overdrafts and approved overdraft loans | 26,427 | 20,834 |
| Unutilised discount facilities | 908 | 0 |
| Unutilised limits under Framework agreements to provide financial services * | 9,771 | 0 |
| **Total other commitments and unutilised overdrafts** | **74,485** | **52,260** |
| Letters of credit covered | 96 | 298 |
| Stand by letters of credit covered | 59 | 0 |
| **Total contingent revocable and irrevocable commitments** | **90,623** | **64,857** |

Note: * This line shows the Bank's unutilised limits in connection with the provision of a new product which the Bank provides to its customers following its acquisition of Société Générale's Prague branch.

The Group provides a variety of credit facilities to its largest clients including Czech entities which are part of international groups and which are State owned. Of the Group's committed facilities and guarantees, CZK 5,852 million (2001: CZK 8,971 million) is revocable. All other committed facilities, undrawn credit commitments and unutilised overdrafts are irrevocable and are not subject to further approvals by the Group. The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. As of 31 December 2002, the Group created provisions for these risks amounting to CZK 2,317 million (2001: CZK 1,851 million).

### Finance lease commitments

The Group has entered into finance leases in respect of equipment (computers, ATMs and cars), the payments for which extend over a three year period. The future commitments are included within the unconsolidated balance sheet line *Other liabilities*.

Assets held under finance leases:

| CZK million | 2002 including interest | 2001 excluding interest | 2001 including interest | 2001 excluding interest |
|---|---|---|---|---|
| Leased assets | 937 | 843 | 1,531 | 1,353 |
| Paid instalments | 604 | 552 | 1,067 | 951 |
| **Amounts due** | **333** | **291** | **464** | **402** |

Remaining maturity of remaining instalment:

| CZK million | 2002 including interest | 2001 excluding interest | 2001 including interest | 2001 excluding interest |
|---|---|---|---|---|
| Up to 1 year | 206 | 180 | 175 | 149 |
| 1 to 5 years | 127 | 111 | 289 | 253 |
| Over 5 years | 0 | 0 | 0 | 0 |
| **Total** | **333** | **291** | **464** | **402** |

### Taxation

Czech tax legislation and practice has changed significantly in recent years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that tax authorities may apply in a number of areas. Whilst management of the Group has applied revised tax legislation on a prudent basis, tax positions taken by Group are subject to examination and could be challenged by tax authorities. As a result there may be uncertainty about the potential impacts, should the interpretation of tax authorities differ from that applied by the Group.

Nevertheless, management of the Group considers that the Group is not exposed to any material tax risks and therefore no provision has been made in this respect.

## 36. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2002, the Group was controlled by Société Générale which owns 60.35 percent of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other types of transactions. These transactions were carried out on commercial terms and at market rates.

### Amounts due to and from the Group companies

As of 31 December 2002, the Group had loans outstanding of CZK 1,124 million (2001: CZK 1,552 million) to the group entities. The amounts of associated undertakings placed with the Bank totalled CZK 14 million (2001: CZK 88 million).

The following table summarises loans issued to associated undertakings and deposits with the Group:

CZK million

| Company | 2002 | 2001 |
|---|---|---|
| CAC LEASING, a. s. | 886 | 890 |
| Všeobecná stavební spořitelna Komerční banky, a. s. | 238 | 662 |
| **Total loans** | **1,124** | **1,552** |
| CAC LEASING, a. s. | 12 | 6 |
| Všeobecná stavební spořitelna KB, a. s. | 2 | 82 |
| **Total deposits** | **14** | **88** |

### Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

CZK million

| Company | 2002 |
|---|---|
| Société Générale London | 362 |
| Société Générale Paris | 18,743 |
| Société Générale Tokyo | 80 |
| Sogelease ČR, a. s. | 10 |
| **Total** | **19,195** |

Principal balances owed to the Société Générale Group entities include:

| CZK million | 2002 |
|---|---|
| **Company** | |
| Franfinance Czech Republic s. r. o. | 357 |
| SG Finance Praha, a. s. | 76 |
| SGBT Luxembourg | 19 |
| Société Générale Warsaw | 31 |
| Société Générale Paris | 1,282 |
| Société Générale's Prague branch | 45 |
| Sogelease ČR, a. s. | 56 |
| **Total** | **1,866** |

Amounts due to and from the Société Générale Group entities principally comprise balances of current accounts, nostro and loro accounts, issued loans, interbank market loans and placements, and debt securities acquired under initial offerings not designated for trading (refer also to Note 18).

As of 31 December 2002, the Group also carried off balance sheet exposures to Société Générale, of which off balance sheet notional assets and liabilities amounted to CZK 8,069 million and CZK 11,481 million, respectively. These amounts principally relate to currency forwards, spot transactions and interest rate swaps.

As of 31 December 2002, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

Amounts due from the Bank's related parties:

| | Average contracted 2002 | Average Interest rate 2002 (%) | 2002 (CZK million) | 2001 (CZK million) |
|---|---|---|---|---|
| Members of the Supervisory Board | – | 7 | 0 | 0 |
| Members of the Management Board | – | – | 0 | 3 |
| **Total** | – | – | **0** | **3** |

Amounts due from the Bank's related parties include credit cards, current accounts and common customer loans.

Amounts due from the Bank's related parties:

| CZK million | |
|---|---|
| Balance at 1 January 2002 | 3 |
| Repayments | 3 |
| Loans newly granted | 0 |
| **Balance at 31 December 2002** | **0** |

### Remuneration and equity compensation scheme of the members of the Management and Supervisory Boards

Remuneration paid to the members of the Management and Supervisory Boards during the years was as follows:

| CZK million | 2002 | 2001 |
|---|---|---|
| Remuneration to the Management Board members * | 41 | 205 |
| Remuneration to the Supervisory Board members ** | 4 | 30 |
| Remuneration to the Executive Committee members *** | 66 | 21 |
| Total | 111 | 256 |

Note: * Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2002 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2002, figures for expatriate members of the Management Board include a portion of remuneration net of bonuses for 2002 and other compensations and benefits arising from expatriate relocation contracts.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2002 to the current and former members of the Supervisory Board.

*** Remuneration to the Executive committee members represents the sum of compensations and benefits paid in 2002 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Executive Committee.

| | 2002 | 2001 |
|---|---|---|
| Number of the Management Board members | 6 | 5 |
| Number of the Supervisory Board members | 7 | 9 |
| Number of the Executive Committee members | 18 * | 15 * |

Note: * These figures include all members of the Management Board who are also members of the Executive Committee.

As of 31 December 2002, the Bank recorded a reserve of CZK 35 million (2001: CZK 9 million) for an equity compensation program designed for the Management Board, Supervisory Board and selected managers, and an estimated payable of CZK 15 million (2001: CZK 11 million) for Management Board bonuses.

As of 31 December 2002, the Bank operated an equity compensation program, designed to incentivise selected managers and members of the Supervisory Board under the rules put in place in 1999, and an extended equity compensation program designed to provide compensation to selected members of the Supervisory Board modified and approved by the General Meeting in 2000. The terms of the program, refined to reflect the requirements of the amended Commercial Code, were approved by the General Meetings held in 2001. The extended equity compensation program for members of the Management Board of the Bank under the terms approved in 2000 and 2001 was terminated in 2002.

Under the pre-existing equity compensation scheme selected members of the Bank's management and Supervisory board have a right to purchase annually a pre-determined number of ordinary shares of the Bank. Management estimates that the cumulative rights as of 31 December 2002 amount to approximately 24,650 shares. The program will expire in mid-2003.

Under the extended equity compensation program, certain members of the Supervisory Board of the Bank have a right to purchase during 2003 and 2004 a pre-determined number of ordinary shares of the Bank at CZK 500 per share ('call options'). The members of the Supervisory Board have a right, but not the obligation, to put these shares on the Bank at a price of CZK 1,000 per share after these shares have been held by Board members for a minimum period ('put options'). The cost of the exercise of these options is borne by the Bank. Options held by the participants of the equity compensation scheme amount to 18,240 shares. The extended equity compensation program will expire in mid-2004.

## 37. Movement of hedging reserve in the unconsolidated statement of changes in shareholders' equity

In accordance with IAS 39, certain derivatives were designated as cash flow hedges. The fair values of cash flow hedges are recorded in a separate category of equity in the hedging reserve as shown below:

| CZK million | 2002 | 2001 |
|---|---|---|
| Cash flow hedge fair value at 1 January | 1,263 | 200 |
| Deferred income tax liability at 1 January | (392) | (61) |
| **Balance at 1 January** | **872** | **139** |

Movements during year:

| CZK million | 2002 | 2001 |
|---|---|---|
| Gains/(losses) from changes in fair value | 3,227 | 1,407 |
| Deferred income tax | (995) | (438) |
| | **2,232** | **969** |

| CZK million | 2002 | 2001 |
|---|---|---|
| Transferred to interest income/(expense) | (999) | (344) |
| Deferred income tax | 310 | 108 |
| | **(689)** | **(236)** |

| CZK million | 2002 | 2001 |
|---|---|---|
| Balance at 31 December | 3,492 | 1,263 |
| Deferred income tax | (1,077) | (392) |
| **Balance at 31 December** | **2,415** | **872** |

## 38. Risk management and derivative financial instruments

### A. Credit risk

Credit rating of borrowers

The Group quantifies counterparty risk using ratings on the basis of a number of criteria depending upon the type and size of the borrower. The rating of the borrower serves as a basis for calculating anticipated risk expenses taking into account the type of the credit product and underlying collateral. The Group rates corporate borrowers based upon quantitative (financial statements of an enterprise) and qualitative (gradings assigned by financial analysts) criteria. The quantitative analysis of the financial statements is undertaken using various ratios depending upon the size of the borrower (turnover) and type of business (manufacturing, leasing, municipality). The methodology used by the Group is based upon the methodology applied within the Société Générale Group The Group additionally refers to ratings published by external rating agencies. Special teams regularly assess the ratings assigned to individual borrowers for correctness and accuracy. In respect of retail clients, the Group principally uses quantitative criteria to arrive at the rating.

The Group monitors credit risk concentrations on an aggregate basis in respect of all on and off balance sheet positions. The Group specifically monitors credit risk concentrations by industry and groups of economically linked entities. With a view to identifying significant credit risk concentrations, the Group compares the proportion of industries to its on and off balance sheet position and the proportion of industries in the Czech Republic (share of GDP). With regard to groups of economically linked entities, the Group monitors the proportion of credit exposures to the groups to the Group's capital.

### Receivables that are not categorised

The Group does not classify other amounts due from customers pursuant to the applicable regulation issued by the Czech National Bank. These amounts consist of non-loan receivables that originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically prepayments made to social authorities and amounts due from these authorities. As a general policy, the Group records full provisions against these balances if they are overdue by three months or greater.

### Provisioning for receivables

The Group charges provisions against amounts due from borrowers by reference to the uncovered exposure which represent the balance receivable after deducting eligible collateral. The provisioning charge is equal to the greater of the provision calculated pursuant to the CNB Regulation, which provides guidance on loan classification and provisioning for loans on the basis of their classification, and the provision determined on the basis of the Group's internal estimate of the expected recovery rates of individual receivables. The Group uses this approach both in respect of on and off balance sheet exposures. The Group also establishes full provisions against interest payments that are in default for more than 30 days.

Pursuant to the applicable CNB regulation, loan classification grades are determined using the following parameters: 'Number of overdue days', 'Provision of information by the client' and 'Restructuring of the receivable'. An internal assessment of the loan is determined using a counterparty rating and ratings prepared by analysts. Larger loan exposures are discussed by the Provisioning Committees (a significant proportion of the Bank's loan portfolio are reviewed by these Committees).

### Loan collateral

Collateral values are determined by the Risk Management Division based upon discount factors used in valuing collateral received. Information about collateral values is transferred to relevant client accounts and is used to calculate uncovered exposures in respect of individual loans for provisioning purposes.

The Group monitors collateral values using two methods. The first method involves monitoring actual market conditions, and changes to legal regulations that have a direct impact on collateral values. Under the second method, the Risk Management Division re-assesses collateral values on a quarterly basis. This re-assessment involves comparing the actual recoverability of collateral to the original values carried in the Group's books.

A significant proportion of the Group's loan portfolio is collateralised by real estate which presently represents more than 50 percent of aggregate collateral values.

### Recovery of amounts due from borrowers

The Group has set up a special work-out division. The Debt Recovery Division is engaged in restructuring loans, recovering and selling loans and realising collateral in accordance with the agreement entered into between the Group and the relevant borrower.

### Credit risk reallocation instruments

The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

### Revocable contractual commitments

The Group monitors revocable contractual commitments on the same basis as irrevocable commitments. The risk is identified on a client basis and is monitored on a monthly basis but no provisions or reserves are established. These commitments account for 6 percent of all the Group's contracted undrawn commitments.

### Credit risk of financial derivatives

Credit exposure or replacement cost of financial derivative instruments represents the Group's credit exposure from derivative contracts, that is, it indicates the estimated maximum potential losses of the Group in the event that counterparties fail to perform their obligations. It is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to a newly implemented methodology Current Average Risk ('CAR') as the average of estimated potential exposures which the Group may have over the remaining term of the contract. Credit risk is established depending on the type of contract and takes into account, among other things, the market value of the contract and its maturity. The Group assesses credit risks of all financial instruments on a daily basis.
As of 31 December 2002, the Group has a potential credit exposure of CZK 20,791 million (2001: 10,860 million, the figures are not comparable due to changes in the basis of the calculation) in the event of non-performance by counterparties to its financial derivative instruments. This amount represents the gross replacement cost at market rates as of 31 December 2002 of all outstanding agreements in the event of all counterparties defaulting and does not allow for the effect of netting arrangements.

## B. Market risk

### Segmentation of the Group's financial operations

For market risk management purposes, the Group has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes transactions entered into by the Group's dealers in the interbank markets and instruments acquired for trading purposes. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.
In order to measure market risk, the Group primarily operates a system of limits that reflect the Group's needs as well external requirements.

### Products traded by the Group

The Group trades the following products that carry an element of market risk: loans and deposits in the interbank market, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, currency swaps, FRAs), treasury bills and Government bonds, corporate bonds and other specific products, such as bills of exchange/bill programs, cash management for selected clients, etc. The Group enters only into back-to-back transactions with options.
The Group enters into transactions with financial derivative instruments for proprietary purposes as well as on clients' accounts. In addition, the Group uses derivative instruments to hedge positions that expose the Group to market risk.
In order to hedge its own positions, the Group primarily uses interest rate swaps, FRAs and currency swaps. The Group has also entered into a number of structured financial derivative transactions for its clients which are designed to meet the clients' hedging needs. These products are measured using internal models; market risk is eliminated by closing the position through a back-to-back deal.
Financial derivative instruments are traded only on over-the-counter markets. The Group trades no stock exchange derivatives.

### Market risk in the Market Book

In order to measure market risk inherent in the Market Book, the Group uses, inter alia, the Value at Risk concept. Value at Risk is calculated using historical simulations and represents a maximum potential loss on the portfolio over a given time period (typically one trading day) with a confidence level of 99 percent.
The Group has also implemented daily analyses of shock scenarios ('stress testing') of all open positions in the Market Book. The Group has defined shock scenarios for principal groups of currencies.
The Global Value at Risk over the holding period of one day with a confidence level of 99 percent was EUR 289,993 as of 31 December 2002. The average Global Value at Risk for the period from 20 August 2002 to 31 December 2002 was EUR 381,579. The Value at Risk limits were determined by management of the Group for risk management.

### Market risk in the Structural Book

The foreign exchange position is monitored on a daily basis in accordance with the CNB Regulation on capital adequacy of banks including credit and market risk. Within its Structural Book, the Group manages foreign exchange risk so as to achieve minimum risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard cross-currency instruments in the interbank market, such as cross-currency spots and forwards. Pursuant to regulatory requirements, the Group reports, on a monthly basis, on its foreign currency and Czech crown position to the Czech National Bank.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis and Earnings at Risk ('EaR') for net interest income which is monitored separately for CZK and foreign currencies. This indicator shows the maximum departure of the planned net interest income over a one year period attributable to the movements in interest rates with a 99 percent confidence level from the initial value. EaR is set using stochastic simulations of random scenarios of interest rate developments and a change in interest income relative to the initial value is established for each scenario. The calculation of EaR to net interest income involves a stress-testing approach to interest rate risk within the Structural Book.

In order to hedge interest rate risk within the Structural Book the Group uses both standard derivative instruments available in the interbank market (such as FRAs and interest rate swaps) and appropriate investment in securities or selection of interest rate parameters of other assets and liabilities.

### C. Financial derivatives

The Group operates a system of market risk and counterparty limits which are designed to restrict exposure to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging (refer also to Note 3 to these financial statements).

Financial derivative instruments designated as held for trading:

| CZK million | | Notional value | | Notional value | | Fair value | | Fair value |
|---|---|---|---|---|---|---|---|---|
| | 2002 | 2002 | 2001 | 2001 | 2002 | 2002 | 2001 | 2001 |
| | Assets | Liabilities | 31 Assets | Liabilities | Positive | Negative | Positive | Negative |
| **Interest rate instruments** | | | | | | | | |
| Interest rate swaps | 66,808 | 66,808 | 60,483 | 60,483 | 2,666 | 2,722 | 1,836 | 1,854 |
| Forward Rate Agreements | 150,841 | 150,841 | 135,051 | 135,051 | 267 | 333 | 512 | 488 |
| Options | 5,600 | 5,600 | 4,400 | 4,400 | 216 | 227 | 94 | 89 |
| **Total** | **223,249** | **223,249** | **199,934** | **199,934** | **3,149** | **3,282** | **2,442** | **2,431** |
| **Foreign currency instruments** | | | | | | | | |
| Currency swaps | 81,108 | 80,958 | 83,507 | 82,883 | 2,450 | 2,316 | 2,208 | 1,637 |
| Cross currency swaps | 18,212 | 14,997 | 22,279 | 21,372 | 3,374 | 166 | 993 | 109 |
| Forwards | 5,924 | 5,905 | 4,746 | 4,673 | 90 | 62 | 90 | 24 |
| Call options | 2,213 | 2,237 | 1,231 | 1,344 | 36 | 0 | 26 | 0 |
| Put options | 2,237 | 2,213 | 985 | 872 | 0 | 36 | 0 | 26 |
| **Total** | **109,694** | **106,310** | **112,748** | **111,144** | **5,950** | **2,580** | **3,317** | **1,796** |
| **Other instruments** | | | | | | | | |
| Credit options | 14,758 | 14,758 | 20,506 | 20,506 | 0 | 0 | 0 | 0 |
| Forwards on debt securities | 1,139 | 1,139 | 1,813 | 1,813 | 1 | 3 | 0 | 1 |
| **Total** | **15,897** | **15,897** | **22,319** | **22,319** | **1** | **3** | **0** | **1** |
| **Total** | **348,840** | **345,457** | **335,001** | **333,398** | **9,100** | **5,865** | **5,759** | **4,228** |

Financial derivative instruments designated as other at nominal values per remaining maturity:

| CZK million | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **Interest rate instruments** | | | | |
| Interest rate swaps | 23,813 | 31,061 | 11,934 | 66,808 |
| Forward Rate Agreements | 105,591 | 45,250 | 0 | 150,841 |
| Options | 0 | 1,600 | 4,000 | 5,600 |
| **Total** | **129,404** | **77,911** | **15,934** | **223,249** |
| **Foreign currency instruments** | | | | |
| Swaps | 81,108 | 0 | 0 | 81,108 |
| Cross currency swaps | 8,224 | 9,767 | 221 | 18,212 |
| Forwards | 5,865 | 59 | 0 | 5,924 |
| Call options | 2,182 | 31 | 0 | 2,213 |
| Put options | 2,205 | 32 | 0 | 2,237 |
| **Total** | **99,584** | **9,889** | **221** | **109,694** |
| **Other instruments** | | | | |
| Credit options | 14,758 | 0 | 0 | 14,758 |
| Forwards on debt securities | 1,139 | 0 | 0 | 1,139 |
| **Total** | **15,897** | **0** | **0** | **15,897** |
| **Total** | **244,885** | **87,800** | **16,155** | **348,840** |

Note: The remaining maturity of forward rate agreements (FRA) covers the period to the fixing date when off balance sheet exposures are reversed.

Financial derivative instruments designated as hedging:

| CZK million | Notional value | | Notional value | | Fair value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | 2002 | 2001 | 2001 | 2002 | 2002 | 2001 | 2001 |
| | Assets | Liabilities | Assets | Liabilities | Positive | Negative | Positive | Negative |
| Interest rate swaps | 68,641 | 68,641 | 65,555 | 65,555 | 4,715 | 266 | 2,033 | 81 |
| Forward Rate Agreements | 0 | 0 | 2,800 | 2,800 | 0 | 0 | 27 | 0 |
| **Total** | **68,641** | **68,641** | **68,355** | **68,355** | **4,715** | **266** | **2,060** | **81** |

Remaining maturity of derivatives designated as hedging:

| CZK million | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest rate swaps | 11,028 | 33,456 | 24,157 | 68,641 |
| Interest rate forwards | 0 | 0 | 0 | 0 |
| **Total** | **11,028** | **33,456** | **24,157** | **68,641** |

The Group treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met. Further information on hedges is provided in Note 3 to these financial statements.

**D. Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section B of this note.

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity date or are not interest-bearing were grouped in the 'maturity undefined' category.

| CZK million | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with the central bank | 7,060 | 0 | 0 | 0 | 7,448 | 14,508 |
| Amounts due from banks | 176,026 | 9,936 | 243 | 14,000 | 34 | 200,239 |
| Securities held for trading | 2,897 | 5,407 | 965 | 317 | 200 | 9,786 |
| Positive fair values of financial derivative transactions | 11 | 14 | 0 | 0 | 13,790 | 13,815 |
| Due from Česká konsolidační agentura | 18,834 | 7,072 | 9,534 | 0 | 0 | 35,440 |
| Loans to customers, net | 78,279 | 22,117 | 25,184 | 3,697 | (6,299) | 122,978 |
| Securities available for sale | 8,930 | 2,823 | 4,526 | 8,567 | 2,191 | 27,037 |
| Investments held to maturity | 0 | 6 | 222 | 15 | 0 | 243 |
| Prepayments, accrued income and other assets | 1,303 | 0 | 0 | 0 | 6,201 | 7,504 |
| Deferred tax asset | 0 | 0 | 0 | 0 | 905 | 905 |
| Investments in associates and unconsolidated subsidiaries | 0 | 0 | 0 | 0 | 1,643 | 1,643 |
| Tangible and intangible fixed assets, net | 0 | 0 | 0 | 0 | 11,994 | 11,994 |
| **Total assets** | **293,340** | **47,375** | **40,674** | **26,596** | **38,107** | **446,092** |
| **Liabilities** | | | | | | |
| Amounts due to banks | 16,674 | 4,588 | 266 | 112 | 2,657 | 24,297 |
| Amounts due to customers | 148,376 | 3,385 | 962 | 130 | 188,855 | 341,708 |
| Negative fair values of financial derivative transactions | 14 | 34 | 5 | 0 | 6,078 | 6,131 |
| Certificated debt | 1,075 | 0 | 16,868 | 0 | 0 | 17,943 |
| Accruals, provisions and other liabilities | 3,670 | 0 | 0 | 0 | 9,017 | 12,687 |
| Income taxes payable | 0 | 0 | 0 | 0 | 2,840 | 2,840 |
| Deferred tax liability | 0 | 0 | 0 | 0 | 1,168 | 1,168 |
| Subordinated debt | 0 | 3,720 | 0 | 0 | 0 | 3,720 |
| Minority interest | 0 | 0 | 0 | 0 | 232 | 232 |
| **Total liabilities** | **169,809** | **11,727** | **18,101** | **242** | **210,847** | **410,726** |
| **On balance sheet interest rate sensitivity gap at 31 December 2002** | **123,531** | **35,648** | **22,573** | **26,354** | **(172,740)** | **35,366** |
| Off balance sheet interest rate assets * | 172,623 | 50,367 | 45,820 | 24,218 | 0 | 293,028 |
| Off balance sheet interest rate liabilities * | 212,972 | 56,332 | 19,266 | 4,458 | 0 | 293,028 |
| **Net off balance sheet interest rate sensitivity gap at 31 December 2002** | **(40,349)** | **(5,965)** | **26,554** | **19,760** | **0** | **0** |
| **Cumulative interest rate sensitivity gap at 31 December 2002** | **83,182** | **112,865** | **161,992** | **208,106** | **35,366** | **x** |
| Total assets at 31 December 2001 | 274,623 | 44,123 | 55,243 | 13,606 | 43,838 | 431,433 |
| Total liabilities at 31 December 2001 | 203,333 | 12,488 | 26,374 | 264 | 164,047 | 406,506 |
| Net on balance sheet interest rate sensitivity gap at 31 December 2001 | 71,270 | 31,635 | 28,869 | 13,342 | (120,209) | 24,927 |
| Net off balance sheet interest rate sensitivity gap at 31 December 2001 | (34,946) | (17,388) | 42,458 | 9,876 | 0 | 0 |
| Cumulative interest rate sensitivity gap at 31 December 2001 | 36,344 | 50,591 | 121,918 | 145,136 | 24,927 | x |

Note: * Off balance assets and liabilities reflect amounts receivable and payable arising from interest rate derivative and derivatives for bonds and treasury bills.

Average interest rates as of 31 December 2002:

| % | CZK | USD | EUR |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with the CNB | 2.10 | 0.00 | 0.00 |
| Treasury bills and other bills eligible for refinancing | 2.84 | 0.00 | 0.00 |
| Amounts due from banks | 2.79 | 1.30 | 3.07 |
| Loans to customers | 6.57 | 4.92 | 5.99 |
| Interest earning securities | 8.00 | 3.18 | 7.65 |
| **Total assets** | **4.05** | **2.51** | **3.87** |
| **Total interest earning assets** | **4.53** | **2.55** | **3.90** |
| **Liabilities** | | | |
| Loans from the CNB | 0.00 | 0.00 | 8.23 |
| Amounts owed to banks | 2.78 | 1.84 | 2.95 |
| Amounts owed to customers | 1.50 | 0.65 | 1.59 |
| Certificated debt | 7.92 | 0.00 | 0.00 |
| Subordinated debt | 0.00 | 9.13 | 0.00 |
| **Total liabilities** | **1.58** | **3.13** | **1.51** |
| **Total interest bearing liabilities** | **1.86** | **3.19** | **1.67** |

Note: The above table sets out the average interest rates for December 2002 calculated as a weighted average for each asset and liability category.

### E. Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Management of the Group which complies with the CNB Regulation on banking liquidity management principles and covers the other needs/requirements of the Group in respect of liquidity risk management. Liquidity is monitored on a bank wide level, with the Market Book also having a stand-alone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group provides the Czech National Bank with a 'Summary of actual remaining maturities of assets and liabilities' and a 'Summary of estimated remaining maturity of assets and liabilities' on a monthly basis.

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date pursuant to CNB methodology. Those assets and liabilities that do not have a contractual maturity date are grouped together in the 'maturity undefined' or 'on demand' category. The 'on demand' category principally consists of all current accounts of banks and clients.

| CZK million | On demand to 7 days | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with the central bank | 10,190 | 58 | 0 | 0 | 0 | 4,260 | 14,508 |
| Amounts due from banks | 66,695 | 109,690 | 9,082 | 382 | 14,000 | 390 | 200,239 |
| Securities held for trading | 0 | 2,852 | 5,397 | 1,036 | 301 | 200 | 9,786 |
| Positive fair values of financial derivative transactions | 0 | 11 | 14 | 0 | 0 | 13,790 | 13,815 |
| Due from Česká konsolidační agentura | 1,239 | 0 | 1,305 | 32,896 | 0 | 0 | 35,440 |
| Loans to customers, net | 12,067 | 8,798 | 14,913 | 27,675 | 27,516 | 32,009 | 122,978 |
| Securities available for sale | 0 | 415 | 2,009 | 5,898 | 16,524 | 2,191 | 27,037 |
| Investments held to maturity | 0 | 13 | 125 | 105 | 0 | 0 | 243 |
| Prepayments, accrued income and other assets | 572 | 1,423 | 1,418 | 0 | 0 | 4,091 | 7,504 |
| Deferred tax asset | 0 | 0 | 0 | 0 | 0 | 905 | 905 |
| Investments in associates and unconsolidated subsidiaries | 0 | 0 | 0 | 0 | 0 | 1,643 | 1,643 |
| Tangible and intangible fixed assets, net | 0 | 0 | 0 | 0 | 0 | 11,994 | 11,994 |
| **Total assets** | **90,763** | **123,260** | **34,263** | **67,992** | **58,341** | **71,473** | **446,092** |
| **Liabilities** | | | | | | | |
| Amounts due to banks | 8,217 | 4,549 | 4,571 | 3,762 | 3,198 | 0 | 24,297 |
| Amounts due to customers | 261,299 | 49,504 | 21,280 | 9,466 | 159 | 0 | 341,708 |
| Negative fair values of financial derivative transactions | 0 | 14 | 34 | 5 | 0 | 6,078 | 6,131 |
| Certificated debt | 1 | 21 | 394 | 17,527 | 0 | 0 | 17,943 |
| Accruals, provisions and other liabilities | 3,536 | 1,547 | 8 | 0 | 0 | 7,596 | 12,687 |
| Income taxes payable | 0 | 0 | 2,840 | 0 | 0 | 0 | 2,840 |
| Deferred tax liability | 0 | 0 | 0 | 0 | 0 | 1,168 | 1,168 |
| Subordinated debt | 0 | 0 | 2 | 0 | 3,718 | 0 | 3,720 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 232 | 232 |
| Shareholders' equity | 0 | 0 | 0 | 0 | 0 | 35,366 | 35,366 |
| **Total liabilities** | **273,053** | **55,635** | **29,129** | **30,760** | **7,075** | **50,440** | **446,092** |
| **On balance sheet liquidity gap at 31 December 2002** | **(182,290)** | **67,625** | **5,134** | **37,232** | **51,266** | **21,033** | **0** |
| Off balance sheet assets * | 143 | 9,729 | 132,267 | 28,345 | 12,740 | 23,494 | 206,718 |
| Off balance sheet liabilities * | 0 | 112 | 98,640 | 9,321 | 1,145 | 1,007 | 110,225 |
| **Net off balance sheet liquidity gap at 31 December 2002** | **143** | **9,617** | **33,627** | **19,024** | **11,595** | **22,487** | **96,493** |
| Total assets at 31 December 2001 | 14,119 | 189,886 | 47,756 | 100,712 | 42,560 | 36,400 | 431,433 |
| Total liabilities at 31 December 2001 | 147,339 | 164,103 | 33,454 | 27,639 | 13,448 | 45,450 | 431,433 |
| Net on balance sheet liquidity gap at 31 December 2001 | (133,220) | 25,783 | 14,302 | 73,073 | 29,112 | (9,050) | 0 |
| Net off balance sheet liquidity gap at 31 December 2001 | (114,239) | 9,620 | 15,399 | 84,512 | 12,938 | (8,230) | 0 |

Note: * Off balance assets and liabilities include amounts receivable and payables arising from FX spot, forward and option contracts and receivables and payables under guarantees, letters of credit and committed facilities.

### F. Foreign exchange position

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within 'Other currencies.' Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the Czech National Bank established in respect of limits on open positions, the most significant tool for measuring the Bank's open foreign currency position involves monitoring the 'value at risk' limit on the foreign exchange exposure of the whole Group. In establishing the 'value at risk' the Group monitors its open foreign currency position in 13 currencies and offsets mutual correlations. The 'value at risk' limit is established such that the Group is unable to break the regulatory limits of the Czech National Bank without breaching the 'value at risk' limit. Further information about risk management is provided in Note B.

| CZK million | Czech crowns | EMU currencies | US dollars | Swiss Francs | Slovakian crowns | Other currencies | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash and balances with the central bank | 11,802 | 1,656 | 380 | 155 | 173 | 342 | 14,508 |
| Amounts due from banks | 167,264 | 16,988 | 14,012 | 73 | 1,266 | 636 | 200,239 |
| Securities held for trading | 9,070 | 0 | 0 | 0 | 463 | 253 | 9,786 |
| Positive fair values of financial derivative transactions | 13,790 | 0 | 0 | 0 | 25 | 0 | 13,815 |
| Due from Česká konsolidační agentura | 35,260 | 114 | 66 | 0 | 0 | 0 | 35,440 |
| Loans to customers, net | 109,570 | 6,263 | 5,417 | 309 | 1,398 | 21 | 122,978 |
| Securities available for sale | 16,530 | 36 | 10,471 | 0 | 0 | 0 | 27,037 |
| Investments held to maturity | 97 | 129 | 0 | 0 | 17 | 0 | 243 |
| Prepayments, accrued income and other assets | 6,978 | 313 | 178 | 0 | 9 | 26 | 7,504 |
| Deferred tax asset | 905 | 0 | 0 | 0 | 0 | 0 | 905 |
| Investments in associates and unconsolidated subsidiaries | 1,568 | 0 | 0 | 0 | 75 | 0 | 1,643 |
| Tangible and intangible fixed assets, net | 11,932 | 0 | 0 | 0 | 62 | 0 | 11,994 |
| **Total assets** | **384,766** | **25,499** | **30,524** | **537** | **3,488** | **1,278** | **446,092** |
| Liabilities | | | | | | | |
| Amounts due to banks | 17,080 | 730 | 4,780 | 4 | 1,586 | 117 | 24,297 |
| Amounts due to customers | 302,127 | 25,162 | 11,961 | 468 | 1,126 | 864 | 341,708 |
| Negative fair values of financial derivative transactions | 6,078 | 0 | 0 | 0 | 53 | 0 | 6,131 |
| Certificated debt | 17,943 | 0 | 0 | 0 | 0 | 0 | 17,943 |
| Accruals, provisions and other liabilities | 11,281 | 1,096 | 266 | 2 | 18 | 24 | 12,687 |
| Income taxes payable | 2,840 | 0 | 0 | 0 | 0 | 0 | 2,840 |
| Deferred tax liability | 1,162 | 0 | 0 | 0 | 6 | 0 | 1,168 |
| Subordinated debt | 0 | 0 | 3,720 | 0 | 0 | 0 | 3,720 |
| Minority interest | 232 | 0 | 0 | 0 | 0 | 0 | 232 |
| Shareholders' equity | 35,277 | 8 | 0 | 0 | 81 | 0 | 35,366 |
| **Total liabilities** | **394,020** | **26,996** | **20,727** | **474** | **2,870** | **1,005** | **446,092** |
| **Net FX position at 31 December 2002** | **(9,254)** | **(1,497)** | **9,797** | **63** | **618** | **273** | **0** |
| Off balance sheet assets * | 315,543 | 31,152 | 44,336 | 18 | 2,702 | 2,537 | 396,288 |
| Off balance sheet liabilities * | 303,732 | 29,300 | 54,105 | 4 | 3,002 | 2,761 | 392,904 |
| **Net off balance sheet FX position** | **11,811** | **1,852** | **(9,769)** | **14** | **(300)** | **(224)** | **3,384** |
| **Total net FX position at 31 December 2002** | **2,557** | **355** | **28** | **77** | **318** | **49** | **3,384** |
| Total assets at 31 December 2001 | 336,805 | 37,974 | 50,681 | 603 | 4,166 | 1,204 | 431,433 |
| Total liabilities at 31 December 2001 | 364,254 | 33,462 | 28,575 | 607 | 3,482 | 1,053 | 431,433 |
| Net FX position at 31 December 2001 | (27,449) | 4,512 | 22,106 | (4) | 684 | 151 | 0 |
| Off balance sheet net FX position at 31 December 2001 | 30,123 | (5,104) | (22,879) | (10) | (370) | (159) | 1,602 |
| Total net FX position at 31 December 2001 | 2,674 | (592) | (773) | (14) | 314 | (8) | 1,602 |

Note: * Off balance assets and liabilities include amounts receivable and payable arising from spot and forward transactions.

### G. Operating risk

The Group does not presently monitor and manage operating risk centrally. Operating risk is monitored at the level of organisational units. Pursuant to the anticipated introduction of a capital requirement in respect of operating risk and in an effort to improve the monitoring and management of operating risk, the Group is planning to monitor the risk centrally and put tools in place for measuring and managing operating risk.

### H. Legal risk

The Group regularly monitors and evaluates legal disputes filed against it. The Group categorises the estimated risk of loss in the disputes into three categories: low risk (below 50 percent), medium risk and high risk. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a reserve equal to the claimed amount in respect of all litigations, where it is named as a defendant and the likelihood of loss has been estimated to exceed 50 percent. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

### I. Estimated fair value of assets and liabilities of the Group

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

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

The carrying values of cash and balances with the central bank are generally deemed to approximate their fair value.

#### b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are calculated by discounting future cash flows using prevailing market rates.

#### c) Due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral. Provisions are not taken into consideration when calculating fair values.

#### d) Loans to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans and advances to customers approximates the carrying values as of the balance sheet date. Provisions are not taken into consideration when calculating fair values.

e) Amounts due to banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as of the balance sheet date. The fair value of term deposits at variable interest rates approximates their carrying values as of the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

f) Certificated debt

The fair value of certificated debt issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is equal to an estimate made by the Group.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value:

| CZK million | 2002 Carrying value | 2002 Fair value | 2001 Carrying value | 2001 Fair value |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and balances with the central bank | 14,508 | 14,508 | 18,361 | 18,361 |
| Amounts due from banks | 200,239 | 200,254 | 156,909 | 156,814 |
| Loans to customers, including loans to Česká konsolidační agentura, net | 158,418 | 166,217 | 186,446 | 188,524 |
| Investments held to maturity | 243 | 305 | 1,453 | 1,527 |
| Financial liabilities | | | | |
| Amounts due to banks | 24,297 | 24,352 | 30,918 | 30,921 |
| Amounts due to customers | 341,708 | 341,670 | 323,018 | 322,701 |
| Certificated debt | 17,943 | 19,214 | 27,492 | 28,488 |

## 39. Assets under management

As of 31 December 2002, the Group managed client assets in the amount of CZK 34,250 million (2001: CZK 33,242 million), of which no assets were from the Bank's subsidiaries (2001: assets of CZK 7,260 million of Penzijní Fond Komerční banky, a. s.).

## 40. Post balance sheet events

No significant events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

# Overview of Financial Results 1998 – 2002

| CZK million | Unconsolidated data | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|
| International Financial Reporting Standards (IFRS) | Net Interest Income | 12,447 | 12,989 | 12,287 | 11,947 | 14,939 |
| | Net Fees and Commissions | 8,320 | 8,394 | 7,181 | 4,350 | 4,627 |
| | Total Operating Income | 22,597 | 23,809 | 21,805 | 20,390 | 23,297 |
| | Total Operating Costs | (12,760) * | (15,065) * | (13,783) * | (12,770) | (11,870) |
| | Net Profit/(Loss) | 8,763 | 2,532 | (19) | (9,782) | (9,546) |
| | Total Assets | 439,753 | 421,720 | 402,205 | 390,122 | 422,084 |
| | Loans and Advances to Customers, net | 121,154 | 135,197 | 126,943 | 181,754 | 214,018 |
| | Amounts Due to Customers | 341,114 | 321,345 | 287,624 | 259,191 | 273,698 |
| | Total Shareholders' Equity | 33,758 | 23,598 | 20,211 | 17,776 | 20,458 |
| | Return on Average Equity, ROAE (%) | 30.56 | 11.56 | x | x | x |
| | Return on Average Assets, ROAA (%) | 2.03 | 0.61 | x | x | x |
| | Net Interest Margin (%) | 3.25 | 3.64 | 3.62 | 3.42 | 3.97 |
| | Cost/(Income) Ratio (%) | 56.47 | 63.27 | 63.21 | 62.63 | 50.95 |
| | Operating Costs on an Employee (CZK thousand) | (1,428) | (1,526) | (1,162) | (947) | (846) |
| | Net Profit on an Employee (CZK thousand) | 981 | 256 | x | x | x |
| | Total Assets on an Employee (CZK thousand) | 49,217 | 42,714 | 33,898 | 28,926 | 30,095 |
| Czech Accounting Standards (CAS**) | Net Interest Income | 12,614 | 13,565 | 12,344 | 11,915 | 15,099 |
| | Net Fees and Commissions | 6,232 | 5,981 | 4,422 | 4,350 | 4,627 |
| | Total Operating Costs | (11,705) | (12,066) | (11,022) | (11,039) | (11,315) |
| | Net Profit/(Loss) | 9,229 | 2,624 | (149) | (9,242) | (9,805) |
| | Total Assets | 445,982 | 429,659 | 407,558 | 439,110 | 487,319 |
| | Amounts Due From Customers | 163,806 | 193,774 | 133,977 | 183,644 | 218,025 |
| | Amounts Owed to Customers | 305,788 | 289,638 | 272,228 | 259,191 | 273,698 |
| | Total Shareholders' Equity | 33,804 | 23,668 | 20,034 | 17,826 | 20,015 |
| | Return on Average Equity, ROAE (%) | 32.12 | 12.01 | x | x | x |
| | Return on Average Assets, ROAA (%) | 2.11 | 0.63 | x | x | x |
| | Capital Adequacy, CNB (%) | 13.35 | 15.18 | 14.38 | 10.69 | 10.45 |
| | Tier 1, CNB | 22,138 | 19,951 | 20,100 | 15,084 | 18,908 |
| | Tier 2, CNB | 6,091 | 9,607 | 9,973 | 9,882 | 9,152 |
| | Tier 3, CNB | 0 | 0 | 0 | 0 | 0 |
| | Deductible Items From Tier 1 and Tier 2 | 1,896 | 1,387 | 1,322 | 1,994 | 1,476 |
| | Capital Requirement A | 15,164 | 15,071 | 15,424 | 17,193 | 20,356 |
| | Capital Requirement B | 638 | 688 | 573 | N/A | N/A |
| | Number of Employees (Average) | 8,935 | 9,873 | 11,865 | 13,487 | 14,025 |
| | Number of Points of Sale | 331 | 323 | 342 | 349 | 354 |

* Including restructuring costs.
** Results for 2002, 2001, 2000 according to the methodology effective in 2002.

# Legal Information

## Identification Details of the Company Entered in the Commercial Register

**(maintained with the Municipal Court in Prague, Section B, File No. 1360)**

| | |
|---|---|
| **Date of incorporation:** | 5 March 1992 |
| **Business name:** | Komerční banka, a. s. |
| **Registered office:** | Prague 1, Na Příkopě 33, building identification number 969, postcode 114 07 |
| **Identification number:** | 45317054 |
| **Legal form:** | public limited company |
| **Objects of business:** | the objects of the Bank's business are specified in sections 1 and 2 of Act No. 21/1992 Coll. on Banks |

### The Bank's objects of business are as follows:

a) accepting of deposits from the public
b) granting of loans
c) investing in securities on own account
d) financial leasing
e) payments and clearing system
f) issuing of payment instruments, such as payment cards, traveller's cheques
g) provision of guarantees
h) issuing of letters of credit
i) collection services
j) trading on its own account or on a client's account in:
- foreign currencies
- futures and options including foreign exchange and interest rate deals
- negotiable securities

k) participation in the issue of shares and provision of related services
l) financial brokerage
m) consulting services in business matters
n) administration of the client's securities on the account of the client, including consultancy (portfolio management)
o) custody and administration of securities or other valuables
p) acting as a depositary
q) foreign exchange operation (foreign exchange purchase)
r) providing banking information
s) rental of safe-deposit boxes
t) issuing of mortgage bonds under separate legislation

## Statutory Body – Board of Directors:

| | |
|---|---|
| **Chairman:** | Alexis Raymond Juan, date of birth 11 June 1943<br>Prague 1, Senovážné náměstí čp. 869/28<br>Date of entry into office: 5 October 2001<br>Member of the Board of Directors from: 5 October 2001<br>Person responsible for the performance of the activities of a brokerage house. |
| **Vice-Chairman:** | Guy Poupet, date of birth 5 January 1952<br>Prague 1, Břehová 8/208, 110 00<br>Date of entry into office: 9 October 2002<br>Member of the Board of Directors from: 25 June 2002 |
| **Member:** | Peter Palečka, birth number: 591103/6692<br>Černošice, Jahodová 1565, Prague-West District, 252 28<br>Member of the Board of Directors from: 5 October 2001 |
| **Member:** | Matúš Púll, birth number: 490625/214<br>Vrané nad Vltavou, Nad školkou 530, Prague-West District, 252 46<br>Date of entry into office: 5 October 2001 |
| **Member:** | Olivier Flourens, date of birth 1 July 1959<br>Prague 1, Ovocný trh 15, 110 00<br>Date of entry into office: 1 February 2003 |
| **Member:** | Philippe Rucheton, date of birth 9 September 1948<br>Prague 1, Břehová 8/208, 110 00<br>Date of entry into office: 2 May 2002 |

## Acting on behalf of the Bank:

The Board of Directors as the statutory body shall act on behalf of the Bank in all matters; action shall be taken either by all members of the Board of Directors jointly or by any two members jointly.
Signing on behalf of the Bank: either all members of the Board of Directors jointly or any two members of the Board jointly shall sign on behalf of the Bank.

## Supervisory Board:

| | |
|---|---|
| **Member:** | Petr Laube, birth number 490708/118<br>Prague 5, Košíře, Kvapilova 958/9<br>Date of entry into office: 8 October 2001 |
| **Member:** | Pavel Krejčí, birth number 631108/0644<br>Olomouc, Rolsberská 30, 772 00<br>Member of the Supervisory Board from: 27 May 2001 |

| | |
|---|---|
| Member: | Miroslava Šmídová, birth number 655506/0094<br>Pilsen, Žižkova 55, Pilsen-City, 320 15<br>Member of the Supervisory Board from: 27 May 2001 |
| Member: | Jan Kučera, birth number 511030/013<br>Náchod, Ovocná Str. 1576, 574 01<br>Member of the Supervisory Board from: 27 May 2001 |
| Member: | Jan Juchelka, birth number 710919/5148<br>Poděbrady, Jižní 1339, Nymburk, 290 01<br>Date of entry into office: 8 October 2001 |
| Member: | Didier Alix, date of birth 16 August 1946<br>14, bis Rue Raynouard, 75116 Paris, France<br>Date of entry into office: 8 October 2001 |
| Member: | Jean-Louis Mattei, date of birth 8 September 1947<br>24, Rue Pierre et Marie Curie, 75005 Paris, France<br>Date of entry into office: 8 October 2001 |
| Member: | Christian Achille Frederic Poirier, date of birth 30 November 1948<br>19, Rue Mademoiselle, 78000 Versailles, France<br>Date of entry into office: 8 October 2001 |
| Member: | Séverin Cabannes, date of birth 21 July 1958<br>14, Rue de Voisins, 78430 Louveciennes, France<br>Date of entry into office: 8 October 2001<br>Person responsible for the performance of the activities of a brokerage house. |

## Shares:

38,009,852 listed ordinary bearer shares of a nominal value of CZK 500 each

## Registered capital:

CZK 19,004,926,000

## Of which paid up:

100%

## Other facts:

- Manner of the Company's establishment: in accordance with the privatisation project for the state financial institution Komerční banka, with its registered office at Na Příkopech 28, Prague, approved by Resolution of the Government of the Czech and Slovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole promoter, established the public limited company styled Komerční banka, a. s., based on a Founding Deed of 3 March 1992 under section 172 of the Commercial Code.
- An amendment to the Articles of Association adopted by the General Meeting held on 16 July 1992 has been registered.
- An amendment to the Articles of Association adopted by the General Meeting held on 8 November 1993 has been registered.
- An amendment to the Articles of Association adopted by the General Meeting held on 29 April 1994 has been registered.
- An amendment to the Articles of Association adopted by the General Meeting held on 6 May 1996 has been registered.

# Information on Komerční banka Securities

## Bonds of Komerční banka (unredeemed)

### List of bonds issued by Komerční banka

| No. | Bonds | Issue Date<br>Maturity Date | Volume in CZK<br>Number | Interest<br>Rate | Pay-out of<br>Interest |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. | 1997/2004 | 8. 8. 1997<br>8. 8. 2004 | 8,000,000,000<br>800,000 | zero coupon | – |
| 2. | HZL 1999/2004<br>ISIN: CZ0002000110 | 13. 5. 1999<br>13. 5. 2004 | 4,000,000,000<br>400,000 | 8.125% p. a. | Yearly |
| 3. | HZL 1999/2004<br>ISIN: CZ0002000102 | 15. 6. 1999<br>15. 6. 2004 | 1,500,000,000<br>150,000 | 8.0% p. a. | Yearly |
| 4. | 1999/2004<br>ISIN: CZ0003700528 | 10. 9. 1999<br>10. 9. 2004 | 5,000,000,000<br>500,000 | 8.0% p. a. | Yearly |
| 5. | HZL 2000/2007<br>ISIN: CZ0002000151 | 15. 9. 2000<br>15. 9. 2007 | 1,100,000,000<br>11,000 | 6month<br>PRIBOR + 3.50 p. p. | Half-yearly |

HZL = mortgage bond

All bonds are issued in CZK, are registered (apart from bonds without interest coupons), made out to the bearer in dematerialised form, and have a nominal value of CZK 10,000, except for the last issue of mortgage bonds (ISIN: CZ0002000151), which have a nominal value of CZK 100,000.

Bonds are direct, non-guaranteed, unconditional and unsubordinated obligations on the part of the issuer and are compatible with all existing non-guaranteed, unconditional and unsubordinated obligations on the part of the issuer pertaining to bonds already issued. Owners of mortgage bonds have a pre-emption right for the satisfaction of their receivables from mortgage bonds pursuant to section 32 sub-section 3 of the Bankruptcy and Composition Act, as amended.

Unredeemed bonds were issued in the relevant years in accordance with the Bonds Act and Securities Act, as amended. Issue of bonds were licensed by a decision of the Ministry of Finance or the Securities Commission. Rights and obligations pertaining to the bonds are governed by and interpreted in accordance with the legal regulations of the Czech Republic.

### Public trading

All unredeemed bonds (apart from bonds without interest coupons, which are not publicly tradable) are accepted for trading on the free market of the Prague Stock Exchange.
The bonds' transferability is unlimited. Bonds are transferred upon registration of their ownership in the account of the new owner at the Securities Centre.

### Rights vested in the bonds

Bonds bear interest from the date of issue (see column 3 of the table) and payment of the yield is made at half-yearly or yearly intervals (see column 6 of the table). The yield on the securities is paid by the issuer – Komerční banka, a. s., registered office Na Příkopě 33, Prague 1, through its Headquarters and branches.
The bonds will be paid by Komerční banka, a. s., Na Příkopě 33, Prague 1, through the Bank's Headquarters and branches in a lump-sum of the nominal value on the maturity date (see column 3 of the table). In accordance with the standards of the Prague Stock Exchange, bond transferability is always suspended at the Securities Centre before bond repayment. Should the redemption or interest payment date fall on a non-business day at the place of payment the payment shall be made on the next business day. No interest shall be calculated for the intervening period. Payments shall be made to the owners of the bonds in cash or by transfer to the owner's account, as they request.
A request for payment of the bond, including interest, by the owner of the bond in the event of non-compliance with the obligations stated in the relevant conditions of issue for the particular bond must be made in writing and must be delivered to the issuer's registered office.
Rights attaching to the bonds (interest, redemption of the nominal value) are time barred following ten years from the redemption date.

## Komerční banka Shares

| | |
|---|---|
| Type: | ordinary share |
| Form: | bearer share |
| Representation: | dematerialised |
| Total value of the issue: | CZK 19,004,926,000 |
| Total number of shares: | 38,009,852 |
| Nominal value of 1 share: | CZK 500 |
| ISIN: | CZ0008019106 |

### Public trading

Komerční banka shares are publicly traded on Czech capital markets – the Prague Stock Exchange and RM-SYSTÉM (the organiser of the non-exchange market of securities). For further information about trading in shares, share prices and dividends please refer to the chapter Komerční banka Share Price.

### Rights vested in the shares

Rights pertaining to ordinary shares are derived from Act No. 513/1991 Coll., the Commercial Code, as amended; these shares have no special rights attached.
Shareholders' voting rights are governed by the nominal value of the shares. Each CZK 500 of the nominal value of the share is equivalent to one vote.
Shareholders are entitled to a share of the Bank's profit (dividend) approved for distribution by the Annual General Meeting based upon the Bank's financial result and in accordance with the conditions stated in the generally binding legal regulations. Dividend rights belong to shareholders who own shares 30 calendar days following the date of the Annual General Meeting that approved the payment of the dividend. If the Board of Directors decided to register the rights to the payment of a dividend in the records of dematerialised securities, those shareholders shall have a right to a dividend whose right is registered in the records of

dematerialised securities 30 calendar days after the date of the Annual General Meeting that approved the dividend. The dividend is payable 30 days after the decisive day on which the shareholder's right arose, in accordance with the previous sentence of this provision. The right to the payment of the dividend is time-barred from four years after its date of payment. In the event of the shareholder's death his legal inheritor shall be authorised to exercise all rights attached to the shares.
On the Bank's liquidation and dissolution the means of liquidation is governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the Annual General Meeting in the proportion of the nominal value of the shares held by the Bank's shareholders.

### Acquisition of own shares by Komerční banka

The specific rules for the acquisition of the Bank's own shares are covered by Sections 161 to 161f of the Commercial Code, which regulates exact conditions for the acquisition of a company's own shares.
In the first half of 2002 Komerční banka was, according to a resolution of the General Meeting of 20 June 2001, entitled to acquire its own ordinary shares, i.e. up to 1,900,000 shares (approximately 5% of the Bank's share capital) for a maximum period of 18 months. The reasons for the acquisition of the Bank's own shares were as follows – market making, the share motivation programme and capital adequacy management of the Bank.
The General Meeting of Komerční banka, held on 26 June 2002, decreased the maximum amount of the Bank's acquired own shares to 2% of the share capital, i.e. 760,197 shares. Market making and capital adequacy management remained the reasons for the acquisition by the Bank of its own shares.

### Information on the acquisition by Komerční banka of its own shares

| | Number/ nominal value as at 1 January 2002 (pcs/CZK th.) | Proportion of share capital as at 1 January 2002 (%) | Number/ nominal value as at 31 December 2002 (pcs/CZK th.) | Proportion of share capital as at 31 December 2002 (%) |
|---|---|---|---|---|
| Trading portfolio | 12,000 | 0.032 | 6,000 | 0.016 |
| | 6,000 | | 3,000 | |
| Portfolio for sale | 163,100 | 0.429 | 10,890 | 0.029 |
| | 81,550 | | 5,445 | |

| | Number/ nominal value of acquired shares (pcs/CZK th.) | Number/ nominal value of sold shares (pcs/CZK th.) | Sum of purchase prices of acquired shares (CZK th.) | Max. and min. acquisition price (CZK) | Sum of selling prices of sold shares (CZK th.) | Max. and min. selling price (CZK) |
|---|---|---|---|---|---|---|
| Trading portfolio | 2,992,793 | 2,998,793 | 4,638,886 | 1,018 | 4,635,900 | 1,015 |
| | 1,496,397 | 1,499,397 | | 2,149 | | 2,154 |
| Portfolio for sale | 10,890 | 163,100 | 21,061 | 1,914 | 287,841 | 1,870 |
| | 5,445 | 81,550 | | 1,941 | | 2,020 |

## Komerční banka Global depository receips

Global depository receipts (GDRs) were issued to shares of Komerční banka administered by The Bank of New York ADR Department (shares held on its proprietary account in the Securities Centre). GDRs bear, in principle, the same rights as shares of the Bank and they may be re-converted into shares. One GDR represents one third of a share of the Bank.
The GDR programme was launched at the end of June 1995 by the issue of the first block – Komerční banka entered the international capital markets, and the second issue was in 1996.
From the start, the GDRs have been traded on the London Stock Exchange and in the PORTAL system (the market of the National Association of Securities Dealers, Inc.) in the US. The number of GDRs issued as at 31 December 2002 was 7,150,023.

### United Kingdom tax considerations

The following comments below are of a general nature and are based on current United Kingdom ("U.K.") tax law and U.K. Inland Revenue practice as at the date of this document, both of which are subject to change at any time, possibly with retrospective effect. These comments represent a summary of the principal U.K. tax consequences to a holder, who or which is resident or ordinarily resident in the U.K. or is carrying on a trade or business in the U.K. through a branch or agency (collectively, "U.K. Holders"), of the ownership of GDRs or shares delivered upon surrender of GDRs. It deals only with GDRs or shares held as capital assets and does not deal with certain special classes of holders, such as dealers.

### Taxation of dividends and other distributions

Distributions, including cash dividends paid with respect to the underlying shares to a U.K. Holder, will generally be taxed as income of the U.K. Holder. Any Czech withholding tax paid in respect of such distributions to a U.K. Holder will generally be available as a credit against any U.K. tax liability of such U.K. Holder (and not recoverable from the Czech authorities) in respect of such distribution.
Where dividends are paid by or through a U.K. paying agent or collected by a U.K. collecting agent, such agent may, in certain cases, be required to supply to the U.K. Inland Revenue details of the payment and certain details relating to the U.K. Holder (including the U.K. Holder's name and address). U.K. Inland Revenue published practice indicates that the U.K. Inland Revenue will not exercise its power to obtain information where such dividends are paid or received on or before 5 April 2003. Any information obtained may, in certain circumstances, be provided by the U.K. Inland Revenue to the tax authorities of other jurisdictions.

### Sale or other disposition of GDRs

A U.K. Holder of GDRs may, depending on individual circumstances and subject to any available exemption or relief, be subjected to United Kingdom tax on a disposition or deemed disposition of a GDR (or of shares acquired upon surrender of GDRs). Relief may be available for any Czech tax paid on such a disposal. There should be no liability for United Kingdom stamp duty or stamp duty reserve tax on a disposition of a GDR provided the disposition is undertaken by delivery.

### Surrender of GDRs

Upon surrender of a GDR to the depositary in return for a share, no liability for U.K. taxation should arise provided the GDR holder is the beneficial owner of the Shares. Generally, the Shares acquired from the depositary will be acquired at a base cost equal to the cost to the U.K. Holder of acquiring the GDR surrendered.

EACH PROSPECTIVE PURCHASER SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISER AS TO THE SPECIFIC TAX CONSEQUENCES OF AN INVESTMENT IN THE GDRS.

## Emoluments and Benefits of the Management and Statutory Bodies

See Notes to the Unconsolidated Financial Statements according to CAS, Note No. 29 – Related parties, paragraph Remuneration and equity compensation scheme of the members of the Management and Supervisory Boards.

## Number of Shares Held by the Management and Statutory Bodies

| Number of shares | as at 31 December 2002 |
|---|---|
| Board of Directors | 13,350 |
| Executive Committee (excluding members of the Board of Directors) | 10 |
| Supervisory Board | 5,354 |

## Description of Real Estate Owned by the Bank

Komerční banka owns immovables used mostly for the business activities for which it is licensed under existing legislation.

| CAS, CZK thousand | | As at 31 December 2002 | |
|---|---|---|---|
| | Purchase price | Accumulated depreciation and provisions | Net book value |
| Land | 382,147 | 0 | 382,147 |
| Buildings | 12,041,023 | 4,175,636 | 7,865,387 |

| | As at 31 December 2002 | |
|---|---|---|
| | Number | Area in m² |
| Land | 505 | 347,789 |
| Buildings | 449 | 423,053 |

See also Notes to the Unconsolidated Financial Statements according to CAS, Note No. 17 – Tangible and intangible fixed assets.

## Investments

### Investments made by the company

#### Financial investments

| CAS, CZK million | as at 31 December 2002 | as at 31 December 2001 |
|---|---|---|
| Bonds | 26,140 | 31,669 |
| Shares | 2,262 | 4,326 |
| Equity investments in subsidiary and associated undertakings | 1,588 | 1,223 |
| **Total** | **29,990** | **37,218** |

Main investments – excluding financial investments *

| CAS, CZK million | as at 31 December 2002 | as at 31 December 2001 |
|---|---|---|
| Tangible fixed assets | 9,486 | 10,138 |
| Intangible fixed assets | 1,097 | 1,124 |
| **Total tangible and intangible fixed assets** | **10,583** | **11,262** |
| **Tangible fixed assets held under finance leases** | **417** | **526** |

* Net book value of investments.

See also Notes to the Unconsolidated Financial Statements according to CAS, Note No. 17 – Tangible and intangible fixed assets.
The Bank realised all the investments in the Czech Republic.

### The main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for the period 2003 – 2005 amount to approximately CZK 9 billion. The biggest portion of the total amount (around 60%) represent investments related to IT. The Bank's investment plans may change in the future depending on developments in related conditions, i.e. the actual investments may differ from the plan.

## Legal Disputes

### Legal Disputes in which the Bank acts as a Plaintiff

In 2002, a total of 117 significant court proceedings were conducted which were launched in 2002 and in the previous years. The proceedings had or could have material implications for the Bank's financial results. The total amount involved in the court proceedings is CZK 6.8 billion, of which CZK 5.8 billion are receivables transferred to the Remedial Management Division.
Of these 117 court proceedings, 48 are actions for payment and 69 bankruptcy proceedings, and the total amount of court disputes is CZK 3.4 billion, and for bankruptcies CZK 3.5 billion.
With respect to its overall financial situation, Komerční banka, a. s., regards as material all disputes involving amounts exceeding CZK 10 million and all bankruptcy proceedings for amounts exceeding CZK 50 million. The reason for the higher threshold for bankruptcy proceedings is the fact that the average yield of bankruptcies in the practice of Komerční banka, a. s., does not exceed 20% – the outcomes of bankruptcy proceedings usually have less significant implications on the Bank's figures than legal disputes over similar amounts.

### Legal Disputes in which the Bank acts as a Defendant

In 2002, the total amount of disputes in which the Bank acts as a defendant totalled CZK 2.6 billion, of which 16.8% of these disputes can be considered a potential risk for the Bank.
As at 31 December 2002, the Bank reviewed court proceedings conducted against the Bank. Based on a detailed analysis of the inherent risk, the Bank created a reserve of CZK 458 million.
See also Notes to the Unconsolidated Financial Statements according to CAS, Note no. 28 – Commitments and contingent liabilities, paragraph Legal disputes.

# Additional Information

## Licences and Trademarks

If using any third party rights which are governed by the relevant statutory provisions on protection of intellectual property or intangible industrial property rights, Komerční banka rigorously monitors the fulfilment of all statutory requirements. Any such rights are used only in accordance with valid laws and international conventions, or under a relevant licence, as appropriate.
Furthermore, Komerční banka owns (has registered) approximately forty trademarks entered (registered) in the public register of trademarks maintained by the Industrial Property Office of the Czech Republic, which pertain in particular to the Bank's products. KB has also registered (or applied for registration of) trademarks in the Slovak Republic.

## Expenses on Research and Development

In 2002, Komerční banka, a. s. spent a total of CZK 7,503 thousand (2001: CZK 309,290 thousand) on research and development including mainly expenses on the following studies and projects – Implementation of Windows 2000, ATM location study, New reports distribution model study.

## Loan Commitments

See Notes to the Unconsolidated Financial Statements according to CAS, note No. 19 – Amounts owed to banks and note No. 20 – Amounts owed to customers.

# Report on Relations Among Related Entities

hereinafter the "Report on Relations"

Komerční banka, a. s., having its registered office at Na Příkopě 33/969, Prague 1, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies, Section B, File 1360, maintained at the Municipal Court in Prague (hereinafter referred to as "KB" or the "Bank"), is part of a business group (holding company) in which the following relations between KB and the controlling entity and further between KB and entities controlled by the same controlling entities (hereinafter referred to as **"related entities"**) exist.
This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2002, that is, from 1 January 2002 to 31 December 2002 (hereinafter referred to as the "reporting period").

## I. Introduction

In the period from 1 January 2002 to 31 December 2002, KB was a member of the Société Générale S. A. Group, having its registered office address at 29, BLD Hausmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter "SG" or "SG Paris").
During the course of the reporting period, the Bank entered into arrangements with the following related parties:

### (a) SG's Head Office and branch offices

| Company | Registered office address | SG's share of capital % |
|---|---|---|
| SG Paris | 29, BLD Hausmann, 75009 Paris, France | – |
| SG London | Primrose Street, EC4ADD, London, United Kingdom | – |
| SG New York | 1221 Avenue of the Americas, 10020, New York, US | – |
| SG Tokyo | 12-32 Akasaka 1 - Chrome, 107-6015 Tokyo, Japan | – |
| SG Milan | Via Olona 2, 20123 Milan, Italy | – |
| SG Zurich | Sighlguai 253, 8031 Zurich, Switzerland | – |
| SG Warsaw | PO Box 54, Marszalkovska 111, Warsaw, Poland | – |
| SG Frankfurt | Postfach 101935, Mainzer Landstrasse 36, D60325, Frankfurt am Main, Germany | – |
| SG Brussels | Place du Champs de Mars, 1050 Brussels, Belgium | – |
| SG Vienna | Postfach 82, Prinz Eugen Strasse 32, A1041, Vienna, Austria | – |
| SG's Prague branch * | Pobřežní 3, Prague 8 | – |

* SG's Prague branch has been dormant since 1 April 2002, and solely administered financial assets and liabilities that have not been included in the Business Purchase Agreement entered into between SG and KB. SG's Prague branch is presently preparing to discontinue its activities and operations (liquidation) which is expected to take place during the first six months of 2003. SG Paris continues to report SG's Prague branch as a member of the SG Group.

## (b) SG's subsidiaries

| Company | Registered office address | SG's share of capital (%) |
|---|---|---|
| Barep | 3, Rue Lafayette, 75009 Paris France | 100 |
| SGBT Luxemburg | 11-13 Avenue Emile Reuter L-2420 Luxemburg, Luxemburg | 100 |
| SG Canada | 1501 Av. Mc Gill College, Montreal, Quebec, Canada | 100 |
| SGAM Finance | 2 Place de la Coupole, 92078 Paris La Defense, France | 100 |
| Franfinance | Jungmannova 34, 111 21 Prague, Czech Republic | 100 |
| SG Ruegg Bank | Post Fach 8039, 65 Talstrasse, Zurich, Switzerland | 100 |
| SKB Banka | Ajdovcina 4, 1513 Ljubljana, Slovenia | 95.7 |
| Sogecap | 12-46 Bd. A. Martin, 45000 Orleans, France | 100 |
| N.S.G.B. | PO Box 2664, 10 rue Tallat Harb Street, Le Caire, Egypt | 54.3 |
| B.R.P.D. | 4 Doamnei Street, 700 16 Bucharest 3, Rumania | 51 |
| Fimat International banque SA (UK) | SG House, 41 Tower Hill, London, United Kingdom | 100 |

## (c) Entities controlled by KB

| Company | Registered office address | SG's share of capital (%) |
|---|---|---|
| ALL IN, a. s., v likvidaci | Truhlářská 18/1118, 110 00 Prague 1 | 100 |
| ALL IN REAL ESTATE LEASING a. s. [2] | Truhlářská 18/1118, 110 00 Prague 1 | 100 |
| A-TRADE, a. s. [1] | Truhlářská 18/1118, 110 00 Prague 1 | 100 |
| AIREL IMMO, s.r.o. [2] | V jámě 1/699, 110 00 Prague 1 | 100 |
| INVESTIČNÍ KAPITÁLOVÁ SPOLEČNOST KB, a. s. | Dlouhá 34/713, 110 15 Prague 1 | 100 |
| PENZIJNÍ FOND KOMERČNÍ BANKY, a. s. | Lucemburská 7/1170, 130 00 Prague 3 | 100 |
| KOMERČNÍ BANKA BRATISLAVA, a. s. | Medená 6, 811 02 Bratislava, Slovakia | 100 |
| KOMERČNÍ POJIŠŤOVNA, a. s. | Jindřišská 17, 111 21 Prague 1 | 100 |
| KOMERCNI FINANCE, B.V. | Drentestaete, Drentestraat 24, 1083 HK Amsterdam, Netherlands | 100 |
| FACTORING KB, a. s. | Na Poříčí 36, 110 02 Prague 1 | 100 |
| MUZO, a. s. | V Olšinách 80/626, 100 00 Prague 10 | 49.9 |
| ASIS, a. s. | Nám. OSN 1/844, 190 02 Prague 9 | 100 |
| REFLEXIM, a. s. | Bolzanova 3, 110 00 Prague 1 | 100 |
| Vodní stavby, a. s., v likvidaci [3] | Dělnická 12, Prague 7 | 77.18 |
| B - Stav Brno, a. s., v likvidaci | Kopečná 20, Brno | 59.13 [4] |
| INTERBAU Pardubice, a. s., v konkurzu | Staré Hradiště, Fáblovka 406, 533 52, District of Pardubice | 100 [4] |

[1] KB's direct holding of 75%, KB's indirect holding of 25% (ALL IN – 17.9% and ALL IN REAL ESTATE LEASING – 7.1%).

[2] Kb's indirect holding.

[3] As at 31 December 2002, KB held 77.18% of the issued share capital of Vodní stavby, a. s. v likvidaci. Pursuant to Section 183 b (4) (a) (2) of the Commercial Code, KB does not exercise voting rights, which are equivalent to a 57.22% shareholding attached to these shares, nor will KB pass the voting rights to other parties.

[4] KB's indirect holding through Vodní stavby - akciová společnost v likvidaci.

## II. Implemented Relations

KB functions as a bank pursuant to the Banking Act (21/1992 Coll., as amended) and as such all of its transactions and financial services are subject to banking secrecy restrictions in terms of Section 38 of the Act referred to above. It is for this reason that the banking transactions implemented with related parties are stated solely in aggregate form. On materiality grounds, arrangements of a non-banking nature are mentioned in this report only if they exceed CZK 1 million on an individual basis. Arrangements with related parties below the CZK 1 million threshold that were of a non-banking nature related to the following areas:

### a) Performance provided by KB:

– Agreements on the lease and sublease of non-residential premises, motor vehicles and other movable assets;
– Licence agreements on the use of KB's trade mark;
– Agreements on cooperation on the use of KB's telephone banking with related entities;
– Agreements on the provision of information technology services;
– Agreements on the sale of movable assets (KB's inventory held in stock);
– Agreements on training for the employees of related parties.

### b) Performance received by KB:

– Agreements on the lease and sublease of non-residential premises;
– Agreements on the purchase and servicing of information technologies.

In addition, KB has entered into high-level agreements on cooperation with individual subsidiaries which define general cooperation and are further specified in individual agreements.
All the transactions arising from the arrangements or contracts referred to above were conducted on an arm's length basis and KB incurred no damage as a result of these transactions.
Amounts denominated in foreign currencies were re-translated using the Czech National Bank rate of exchange ruling as at 31 December 2002.
Arrangements exceeding the CZK 1 million threshold are summarised in the following sections.

## A. Description of transactions of Komerční banka, a. s. within the Société Générale S. A. Group in the period from 1 January 2002 to 31 December 2002, except for entities controlled by KB

**1. Banking transactions**
During the reporting period, KB entered into the following contractual agreements with related entities that were subject to banking secrecy restrictions:

1.1. Deposit arrangements
In the deposit segment, KB entered into arrangements with 24 branches and subsidiaries of the SG Group. At the reporting-period end, KB maintained a total of 34 accounts opened, of which 20 were loro accounts for branches and subsidiaries of the SG Group and 14 were current accounts opened for non-banking entities of the SG Group. During the reporting period, KB placed an average amount of CZK 350 million on nostro accounts maintained with SG, the average overdraft (borrowing) on nostro accounts was CZK 3 million. SG placed an average amount of CZK 446 million on loro accounts with KB, the average overdraft (borrowing) on loro accounts was CZK 213 million. During the reporting period, current accounts of non-banking subsidiaries

of SG maintained with KB had an average credit balance of CZK 202 million. KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, SG London, SG Tokyo, SG New York and SG Frankfurt. Only one subsidiary of SG held term deposits with KB. The aggregate balance of deposits was CZK 139 million as of the reporting period-end.

### 1.2. Loan arrangements

In the loan segment, KB provided two clients with loans during the reporting period. The total number of issued loans was 36 at an aggregate amount of CZK 575 million.
In the area of foreign trade financing, KB issued 5 guarantees amounting to CZK 44 million to the client's order. As of 31 December 2002, the aggregate number of payment guarantees (including documentary collection) issued for the benefit of the SG Group's branches and subsidiaries was 11 in the amount of CZK 12 million and the number of non-payment guarantees was 13 in the amount of CZK 7 million.

### 1.3. Investment banking arrangements

In the investment banking segment, KB carried out transactions with 6 branches and subsidiaries of the SG Group. The total number of transactions was 2,465 at an aggregate amount of CZK 391,552 million. Of this balance:

a) 1,815 transactions were **foreign currency transactions**. The aggregate balance of these transactions was CZK 67,653 million;
b) 34 transactions were **interest rate derivatives** totalling CZK 22,199 million;
c) **Option contracts with foreign currency instruments** amounted to 139 with the total balance of receivables and payables being CZK 726 million and CZK 2,864 million, respectively;
d) **Depository transactions** – KB implemented 434 transactions in the amount of CZK 279,370 million;
e) **Securities held for trading** – a total of 43 transactions (purchases and sales) amounting to CZK 18,741 million entered into with SG branches.

KB holds no equity investment in the SG Group entities, the only exception being equity holdings in the companies controlled by KB.
In addition to the transactions referred to above, KB, under contractual agreements and on an arm's length basis, provided related parties with a broad range of banking services related to payment cards, use of safety deposit boxes, mediation of purchases and sales of securities, payments of proceeds from securities, advisory services and electronic banking.
All of the banking products were provided under standard terms and conditions, according to KB's tariff, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

## 2. Other arrangements

### 2.1. Transactions on the basis of concluded contracts

Performance received by Komerční banka, a. s.

| Name | Contractual party | Execution date | Effective date | Performance description and amount | Payment (CZK million) |
|---|---|---|---|---|---|
| Agreements on the temporary relocation of staff | SG Paris<br>Sogecap<br>Franfinance | 2001 – 2002 | 2001 – 2002 | Relocation of staff to KB | 97 |
| Agreement on the provision of management and advisory services | SG Paris | 2002 | 2002 | Provision of management and advisory services | 158 |
| Agreement on the provision of advisory services | Sogecap | 10 October 2001 | 10 October 2001 | Provision of advisory services | 4 |

### 2.2. Other contracts (performance)

| Name | Contractual party | Execution date | Effective date | Performance description and amount | Payment (CZK million) |
|---|---|---|---|---|---|
| Business Purchase Agreement | SG Paris | 28 March 2002 | 1 April 2002 | Sale of the SG Prague branch to KB | 1,030 |
| Insurance agreements | SG Paris | 2001 | 2001 | Insurance of professional liability and banking insurance | 13 |
| Purchase of bonds issued by SG | SG Paris | 20 December 2002 | 20 December 2002 | Debt securities (Callable Instalment Notes) issued under the Euro Medium Term Note Programme Maturity at 20 December 2012 | 14,000 |

### 2.3. Performance provided under other legal acts

On 26 August 2002, KB paid out an amount of CZK 244,061,075.50 (payments of dividends from the Bank's shares) to SG Paris pursuant to a decision of the General Meeting of Shareholders dated 26 June 2002.
The arrangements arising from the above legal acts, supplies or agreements were implemented on an arm's length basis under conditions customary in business or interbank transactions and KB incurred no damage as a result of these arrangements.

## B. Description of transactions with entities controlled by Komerční banka in the period from 1 January 2002 to 31 December 2002

### 1. Banking transactions

During the reporting period, KB entered into the following arrangements with the entities controlled by it that are subject to banking secrecy restrictions:

### 1.1. Deposit arrangements

During the course of the reporting period, KB entered into 87 business transactions with 13 clients on the basis of contractual agreements, of which 13 clients carried out 81 business transactions on current accounts at an aggregate amount of CZK 323 million as of the reporting period-end, and 4 clients executed 6 business transactions on term deposits at an aggregate amount of CZK 477 million as of the reporting period-end. In addition, KB conducted cross-border payment transactions through a nostro account maintained with Komerční banka Bratislava, a. s.
Under the transactions with controlled entities, KB has recorded a subordinate debt to Komercni Finance, B.V.

### 1.2. Investment banking arrangements

**In the investment banking segment, KB carried out transactions with 9 related entities. The total number of transactions was 4,476 at an aggregate amount of CZK 715,548 million. Of this balance:**

a) 603 transactions were **foreign currency transactions**. The aggregate balance of these transactions was CZK 38,103 million;
b) 8 transactions were **interest rate derivatives totalling** CZK 1,625 million;
c) **Depository transactions** – KB implemented 3,782 transactions in the amount of CZK 661,546 million;
d) **Securities held for trading** – a total of 63 transactions (purchases and sales) amounting to 8,756 million;
e) **Treasury bills** – a total of 20 transactions amounting to CZK 5,518 million.

In addition to the agreements listed above, KB has been providing asset management and depository services on the basis of contractual agreements.

### 1.3. Loan arrangements

In the loan segment, KB entered into 51 transactions with 8 clients at an aggregate amount of CZK 9,512 million, of which:

a) Provided **debit balances on current accounts** totalled CZK 0.03 million and represented 10 transactions with 5 clients;
b) **Overdraft facilities** totalled CZK 46.1 million and represented 5 transactions with 3 clients;
c) **Loans** were issued to 4 clients. 32 loans were provided at an aggregate amount of CZK 2,686 million;
d) During the reporting period, a total of 3 payment **guarantees** were issued to 2 clients amounting to CZK 6,778 million, and one non-payment guarantee to one client amounting to CZK 2 million. Payment guarantees also include a guarantee of CZK 6,028 million provided in respect of subordinated debts issued by Komercni Finance, B.V.

All of the banking products were provided under standard terms and conditions, according to KB's tariff, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

## 2. Other arrangements

During the reporting period, KB entered into the following arrangements with controlled entities which were predominantly implemented on the basis of agreements or other legal acts:

### 2.1. Transactions on the basis of concluded contracts

2.1.1. Performance rendered by Komerční banka, a. s.

| Name | Contractual party | Execution date | Effective date | Performance description and amount | Payment (CZK million) |
|---|---|---|---|---|---|
| Agreements on the lease and sub-lease of non-residential premises, including the provision of services and lease and sub-lease of movable assets | ASIS | 2002 | 2002 | Sub-lease of office and non-residential premises, parking places, and other movable assets | 25 |
| Agreement on communication services | ASIS | 2002 | 2002 | Mail services and lease of data lines | 2 |
| Licence agreement including amendment thereto | Factoring KB | 8. 12. 1999 | 8. 12. 1999 | Use of KB's trade mark | 4 |
| Sub-agreement on cooperation including amendments thereto | Factoring KB | 2001 – 2002 | 2001 – 2002 | Mediation of the sale of factoring services | 2 |
| Licence agreements | IKS KB | 1998 – 1999 | 1998 – 1999 | Use of KB's trade mark | 6 |
| Mandate agreements on the sale or delivery of products of Investiční kapitálová společnost KB, a. s., including amendments thereto | IKS KB | 2001 – 2002 | 2001 – 2002 | Arrangement of the sale of securities (and related services) of the funds administered by IKS KB, a.s | 129 |
| Agreements on the sublease of non-residential premises at KB's branches, including services | Komerční pojišťovna | 1997 – 2002 | 1997 – 2002 | Lease and sublease of non-residential premises | 13 |
| Licence agreement | Komerční pojišťovna | 14. 12. 1998 | 14. 12. 1998 | Use of KB's trade mark | 3 |
| Agreement on commissions in respect of services rendered to Komerční pojišťovna by KB, including amendments thereto | Komerční pojišťovna | 1997 – 2002 | 1997 – 2002 | Commission for mediation services | 15 |
| Licence agreement | Penzijní fond KB | 30. 9. 1999 | 30. 9. 1999 | Use of KB's trade mark | 6 |
| Agreement on the use of KB's distribution network, including amendments thereto | Penzijní fond KB | 30. 12. 1994 | 1. 1. 1995 | Mutual cooperation between KB and Penzijní fond KB in respect of the sale of retirement benefit policies | 10 |
| Agreements on the lease and sub-lease of non-residential premises, including the provision of services and lease of movable assets | REFLEXIM | 2001 | 2001 | Lease of real estate and furniture and fixtures | 29 |
| Agreements on the use of cars | REFLEXIM | 30. 4. 2002 | 30. 4. 2002 | Use of cars | 6 |
| Use of KB's data networks for Reflexim's purposes | REFLEXIM | 2002 | 2002 | Use of KB's data communication | 2 |

2.1.2. Performance received by Komerční banka a. s.

| Name | Contractual party | Execution date | Effective date | Performance description and amount | Payment (CZK million) |
|---|---|---|---|---|---|
| Finance lease agreement | All In Real Estate Leasing, a. s. | 22. 12. 1994 | 1. 1. 1995 | Lease of KB's real estate | 17 |
| High-level agreement on the provision of IT services and other services above the framework of the agreement | ASIS | 2001 – 2002 | 2001 – 2002 | Provision of servicing, support and administration services related to IT | 170 |
| Agreement on cooperation in providing insurance in respect of payment cards | Komerční pojišťovna | 1998 | 1998 | Payment card insurance | 79 |
| Agreement on collective insurance in respect of consumer loans (issued to KB's clients) including an amendment thereto [1)] | Komerční pojišťovna | 27. 12. 2000 | 27. 12. 2000 | Insurance of individuals with whom a loan agreement was concluded in regard to specified risks | 18 |
| Agreements on property insurance and liability insurance [1)] | Komerční pojišťovna | 2002 | 2002 | Insurance of property including disaster insurance, liability insurance, etc. | 7 |
| Mandatory third party car liability insurance (MTPL) [1)] | Komerční pojišťovna | 2002 | 2002 | MTPL policies were transferred to Kooperativa with effect from 1 October 2002 | 2 |
| Agreement on the authorisation of cash and cash-free payment card transactions (including amendments thereto) | MUZO | 7. 3. 1994 | 7. 3. 1994 | Authorisation services, batch processing, other operating services | 186 |
| Agreement on the implementation of the payment card local clearing project including amendments thereto | MUZO | 1997 – 2002 | 1997 – 2002 | Local clearing | 3 |
| Agreement on the provision of services under the pilot operation of the Card Management System and amendment thereto | MUZO | 2001 – 2002 | 2001 – 2002 | Provision of system means and cooperation in reviewing the backups of the Credit Management System | 10 |
| Purchase agreements including amendments thereto | MUZO | 1998 – 2002 | 1998 – 2002 | Supply of payment terminals, imprinters, software, disconnection and de-installation of EFT POS, overnight safe deposit boxes, etc. | 84 |
| Servicing agreements, including amendments thereto and other related services | MUZO | 1998 – 2002 | 1998 – 2002 | Support and maintenance of the Card Management System, servicing of ATMs, technical assembly work, etc. | 51 |
| Administration of real estate under the high-level agreement on the provision of support services and re-allocation of staff and follow-up agreements | REFLEXIM | 2001 – 2002 | 2001 – 2002 | A comprehensive set of services involving the administration of KB's movable and immovable assets and the provision of related services | 202 |

[1)] In respect of these insurance contracts, KB collected 105 insurance claims at an aggregate amount of CZK 5 million.

## 2.2. Performance received under other legal acts

KB received the following performance:

| Legal grounds | Paid by | Performance date | Amount (CZK) | Note |
|---|---|---|---|---|
| Dividend | Penzijní fond Komerční banky, a. s. | 14 June 2002 | 13,500,000 | For the year ended 31 December 2001 |
| Dividend | MUZO, a. s. | 9 August 2002 | 51,337,740 | For the year ended 31 December 2001 |
| Dividend | Investiční kapitálová společnost KB, a. s. | 30 July 2002 | 22,950,000 | For the year ended 31 December 2001 |

### 2.3. Other legal acts and measures

Komerční pojišťovna, a. s.

During the year ended 31 December 2002, KB, as the sole shareholder, twice increased the share capital balance of Komerční pojišťovna, a. s. ("KP").

On 11 December 2001, pursuant to a decision of the sole shareholder, acting in the capacity as a General Meeting, KP's share capital was increased by CZK 105,000,000 through the subscription for a new 1,050 shares with a nominal value of CZK 100,000 at an issue rate of CZK 288,750,000 for all newly subscribed shares. The change referred to above was recorded in the Register of Companies on 3 June 2002 and took legal effect on 5 June 2002.

On 11 June 2002, pursuant to a decision of the sole shareholder, acting in the capacity as a General Meeting, KP's share capital was additionally increased by CZK 197,000,000 through the subscription for a new 1,970 shares with a nominal value of CZK 100,000, at an issue rate of CZK 669,941,000 for all newly subscribed shares. The change referred to above was recorded in the Register of Companies on 9 October 2002 and took legal effect on 14 October 2002.

Following the completion of the two capital increases, KP's issued share capital amounted to CZK 752,000,000.

KB, as the sole shareholder of KP, acting in the capacity as a General Meeting, made a decision on 1 February 2002 for KP to discontinue immediately its efforts aimed at entering into and renewing industrial and business insurance policies.

KB, as the sole shareholder of KP, acting in the capacity as a General Meeting, made a decision on 27 May 2002 to revise KP's strategic plan, and sell KP's third party motor liability insurance and car accident insurance portfolios.

A-TRADE

Pursuant to a decision made by the shareholders of A-TRADE, s.r.o. at an Extraordinary General Meeting held on 20 December 2001, the transformation of A-TRADE from a limited liability company into a public limited company was approved. This change was recorded in the Register of Companies on 1 April 2002.

Pursuant to a Share Purchase Agreement dated 22 August 2002, the existent shareholders of A-TRADE disposed of all ordinary shares of A-TRADE.

The arrangements arising from the above legal acts, supplies or agreements were implemented on an arm's length basis and KB incurred no damage as a result of these arrangements.

## III. Conclusion

The Board of Directors of Komerční banka, a. s. has reviewed all arrangements put in place between Komerční banka, a. s. and the related parties during the reporting period and states that Komerční banka, a. s. incurred no damage as a result of any contractual arrangements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

Prague, 8 April 2003

Signed on behalf of the Board of Directors:

**Alexis Juan**
Chairman of the Board of Directors and CEO

**Philippe Rucheton**
Member of the Board of Directors and CFO

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