

1998  
KOMERČNÍ BANKA, A. S.  
ANNUAL REPORT

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K O M E R Č N Í   B A N K A ,   A .   S .

A N N U A L   R E P O R T



Komerční banka, a. s.

Na Příkopě 33, P. O. Box 839, 114 07 Praha 1, Czech Republic

Telephone: (420 2) 224 32111, Facsimile: (420 2) 2424 3020, (420 2) 2423 0777, Telex: (420 2) 121 831,

Reuter's: KOBA, B, C, SWIFT: KOMB CZ PP

e-mail: [group\\_strategy@koba.cz](mailto:group_strategy@koba.cz), <http://www.koba.cz>

Contact for Investors: Investor Relations Department, Telephone: (420 2) 224 32155, (420 2) 224 32156,

Facsimile: (420 2) 2422 9340, e-mail: [group\\_strategy@koba.cz](mailto:group_strategy@koba.cz)

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# KOMERČNÍ BANKA'S FINANCIAL HIGHLIGHTS

in CZK million

	CAS			IAS		
	1998	1997	1996	1998	1997	1996
FINANCIAL RESULTS						
Net Interest Income	15,099	15,773	14,406	14,939	15,891	14,534
Net Fees and Commissions	4,627	4,358	4,136	4,627	4,358	4,136
Total Net Income	28,304	24,673	23,507	23,297	22,575	21,746
Operating Costs	(11,315)	(11,048)	(10,389)	(10,424)	(9,868)	(10,082)
Net Profit/(Loss)	(9,805)	261	5,361	(9,546)	528	5,299
Market Price of Share on the Prague Stock Exchange (in CZK as at 31 December)	369	1,305	2,266	369	1,305	2,266
BALANCE SHEET						
Total Assets	487,319	510,225	460,881	422,084	466,517	445,954
Loans to Clients	218,025	257,980	262,021	214,018	249,989	236,779
Deposits of Clients	273,698	296,882	280,457	273,698	296,882	280,457
Bonds Issued	35,001	41,002	31,003	31,646	37,046	33,938
Total Shareholders' Equity	20,015	29,908	31,648	20,458	30,005	31,456
Share Capital	9,502	9,502	9,502	9,502	9,502	9,502
RATIOS						
Return on Average Assets (ROAA)	x	0.05 %	1.24 %	x	0.12 %	1.28 %
Return on Average Equity (ROAE)	x	0.85 %	17.97 %	x	1.72 %	17.81 %
Capital Adequacy	10.45 %	10.03 %	8.74 %	9.56 %	8.31 %	10.68 %
Net Interest Margin	3.51 %	3.85 %	3.91 %	3.97 %	4.19 %	4.15 %
Cost/Income Ratio	44.65 %	48.27 %	50.99 %	50.95 %	50.24 %	53.18 %
Net Fees and Commissions/Total Net Income	16.35 %	17.66 %	17.59 %	19.86 %	19.30 %	19.02 %
Loans under Special Review/Total Loans	28.65 %	25.99 %	23.99 %	28.65 %	25.99 %	25.95 %
Assets per Share (in CZK)	25,642	26,847	24,251	22,209	24,547	23,465
OTHER DATA						
Average Number of Employees	14,025	14,843	15,855	14,025	14,843	15,855
Number of Outlets	354	364	370	354	364	370
Number of ATMs	277	262	249	277	262	249
Number of EPOS	1,727	886	574	1,727	886	574

CAS - Czech Accounting Standards

IAS - International Accounting Standards

RATING	Short-term	Long-term
Moody's	Prime-2	Baa2
Standard & Poor's	B	BB
Fitch IBCA	F2	BBB

## INTRODUCTION BY THE CHAIRMAN AND CHIEF EXECUTIVE

From the point of view both of the national economy and of Czech society as a whole the year 1998 proved in many respects a point of juncture. The same could also be said to apply to Komerční banka. The Bank had to deal with the inability of clients to repay loans caused by the recession while at the same time having to operate in an increasingly competitive environment.

In the middle of the year shareholders expressed their confidence in the new management at the Annual General Meeting. The new Board of Directors assumed office at a time of ongoing recession which could not fail to manifest itself in the financial situation of clients and consequently in the results of the Bank. The measure of the Czech National Bank compelling banks to make additional provisions for loss loans collateralized by real estate exacerbated the situation. The Bank's management, in pursuit of its policy of full transparency towards shareholders, clients and the general public, decided to implement the impact of the measure in advance, which affected the half-yearly results. This was the reason for the Bank recording an accounting loss. Nevertheless, the fulfilment of the Board's promise that there would be no further deterioration of the loss was itself no small achievement.

Fortunately, I can say that Komerční banka, thanks to the unfailing quality of its services and its new product policy, maintained its position on the market and achieved corresponding business results. In 1998 it succeeded in creating the largest operating profit in its history, a consequence also of the Bank's drive to reduce costs. Even after inclusion of the accounting loss to the shareholders' equity Komerční banka amply fulfilled the requirements for capital adequacy both under BIS and under the regulations of the Czech National Bank. The conservative credit procedure and the more stringent criteria applied to the evaluation of clients' business plans admittedly led to a fall in client loans and thus in total assets. However, they also reflect the Bank's strategy of placing the quality of loans before quantity. The management is convinced that this conservative approach will enable the Bank in time to solve the problems of the loan portfolio quality originated in the past. We shall use all our resources and available means to solve these problems and to ensure that the Bank's results are not burdened by them in the future. The year 1998 also saw Komerční banka enter into a transaction with Credit Suisse First Boston which allowed for the creation of provisions covering risk from part of the problem assets to be spread over time.

Whilst addressing the problems of the loan portfolio quality the Bank will continue to develop its business activities in order to maximize effectively client satisfaction. As well as the large and promising corporate entities, the Bank is focusing increasingly upon private individuals. Through the newly-created V. I. P. Private Banking Department the Bank offers specialized private banking services, including advisory services for domestic and foreign investments. The Bank will continue to expand its existing range of products and services in electronic banking, consumer and mortgage loans, deposit products and other products offered by its large Financial Group. In order to improve services for companies and financial institutions we are introducing the possibility of trading in foreign currency securities and are expanding our already wide range of products provided in euro. In the first half of 1999 we will complete the Bank's extensive preparations for changes relating to the year 2000.

For Komerční banka 1998 was a difficult year, although due to its unquestioned strength, and its proactive and flexible approach to changing external conditions the Bank remains one of the pillars of the Czech banking sector. We are convinced that privatization of the remaining state holding, for which we are assiduously preparing, will open new doors and bring the Bank yet further into the ambit of the world banking community.



JAN KOLLERT

## BOARD OF DIRECTORS

### JAN KOLLERT, CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE

Born 1950, graduated from the University of Economics, Prague and the Law Faculty of Charles University. He joined Československá obchodní banka in 1973. From 1974 to 1990 he worked in the foreign trade company Fincom and, after its merger, in Transakta Praha, a foreign trade company. Between 1990 and 1992 he was the Deputy Minister of Foreign Trade of the Czech and Slovak Federal Republic. From 1992 he worked for HYPO-BANK CZ and in 1995 he became Executive Chairman of the Board of Directors. On 19 June 1998 he became Chief Executive of Komerční banka. Since 16 July 1998 he has been a member of the Board of Directors and on 29 July was elected its Chairman.

### PETR BUDINSKÝ, MEMBER OF THE BOARD OF DIRECTORS AND DEPUTY CHIEF EXECUTIVE

Born 1960, graduated from the Faculty of Physics and Mathematics of Charles University. Between 1984 and 1994 he was employed as an assistant professor at the Czech Technical University in Prague. On 2 July 1993 he was appointed to the Supervisory Board of Komerční banka and since 11 May 1995 he has been a member of the Board and Deputy Chief Executive.

### TOMÁŠ DOLEŽAL, MEMBER OF THE BOARD OF DIRECTORS AND DEPUTY CHIEF EXECUTIVE

Born 1957, graduated from the University of Economics, Prague. He has worked in banking since 1981, at first in the Prague 1 branch of the Czechoslovak State Bank, then in the General Institute for the Czech Socialist Republic. He has worked in Komerční banka since 1990 as a section manager, deputy department manager, department manager and from 1 November 1993 as General Director of the Payment Services Division. He has been a member of the Board of Directors and Deputy Chief Executive since 5 May 1995.

### JAROSLAV MAREŠ, MEMBER OF THE BOARD OF DIRECTORS AND DEPUTY CHIEF EXECUTIVE

Born 1957, graduated from the University of Agriculture, Prague. He has worked in banking since 1981, at first in the Cheb branch of the Czechoslovak State Bank and from 1989 in the General Institute for the Czech Socialist Republic. In Komerční banka he has been a department manager and General Director of the Payment Services Division. He has been a member of the Board since 2 July 1993 and Deputy Chief Executive since 1 November 1993.

### VLADIMÍR ŠULC, MEMBER OF THE BOARD OF DIRECTORS AND DEPUTY CHIEF EXECUTIVE

Born 1963, graduated from the University of Economics, Prague. He joined the loan department of the Czechoslovak State Bank in 1986. Between 1989 and 1991 he was a senior lecturer in his alma mater. From 1991 to 1994 he worked in the joint-stock company Pragobanka. Between 1994 and 1997 he occupied the post of Chairman of the Banking Council and Chief Executive of Konsolidační banka. Afterwards he returned to the University of Economics, Prague as a senior lecturer. Mr. Šulc has been a member of the Board of Directors of Komerční banka and Deputy Chief Executive since 18 June 1998.

### LADISLAV VINICKÝ, MEMBER OF THE BOARD OF DIRECTORS AND DEPUTY CHIEF EXECUTIVE

Born 1959, graduated from the University of Agriculture, Prague. Between 1985 and 1990 he was employed by Transporta Chrudim. From 1990 to 1991 he worked in the Federal Price Agency which was later incorporated into the Federal Ministry of Finance. In 1992 and 1993 he headed the International Department of Česká banka. From April 1993 to August 1998 he was manager of the Capital Markets Department of HYPO-BANK CZ. He has been a member of the Board of Directors of Komerční banka and Deputy Chief Executive since 3 September 1998.

Until 18 June 1998

### RICHARD SALZMANN, CHIEF EXECUTIVE OF KOMERČNÍ BANKA

(UNTIL 31 MARCH 1998 CHAIRMAN OF THE BOARD OF  
DIRECTORS OF KOMERČNÍ BANKA)

### KAREL BEDNÁŘ, VICE-CHAIRMAN OF THE BOARD OF DIRECTORS AND SENIOR DEPUTY CHIEF EXECUTIVE

### BOŘIVOJ PRAŽÁK, MEMBER OF THE BOARD OF DIRECTORS AND DEPUTY CHIEF EXECUTIVE

### LUBOMÍR ŠTĚPÁNÍK, MEMBER OF THE BOARD OF DIRECTORS AND DEPUTY CHIEF EXECUTIVE

BOARD OF DIRECTORS



JAN KOLLERT



PETR BUDINSKÝ



TOMÁŠ DOLEŽAL



JAROSLAV MAREŠ



VLADIMÍR ŠULC



LADISLAV VINICKÝ



## SUPERVISORY BOARD

KAREL KOPP, CHAIRMAN OF THE SUPERVISORY BOARD (SINCE 24 NOVEMBER 1998)

PETR ČERMÁK, VICE-CHAIRMAN OF THE SUPERVISORY BOARD

MIROSLAV BARTOŇ, MEMBER OF THE SUPERVISORY BOARD (SINCE 24 NOVEMBER 1998)

MILOSLAV FIEDLER, MEMBER OF THE SUPERVISORY BOARD (SINCE 24 NOVEMBER 1998)

JARMILA HANÁKOVÁ<sup>\*)</sup>, MEMBER OF THE SUPERVISORY BOARD

JAN HANOUSEK, MEMBER OF THE SUPERVISORY BOARD

MARIE KLUCOVÁ<sup>\*)</sup>, MEMBER OF THE SUPERVISORY BOARD

EVŽEN KOČENDA, MEMBER OF THE SUPERVISORY BOARD

ANTONÍN KOLÁČEK<sup>\*)</sup>, MEMBER OF THE SUPERVISORY BOARD

KAREL MALÝ, MEMBER OF THE SUPERVISORY BOARD (SINCE 24 NOVEMBER 1998)

PAVEL PAFKO<sup>\*)</sup>, MEMBER OF THE SUPERVISORY BOARD

RADEK POKORNÝ, MEMBER OF THE SUPERVISORY BOARD (SINCE 24 NOVEMBER 1998)

KAREL DYBA, MEMBER OF THE SUPERVISORY BOARD (UNTIL 18 JUNE 1998)

MICHAL FRANKL, MEMBER OF THE SUPERVISORY BOARD

(FROM 18 JUNE 1998 - WITH EFFECT FROM 22 JUNE 1998 - TO 24 NOVEMBER 1998)

JAN KLAK, MEMBER OF THE SUPERVISORY BOARD (UNTIL 3 JUNE 1998)

PETR KOTÁB, MEMBER OF THE SUPERVISORY BOARD (UNTIL 24 NOVEMBER 1998)

TOMÁŠ PROCHÁZKA, CHAIRMAN OF THE SUPERVISORY BOARD (UNTIL 24 NOVEMBER 1998)

LUBOŠ ŘEŽÁBEK, MEMBER OF THE SUPERVISORY BOARD (UNTIL 24 NOVEMBER 1998)

JAN STRÁSKÝ, MEMBER OF THE SUPERVISORY BOARD

(FROM 18 JUNE 1998 - WITH EFFECT FROM 22 JUNE 1998 - TO 24 NOVEMBER 1998)

<sup>\*)</sup> Elected by Komerční banka's employees

## SHAREHOLDER STRUCTURE

The number of shares of Komerční banka did not change in 1998 and there are still 19,004,926 shares issued against the Bank's share capital. However, the number and the structure of shareholders changed. The share ownership has slightly concentrated, nevertheless the shares are still held by large number of owners. The number of shareholders decreased slightly, falling by approximately 1,200 against the end of 1997 to almost 79 thousand owners.

The proportion of shares owned by foreign investors dropped to 19.34 %. Shares in the form of GDRs (Global Depositary Receipts) administered by the Bank of New York ADR Department and traded on the London and Frankfurt stock exchanges represent 10.75 % of share capital of Komerční banka. The majority of shares are thus still held by domestic shareholders. The proportion of share capital held by domestic investors grew by 2.7 percentage points against the end of 1997 to 80.67 % of which the majority - 70.23 % - is held by corporate entities.

As concerns the legal status of the Bank's owners, institutional investors, both domestic and foreign, still form a clear majority. Despite a fall of 3.40 percentage points institutional investors own 89.10 % of the Bank's shares. The proportion of private individuals (domestic and foreign) in the share capital rose to 10.90 % in 1998.

### SHAREHOLDER STRUCTURE

Statement from Securities Register as at 31 December 1998		Proportion of total shareholders	Proportion of share capital
<b>Number of shareholders</b>	<b>78,794</b>	<b>100.00 %</b>	<b>100.00 %</b>
of which: corporate entities	436	0.55 %	89.10 %
private individuals	78,358	99.45 %	10.90 %
<b>Corporate entities</b>	<b>436</b>	<b>100.00 %</b>	<b>89.10 %</b>
of which: from the Czech Republic	366	83.94 %	70.23 %
from other countries	70	16.06 %	18.87 %
<b>Private individuals</b>	<b>78,358</b>	<b>100.00 %</b>	<b>10.90 %</b>
of which: from the Czech Republic	71,674	91.47 %	10.43 %
from other countries	6,684	8.53 %	0.47 %

### MAJOR SHAREHOLDERS OF KOMERČNÍ BANKA WITH OVER 1 % OF SHARE CAPITAL

Fond národního majetku ČR	48.74 %
Bank of New York ADR Department <sup>1)</sup>	10.75 %
Restituční investiční fond ČR	3.52 %
Česká pojišťovna, a. s.	2.90 %
Istrofin Global Investor Limited	2.79 %
Rentiérský investiční fond, a. s.	1.70 %
Investiční privatizační fond KB, a. s.	1.45 %
P. I. F., a. s. - 1. privatizační investiční fond, a. s.	1.27 %
Bank Austria AG	1.06 %

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

At the Annual General Meeting of Komerční banka, convened on 18 June 1998, the shareholders approved the financial statements for 1997, reporting profit after tax amounting to CZK 261 million. Of this, CZK 106 million was allocated according to the decision of the Annual General Meeting to the social fund and CZK 155 million to other reserve funds. No payment of dividends or emoluments for 1997 was proposed. The shareholders were informed of the principles of the financial plan for 1998 and approved the report of the Board of Directors on the business activities and the state of assets of the Bank. Also approved was the acquisition by the Bank of its own shares to the extent of a maximum 570,147 shares, an amendment to the Statute, the amount of remuneration to the Board of Directors and the Supervisory Board for the year 1998 and an amendment to the share incentive scheme approved by the Annual General Meeting held in 1997.

The shareholders also gave their consent for Goldman Sachs, the company chosen by the Government of the Czech Republic to act as its adviser on the privatization of Komerční banka, to provide confidential information disclosed to it by Komerční banka to other entities participating in the privatization process provided all relevant confidentiality agreements be concluded between Goldman Sachs and the entities in question.

The Annual General Meeting was informed by Mr. Richard Salzmänn of his resignation from the position of Chief Executive. Earlier, Mr. Salzmänn had resigned from his position as Chairman of the Board of Directors of the Bank on 31 March 1998 as a consequence of the legal incompatibility of the office with his functioning in the Senate of the Czech Republic. The Annual General Meeting recalled members of the Board Karel Bednář, Petr Budinský, Tomáš Doležal, Jaroslav Mareš, Bořivoj Pražák and Lubomír Štěpáník and member of the Supervisory Board Karel Dyba and elected members of the Board Petr Budinský, Tomáš Doležal, Jan Kollert, Jaroslav Mareš and Vladimír Šulc and members of the Supervisory Board Michal Frankl and Jan Stráský. The election of Jan Kollert became effective on 16 July 1998 and that of Michal Frankl and Jan Stráský on 22 June 1998. In July, Jan Kollert was elected Chairman of the Board of Directors of Komerční banka.

An Extraordinary General Meeting of Komerční banka, held on 24 November 1998, was convened in compliance with Section 193 of the Commercial Code in relation to the accounting loss reported by the Bank for the first half-year of 1998. The shareholders approved the measures proposed in respect of the loss and also decided on an increase in the share capital of CZK 129,059 thousand through the subscription of new bearer shares with the nominal value of CZK 500 per share. The issue price would be paid by non-cash stock in the form of real estate owned by Fond národního majetku ČR (the National Property Fund of the Czech Republic) in line with the privatization project of Komerční banka, state financial institution. To this end the shareholders approved an application for the public trading of the above issue of 258,118 new shares. Upon the registration of the increase into the Commercial Register the share of National Property Fund of the Czech Republic in the share capital will rise from 48.7 % to 49.4 %.

The Extraordinary General Meeting further approved changes in the Supervisory Board. Michal Frankl, Petr Kotáb, Tomáš Procházka, Luboš Řežábek and Jan Stráský were recalled, while Miroslav Bartoň, Miloslav Fiedler, Karel Kopp, Karel Malý and Radek Pokorný were elected to the Supervisory Board.



# tradition

PERSONAL APPROACH AND DEVELOPMENT OF TRADITIONALLY HIGH-QUALITY SERVICES  
HAVE ALWAYS BEEN THE PILLARS OF THE BANK'S RELATIONS WITH ITS CLIENTS.



## REPORT BY KOMERČNÍ BANKA'S BOARD OF DIRECTORS

### GENERAL RESULTS (CAS)

The year 1998 was a difficult one from an economic standpoint. The Czech economy stagnated, the exchange rate of the koruna in the opinion of most analysts was overvalued and in general the legal environment saw no substantial changes. Early parliamentary elections were held in May, giving rise to periods of instability both before and after polling. All these factors affected Komerční banka's results to some extent. However, notwithstanding the difficult macro and micro-economic factors the Bank achieved results with which it has every reason to be pleased.

The Bank continued its programme of rationalisation and stringent cost control. This enabled it to reduce general operating costs in real terms by over 8 %. Due to the fact that revenues in 1998 also showed favourable results, the cost/income ratio over the year reached a very positive 44.6 %. This figure is well below the 54 % limit set by the Bank.

The above mentioned macro-economic factors obviously put a strain on the loan portfolio both in respect of quantity and quality. Overall, the 1998 accounting period saw the volume of total loans fall by 15.5 % to CZK 218.0 billion. Despite the ongoing recession in the Czech economy and generally limited loan expansion, Komerční banka - even after taking into account a reduction of loans in absolute terms - maintained its share of 21 % of the loan market. Liability management was also affected by loan development. Due to the reduced need for funds and restricted potential for their generation, particularly in the corporate sector, there was an inter-year fall of 7.8 % in the volume of client deposits. However, Komerční banka's share of the deposit market remained above 21 %. A natural consequence of the procedures on both sides of the balance sheet was a reduction in total assets of 4.5 % to CZK 487.3 billion.

Komerční banka continued to adapt its interest rates on deposit and loan products to those prevailing on the interbank market. Net interest margin as at the end of 1998 was 3.51 %, which in comparison with 1997 represents a fall of 0.34 of a percentage point. This reduction corresponds to developments in market interest rates, which from the second half of 1998 fell gradually, and accords with the principles and expectations on which Komerční banka bases its interest rate policy.

Improving the quality of the loan portfolio remained a priority for the Bank in 1998, attention being focused upon the elimination of loss loans and the overall stabilization of the loan portfolio. The reduction in the amount of loss loans was achieved by the proactive approach of the Bank to the sale of its receivables and collateralized real estate, and particularly through the substantial writing off of loss receivables to the off-balance sheet, with the possibility of their recovery at a later date. Receivables written off in 1998 amounted to CZK 18 billion. The scope for these operations was created by the Bank's continuing to increase provisions and reserves for loans. The balance of provisions and reserves was also affected by the Bank's compliance with the relevant sections of regulation no. 193/98 Coll. of the Czech National Bank requiring banks to replace gradually the value of real estate collateral securing loss loans with provisions by the year 2000. As a result of the above, Komerční banka reported an accounting loss of CZK 9.8 billion under the methodology of Czech banks as at 31 December 1998.

## CZECH ECONOMY IN 1998

The Czech economy experienced a classic recession throughout 1998. After growing by only 1 % in 1997, GDP fell by 2.7 % in 1998. The main factor of the GDP decrease was the downturn experienced by most of the components of domestic demand, i. e. household consumption, government consumption and investment in fixed capital. The fall in household consumption in particular was much greater than expected, with the increase in uncertainty leading households to place greater emphasis on saving. The favourable development of foreign demand, particularly in the first half of the year, did not compensate for the fall in domestic demand.

Economic development in 1998 showed that the main effects of the restrictive monetary and fiscal policy introduced in 1997 manifested themselves with a delay of almost one year. The fall in domestic demand was felt particularly severely in the construction, retail and numerous service sectors, and in the fourth quarter of 1998 in the processing industry. Real income throughout most of the year fell and its very mild rise at the end of 1998 was mainly due to the sharp fall in inflation. Unemployment rose throughout the year to reach 7.5 % in December 1998.

On the other hand, several favourable economic trends were recorded in 1998. The balance of payments deficit was substantially reduced. The trade balance deficit for 1998 was CZK 80 billion, which is 47 % less than in 1997 (CZK 151 billion). The deficit on current account also showed a dramatic improvement. From making up 6 % of GDP in 1997 it fell to approximately 1.7 % at the end of 1998. In industry the ongoing rise in labour productivity exceeded the rise in real wages. This led to stagnation or a fall in unit wage costs. Continuing restructuring is evidenced not only by the rise in unemployment but also by the rising proportion of goods with higher added value in exports (engineering products and industrial consumer goods make up almost 55 % of exports whereas at the beginning of the transition they constituted approximately 40 %).

The year 1998 also saw a marked slow-down in inflation, particularly in the second half of the year. Net inflation fell over the year from almost 8 % to 1.7 % in December 1998 (hence significantly below the lower limit of the band set by the Czech National Bank), while overall inter-year inflation in December 1998 stood at 6.8 %. External factors (imported disinflation) also played a role in reducing inflation. However, their effect was not as great as that of the fall-off in domestic demand. The sharp fall in inflation (6.6 percentage points for consumer prices as a whole) meant that despite the cumulative reduction of the Czech National Bank nominal interest rates from the second half of 1998 by 5.3 percentage points the CNB policy remained a restrictive one, albeit to a lesser degree.

The economic recession was reflected in the significant deterioration of the financial situation of Czech companies, which in turn impacted negatively on the development of the loan portfolios of the major Czech banks. Both the share of classified loans as a whole, and particularly loss loans, showed an increase. Moreover, in mid-1998 the Czech National Bank introduced stricter rules relating to consolidated balance sheets together with a measure requiring additional provisions to cover collateralized real estate. Both these factors compelled Czech banks to allocate a substantial part of their operating profits to additional provisions and reserves, which resulted in some of them recording an accounting loss for 1998. At the same time the banks avoided riskier loan business, leading to a cessation, and at the end of the year even to a slight fall, in the growth of loans despite significantly lower interest rates. The basic nature of monetary policy as well as the policy of the banks are unlikely to change in the first half of 1999.

## BUSINESS POLICY

**A YEAR OF CHANGES** Komerční banka underwent many changes in the course of 1998, the most significant being the changes in the composition of the Board of Directors and the Supervisory Board following the Annual General Meeting in June. The Bank's newly elected management embarked upon a new strategy aimed at enhancing the Bank's profile on the market and fostering still further the client orientation of the Bank. Closely associated with this are changes in the internal organizational structure of the Bank. These were initiated in 1998 and will continue next year.

One of the organizational changes already completed was the creation of the V. I. P. Private Banking Department servicing clients with freely disposable liquid funds in excess of CZK 1 million. The aim of the newly created Department is the expansion and improvement of services for V. I. P. clients, particularly in the area of foreign investment consultancy and comprehensive private banking together with a personal approach and the highest attention to confidentiality.

**INTERNATIONAL ACTIVITIES** Undoubtedly the most important activity of Komerční banka on international financial markets in 1998 was the successful May issue of subordinated debt worth a total of USD 200 million maturing on 15 May 2008 and with possible premature redemption on the part of the Bank after five years. Income was fixed at 9 % p. a. for the first five years, thereafter at 5 percentage points above six-month LIBOR.

In view of the interest of foreign investors in Komerční banka's Global Depository Receipts (GDRs), the Bank of New York ADR Department, which acts as a depository, requested at the end of 1997 the Czech National Bank to raise the permitted limit. In January 1998 the level was raised to the present level of 18 % of the share capital of the Bank. As a result of the turbulence on world capital markets and the consequent impact upon the Czech capital market but also upon the confidence of foreign investors in emerging markets, the proportion of GDRs in the Bank's share capital hovered between 10.74 % and 15 %. As at 31 December 1998 the proportion was 10.75 % of the share capital of Komerční banka.

**PERSONNEL** The Bank continued to reduce manning levels, the average number of employees falling in 1998 by 818 to 14,025 persons.

In October 1998 the RAC project (Rationalization of Activities at Komerční banka Head Office) was launched. This aims to remove all duplication and inefficient procedures following a thorough analysis of the current organizational structure of the Bank's Head Office. The project will result inter alia in the reduction of staff numbers at Head Office.

The training system was adapted throughout the year to meet the needs of the Bank. In view of the changes taking place both inside and outside the Bank, 1999 will see the launch of innovation training, particularly concerning the introduction of the single European currency and preparation for the entry of the Czech Republic into the European Union.



**TECHNICAL SUPPORT** The main priority of Komerční banka in this area was the preparation of all information systems for the year 2000. By the end of 1998 70 % of mission-critical systems had been prepared and the remainder will be ready by 31 March 1999. At the same time systems are being tested in order to be fully compatible by 30 June 1999. The same deadline also applies to the completion of preparations in the Bank's subsidiaries.

In other fields the Bank has concentrated on optimizing the technical infrastructure and operation of the information system for payments with the aim of increasing its stability, efficiency and accessibility. It has also focused on the development of electronic banking products, particularly in relation to the launch of operations at the Telephone Banking Centre.

**INVESTMENT IN BUILDINGS AND EQUIPMENT** In 1998 Komerční banka spent CZK 1.7 billion on investments. More than half of this sum represents investment in the development and renewal of programmable technology and software, while about a third was directed to the building and reconstruction of the branch network and Head Office.

For 1999 the Bank is planning to invest almost CZK 2 billion, the greater part of which will again go towards the development of the information system, products and projects, expanding the offer of services to clients.

in CZK million

Year	Total investments	of which			
		branch network	programmable technology		other
			HW	SW	
1997	2,592	895	392	136	1,169
1998	1,716	448	587	338	343

Note: Data from the internal records of the Bank.

**SPONSORSHIP** The financial support of humanitarian and social projects forms an essential part of Komerční banka's policy. In 1998 the Bank made financial contributions of almost CZK 39 million. These funds went particularly towards education, health, culture and science. The most important donations were for, amongst others, Masaryk University in Brno, the Urological Clinic at the Prague General Hospital, the National Museum, the Junior Achievement Foundation and also the Czech Philharmonic Choir in Brno, as well as the Czech Egyptology Institute.

A special category is that of financial donations for the protection of life, health and property which in all amounted to CZK 4.5 million. The largest donation went to the Czech Mountain Rescue Service and the Czech Fire Service.

The Komerční banka Jistota Foundation primarily supports humanitarian, charitable and social projects. In 1998 it set aside CZK 26 million for these projects, the amount being divided between some 200 beneficiaries. Amongst the most important were the Moravian Oncological Initiative Brno-Bohunice, Diakonie Beránek Liberec, the Teplice nad Bečvou Spa, the District Centre of the Rescue Service Nový Jičín, the Mobilis Civil Association and Roska Prague.

## BUSINESS ACTIVITIES

**CORPORATE BANKING** The Corporate Banking Division concentrated in 1998 on serving large and medium-sized companies throughout the Czech Republic. Two of the main principles of the Division's work are customized services to clients and person-to-person contact with the Bank.

During 1998 the Corporate Banking Division maintained a stable client base and, measured by client numbers, increased its share of the corporate banking market to 55 %.

The principles of personal and individual attention to client needs, as performed by 105 relationship managers, were rewarded by client satisfaction and loyalty. This was demonstrated in an evaluation of so-called client retention, which special research by an independent agency shows to be of European standard. The expertise and personal approach of relationship managers and the reliability of payments are particularly appreciated.

Relationship managers monitor client needs on an ongoing basis and from their findings propose an optimal solution made to measure. Products and services from the whole Komerční banka Financial Group are made available to the client. On the basis of an evaluation of the clients' solvency they propose business conditions tailored to their needs.

The Corporate Banking Division provides clients with comprehensive financing. Apart from loans in domestic and foreign currencies they also offer finance by means of documentary instruments of payments, bills of exchange operations and forfaiting. Guarantees, spot, forward, swap transactions and options are among the instruments used to hedge commercial, exchange and interest risks.

Money and capital market products together with deposit products with maturity from one day are available for the short term investment of surplus funds. New among deposit products offered by the Bank with effect from 1998 is the so-called gold term deposit.

The Corporate Banking Division expanded its offer of electronic banking services in 1998. As well as the existing successful product BEST KB it offered companies with large volumes of payments the possibility of communicating with the Bank in standard EDI (Electronic Data Interchange), which is used in supplier-customer relations throughout the world. Following the introduction of this service the number of transactions executed in electronic form rose by 15 % in 1998.

The main emphasis in the Corporate Banking Division in 1999 will be on the quality of services and a yet more personal approach when serving clients. Changes in the organizational structure of the Division are in preparation. The merging of other specialized sections with the Division will lead to greater expertise and efficiency. In the field of products and services the Division will concentrate on simplifying the administration connected with specific businesses.

**RETAIL BANKING** The Retail Banking Division concentrates on providing quality and comprehensive services to all its clients. However, it pays special attention to medium and high net worth individuals as well as to promising small and medium-sized companies and entrepreneurs which constitute the client target groups of the Bank. Its products and services are offered through an extensive network of business outlets which, as at 31 December 1998, included 96 branches (of which 14 district) and 259 sub-branches and agencies.

1998 saw the Division continue to develop successfully its existing activities as well as the introduction of a range of new products and services.

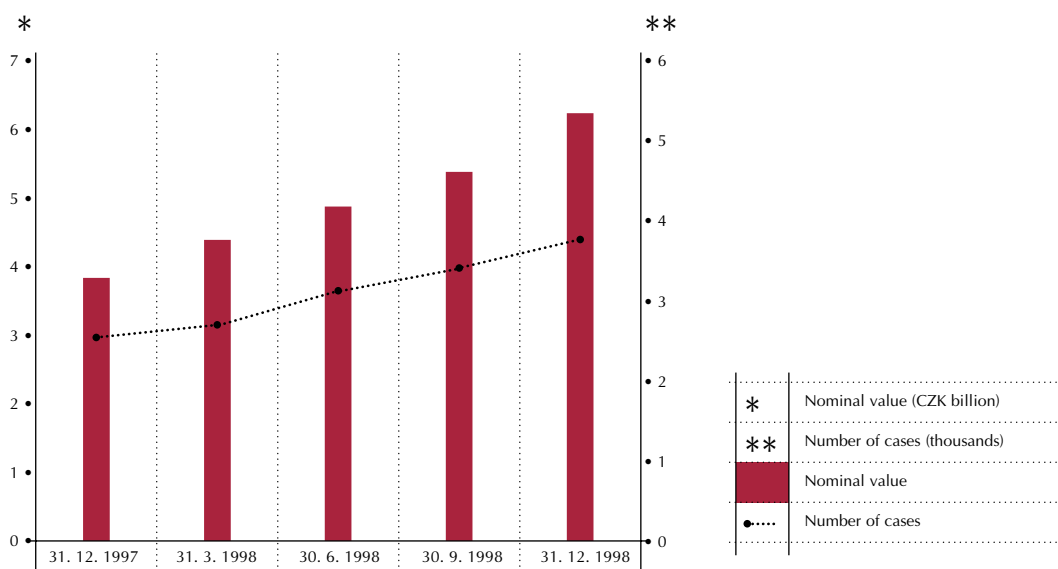
The Bank has continued to perfect its personal approach toward affluent clients, who have enjoyed the services of personal bankers since 1997. In 1998 the number of such clients rose by 36 % to over 24,000.

At the service of selected small and medium-sized companies is a network of business representatives. These represent the primary contact with the Bank for clients and through their active approach contribute substantially to the Bank's high share of the market in this segment. As at the end of 1998 more than 12,000 clients were being served by 99 business representatives supported by 14 so-called active sales co-ordinators who at the district branch level provide the methodological and business background.

1998 witnessed greater client interest in the prestigious Komerční banka A-account. The number of new accounts rose against 1997 by 21 % to 9,729, representing funds in excess of CZK 1.3 billion. The number of holders of the Gaudeamus account, intended for university students, rose by over 116 % to 20,378, with a total of CZK 78 million. For this potentially important client segment the Division extended its offer by introducing the Gaudeamus loan which serves as a general purpose loan to finance the client's needs during his/her studies.

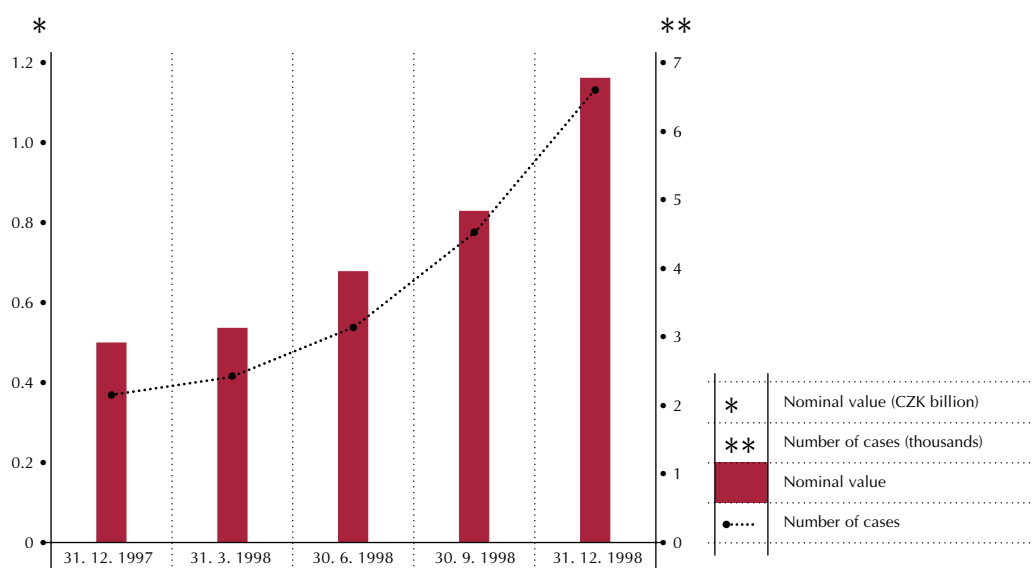
In 1998 the Division increased its activity on the mortgage loans market, focusing its attention on private individual clients and thereby becoming the second largest operator in the mortgage market with a share of almost 25 %. Principles of mortgage loans amounted to CZK 6.3 billion and the number of business cases stood at 3,643 as at 31 December 1998. The Bank made mortgage loans more accessible to the general public by allowing relations to act as applicants or co-applicants on a single loan application.

DEVELOPMENT OF MORTGAGES FROM 31. 12. 1997 TO 31. 12. 1998



In 1998 the Bank succeeded in significantly increasing both the volume of client consumer loans (by over 128 %) as well as the number of business cases (by 210 %). The volume represented by the principles to the loans rose to almost CZK 1.2 billion and the number of business cases to 6,725. The most common loans are loans relating to real estate for the general public and general purpose cash loans. The year also saw the introduction of a new product in the form of a loan for the purchase of goods which is provided jointly with points of sale. In practice this means that consumer loans will be arranged directly at the place of purchase under an agreement on cooperation concluded between the Komerční banka branch and the shop.

DEVELOPMENT OF CONSUMER LOANS  
FROM 31. 12. 1997 TO 31. 12. 1998



During 1998 the Division worked intensively on developing new products and services. Among these is telephone banking which, following pilot operations (from May 1998), became operative nation-wide via the Telephone Centre in Liberec. The so-called KB Express Line enables current account holders to execute banking operations round the clock for the whole year and also permits access to other personal accounts of the client. To support the development of telephone banking a package of services was incorporated into the Bank's offer. This is the Expreskonto KB which includes a current account in domestic currency together with an international payment card and the services of the KB Express Line. As at the end of 1998 almost 13,000 clients had made use of the Telephone Centre's services.

For the target client group - high net worth individuals - the Division began in 1998 to offer personal asset management. The aim of the service is to maximize the return on a client's assets through operations on the money and capital markets using a strategy selected by the client.

Another innovation in investment banking is the KB Investment Advisory Service which provides all services necessary for the purchase and resale of participation certificates from the open-ended funds within Investiční kapitálová společnost KB.

In 1998 the Division introduced a new type of deposit account - the R-account. This is a savings account which over and above the interest offers a bonus on condition that a stable minimum balance is maintained, with regular monthly deposits.

In the near future the Division also intends to provide direct banking services also through the Internet which will enhance communication between the client and the Bank. An example of such communication is the service which Komerční banka has prepared for university students with effect from 1999. This allows applications for opening a Gaudeamus account to be submitted via the Internet.

**FINANCIAL MARKETS** The Financial Markets Division offers its clients professional services in investment banking. Through its activities it maintains the leading position of Komerční banka on the money and capital markets.

At the beginning of 1998 a new dealing centre commenced operations. Equipped to a high European standard, it houses under one roof staff dealing both on the money and capital markets. This is a further reason for the Bank's large share of capital market operations. It enjoys a 7.5 % share of the secondary market via AOS (Automated Trading System), 12.9 % of direct trades and 25 % of the bond market. In 1998 the Bank conducted deals on the capital market to the value of CZK 137 billion, of which some 77.4 % comprised deals on the Prague Stock Exchange.

Over the year there was a 23 % increase on 1997 in the number of operations with hedging instruments. Among the most frequent were forward deals.

Under its asset management services the Division handles client funds of CZK 4.5 billion which despite the negative development on the financial markets represents a rise of 5.4 % against 1997.

The area of mergers and acquisitions enjoyed an exceptionally successful year in 1998. As in 1997, the Financial Markets Division succeeded in achieving the deal of the year by mediating the sale of the majority holding in the company Vertex to the German company Vetrotex. Total income from the completed mandates amounted to a record of CZK 66.7 million. This means the Bank enjoys an unchallenged leading position on the corporate finance market in the area of mergers and acquisitions. Apart from project finance the Division also offers clients financial advice and consultancy services.

A stagnant bond market meant that only those services relating to previous issues were provided. In 1998 the Bank did not issue any of its own bonds and the volume of such bonds fell by CZK 6 billion as a result of the redemption of three titles.

KOMERČNÍ BANKA'S BONDS ISSUED (OUTSTANDING)  
AS AT 31 DECEMBER 1998

Bonds	Date of issue Maturity date	Volume (in CZK million)	Interest rate	Pay-out of interest
1994/2001 ISIN: CZ0003700163	28. 9. 1994 28. 9. 2001	3,000	11.4 % p. a.	yearly
1994/1999 ISIN: CZ0003700171	12. 12. 1994 12. 12. 1999	4,000	6month PRIBOR + 0.5 p. p.	half-yearly
1995/2000 ISIN: CZ0003700221	9. 3. 1995 9. 3. 2000	2,000	6month PRIBOR + 0.5 p. p.	half-yearly
1995/1999 ISIN: CZ0003700304	23. 10. 1995 23. 4. 1999	3,000	6month PRIBOR + 0.3 p. p.	half-yearly
1996/1999 ISIN: CZ0003700379	20. 5. 1996 20. 5. 1999	5,000	6month PRIBOR + 0.1 p. p.	half-yearly
1997/2002 ISIN: CZ0003700429	10. 2. 1997 10. 2. 2002	6,000	6month PRIBOR + 0.15 p. p.	half-yearly
1997/2004	8. 8. 1997 8. 8. 2004	8,000	zero coupon bonds	-
1997/2002 ISIN: CZ0003700452	29. 9. 1997 29. 9. 2002	4,000	6month PRIBOR + 0.1 p. p.	half-yearly

Note: The bonds (except zero coupon bonds) are publicly negotiable bearer bonds in dematerialized form. The nominal value of a bond is CZK 10,000.

p. p. = percentage points

Komerční banka through its subsidiary, Komerční Finance, B.V., issued on the foreign markets in May 1998 subordinated debt in the form of bonds worth a total of USD 200 million.

Among the other services which Komerční banka provides are depository and custody services. Following an amendment to the law on investment companies and investment funds the Division now reviews assets in its custody weekly instead of monthly while share funds are reviewed daily.

In international banking Komerční banka still maintains its leading position in Central and Eastern Europe. Through its 1,500 foreign correspondent banks and 47 nostro accounts in 20 freely convertible currencies (from 1 January 1999, including euro) the Bank can fully meet the foreign payment requirements of its clients. On the domestic market it is currently one of the most important clearing banks and through its loro accounts it can effect payments for 255 foreign correspondent banks. The Bank's six foreign representative offices provide further support for the foreign activities of the Bank's clients. The sixth of these offices, in Warsaw, was opened at the beginning of 1998.

The basic aim of the Division for 1999 is to build standard investment banking targeted at the Czech market, and to do so by being proactive and tenacious. The Division further proposes to strengthen its orientation towards client business from which the Bank gains income in the form of commissions. The Division will seek to acquire this by optimizing client services and distribution channels whilst minimizing risks.

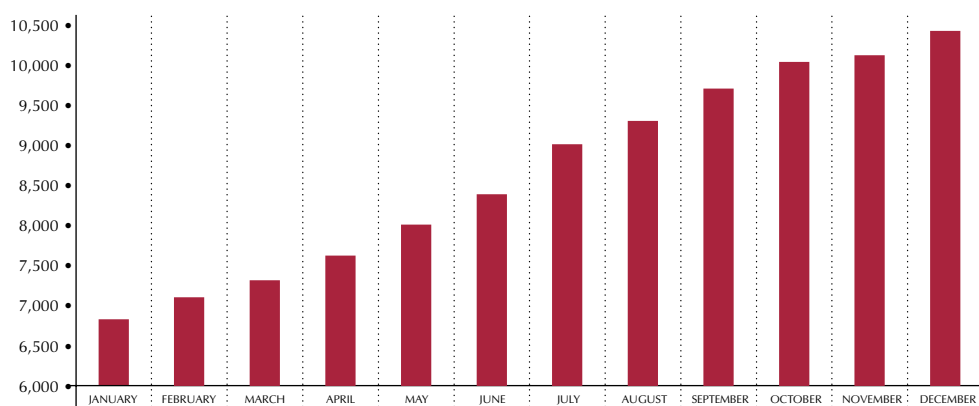
**PAYMENT SERVICES** In 1998 the Payment Services Division also provided important support to the business divisions not only through the development of existing products and services but also through the development and implementation of new products and services from the area of payments.

In order to provide comprehensive services the Division prepared intensively for the new European currency (euro), whose introduction represents a very important event primarily in the area of foreign payments. As at the year-end Komerční banka was able to offer quality products and services in this currency, including payment cards for euro accounts.

The improvement of services also means expanding the system of express payments to the clearing centre of the Czech National Bank through the introduction of so-called super-express payments for clients selected by the business divisions.

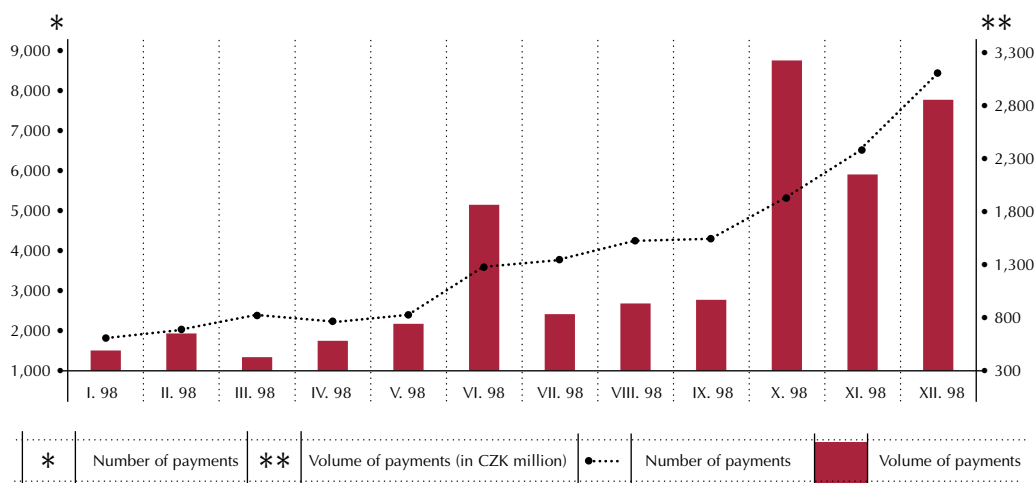
The Division also paid great attention to the development of electronic banking, which is becoming steadily more popular and which employs competitive charges as an inducement to use electronic media. Client interest in the Bulletin Board System (BBS) has been particularly marked and is still growing. As at the end of 1998 the number of participants stood at 10,477.

NUMBER OF BBS PARTICIPANTS IN 1998



The BEST KB System, which allows clients direct access to the Bank's clearing system via their own computers, went on line, enabling an account balance to be obtained immediately and transactions to be posted on the same day. Almost 48,000 payments were made through the BEST KB System in 1998 representing over CZK 15 billion.

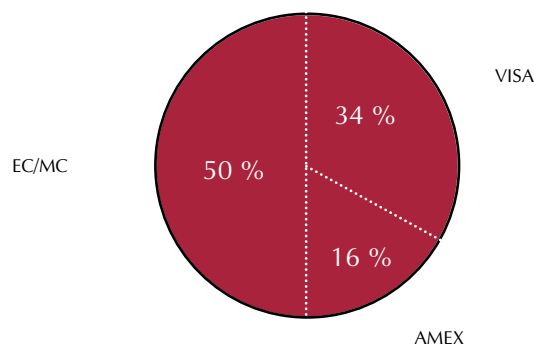
NUMBER AND VOLUME OF PAYMENTS  
REALIZED THROUGH THE BEST KB SYSTEM



A major event in 1998 was the successful launch of the American Express payment cards on the Czech market. Komerční banka was privileged to conclude an exclusive contract for the issue of these prestigious payment cards in the Czech Republic. From April 1998 when the cards were launched to the year-end, 16,944 cards were issued and over 4,500 contracts with points of sale were concluded. Komerční banka thus now offers complete sets of payment cards from the three major systems, VISA, Eurocard/MasterCard and American Express.

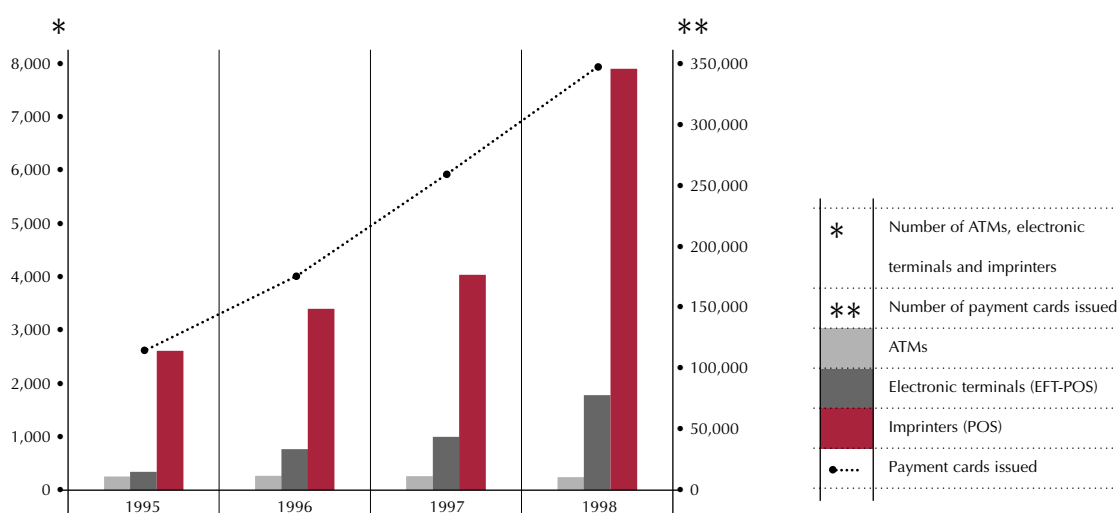
Komerční banka's important position on the payments card market can be seen from the fact that the number of cards issued is still growing, rising by 98,908 cards from the beginning of 1998 to the final figure of 343,708 at the year-end. Komerční banka cards account for 21.4 % of the total number of EC/MC and VISA payment cards (including Electron and Maestro cards) issued in the Czech Republic.

STRUCTURE OF PAYMENT CARDS ISSUED BY KOMERČNÍ BANKA  
FROM 1. 1. TO 31. 12. 1998



1998 also saw the further expansion of the ATM network and points of sale for which the Bank processes payment transactions. The Bank had a 31 % share of EC/MC points of sale in the Czech Republic and 12.6 % of VISA. As at the end of 1998 Komerční banka had 277 of its own ATMs and its payment cards were accepted in points of sale by 1,727 electronic terminals and 7,910 imprinters.

NUMBER OF ATMs, EFT-POS, POS  
AND PAYMENT CARDS ISSUED



At the pilot phase of operations can now be found the SET (Secure Electronic Transaction) service which allows Komerční banka payment card holders to effect safe payment on the Internet. Preparation for the payment cards issued by the Bank in conjunction with Fischer Travel Agency were successfully completed and went on sale.

Among those tasks given priority by the Division for 1999 is the further rationalization of foreign payments in order to correspond to standards of service in the European Monetary Union. As far as payment cards are concerned, the Division will continue to prepare the transfer to chip technology.



## STRATEGY AND PLANS FOR THE FUTURE

**STRATEGY OF KOMERČNÍ BANKA AND ITS FINANCIAL GROUP** The long-term goal of Komerční banka is shareholder satisfaction in the form of shareholders' value. The fulfilment of this goal is currently impeded by the Bank's having to contend with problems arising from the deteriorating conditions of the Czech economy which impact most severely on the corporate sector. The delays in the enactment of legislation, particularly in respect of the enforcement of creditors' rights, is also unpropitious for the Bank. In 1998 in response to the stringent measure of the Czech National Bank concerning collateralized real estate the Bank created substantial additional provisions. These affected the Bank's results and will continue to leave their mark over the next two years. On the other hand the greater cover of risk lays the foundation for a return to profit by 2001 and the Bank will again represent a company with strong growth potential of the shareholders' value.

The Bank in the forthcoming period will concentrate upon a sharper profile with regard to prosperous corporate and entrepreneurial clients as well as those from the general public. This means quality large and medium-sized companies, promising small businesses and entrepreneurs as well as high and medium net worth individuals. It will address them by means of a targeted offer of first-class products and services at least fully comparable with that of other banks, including foreign banks. It will further emphasize the principles of client orientation as implemented inside the Bank in recent years.

At the same time the Bank will continue to ensure that the supplementary non-banking products provided by the member companies of its Financial Group are combined with a basic range of banking services in such a way that the convenience, satisfaction and thence loyalty of the client be ensured to the maximum extent.

The Bank considers its key medium-term task to be the improvement of the quality of the loan portfolio. It is proposed to achieve this through a combination of the new credit procedure for newly granted loans, with appropriate restructuring for low quality loans granted in the past, such as the resecuring of some receivables, revitalization operations, sale of receivables, their securitization and writing-off to the off-balance sheet with a view to their possible recovery in due course. The Bank will pursue this course of action even if it means another fall in its loan market share in the Czech Republic. A condition of the basic improvement of the structure of receivables is a change in legislation so as to strengthen the position of the creditor.

The Bank aims to be perceived as a progressive and innovative financial institution. Underlying this aim is the necessity of bringing its services into line with European standards during the run-up to the entry of the Czech Republic into the European Union. The privatization of the Bank, which is imminent now, will hasten this process. By the acquisition of a foreign strategic partner it sees an opportunity both to maintain all that it has achieved so far and to gain further banking and non-banking know-how, of becoming yet more stable, of strengthening its position on the Central European market and of comprehensive integration into the globalized financial world.

Privatization will also lead to a more precise understanding of the possibilities of foreign expansion for the Bank. The criteria for such development will be long-term effectiveness and an acceptable level of risk. The natural region for the Bank to operate in outside the Czech Republic is above all Central and Eastern Europe.

**PLANS FOR 1999 AND EXPECTED DEVELOPMENT OF THE FINANCIAL SITUATION** The conservative approach to lending combined with the general fall in interest rates will lead to a certain reduction in net interest income. The Bank will seek to offset this fall by developing deals generating fee and commission income through a wide range of modern payment services, agency operations in investment banking, activities involving the aggregate services of the Bank's Financial Group etc. A rise in the proportion of non-interest income to total income is anticipated. This is in keeping with current trends in world banking. The Bank will continue closely to control costs and through further reductions in staff numbers to well below the existing level of 14,000 to increase productivity as measured by profit before provision for loan losses per employee.

From the point of view of the financial situation 1999 will be another year of consolidation, stabilization and the gradual covering of risks. This process will inevitably impact negatively upon the annual financial results of the Bank as by complying with the requirements of the CNB the Bank will have to use its operating profit to cover risks arising from the loan portfolio. The effect of the measure on the overall financial results for 1999 will be comparable to that of 1998. A solution to the problem of the loan portfolio would ideally involve both appropriate action based on market principles on the part of the Bank as well as the cooperation of the government. The Bank will use all legal means at its disposal to increase the rate of bad debts recovery.

All measures taken in the following year to stabilize the Bank will, together with privatization, create conditions favourable for the renewed profitability of the Bank in the relatively near future.

## FINANCIAL RESULTS (CAS)

### PROFIT AND LOSS ACCOUNT

The recession which gripped the Czech economy in 1998 was reflected in the deteriorating situation of many clients and thus also in the financial results of Komerční banka. This factor, combined with the measure introduced by the Czech National Bank in August 1998 requiring all banks to create additional provisions for loss loans collateralized by real estate, obliged the Bank to increase substantially both provisions and reserves for risks arising from the loan portfolio. These additional costs meant that, despite very good operating results, the Bank recorded an accounting loss of CZK 9.8 billion according to the accounting methodology of Czech banks.

**NET INTEREST INCOME** *Net interest income* as at 31 December 1998 totalled CZK 15.1 billion, down by 4.3 % compared with the previous year. The reason for this expected development was the decrease of the Bank's exposure on the loan market and its substitution for more secure activities on the interbank market, investments in bonds and other fixed income securities and a significant increase in investments in treasury and other bills, by almost 60 % year-on-year. Although the interest margin of such investments is somewhat lower, the risk is significantly less.

Net interest income was further influenced by the fall of market interest rates in the second half-year of 1998. Komerční banka is negatively sensitive to any decrease in interest rates which means that the Bank's net interest income falls in correlation with interest rates decline. This is also why the dynamic of growth of interest payments for 1998 was 3.5 percentage points higher than the increase of interest income which was 4.1 %.

**NON-INTEREST INCOME** In 1998, *net income from fees and commissions* again proved to be a very stable source of income with a steady upward trend. The year-end balance was CZK 4.6 billion which is 6.2 % up on 1997. The share of net income from fees and commissions in the Bank's total income reached 16.3 %.

Other non-interest income primarily includes the items profit (loss) from financial operations and other income. *Profit from financial operations* grew by 114.6 % year-on-year which represents a rise of CZK 2.5 billion to CZK 4.7 billion. The item is made up chiefly of income from foreign exchange operations and securities trading where there was an increase due to a lower amount of provisions created for securities.

*Other income* grew by CZK 1.5 billion to the total of CZK 3.8 billion against the end of 1997. The increase was mostly attributable to the income from the sale of assigned and written-off receivables from clients which totalled CZK 3.6 billion at the end of 1998.

**COSTS** *General operating costs* amounted to CZK 11.3 billion as at the end of 1998. The increase against the previous year was CZK 0.3 billion, or a mere 2.4 %. When measured in terms of annual dynamics of growth, the result is 3.9 percentage points lower than the growth in the preceding year. The favourable level of costs was achieved by strict and effective control of cost flows and the general rationalization of the Bank's operation.

*Staff costs* reached CZK 5.1 billion which means a nominal increase of over 5 %. However, taking into account the inflation rate it represents a real decrease of more than 5 %. This result is also attributable to the fact that the Bank continuously reduced the number of employees, by more than 800 in 1998.

*Other operating costs* in the amount of CZK 6.2 billion, consisting of purchased services for CZK 4.8 billion (including tax and fees) and depreciation of tangible and intangible assets amounting to CZK 1.4 billion, only increased by 0.4 % on 1997.

*Other costs* relating mostly to recovery procedures in the loan portfolio increased against 1997 by 178.9 % to CZK 25.6 billion. The costs of writing off receivables to the off-balance sheet and assignment of debts represent CZK 24.3 billion of the total sum.

**CREATION OF PROVISIONS AND RESERVES** Komerční banka continued the process of cleaning its loan portfolio. The costs of this process are reflected in the steep growth in the items of creation of provisions, besides the item other costs. The Bank created CZK 23.6 billion of *provisions and reserves for loans (and guarantees)* during the year, representing a year-to-year increase of 53.7 %. Simultaneously the provisions and reserves created were used in the amount of CZK 23.3 billion.

The Bank further created CZK 3.0 billion of *other provisions and reserves* of which CZK 2.0 billion provisions were used in the same year. *The balance between the created sum and the used sum of provisions and reserves for fixed asset investments* and other financial investments was CZK 0.3 billion which is an increase by 7 %.

Komerční banka also sought to take actions based on market principles concerning the loan portfolio problems. In December 1998 a transaction with a renowned investment bank was concluded concerning the granting of a specific guarantee for financing the estimated recoverable amounts of collateral to the part of the loan portfolio classified as loss. Under the contract the Bank can in this way recover cash in the amount of CZK 5,062 million (USD 169 million) on loans overdue. At the same time the Bank remains the owner of the loans after the maturity dates. The contracts also provide a guarantee for the portfolio of U. S. governmental bonds over which the Bank has control and which the counterpart has the right to borrow. The Bank keeps interest income and fees for the bonds. The Bank has paid a refundable deposit of USD 9 million and is obliged to make 40 fixed payments of USD 7 million semi-annually. The contracts can be terminated by the Bank prior to the final maturity date subject to the payment of a penalty. The term of maturity of the U. S. governmental bonds is about the same as the terms of payment by the Bank, which secures the financing of the largest part of the payments which may be requested in the future. The Bank also anticipates that loans beyond maturity dates would be settled either by repayment or realization of collateral.

**TAX** The final tax for the year 1998 is zero due to the accounting loss of CZK 9.8 billion for the period, with the adjustments for non-tax deductible costs, non-taxable income and items decreasing the tax base. *Income tax from current activities* shown in the Profit and Loss Account amounting to CZK 9.7 million is an additional payment of tax under additional tax reports.

## BALANCE SHEET







**ASSETS** Some of the previous year's trends in assets continued in 1998. They include particularly the falling loan exposure of the Bank towards clients, both in the absolute amount and the share in total assets. Loans to clients represented 44.7 % of total assets while in the preceding year it was 5.8 percentage points more. Within the asset structure, the share of amounts due from banks continued to grow, rising from 21.2 % to 23.9 % in 1998. The opposite trends in 1998 include investment in treasury and other bills and the increase of the portfolio of bonds designated for trading. However, the volume of shares and also the entire investment portfolio went down and so the resulting 6.7 % share of securities in the Bank's total assets remained almost unchanged against 1997. In the inter-yearly comparison, the share of foreign currency assets in total assets decreased moderately and was 18.0 % at the end of 1998.

The volume of highly liquid assets, which comprises above all cash and deposits with central banks and treasury and other bills, rose by more than 16 % during the year 1998. *Cash in hand, deposits with central banks and post checking accounts* decreased by 24.4 % to CZK 30.5 billion year-on-year. Of this volume obligatory minimum reserves amounted to CZK 19.7 billion. The decrease was due to the lowering of the rate of minimum reserves on the part of the Czech National Bank as well as the Bank's efforts to promote non-cash payments. *Treasury bills and other bills* stood at CZK 60.5 billion as at 31 December 1998, up by almost 60 % on 1997. The share of this item in total assets increased by 5 percentage points to 12.4 %.

*Amounts due from banks* rose by 7.6 %, reaching CZK 116.4 billion. The Bank used them for the purpose of liquidity management and particularly as an advantageous alternative to client loans during the periods of shortage of suitable business because the interbank market offers attractive returns with low risk. This item includes a loan to the Czech National Bank amounting to CZK 57.2 billion which was granted in the form of REPO operations.

The volume of *amounts due from clients* decreased by 15.5 % to CZK 218.0 billion as at the end of 1998. As stated, various factors contributed to the decrease. Apart from the generally unfavourable economic situation in the Czech Republic and the lower investment activities in the business sector the increase was due to the writing off and sale of loss debts in the amount of CZK 18.0 billion in 1998. The granting of new loans was already fully subject to the rules of a new credit procedure involving stricter criteria for the evaluation and selection of individual loans and consequently resulting in a lower volume of new loans.

### LOAN STRUCTURE BY CLIENT GROUPS

	1998	1997	50 %	100 %
Private sector companies	70 %	72 %		
Predominantly state-owned companies	13 %	13 %		
Households (registered traders)	6 %	7 %		
Foreign-owned companies	2 %	2 %		
Banks and insurance companies	4 %	2 %		
Other	5 %	4 %		

#### TIME STRUCTURE OF LOANS

	1998	1997	25 %	50 %
Up to 1 year	46 %	51 %		
Between 1 - 4 years	29 %	27 %		
Over 4 years	25 %	22 %		

In comparison with the year 1997 the Bank maintained its loan exposure to the manufacturing industry at about 40 % of its loan portfolio and there was a moderate decrease in the share of loans allocated to services, trade and transport. On the other hand, the share of loans provided to the financial and insurance sectors is up by 2.9 percentage points. In terms of contractual maturity, medium-term and long-term loans went up in 1998, representing almost 54 % of the total loan portfolio at the end of the year.

#### LOAN STRUCTURE BY INDUSTRY

	1998	1997	25 %	50 %
Agriculture, hunting	5.1 %	5.0 %		
Forestry and timber industry	0.3 %	0.4 %		
Mining	1.3 %	1.6 %		
Manufacturing industry	40.6 %	40.4 %		
Production and distribution of electricity, gas and water	3.9 %	2.8 %		
Construction	4.6 %	4.5 %		
Trade and sales	21.6 %	24.4 %		
Catering and accommodation	1.3 %	1.4 %		
Transport, tourism and communications	3.7 %	3.8 %		
Banking and insurance	5.7 %	2.8 %		
Other	11.9 %	12.9 %		

At the end of 1998 Komerční banka held under its assets *securities* amounting to CZK 32.5 billion which were divided into an investment and a trading portfolio. The value of the investment portfolio, consisting of securities designated for longer-term holding and comprising over 97 % bonds, was CZK 16.1 billion. The trading portfolio also included mostly fixed-income securities totalling CZK 15.8 billion which represents more than twofold increase year-on-year. As concerns shares for trading, the Bank continued its strategy of phased withdrawal with regard to the ongoing adverse situation on the Czech capital market. Thus their volume fell by 81.6 % to CZK 0.5 billion.

*Fixed asset investments in subsidiary and associated undertakings* as at 31 December 1998 totalled CZK 4.0 billion which means an inter-year increase of 20.1 %. The increase was caused by the raising of the Bank's holding in the share capital, particularly in the companies I. S. C. MUZO, Investiční privatizační fond KB and CAC Leasing Slovakia.

*Tangible and intangible assets* were CZK 14.5 billion at the year-end, 2.6 % up on 1997. No significant changes in the quantitative or qualitative structure of these assets of Komerční banka took place in 1998.

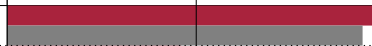

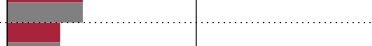
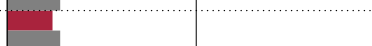



As at 31 December 1998 the Bank held its own shares in the amount of CZK 3.5 million for the purpose of further trading.

**LIABILITIES** There was a moderate increase in external funds in the structure of liabilities. At the end of 1998 external funds amounted to CZK 467.3 billion. The main changes in the composition of external sources include a decrease in the amount of client deposits and the concurrent increase of deposits accepted from banks. A new component of external liabilities is a subordinated debt of CZK 6.0 billion. The Bank's own funds as at 31 December 1998, after the inclusion of the accounting loss for 1998, were CZK 20.0 billion which is 4.1 % of total assets. The share of liabilities denominated in foreign currencies is 17.2 % of total assets, 2.2 percentage points down on the previous year.



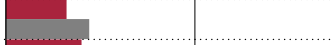

*Amounts due to banks* reached CZK 130.4 billion at the end of 1998 which is a 12.7 increase year-on-year. A substantial majority of the item, CZK 123.5 billion, consists of term deposits accepted from other banks while CZK 58.9 billion falls on the projection of REPO operations with CNB on the liabilities side of the balance sheet. The share of deposits and loans accepted from banks in the Bank's total fund base was 27.9 % at the year-end, so the Bank maintains an acceptable level of dependency on the interbank money market.

The total volume of *amounts due to clients* decreased by 7.8 % during 1998 and reached CZK 273.7 billion. Of this amount, term deposits were 57.8 %, i. e. CZK 158.1 billion. The fall of liabilities towards clients, reflected in both current and term accounts, results mainly from the two following factors induced by the current recession in the Czech economy. One of them is the shortage of potential deposits due to the illiquidity of the corporate sector. The other factor is the generally lower demand for funds on the part of banks because of the stricter conditions for granting loans.

#### DEPOSIT STRUCTURE BY CLIENT GROUPS

	1998	1997	25 %	50 %
Private individuals	49 %	47 %		
Private sector companies	23 %	23 %		
Other	10 %	10 %		
Predominantly state-owned companies	7 %	7 %		
Households (registered traders)	6 %	7 %		
Foreign-owned companies	3 %	3 %		
Banks and insurance companies	2 %	3 %		

TIME STRUCTURE OF DEPOSITS

	1998	1997	25 %	50 %
On demand	42 %	41 %		
Up to 1 year	40 %	40 %		
Between 1 - 4 years	8 %	11 %		
Over 4 years	10 %	8 %		

Funds raised by an issue of own *debentures* were CZK 35 billion at the end of the year. This means an inter-yearly decrease of 14.6 %. This development was caused by the redemption of three issues of Komerční banka's bonds with no new issues in the course of 1998. The share of these funds in total assets thus decreased by 0.8 percentage points to 7.2 %.

Komerční banka issued subordinated bonds amounting to USD 200 million in May 1998. The securities mature in 10 years but the Bank may opt for full redemption after 5 years. The value of the *subordinated debt* expressed in koruna was CZK 6.0 billion as at 31 December 1998.

*Reserves* for contingent loss from receivables and other bank risks fell by CZK 2.8 billion against the beginning of the year, amounting finally to CZK 5.7 billion. The reason for this fall is - under the rules of accounting and the act on reserves - a transfer of a part of reserves to provisions for loans so that the specific risk of loans in every category is covered by specific provisions. The volume of provisions for loans rose by CZK 4.2 billion to CZK 26.3 billion year-on-year. Total reserves and provisions for loans, receivables, guarantees and further reserves was CZK 34.0 billion as at 31 December 1998, i. e. the item increased by CZK 2.2 billion.

The *share capital* of Komerční banka of CZK 9.5 billion did not change in 1998. The Extraordinary General Meeting in November 1998 approved an increase of the share capital of Komerční banka by CZK 129 million in the form of a non-cash contribution of real estate by the National Property Fund. However, the change is not yet registered at the Commercial Court, and therefore is not entered in the Bank's books.

*Reserve funds* fell by CZK 0.2 billion inter-yearly due to the release of the reserve fund for own shares. The amount of reserve funds was CZK 2.4 billion as at the end of 1998. On the other hand, there was an increase by CZK 0.4 billion in *capital funds and other funds from profit* which totalled CZK 11.4 billion. *Retained earnings and not compensated loss of previous periods* remained unchanged. Total shareholders' equity, upon the inclusion of the accounting loss for 1998 in the amount of CZK 9.8 billion, reached CZK 20.0 billion. This represents sufficient capital to meet the limits laid down by the regulatory authorities.



## QUALITY OF CLIENT LOAN PORTFOLIO AND STRUCTURE OF COLLATERAL

In comparison with 1997 the year 1998 saw a moderate deterioration in the relative parameters of the loan portfolio quality. The main reason was the more rapid decrease in total loans in 1998 than that of the volume of loans under special review and loss loans. However, the Bank was successful in reducing the volume of loss loans in absolute terms by CZK 3.1 billion and loans under special review (i. e. sub-standard, doubtful and loss loans) by CZK 2.9 billion. The continuing problem of low liquidity in the corporate sector impacted negatively on the loan portfolio throughout the year, as did the world financial crisis, the disadvantageous position of creditors and the length of proceedings in the commercial courts.

The absolute reduction in the volume of loss loans was achieved primarily through writing off part of them to the off-balance sheet in the amount of approximately CZK 18 billion. In so doing the Bank retains the possibility of recovering the loans in the future and thereby generating extraordinary income. The overall potential of loans already written off with the possibility of recovery stands at CZK 29.5 billion. Higher provisions for loan losses mean that the Bank improved the coverage ratio.

### STRUCTURE OF THE LOAN PORTFOLIO ACCORDING TO CLASSIFICATION (IN NOMINAL VALUE)

According to International Accounting Standards (IAS)

in CZK million

	As at 31 December 1997		As at 31 December 1998	
	Amount	Provisions	Amount	Provisions
<i>Standard</i>	180,078	-	141,795	-
<i>Watch</i>	27,057	332	32,144	180
<i>Sub-standard</i>	7,973	411	10,501	378
<i>Doubtful</i>	8,787	1,467	6,507	999
<i>Loss</i>	55,979	24,491	52,831	24,197
<b>Total loans</b>	<b>279,874</b>	<b>26,701</b>	<b>243,778</b>	<b>25,754</b>
<b>General provisions</b>		<b>3,184</b>		<b>4,006</b>
<b>Total provisions</b>		<b>29,886</b>		<b>29,760</b>

In 1998 Komerční banka was limited by the lack of quality corporate projects which would meet the strict criteria of the new credit procedure. This became effective throughout the whole branch network on 1 January 1998 and was one of the main reasons for the reduction in new loans by CZK 10.3 billion in comparison with 1997.

In accordance with the policy of putting quality before quantity the Bank is maintaining acceptable classification of newly granted loans. From a total of CZK 94.7 billion of loans granted in 1998 91 % came under the category of standard and watch, i. e. in the two "non-problematic" categories. The relatively high proportion of loss loans in newly granted loans results from restructuring operations by the Debt Recovery Division, which is responsible for recovering receivables and has responsibility for clients with the most risky loans. A particularly serious instance was that of a big loss client where the condition for entry of a foreign strategic partner was the restructuring of loans of almost CZK 2 billion.

STRUCTURE OF NEWLY GRANTED LOANS  
ACCORDING TO CLASSIFICATION

Amount of loans granted in 1998 (in nominal value)	CZK 94,671 million
Standard	81.1 %
Watch	9.9 %
Sub-standard	3.3 %
Doubtful	1.9 %
Loss	3.8 %
	100.0 %

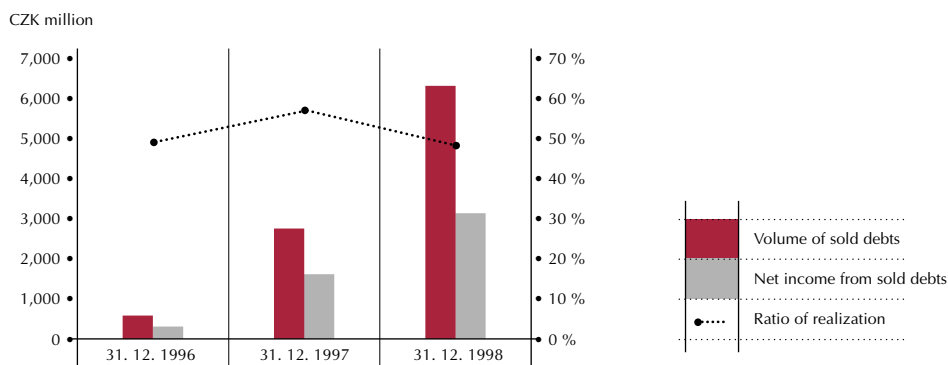
Note: Data from the internal records of the Bank

As far as possible under current legislation the Bank continued to realize collateral, thereby producing net income of CZK 415 million. However, when compared with the volume of loss loans, this amount is negligible. The Bank therefore reacted positively to the government's approval in March 1999 of the long-awaited bill concerning out-of-court auctions which would permit the realization of substantial items of collateral without the consent of the owner. The bill has still to be passed by the Parliament.

The Bank succeed in generating net income of CZK 3 billion through the sale of loss receivables in the nominal amount of CZK 6.3 billion. The volume of sold receivables was thus more than twice that of 1997.

In 1998 the Bank was able to produce extraordinary income totalling CZK 535 million from loans already written off to the off-balance sheet.

PROCEEDS OF SOLD DEBTS



REPORT BY KOMERČNÍ BANKA'S BOARD OF DIRECTORS  
QUALITY OF CLIENT LOAN PORTFOLIO AND STRUCTURE OF COLLATERAL

The Bank succeeded in reducing the proportion of collateral in the form of real estate in favour of other types of collateral, notably bank and other guarantees. Real estate currently constitutes less than 63 % of loan collateral (against almost 70 % at the end of 1997).

STRUCTURE OF COLLATERAL

Collateral (in discounted value)	in CZK million			
	As at 31 December 1997		As at 31 December 1998	
	amount	share	amount	share
<i>Guarantees</i>	8,379	4.7 %	11,405	7.5 %
<i>Collateralized deposits</i>	1,114	0.6 %	1,541	1.0 %
<i>Securities</i>	11,123	6.3 %	4,816	3.2 %
<i>Real estate</i>	120,965*)	68.3 %	94,887	62.5 %
<i>Other</i>	35,510	20.1 %	39,137	25.8 %
<b>Total</b>	<b>177,091</b>	<b>100.0 %</b>	<b>151,786</b>	<b>100.0 %</b>

\*) taking into account the revaluation of real estate

Note: Data from the internal evidence of the Bank



# harmony

HARMONIOUS DEVELOPMENT AND CLOSE COOPERATION AMONG THE COMPANIES  
IN THE FINANCIAL GROUP ENABLE THE BANK TO EXPAND ITS PRODUCT RANGE  
AND CONTRIBUTE TO THE CONVENIENCE AND SATISFACTION OF CLIENTS.



AUDITORS' REPORT ON KOMERČNÍ BANKA'S  
UNCONSOLIDATED FINANCIAL STATEMENTS  
ACCORDING TO THE ACCOUNTING METHODOLOGY OF CZECH BANKS (CAS)

**Deloitte &  
Touche**  
spol. s r.o.



Týn 641/4  
110 00 Praha 1  
Czech Republic

Telephone: + 420 (2) 248 95 500  
Facsimile: + 420 (2) 248 95 555

AUDITORS' REPORT TO SHAREHOLDERS  
OF KOMERČNÍ BANKA, A. S.

We have audited the accompanying financial statements of Komerční banka, a. s. (the Bank) for the year ended December 31, 1998. The Board of Directors is responsible for the preparation of the financial statements and for maintaining accounting records in accordance with relevant laws and regulations. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit. The financial statements of the Bank as of December 31, 1997 were audited by another auditor whose report dated March 27, 1998 on those statements included an explanatory paragraph as to the adequacy of the provisions for classified loans.

We conducted our audit in accordance with Act No. 524/1992 Coll. on Auditors and the Chamber of Auditors of the Czech Republic, and the auditing standards issued by the Chamber of Auditors. 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 in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company 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 present fairly, in all material respects, the assets, liabilities and equity of Komerční banka, a. s., as of December 31, 1998, and the financial results for the year then ended in accordance with Act No. 563/1991 Coll. on Accounting and relevant accounting regulations.

Without qualifying our opinion we draw attention to Notes 16 and 28 to financial statements related to substantial continuing uncertainties concerning the realisation of collateral securing the Bank's loan portfolio and recovery of problem loans, and in connection with the future condition of the Czech economy and development of the legal environment. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses and failure to meet minimum capital requirements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In our opinion information presented in commentary sections of this annual report are consistent, in all material aspects, with attached financial statements audited by us.

Prague, 17 March 1999

Audit firm:  
Deloitte & Touche, s. r. o.  
Licence no. 79

Statutory auditor:  
Michal Petrman  
Licence no. 1105

**DeloitteTouche**  
**Tohmatsu**  
**International**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 1998**

**ASSETS**

According to the Accounting Methodology of the Czech Banks (CAS)

in CZK thousand

Item	Current year			Prior year
	Gross amount	Provision	Net amount	Net amount
	1	2	3	4
<b>1. Cash in hand, deposits with central banks, post checking accounts</b>	<b>30,494,160</b>	<b>0</b>	<b>30,494,160</b>	<b>40,334,528</b>
<b>2. Treasury bills and other bills</b>	<b>60,471,764</b>	<b>0</b>	<b>60,471,764</b>	<b>37,924,953</b>
a) treasury bills and similar bonds issued by the state	1,831,912	0	1,831,912	5,306,953
b) other bills	58,639,852	0	58,639,852	32,618,000
<b>3. Amounts due from banks</b>	<b>116,966,215</b>	<b>556,171</b>	<b>116,410,044</b>	<b>108,181,544</b>
a) payable on demand	1,332,262	0	1,332,262	1,359,858
b) other receivables	115,633,953	556,171	115,077,782	106,821,686
<i>of which: subordinated assets</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>4. Amounts due from clients</b>	<b>243,778,790</b>	<b>25,753,664</b>	<b>218,025,126</b>	<b>257,979,574</b>
a) payable on demand	313,697	0	313,697	1,049,286
b) other receivables	243,465,093	25,753,664	217,711,429	256,930,288
<i>of which: subordinated assets</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>5. Bonds and other fixed income securities for trading</b>	<b>16,033,126</b>	<b>183,447</b>	<b>15,849,679</b>	<b>7,151,259</b>
a) issued by banks	4,291,301	0	4,291,301	2,077,413
<i>of which: own bonds</i>	<i>1,142,526</i>	<i>0</i>	<i>1,142,526</i>	<i>1,112,404</i>
b) issued by other subjects	11,741,825	183,447	11,558,378	5,073,846
<b>6. Shares and other variable yield securities for trading</b>	<b>1,311,853</b>	<b>841,189</b>	<b>470,664</b>	<b>2,553,121</b>
<b>7. Fixed asset investments in associated undertakings</b>	<b>2,764,969</b>	<b>1,047</b>	<b>2,763,922</b>	<b>2,068,144</b>
a) in banks	280,000	0	280,000	280,000
b) in other entities	2,484,969	1,047	2,483,922	1,788,144
<b>8. Fixed asset investments in subsidiary undertakings</b>	<b>1,331,499</b>	<b>135,721</b>	<b>1,195,778</b>	<b>1,228,026</b>
a) in banks	445,330	0	445,330	547,767
b) in other entities	886,169	135,721	750,448	680,259
<b>9. Other financial investments</b>	<b>16,780,526</b>	<b>639,116</b>	<b>16,141,410</b>	<b>24,234,775</b>
<b>10. Intangible assets</b>	<b>964,465</b>	<b>373,892</b>	<b>590,573</b>	<b>386,794</b>
a) expenses of foundation	0	0	0	0
b) goodwill	0	0	0	0
<b>11. Tangible assets</b>	<b>20,070,632</b>	<b>6,190,963</b>	<b>13,879,669</b>	<b>13,711,250</b>
a) land and buildings for banking activities	11,353,989	1,540,104	9,813,885	8,645,132
b) other	8,716,643	4,650,859	4,065,784	5,066,118
<b>12. Own shares</b>	<b>3,545</b>	<b>13</b>	<b>3,532</b>	<b>107,761</b>
<b>13. Other assets</b>	<b>3,652,400</b>	<b>212,596</b>	<b>3,439,804</b>	<b>3,640,637</b>
<b>14. Subscribed capital called-up and not paid</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>15. Prepayments and accrued income</b>	<b>7,582,607</b>	<b>0</b>	<b>7,582,607</b>	<b>10,722,324</b>
<b>TOTAL ASSETS</b>	<b>522,206,551</b>	<b>34,887,819</b>	<b>487,318,732</b>	<b>510,224,690</b>

## LIABILITIES

According to the Accounting Methodology of the Czech Banks (CAS)

in CZK thousand

Item	Accounting period	
	Current	Previous
	5	6
<b>1. Amounts due to banks</b>	<b>130,411,767</b>	<b>115,681,801</b>
a) payable on demand	6,885,725	6,588,599
b) other liabilities	123,526,042	109,093,202
<b>2. Amounts due to clients</b>	<b>273,697,713</b>	<b>296,881,901</b>
a) savings deposits	38,390,244	48,512,625
<i>of which: payable on demand</i>	<i>1,771,375</i>	<i>2,424,555</i>
b) other amounts due to clients	235,307,469	248,369,276
<i>of which: payable on demand</i>	<i>113,818,635</i>	<i>120,665,647</i>
<b>3. Certificates of deposit and similar debentures</b>	<b>35,000,799</b>	<b>41,001,828</b>
a) certificates of deposit	799	1,828
b) other	35,000,000	41,000,000
<b>4. Accruals and deferred income</b>	<b>8,062,418</b>	<b>8,623,824</b>
<b>5. Reserves</b>	<b>5,651,010</b>	<b>8,433,839</b>
a) reserves for standard loans and guarantees	4,108,820	3,302,820
b) reserves for foreign exchange rate losses	835,802	0
c) reserves for other banking risks	505,895	363,039
d) other reserves	200,493	4,767,980
<b>6. Subordinated liabilities</b>	<b>5,971,000</b>	<b>0</b>
<b>7. Other liabilities</b>	<b>8,508,606</b>	<b>9,693,588</b>
<b>8. Share capital</b>	<b>9,502,463</b>	<b>9,502,463</b>
<i>of which: share capital paid-up</i>	<i>9,502,463</i>	<i>9,502,463</i>
<b>9. Share premium fund</b>	<b>6,008,027</b>	<b>6,008,027</b>
<b>10. Reserve funds</b>	<b>2,408,156</b>	<b>2,603,156</b>
a) obligatory reserve funds	1,902,992	1,902,992
b) reserve funds for own shares	5,000	200,000
c) other reserve funds	500,164	500,164
<b>11. Capital funds and other funds from profit</b>	<b>11,377,423</b>	<b>11,009,133</b>
a) capital funds	54,699	54,415
b) other funds from profit	11,322,724	10,954,718
<b>12. Retained earnings and not compensated loss</b>		
<b>of previous periods</b>	<b>523,886</b>	<b>523,886</b>
<b>13. Profit or loss for accounting period</b>	<b>(9,804,536)</b>	<b>261,244</b>
<b>TOTAL LIABILITIES</b>	<b>487,318,732</b>	<b>510,224,690</b>



## OFF - BALANCE SHEET

According to the Accounting Methodology of the Czech Banks (CAS)

in CZK thousand

Item		Accounting period	
		Current	Previous
		7	8
<b>1. Total future potential liabilities</b>		<b>35,197,746</b>	<b>18,045,658</b>
of which:			
a) received bills of exchange (acceptances)			
and endorsements of bills of exchange		0	1,449
b) commitments from guarantees		35,197,746	18,044,209
c) commitments from collateral		0	0
<b>2. Other irrevocable commitments</b>		<b>21,627,639</b>	<b>3,941,610</b>
<b>3. Receivables from spot, forward</b>			
<b>and option operations</b>		<b>237,963,173</b>	<b>202,694,310</b>
<b>4. Liabilities from spot, forward</b>			
<b>and option operations</b>		<b>234,207,740</b>	<b>195,339,048</b>

# PROFIT AND LOSS ACCOUNT AS AT 31 DECEMBER 1998

## COSTS / INCOME

According to the Accounting Methodology of the Czech Banks (CAS)

in CZK thousand

Item	Accounting period	
	Current	Prior year
	1	2
<b>1. Interest income and similar income</b>	<b>55,946,612</b>	<b>53,748,817</b>
<i>of which: interest income from fixed income securities</i>	<i>2,917,869</i>	<i>4,281,326</i>
<b>2. Interest expense and similar expenses</b>	<b>(40,847,466)</b>	<b>(37,976,199)</b>
<i>of which: interest expense on fixed income securities</i>	<i>(4,984,710)</i>	<i>(5,316,555)</i>
<b>3. Income from variable yield securities</b>	<b>71,133</b>	<b>83,609</b>
a) income from shares and other variable yield securities	10,645	63,333
b) income from investments in associated undertakings	45,488	10,526
c) income from investments in subsidiary undertakings	15,000	9,750
d) income from other investments	0	0
<b>4. Fee and commission income</b>	<b>5,000,527</b>	<b>4,783,247</b>
<b>5. Fee and commission expense</b>	<b>(373,511)</b>	<b>(425,409)</b>
<b>6. Profit (loss) from financial operations</b>	<b>4,730,845</b>	<b>2,204,641</b>
<b>7. Other income</b>	<b>3,775,893</b>	<b>2,254,277</b>
<b>8. General operating costs</b>	<b>(11,315,162)</b>	<b>(11,048,240)</b>
a) staff costs	(5,063,606)	(4,822,338)
aa) salaries and wages	(3,711,666)	(3,531,591)
ab) social insurance	(1,020,004)	(975,395)
ac) health insurance	(331,936)	(315,352)
b) other operating costs	(6,251,556)	(6,225,902)
<b>9. Creation of reserves and provisions for tangible and intangible assets</b>	<b>0</b>	<b>0</b>
a) creation of reserves for tangible assets	0	0
b) creation of provisions for tangible assets	0	0
c) creation of provisions for intangible assets	0	0
<b>10. Use of reserves and provisions for tangible and intangible assets</b>	<b>0</b>	<b>0</b>
a) use of reserves for tangible assets	0	0
b) use of provisions for tangible assets	0	0
c) use of provisions for intangible assets	0	0
<b>11. Other costs</b>	<b>(25,628,681)</b>	<b>(9,188,922)</b>
<b>12. Creation of provisions and reserves for loans and guarantees</b>	<b>(23,569,085)</b>	<b>(15,331,529)</b>
<b>13. Use of provisions and reserves for loans and guarantees</b>	<b>23,329,839</b>	<b>10,986,143</b>
<b>14. Creation of provisions and reserves for fixed asset investments and other financial investments</b>	<b>(326,269)</b>	<b>(236,583)</b>
<b>15. Use of provisions and reserves for fixed asset investments and other financial investments</b>	<b>73,161</b>	<b>0</b>
<b>16. Creation of other provisions and reserves</b>	<b>(3,013,131)</b>	<b>(1,301,661)</b>
<b>17. Use of other provisions and reserves</b>	<b>2,025,461</b>	<b>1,539,537</b>
<b>18. Income tax from current activities</b>	<b>(9,663)</b>	<b>57,799</b>
<b>19. Profit or loss from current activities for accounting period after tax</b>	<b>(9,804,536)</b>	<b>261,244</b>
<b>20. Extraordinary income</b>	<b>446,132</b>	<b>250,890</b>
<b>21. Extraordinary costs</b>	<b>(121,171)</b>	<b>(139,173)</b>
<b>22. Income tax from extraordinary activities</b>	<b>0</b>	<b>0</b>
<b>23. Profit or loss from extraordinary activities after tax</b>	<b>324,961</b>	<b>111,717</b>
<b>24. Profit or loss for accounting period</b>	<b>(9,804,536)</b>	<b>261,244</b>

NOTES TO THE FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 1998 IN CZK THOUSAND

1) INTRODUCTORY INFORMATION

Komerční banka, a. s., was founded on 5 March 1992 in Prague as the legal successor of Komerční banka, s. p. ú., in accordance with the law on banks no. 21/1992 Coll. and has its registered address at Na Příkopě 33, 114 07 Praha 1.

1A) INFORMATION ABOUT METHODS USED FOR VALUATION  
OF ASSETS AND LIABILITIES

Komerční banka, a. s. (the "Bank") values its assets in accordance with the Law on Accounting (§ 25). Receivables and payables in Czech crowns are stated at nominal value. Reserves and provisions are created for classified loans granted to customers and banks. Provisions are also created for other non-classified receivables, where there is a risk of non-collectibility.

Assets and liabilities expressed in foreign currency are translated into Czech crowns, in accordance with § 24 par. 2 of the Law on Accounting, using the foreign exchange rate issued by the Czech National Bank. The financial statements for 1998 used the foreign exchange rate issued by the Czech National Bank on 31 December 1998.

Securities for trading and long-term financial investments are stated at purchase cost. Average cost method is used for calculating gains or losses on disposals.

Treasury bills and notes are valued at purchase cost. The FIFO method is used for calculating gains or losses on disposals. Treasury bills and notes acquired from REPO operations are valued at nominal value. Provisions are created for securities for trading and long-term financial investments in accordance with the "Measure of the Czech National Bank No. 3 from 9 June 1997 about principles for creating portfolios of securities and fixed asset investments by banks and hedging against the risk of devaluation of securities and fixed assets investments by provisions".

Securities issued by the Bank are stated at nominal value. The Bank records in its balance sheet the issue of its own bonds with coupons and the issue of its own Zero Coupon Bonds, where the price at issue is discounted. The discount is amortised to the profit and loss account over the term of the bond.

Cash in hand and other cash values in Czech crowns are stated at nominal value. Tangible assets and inventory are stated at purchase cost.

Transactions with foreign exchange derivatives are stated in the off-balance sheet at realisable values. The Bank creates reserves for unrealised profits and expected losses on these operations. The Bank also creates reserves for estimated future losses on interest rate derivatives.

The method for the valuation of assets and liabilities was not changed during 1998.

#### 1 B) INFORMATION ABOUT DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

Depreciation of tangible and intangible assets is performed according to a depreciation plan. The period for depreciation of tangible and intangible assets is the same as that determined by Act No. 586/1992 Coll., concerning income tax, and in the wording of later regulations. The Bank uses a straight line method of depreciation. In 1998 there were no changes in the depreciation method.

Depreciation group	Depreciation period
1. Tools, instruments and computers	4 years
2. Fixtures, fittings and equipment	8 years
3. Means of transport	15 years
4. Energy producing plants	30 years
5. Buildings, structures and land	45 years

#### 1 C) INFORMATION ABOUT ACCOUNTING PROCEDURES

For accounting purposes the Bank used a valid, up-to-date Chart of Accounts and the relevant accounting procedures for banks, valid in 1998. In 1998 the Bank continued to review its methodology relating to accounting policies for existing products and prepared accounting policies for new products.

#### 2 ) DEFERRED TAX LIABILITY OR RECEIVABLE

The deferred tax liability, according to current regulations, arises only on the difference between the depreciation of fixed assets for tax purposes, according to the income tax law, and the depreciation of fixed assets for accounting purposes, according to the Bank's depreciation plan, taking into consideration the net book value of disposed assets. In 1998, depreciation for accounting purposes is higher than depreciation for tax purposes.

The corporate tax rate for 1998 was 35 %. Income tax recorded in the profit and loss account is CZK 9,663 thousand. This amount is calculated from tax paid according to additional tax returns of CZK 21,311 thousand and a decrease in the deferred tax liability of CZK 11,648 thousand. The main adjustments when computing the tax base from accounting profit relate to tax exempt income and income not included in the tax basis.

TABLE NO. 2.1 CALCULATION OF TAX PAYABLE  
FROM INCOME IN CZK THOUSAND

	1998	1997
<b>Profit/loss for accounting period</b>	<b>(9,804,536)</b>	<b>261,244</b>
Tax paid according to additional tax returns	21,311	14,558
Decrease of deferred tax liability	(11,647)	(72,357)
<b>Profit/loss before tax</b>	<b>(9,794,872)</b>	<b>203,445</b>
Costs – non-tax deductible	15,676,605	4,483,820
Income – non taxable	(5,319,244)	(7,449,444)
Tax basis	562,489	(2,762,179)
Tax basis decreased	(560,850)	0
Reduced tax basis	1,639	0
Tax at the current rate	573	0
Reduction in tax	(573)	0
<b>Tax charge for 1998</b>	<b>0</b>	<b>0</b>
Tax according to additional tax returns	21,311	14,558
<b>Tax payable</b>	<b>21,311</b>	<b>14,558</b>

**3) SUMMARY OF FIXED ASSET INVESTMENTS**

In accordance with the principle of prudence the Bank has created provisions in the amount of CZK 136,768 thousand for its fixed asset investments. In 1998 the Bank increased its share in I. S. C. MUZO, a. s., Investiční privatizační fond KB, a. s., and CAC Leasing Slovakia, a. s. In addition, the share capital of Komerční pojišťovna, a. s., was increased by CZK 150,000 thousand to CZK 300,000 thousand. All fixed asset investments of the Bank are joint stock companies. The total investment recorded for Komerční pojišťovna, a. s., excludes the sum of CZK 10,000 thousand as security deposit.

TABLE NO. 3.1 FIXED ASSET INVESTMENTS BY ISSUER

	Resident at	Amount of profit/loss in 1997 in CZK thousand	Bank's proportion in the share capital in %
ALL IN, a. s.	Praha 1, Vodičkova 30	4,437	100.0
Investiční kapitálová společnost KB, a. s.	Praha 1, Dlouhá 34	81,903	100.0
Bankovní ochranná služba, a. s.	Praha 9, Kolčavka 75	12,030	100.0
Penzijní fond KB, a. s.	Praha 1, Na Příkopě 33	278,332	100.0
Komerční banka Bratislava, a. s.	Bratislava, Medená 6	30,837	100.0
Komerční pojišťovna, a. s.	Praha 1, Jindřišská 17	(35,401)	100.0
Komerční Finance, B. V.	Amsterdam, P. Irenestraat 61	17,108	100.0
Factoring KB, a. s.	Praha 1, Na Poříčí 36	(4,160)	100.0
CAC LEASING, a. s.	Praha 5, Janáčkovo nám. 55	90,229	50.0
I. S. C. MUZO, a. s.	Praha 1, Jindřišská 24	57,563	49.9
Všeobecná stavební spořitelna KB, a. s.	Praha 2, Bělehradská 128	165,520	40.0
Investiční privatizační fond KB, a. s.	Praha 1, Dlouhá 34	515,805	35.0
Bankovní institut, a. s.	Praha 7, Letenské nám. 4	(1,981)	13.7
Českomoravská záruční a rozvojová banka, a. s.	Praha 1, Jeruzalémská 4	221,849	13.0
CAC LEASING Slovakia, a. s.	Bratislava, Hurbanovo nám. 1	(5,036)	11.0
Economia, a. s.	Praha 7, Dobrovského 25	246,347	10.9
Burza cenných papírů Praha, a. s.	Praha 1, Rybná 14	(25,499)	7.9
Česká kapitálová informační agentura, a. s.	Praha 1, Rybná 14	(3,100)	4.1

#### 4) NUMBER AND NOMINAL VALUE, OR ACQUISITION PRICE OF SUBSCRIBED SHARES OR PROPORTION IN THE SHARE CAPITAL OF FIXED ASSETS INVESTMENTS

TABLE NO. 4.1 FIXED ASSET INVESTMENTS BY ISSUER

Company	Amount invested by the Bank in share capital in CZK thousand	Amount invested in funds in CZK thousand	Amount invested – acquisition price in CZK thousand	Nominal value of shares in CZK thousand	Number of shares held by the Bank
ALL IN, a. s.	100,000	0	100,000	500	209
Investiční kapitálová společnost KB, a. s.	50,000	25,000	75,000	100	500
Bankovní ochranná služba, a. s.	57,535	7,000	64,535	1	62,000
Penzijní fond KB, a. s.	200,000	30,000	230,000	100	2,000
Komerční banka Bratislava, a. s.	404,845	40,485	445,330	100 (SKK)	5,000
Komerční Finance, B. V.	634	0	634	1 (NLG)	40
Komerční pojišťovna, a. s.	300,000	70,000	370,000	100	3,000
Factoring KB, a. s.	40,000	6,000	46,000	100	400
<b>Total subsidiaries</b>	<b>1,153,014</b>	<b>178,485</b>	<b>1,331,499</b>	-	-
CAC LEASING, a. s.	110,900	0	110,900	100 and 500	130 and 200
I. S. C. MUZO, a. s.	60,998	0	60,998	1	50,900
Všeob. stav. spořitelna KB, a. s.	200,000	20,000	220,000	100	2,000
IPF KB, a. s.	2,268,439	0	2,268,439	1	3,260,335
Other (participation below 20 %)	102,182	2,450	104,632	-	-
<b>Total associated undertakings</b>	<b>2,742,519</b>	<b>22,450</b>	<b>2,764,969</b>	-	-

#### 5) SHAREHOLDERS

In 1998 the Bank did not issue new shares nor was the share capital of the Bank increased during the year. It was decided at the Extraordinary General Meeting of the Bank on 24 November 1998 that the share capital of the Bank would be increased by CZK 129,059 thousand by the issue of 258,118 shares of the Bank to the National Property Fund. This issue was not effective in 1998.

The number of shares owned by parties related to the Bank is 19,755, i. e. 0.104 % of the share capital.

TABLE NO. 5.1 SHAREHOLDERS OF THE BANK  
(LIMIT 3 % OF SHARE CAPITAL)

Enterprise	Resident at	Portion of share capital (%)
National Property Fund of the Czech Republic	Rašínovo náměstí 42, Praha 2	48.736
The Bank of New York ADR Department Restitution Investment Fund	101 Barclay Street, New York	10.753
of the Czech Republic	Trojanova 18, Praha 2	3.520

TABLE NO. 5.2 NUMBER OF BANK SHARES OWNED BY PERSONS WITH A SPECIAL RELATIONSHIP TO THE BANK

	Number of shares
Board of Directors members	830
Supervisory Board members	1,540
Bank management members	17,335
Banking Council of Czech National Bank	50
<b>Total</b>	<b>19,755</b>

## 6) COMMITMENTS FROM ACCEPTED LOANS OF SPECIAL NATURE

At 31 December 1998 the Bank had commitments from long-term accepted loans of a special nature relating to subordinated debt to the value of CZK 5,971,000 thousand (USD 200,000 thousand).

In May 1998, Komerční Finance, B. V., issued international subordinated bonds 1998/2008 of the total volume of USD 200 million maturing on May 15, 2008 and with a call option which can be exercised after 5 years. The introductory fixed coupon was set at 9 % p. a.

## 7) LOANS TO BANKS AND NON-BANKING SUBJECTS

### 7A) ANALYSIS OF LOANS AND COLLATERAL

The Bank has in its assets loans to banks in the amount of CZK 65,333,336 thousand of which a loan provided to the Czech National Bank in respect of REPO operations is CZK 57,200,000 thousand.

Loans to customers amounted to CZK 243,778,790 thousand, of which CZK 141,794,790 thousand are standard loans including loans to local authorities and CZK 101,984,000 thousand of classified loans (Table No. 7.3).

Receivables from clients include interest of CZK 7,989,865 thousand (1997 – CZK 9,079,500 thousand). Of this sum, CZK 7,535,739 thousand (1997 - CZK 8,807,302 thousand) relates to overdue interest and CZK 454,126 thousand (1997 - CZK 272,198 thousand) relates to accrued interest which is not overdue.

TABLE NO. 7.1 LOANS ACCORDING TO CONTRACTUAL MATURITY IN CZK THOUSAND

	Total	On demand	Up to 1 year	From 1 to 4 years	Over 4 years	1997
<b>Loans to banks</b>	<b>65,333,336</b>	971,523	60,255,717	2,185,735	1,920,361	<b>43,811,523</b>
<b>Loans to customers</b>	<b>243,778,790</b>	313,697	112,274,273	68,279,928	62,910,892	<b>279,873,956</b>
- standard	<b>141,794,790</b>	313,697	59,597,917	37,395,308	44,487,868	<b>180,077,564</b>
- classified	<b>101,984,000</b>	0	52,676,356	30,884,620	18,423,024	<b>99,796,392</b>

TABLE NO. 7.2 LOANS ACCORDING TO REMAINING MATURITY IN CZK THOUSAND

	Total	On demand	Total short-term	Up to 3 months	Up to 1 year	1997
<b>Loans to banks</b>	<b>65,333,336</b>	<b>971,523</b>	<b>60,850,109</b>	<b>57,739,716</b>	<b>3,110,393</b>	<b>43,811,523</b>
Agriculture	<b>16,420,189</b>	6,549	<b>7,507,805</b>	3,399,008	4,108,797	<b>19,414,962</b>
Processing industry	<b>98,022,067</b>	21,278	<b>66,611,189</b>	29,417,045	37,194,144	<b>113,032,551</b>
Distribution, production of energy	<b>9,225,397</b>	701	<b>543,588</b>	85,536	458,052	<b>8,134,959</b>
Construction	<b>10,551,073</b>	9,016	<b>8,236,350</b>	3,620,610	4,615,740	<b>12,758,168</b>
Trade, catering, transport and telecommunications	<b>66,034,722</b>	117,282	<b>46,549,227</b>	21,438,704	25,110,523	<b>79,985,750</b>
Insurance, banking	<b>14,547,941</b>	1,805	<b>8,272,201</b>	2,535,737	5,736,464	<b>6,011,724</b>
Administration and other parties	<b>28,977,401</b>	157,066	<b>11,688,750</b>	6,319,577	5,369,173	<b>40,535,842</b>
<b>Total loans to clients</b>	<b>243,778,790</b>	<b>313,697</b>	<b>149,409,110</b>	<b>66,816,217</b>	<b>82,592,893</b>	<b>279,873,956</b>

TABLE NO. 7.2 LOANS ACCORDING TO REMAINING MATURITY  
IN CZK THOUSAND (CONTINUED)

	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Over 5 years
<b>Loans to banks</b>	<b>853,177</b>	<b>1,081,241</b>	<b>0</b>	<b>1,577,286</b>
Agriculture	2,081,751	3,421,153	1,461,142	1,941,789
Processing industry	7,632,878	12,119,151	3,170,536	8,467,035
Distribution, production of energy	1,516,823	383,241	594,758	6,186,286
Construction	615,630	1,124,986	174,451	390,640
Trade, catering, transport and telecommunication	4,229,860	7,049,518	1,774,182	6,314,653
Insurance, banking	1,641,092	4,369,307	136,573	126,963
Administration and other parties	1,779,422	2,406,611	924,117	12,021,435
<b>Total loans to clients</b>	<b>19,497,456</b>	<b>30,873,967</b>	<b>8,235,759</b>	<b>35,448,801</b>

TABLE NO. 7.3 ANALYSIS OF CLASSIFIED LOANS IN CZK THOUSAND

	Total	Classification				1997
		Watch	Sub-standard	Doubtful	Loss	
Loans to banks	<b>1,966,218</b>	98,878	1,200,756	0	666,584	2,258,737
Loans to customers	<b>101,984,000</b>	32,143,712	10,501,387	6,507,253	52,831,648	99,796,392
<b>Total</b>	<b>103,950,218</b>	<b>32,242,590</b>	<b>11,702,143</b>	<b>6,507,253</b>	<b>53,498,232</b>	<b>102,055,129</b>

TABLE NO. 7.4 COLLATERAL FOR SHORT-TERM RECEIVABLES  
IN CZK THOUSAND

	Bank loans collateral	Client loans collateral
Guarantees of state and governmental institutions	0	850,892
Bank guarantees	89,565	748,242
Guaranteed deposits	0	698,026
Issued debentures in pledge	0	150
Pledge of immovable assets	0	87,611,277
Pledge of movable assets	0	321,468
Guarantee by legal entity	0	16,894,622
Guarantee by private individual	0	1,344,864
Pledge of receivable	0	2,088,509
Insurance of loan risk	0	0
Other	0	6,151,352
<b>Total</b>	<b>89,565</b>	<b>116,709,402</b>

Short-term loans to banks are collateralised by being insured with the Exportní garanční a pojišťovací společnost, a. s. (Export guarantee and insurance company), to the value of CZK 10,716 thousand. Short-term loans to clients are collateralised by being insured with the Exportní garanční a pojišťovací společnost, a. s. (Export guarantee and insurance company), to the value of CZK 526,146 thousand. Collateral for short-term loans of clients listed in table No. 7.1 (column "Up to 1 year") is listed in table No. 7.4.

In regard of the calculation of provisions for loans the above stated collateral values are discounted.



TABLE NO. 7.5 LOAN PORTFOLIO OF THE BANK BY CLASSIFICATION  
IN CZK THOUSAND

	Gross amount	Collateral	Uncovered risk	Provisions	Net book value
Standard	141,794,800	81,491,841	60,302,959	-	141,794,800
Watch	32,143,700	28,536,160	3,607,540	(180,377)	31,963,323
Sub-standard	10,501,400	8,614,295	1,887,105	(377,421)	10,123,979
Doubtful	6,507,200	4,509,738	1,997,462	(998,731)	5,508,469
Loss	52,831,600	28,634,466	24,197,134	(24,197,134)	28,634,466
<b>Total</b>	<b>243,778,700</b>	<b>151,786,500</b>	<b>91,992,200</b>	<b>(25,753,663)</b>	<b>218,025,037</b>

The collateral relates to total loan portfolio and is therefore higher than the total of collateral in Table 7.4. Collateral for short-term receivables. Collateral represents the discounted value of collateral up to the net book value.

TABLE NO. 7.6 COLLATERAL FOR THE ENTIRE LOAN PORTFOLIO  
IN CZK THOUSAND

	Bank loans collateral	Client loans collateral
Guarantees of state and governmental institutions	0	11,112,896
Bank guarantees	89,565	2,783,919
Guaranteed deposits	61,234	1,609,361
Issued debentures in pledge	0	2,250
Pledge of immovable assets	0	285,290,910
Pledge of movable assets	0	5,517,326
Guarantee by legal entity	0	47,486,555
Guarantee by private individual	0	7,847,493
Pledge of receivable	0	7,103,440
Insurance of loan risk	0	0
Other	0	12,702,765
<b>Total</b>	<b>150,799</b>	<b>381,456,915</b>

#### 7B) RESTRUCTURING AND FINANCING OF THE LOAN PORTFOLIO

In December 1998, the Bank entered into a transaction with an internationally recognised investment bank that provides for a guarantee of funding of the estimated value of collateral of a portfolio of loans classified as loss. Under the terms of the contracts, the Bank may receive funding of CZK 5,062 million (USD 169 million) of defaulted loans. The contracts also provide for a guarantee of a portfolio of zero coupon U. S. Treasury Bonds to be purchased by the Bank during the year 2002 at a presently estimated cost of USD 129 million. The Bank retains all ownership and rights to the defaulted loans. The Bank retains control of the U. S. Treasury Bonds, but the counterparty has the right to borrow the securities. The Bank retains interest earnings and fees on the Bonds. The Bank has paid a refundable deposit of USD 9 million and is obligated to make 40 fixed payments of USD 7 million semiannually. The contracts may be terminated by the Bank before final maturity with a payment of penalty charges. The maturities of the U. S. Treasury Bonds approximate the timing of the payments required to be made by the Bank thereby providing funding of the major part of the future required payments. The Bank also expects to recover the defaulted loans by repayment or liquidation of collateral.

Non-refundable payments to the counterparty will be recorded in expenses in the relevant period on an accrual accounting basis. Payments received by the Bank from the counterparty on the defaulted loans will be recorded as recovery of the defaulted loans and the loans will be written off and transferred to the off-balance sheet account. Any gains or losses realised from liquidation of the loans will be included in the profit and loss account. The U. S. Treasury Bonds will be recorded in the assets and all related earnings will be included in the profit and loss account.

### 7c) LOANS TO GROUP COMPANIES

At 31 December 1998 the Bank had loans to subsidiary and associated undertakings to the value of CZK 4,343,651 thousand. Of this, the value of loans with contractual maturity of less than one year is CZK 2,426,414 thousand, one to four years CZK 1,885,270 thousand and over four years CZK 61,967 thousand. The value of loans according to remaining maturity is CZK 2,745,063 thousand for loans with remaining maturity of less than one year and CZK 1,628,588 thousand for loans between one and four years.

The total of CZK 1,678,597 thousand from these loans is classified. The largest loan was to the subsidiary company ALL IN, a. s., and its subsidiary companies to the value of CZK 2,739,550 thousand. From this amount, CZK 1,000,000 thousand relates to a short-term loan in settlement of a loan advanced from the Bank. A contract has been agreed in connection with this advance concerning the future return of the advance to the Bank so that the Bank has the possibility of buying the advance back at any time up to 2. 6. 1999.

### 8) LOANS ACCEPTED

No collateral was provided for accepted loans. Specification of accepted loans according to agreed and remaining maturity can be seen from table No. 8.1 and 8.2. Column "Total short-term" shows the sum of liabilities with maturity up to 1 year.

TABLE NO. 8.1 LOANS ACCEPTED SPECIFIED ACCORDING TO AGREED MATURITY IN CZK THOUSAND

	Total	On demand	Total short-term	Up to 3 months	Up to 1 year	1997
Loans from CNB	<b>825,248</b>	0	0	0	0	<b>960,468</b>
Loans from other banks	<b>36,693,271</b>	0	5,635,112	0	5,635,112	<b>37,171,831</b>
Loans from clients	<b>20,048,607</b>	0	6,958,027	6,958,027	0	<b>16,546,391</b>
<b>Total</b>	<b>57,567,126</b>	<b>0</b>	<b>12,593,139</b>	<b>6,598,027</b>	<b>5,635,112</b>	<b>54,678,690</b>

TABLE NO. 8.1 LOANS ACCEPTED SPECIFIED ACCORDING TO AGREED MATURITY IN CZK THOUSAND (CONTINUED)

	Total over 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Over 5 years	1997
Loans from CNB	<b>825,248</b>	0	0	0	825,248	<b>960,468</b>
Loans from other banks	<b>31,058,159</b>	3,677,779	13,433,821	7,467,760	6,478,799	<b>36,785,431</b>
Loans from clients	<b>13,090,580</b>	0	502	348,768	12,741,310	<b>14,653,199</b>
<b>Total</b>	<b>44,973,987</b>	<b>3,677,779</b>	<b>13,434,323</b>	<b>7,816,528</b>	<b>20,045,357</b>	<b>52,399,098</b>

TABLE NO. 8.2 LOANS ACCEPTED SPECIFIED ACCORDING TO REMAINING MATURITY IN CZK THOUSAND

	Total	On demand	Total short-term	Up to 3 months	Up to 1 year	1997
Loans from CNB	<b>825,248</b>	0	0	0	0	<b>960,468</b>
Loans from other banks	<b>36,693,271</b>	0	19,835,679	12,313,611	7,522,068	<b>37,171,831</b>
Loans from clients	<b>20,048,607</b>	269,685	12,378,958	6,783,261	5,595,697	<b>16,546,391</b>
<b>Total</b>	<b>57,567,126</b>	<b>269,685</b>	<b>32,214,637</b>	<b>19,096,872</b>	<b>13,117,765</b>	<b>54,678,690</b>

TABLE NO. 8.2 LOANS ACCEPTED SPECIFIED ACCORDING  
TO REMAINING MATURITY IN CZK THOUSAND (CONTINUED)

	Total over over 1 year	From 1 to 2 years	From 2 to 4 years	From 4 to 5 years	Over 5 years	1997
Loans from CNB	<b>825,248</b>	0	0	0	825,248	<b>960,468</b>
Loans from other banks	<b>16,857,592</b>	6,607,108	4,108,597	0	6,141,887	<b>23,770,916</b>
Loans from clients	<b>7,399,964</b>	0	7,399,964	0	0	<b>14,363,634</b>
<b>Total</b>	<b>25,082,804</b>	<b>6,607,108</b>	<b>11,508,561</b>	<b>0</b>	<b>6,967,135</b>	<b>39,095,018</b>

Loans accepted from clients also include loans from Komerční Finance, B. V., to the value of CZK 12,741,310 thousand. From this, the amount of CZK 7,399,965 thousand has a remaining maturity of less than one year and CZK 5,341,345 thousand of 1 to 4 years.

#### 9) SHARE OF GRANTED LOANS AND ACCEPTED LOANS WITH MATURITY WITHIN ONE YEAR

Loans with remaining maturity up to 1 year represent 68 % of the total volume of provided loans. The share of accepted loans with remaining maturity up to 1 year represents 56 % of the total volume of accepted loans.

#### 10) SYNDICATED LOANS GRANTED

In 1998 the Bank had in its loan portfolio syndicated loans as shown in Tables No. 10.1 - 10.2.

TABLE NO. 10.1 NON-BANKING SYNDICATED LOANS IN CZK THOUSAND

	Loan share amount in CZK thousand	Interest rate (%)	Portion of risk (%)
<b>Benzina, a. s.</b>			
Komerční banka, a. s. - dir. and coord.	1,254,007	14.57	50.00
Česká spořitelna, a. s.	1,254,007	14.57	50.00
<b>Total</b>	<b>2,508,014</b>	<b>14.57</b>	<b>100.00</b>
<b>Nová huť, a. s.</b>			
Komerční banka, a. s. - dir. and coord.	307,204	11.43	56.00
ČSOB, a. s.	159,088	11.43	29.00
Bank Austria Creditanstalt CR, a. s.	82,287	11.43	15.00
<b>Total</b>	<b>548,579</b>	<b>11.43</b>	<b>100.00</b>

TABLE NO. 10.2 LOANS PROVIDED WITHIN THE SCOPE OF CAEF  
(CZECH AMERICAN ENTERPRISE FUND)

	Loan share amount in CZK thousand	Interest rate (%)	Portion of risk (%)
Komerční banka, a. s. - dir. and coord.	1,672	19.00	50.00
Komerční banka, a. s.	9,850	0.00	50.00
CAEF	11,522	0.00 and 19.00	50.00
<b>Total</b>	<b>23,044</b>	<b>0.00 and 19.00</b>	<b>100.00</b>

### 11) RECEIVABLES AND LIABILITIES OTHER THAN RECEIVABLES AND LIABILITIES FROM LOANS

The amount of receivables from the Czech National Bank ("CNB") amounted to CZK 24,105,820 thousand from which CZK 19,688,271 thousand represents the minimum statutory reserves and CZK 4,417,548 thousand represent deposits payable on demand.

The Bank also has other commitments to the CNB to the value of CZK 62,637,521 thousand, of which CZK 58,918,000 thousand relates to treasury bills used to secure REPO loans. A list of non-loan receivables and liabilities of other banks is given on Tables No. 11.1 and 11.2. With regard to other banks, the largest creditor is Česká spořitelna, a. s. (Czech Savings Bank); the commitments of the Bank to this institution are to the value of CZK 14,000,000 thousand.

TABLE NO. 11.1 OTHER RECEIVABLES AND COMMITMENTS TO BANKS ACCORDING TO CONTRACTUAL MATURITY IN CZK THOUSAND

	Total	On demand	Up to 1 year	From 1 to 4 years	Over 4 years	1997
Bank deposits received	<b>92,893,248</b>	3,166,204	89,583,517	0	143,527	<b>44,931,502</b>
Bank deposits placed	<b>51,632,879</b>	1,332,262	50,300,617	0	0	<b>64,545,532</b>

TABLE NO. 11.2 OTHER RECEIVABLES AND COMMITMENTS TO BANKS ACCORDING TO REMAINING MATURITY IN CZK THOUSAND

	Total	On demand	Up to 1 year	From 1 to 4 years	Over 4 years	1997
Bank deposits received	<b>92,893,248</b>	3,166,204	89,727,044	0	0	<b>44,931,502</b>
Bank deposits placed	<b>51,632,879</b>	1,332,262	50,300,617	0	0	<b>64,545,532</b>

TABLE NO. 11.3 COMMITMENTS TO CUSTOMERS ACCORDING TO CONTRACTUAL MATURITY IN CZK THOUSAND

	Total	On demand	Up to 1 year	From 1 to 4 years	Over 4 years	1997
Current accounts	<b>103,445,396</b>	103,445,396	0	0	0	<b>108,163,315</b>
Savings deposits	<b>38,390,244</b>	1,771,375	12,695,214	14,097,960	9,825,695	<b>48,512,625</b>
Time deposits	<b>99,162,083</b>	0	97,808,540	885,040	468,503	<b>110,470,418</b>
Deposits from budget	<b>8,310,265</b>	8,310,265	0	0	0	<b>8,785,843</b>
Out of budget deposits	<b>4,341,118</b>	2,062,974	2,275,784	1,000	1,360	<b>4,403,309</b>
Accepted client loans	<b>20,048,607</b>	0	6,958,027	48,335	13,042,245	<b>16,546,391</b>
<b>Commitments to clients</b>	<b>273,697,713</b>	<b>115,590,010</b>	<b>119,737,565</b>	<b>15,032,335</b>	<b>23,337,803</b>	<b>296,881,901</b>

TABLE NO. 11.4 COMMITMENTS TO CUSTOMERS ACCORDING TO REMAINING MATURITY IN CZK THOUSAND

	Total	On demand	Up to 1 year	From 1 to 4 years	Over 4 years	1997
Current accounts	<b>103,445,396</b>	103,445,396	0	0	0	<b>108,163,315</b>
Savings deposits	<b>38,390,244</b>	1,771,375	14,004,494	13,913,058	8,701,317	<b>48,512,625</b>
Time deposits	<b>99,162,083</b>	16,600,376	81,862,755	678,115	20,837	<b>110,470,418</b>
Deposits from budget	<b>8,310,265</b>	8,310,265	0	0	0	<b>8,785,843</b>
Out of budget deposits	<b>4,341,118</b>	3,481,491	859,627	0	0	<b>4,403,309</b>
Accepted client loans	<b>20,048,607</b>	269,685	12,378,958	7,399,964	0	<b>16,546,391</b>
<b>Commitments to clients</b>	<b>273,697,713</b>	<b>133,878,588</b>	<b>109,105,834</b>	<b>21,991,137</b>	<b>8,722,154</b>	<b>296,881,901</b>

The Bank does not have any material amounts of receivables from or commitments to subsidiary and associated undertakings other than those from loans.

**12) RECEIVABLES WRITTEN-OFF**

In 1998 the Bank wrote off CZK 17,975,475 thousand of receivables from clients. The write-off was covered by the use of reserves and provisions. Income from written-off receivables amounted to CZK 535,308 thousand. In addition, overdrafts on current accounts to the value of CZK 15,213 thousand were written off. Income from these written-off loans amounted to CZK 765 thousand.

Written-off receivables in 1998, compared to 1997, were higher by CZK 12,631,029 thousand.

TABLE NO. 12.1 COSTS AND INCOME FROM RECEIVABLES WRITTEN-OFF  
ACCORDING TO INDUSTRY IN CZK THOUSAND

Industry	Costs of written-off loans to banks	Costs of written-off loans to clients	Income from written-off receivables
Agriculture, fishing	0	1,134,847	26,223
Forestry and timber industry	0	1,019	18
Mining	0	47,735	101,111
Manufacturing industry	0	6,292,997	160,382
Production, distribution of energy	0	297,999	4,717
Construction, building	0	662,932	11,109
Trade, catering	0	5,949,127	122,414
Transport, communications	0	558,323	28,281
Banking and insurance	10	215,055	70
Other activities	0	2,815,441	80,983
<b>Total loans written-off</b>	<b>10</b>	<b>17,975,475</b>	<b>535,308</b>
Written-off current account overdrafts	0	15,213	765
<b>Total</b>	<b>10</b>	<b>17,990,688</b>	<b>536,073</b>

**13) INFORMATION ON SECURITIES**

As at 31 December 1998 provisions for bonds were created to the value of CZK 183,447 thousand and for shares to the value of CZK 841,189 thousand. The provisions are calculated as the difference between acquisition price and market price (determined on the basis of Czech National Bank regulations). The market price stated in the final column of tables 13.1 -13.3 is stated on the basis of prices quoted on financial markets as at the date of the financial statements.

TABLE NO. 13.1 FIXED INCOME SECURITIES - TRADING PORTFOLIO  
IN CZK THOUSAND

	Purchase cost			Provisions 1998	Net book value 1998	Market price 1998
	Balance as at 31 December 1997	Addition/Disposal	Balance as at 31 December 1998			
State bonds	608,469	4,644,236	5,252,705	(20,172)	5,232,533	5,232,552
Municipal bonds	543,361	148,865	692,226	0	692,226	692,223
Banks	970,628	(117,626)	853,002	(5,219)	847,783	847,945
Own bonds	1,126,216	16,310	1,142,526	0	1,142,526	1,142,526
Other	4,093,658	2,285,992	6,379,650	(158,056)	6,221,594	6,222,164
<b>Total for trading</b>	<b>7,342,332</b>	<b>6,977,777</b>	<b>14,320,109</b>	<b>(183,447)</b>	<b>14,136,662</b>	<b>14,137,410</b>

TABLE NO. 13.2 FIXED INCOME SECURITIES - INVESTMENT PORTFOLIO IN CZK THOUSAND

	Purchase cost			Market price
	Balance as at 31 December 1997	Addition/Disposal	Balance as at 31 December 1998	1998
ČSOB	1,898,918	0	1,898,918	1,949,400
State bonds	14,194,597	(3,519,890)	10,674,707	10,778,254
Škoda, a. s.	850,000	0	850,000	850,000
Municipality of Brno	233,228	0	233,228	224,593
ČEZ	1,640,601	(1,192,967)	447,634	432,580
IPB	1,991,258	(1,991,258)	0	0
Konsolidační banka, a. s.	1,871,100	(871,100)	1,000,000	1,000,000
SPT Telecom, a. s.	663,648	(496,577)	167,071	172,958
Vereinsbank	78,889	0	78,889	78,890
ČKD	0	458,000	458,000	458,000
<b>Total</b>				
<b>for investment</b>	<b>23,422,239</b>	<b>(7,613,792)</b>	<b>15,808,447</b>	<b>15,944,675</b>

As at 31 December 1998, the Bank created provisions for fixed income securities held in the investment portfolio to the value of CZK 126,378 thousand.

TABLE NO. 13.3 VARIABLE YIELD SECURITIES IN CZK THOUSAND

	Purchase cost			Provisions	Net book	Market
	Balance as at 31 Dec. 1997	Addition/ Disposal	Balance as at 31 Dec. 1998	1998	value 1998	price 1998
Investment funds	531,555	(492,488)	39,067	(50)	39,017	48,693
Banks and insurance companies	396,267	(370,957)	25,310	(7,170)	18,140	31,393
Production, distribution of energy	2,459	1,433	3,892	(1,518)	2,374	2,751
Engineering and metallurgy	548,655	(16,350)	532,305	(411,978)	120,327	133,599
Other processing industry	831,620	(779,703)	51,917	(38,916)	13,001	19,178
Construction, building	477,529	87,457	564,986	(378,855)	186,131	207,312
Transport, communication	12,478	(12,476)	2	0	2	2
Other	278,592	(184,218)	94,374	(2,702)	91,672	131,342
<b>Total for trading</b>	<b>3,079,155</b>	<b>(1,767,302)</b>	<b>1,311,853</b>	<b>(841,189)</b>	<b>470,664</b>	<b>574,270</b>
Česká pojišťovna, a. s.	963,839	0	963,839	(512,740)	451,099	451,099
S.W.I.F.T	8,912	(671)	8,241	0	8,241	8,241
<b>Total</b>						
<b>for investment</b>	<b>972,751</b>	<b>(671)</b>	<b>972,080</b>	<b>(512,740)</b>	<b>459,340</b>	<b>459,340</b>
<b>Own shares held</b>	<b>170,862</b>	<b>(167,317)</b>	<b>3,545</b>	<b>(13)</b>	<b>3,532</b>	<b>3,673</b>

The Bank has in its trading portfolio shares of the associated company Investiční privatizační fond KB, a. s., stated at cost of CZK 2,550 thousand.

Table No. 13.4 states only securities in the trading and investment portfolio that are quoted on the Prague Stock Exchange.

TABLE NO. 13.4 SECURITIES QUOTED ON THE PRAGUE  
STOCK EXCHANGE IN CZK THOUSAND

	Cost			Market price
	Balance as at 31 December 1997	Addition/disposal	Balance as at 31 December 1998	1998
Fixed income securities	28,989,268	(1,071,924)	27,917,344	27,897,551
Variable yield securities	3,981,049	(1,957,092)	2,023,957	761,875
<b>Total</b>	<b>32,970,317</b>	<b>(3,029,016)</b>	<b>29,941,301</b>	<b>28,659,426</b>

#### 14) SHARE OF BONDS AND SECURITIES WITH FIXED INCOME AND SHARE OF ISSUED BONDS WITH MATURITY WITHIN ONE YEAR ON THE TOTAL VALUE OF THESE ASSETS AND LIABILITIES

The share of bonds and securities with fixed income repayable within one year of the total value of these assets is 35.1 %. Issued bonds with maturity within one year represent 34.3 % of the total value of these liabilities.

#### 15) ASSETS PLEDGED AS COLLATERAL FOR OWN LIABILITIES OR LIABILITIES OF THIRD PARTIES

The Bank has neither assets pledged as collateral nor receivables from collateral.

#### 16) RESERVES AND PROVISIONS

The Bank has created reserves and provisions against risks for loans, guarantees, securities and other receivables from borrowers. From the total value of provisions for loans of CZK 22,051,385 thousand the Bank has created tax deductible provisions of CZK 5,293,541 thousand, i. e. 2 % of the average of outstanding loan receivables after deducting provisions created for receivables from borrowers in bankruptcy proceedings. The Bank created provisions that are non-deductible for tax purposes to the value of CZK 11,141,218 thousand. Provisions for loans to borrowers in bankruptcy proceedings are recorded on special analytical accounts. During 1998 the Bank created in relation to these loans CZK 5,616,626 thousand of provisions. During 1998 provisions for loans were charged against income to the value of CZK 22,623,713 thousand of which CZK 17,975,475 thousand related to loan write-offs and CZK 3,271,622 thousand related to the sale of receivables.

The Bank created tax deductible reserves in accordance with par. 1a) § 5 of Law on Reserves for standard loans to the value of CZK 1,517,100 thousand. In 1998 the Bank did not create any reserves, which are not deductible for tax purposes.

In order to ensure that the Bank's accounting procedures are consistent with the principles contained in the "Law on Reserves", the Bank has changed its methodology so that specific loan risks in each respective classification category are covered by provisions. For this reason, the Bank transferred the sum of CZK 4,812,269 thousand from reserves to provisions. Reserves were not released in the year because of this write-off and sale.

The total amount of reserves and provisions for receivables from loans, and guarantees is CZK 30,418,655 thousand. The balance of general provisions of CZK 4,108,820 thousand covers both the standard loans and other unspecified risks in loan portfolio that do not relate to particular items.

Management is maximising its efforts to realise collateral on a timely basis. In the event that this proves to be unsuccessful, additional provisions will be created in the future in order to reach a reasonable value of provisions in total.

With respect to the pending modifications in legislation aimed at strengthening the position of creditors, the Bank anticipates to increase income on realizing collaterals. In line with the development of the economy the Bank reevaluates the existing appraisal criteria of received collaterals and guarantees and prepares to refine them so that they are a better indicator of future development.

As presented in table No. 16.2, the Bank has created provisions and reserves of CZK 22,051,385 thousand during the year for covering loan portfolio risks. The Bank's management has recorded provisions and reserves for all known and estimated risks as at the balance sheet date. Nevertheless, there are significant uncertainties concerning the actual figure of recoverability of loans, including the following:

- The Bank's portfolio contains a large number of debtors in a risky financial position that are involved in a restructuring process that is expected to lead to either partial or complete recovery of the Bank's receivables. The receivables from such debtors were classified based on the latest available information and expected successful course of the restructuring process. The ultimate results of such complex and long-term processes are uncertain.
- The Bank valued loan collaterals, mainly in the form of real estate, taking into consideration the prudence principle. The valuation of collateral was based on appraisal reports reduced by correction coefficients reflecting the risk of salability and price volatility. However, due to the weaknesses in legal protection of creditors, recovery of certain collaterals can be of a long-term nature with substantial uncertainty about the results. The Bank's management believes that in the near future favourable changes in legislature and enforcement of law in this field will take place thus increasing the success of collaterals' realisation.
- The Bank's portfolio consists of loans provided to debtors from all major industries. The persisting recession thus impacts the overall quality of the loan portfolio. If future unexpected economic deterioration occurs, the amount of estimated loan losses might be significantly impacted.

Should the development in one or more of the above presented areas be negative compared to the estimates of Bank's management, a substantial increase in loan provisions and reserves might be required.

A summary of other reserves (for example reserves for currency differences, reserves related to market value for term operations and for securities in the restructuring portfolio) is shown in Table 16.1 in the line entitled "Additional reserves outside the scope of the Law on reserves".

TABLE NO. 16.1 SUMMARY OF RESERVES IN CZK THOUSAND

	Balance as at 1. 1. 1998	Creation of reserves	Usage of reserves	Release to income	Transfer to provisions	Balance as at 31. 12. 1998
For standard loans	2,472,920	1,517,100	0	0	0	3,990,020
For loans overdue (10 %)	4,974	0	0	0	4,974	0
For loans with maturity over 1 year (2 %)	0	0	0	0	0	0
For guarantees	824,926	0	0	706,126	0	118,800
For uncollectible loans from clients 1992	0	0	0	0	0	0
Reserve for fixed assets - tax recognizable	0	600	0	0	0	600
Additional reserves outside the scope of the Law on reserves	5,131,019	3,213,023	0	1,995,157	4,807,295	1,541,590
<b>Total reserves</b>	<b>8,433,839</b>	<b>4,730,723</b>	<b>0</b>	<b>2,701,283</b>	<b>4,812,269</b>	<b>5,651,010</b>



TABLE NO. 16.2 SUMMARY OF PROVISIONS FOR CLASSIFIED LOANS  
TO CUSTOMERS AND BANKS IN CZK THOUSAND

	Balance as at 1. 1. 1998	Creation of provisions	Usage of provisions	Release to income	Other to changes	Balance as at 31. 12. 1998
Provisions						
for classified loans	14,693,403	16,434,759	15,460,592	1,065,380	4,744,716	19,346,906
- watch	315,380	76,301	19,279	190,578	3,497	185,321
- sub-standard	265,009	313,693	0	136,286	3,331	445,747
- doubtful	829,059	619,359	2,791	670,203	223,307	998,731
- loss	13,283,955	15,425,406	15,438,522	68,313	4,514,581	17,717,107
for loans in bankruptcy and liquidation proceedings	7,376,491	5,616,626	5,786,506	311,235	67,553	6,962,929
<b>Total provisions</b>	<b>22,069,894</b>	<b>22,051,385</b>	<b>21,247,098</b>	<b>1,376,615</b>	<b>4,812,269</b>	<b>26,309,835</b>

TABLE NO. 16.3 SUMMARY OF OTHER PROVISIONS IN CZK THOUSAND

	Balance as at 1. 1. 1998	Creation of provisions	Usage of provisions	Release to income	Balance as at 31. 12. 1998
For securities	940,423	909,846	0	186,504	1,663,765
For fixed asset participation	76,368	81,877	0	21,477	136,768
For various borrowers	242,900	0	0	30,304	212,596
<b>Total</b>	<b>1,259,691</b>	<b>991,723</b>	<b>0</b>	<b>238,285</b>	<b>2,013,129</b>

**17) ESTABLISHMENT COSTS**

The Bank does not record any establishment costs.

**18) TANGIBLE AND INTANGIBLE ASSETS**

TABLE NO. 18.1 TANGIBLE ASSETS IN CZK THOUSAND

	Balance as at 1. 1. 1998 (Purchase cost)	Additions net of disposals	Balance as at 31. 12. 1998 (Purchase cost)	Accumulated depreciation as at 31. 12. 1998	Balance as at 31. 12. 1998 (Net book value)
Land	346,802	20,975	367,777	0	367,777
Buildings and structures	10,358,700	1,443,097	11,801,797	1,646,941	10,154,856
Machines and equipment	3,137,348	634,226	3,771,574	2,560,920	1,210,654
Energy machines and equipment	569,409	95,807	665,216	224,768	440,448
Fixtures, fittings, equipment	2,594,339	287,310	2,881,649	1,758,334	1,123,315
Assets not depreciated	44,824	3,439	48,263	0	48,263
Acquisition of assets	1,683,246	(1,148,890)	534,356	0	534,356
<b>Total</b>	<b>18,734,668</b>	<b>1,335,964</b>	<b>20,070,632</b>	<b>6,190,963</b>	<b>13,879,669</b>

TABLE NO. 18.2 INTANGIBLE ASSETS IN CZK THOUSAND

	Balance as at 1. 1. 1998 (Purchase cost)	Additions net of disposals	Balance as at 31. 12. 1998 (Purchase cost)	Accumulated depreciation as at 31.12.1998	Balance as at 31. 12. 1998 (Net book value)
Software	447,885	309,087	756,972	365,244	391,728
Other intangible assets	12,522	8,485	21,007	8,648	12,359
Acquisition of assets	190,293	(3,807)	186,486	0	186,486
<b>Total</b>	<b>650,700</b>	<b>313,765</b>	<b>964,465</b>	<b>373,892</b>	<b>590,573</b>

## 19) TANGIBLE ASSETS ACQUIRED UNDER LEASING CONTRACT

	Amount in CZK thousand
Sum of instalments for whole term of assumed leasing	2,627,809
Instalments paid including lease advances	2,200,622
Specification of amounts of future lease payments	427,187
of which: payments in 1999	197,667
payments in 2000	142,124
payments in further years	87,396

## 20) OTHER ASSETS AND LIABILITIES, OTHER COSTS AND REVENUES

TABLE NO. 20.1 SPLIT OF OTHER ASSETS AND LIABILITIES IN CZK THOUSAND

	Assets 1998	Liabilities 1998	Assets 1997	Liabilities 1997
Other receivables/due to customers	299,557	1,276,239	724,568	5,737,391
Other debtors/creditors	145,610	1,463,983	73,097	1,111,651
Provided/accepted operating advances	293,559	34,447	523,596	32,114
Receivables/liabilities from trading				
with securities	20,083	80,341	112,035	154,414
Liabilities from issued securities	0	104,727	0	110,733
Paid/received option premium	178,136	350,520	38,200	35,821
Values for collection/with payment recorded				
after collection	415,413	343,484	639,664	533,794
Balances with employees	0	277,663	0	243,416
Balances related to the state budget	61,762	637,666	110,856	496,514
Contingencies gains/losses	43,068	112,270	52,130	145,426
Settlement accounts	1,982,616	1,280,694	1,366,491	856,969
of which: for operations in foreign currency	549,501	161,705	110,671	342,865
Other	0	2,546,572	0	235,345
<b>Total</b>	<b>3,439,804</b>	<b>8,508,606</b>	<b>3,640,637</b>	<b>9,693,588</b>

TABLE NO 20.2 OTHER REVENUES AND COSTS IN CZK THOUSAND

	Other revenues 1998	Other costs 1998	Other revenues 1997	Other costs 1997
Other operational income/expense (including emoluments of the Board and the Supervisory Board)	99,352	1,235,053	133,651	812,069
Revenue/cost of asset transfers	95,814	88,961	44,547	49,232
Income/expense from disposal of fixed asset investments	0	0	8,000	0
Income/expense from written-off receivables	536,073	24,304,667	294,759	5,359,669
Income/expense from sale of receivables	3,044,654	0	1,773,320	2,967,952
<b>Total</b>	<b>3,775,893</b>	<b>25,628,681</b>	<b>2,254,277</b>	<b>9,188,922</b>

## 21) USE OF NET INCOME OF PREVIOUS ACCOUNTING PERIOD AND PROPOSED USE OF NET INCOME OF CURRENT ACCOUNTING PERIOD

The General Meeting held on 18 June 1998 approved distribution of profit from 1997 as follows:

TABLE NO. 21.1 DISTRIBUTION OF 1997 PROFIT IN CZK THOUSAND

	Amount
<b>Profit of 1997 to be distributed</b>	<b>261,244</b>
Dividends	0
Emoluments	0
Allocation to social fund	105,948
Allocation to other funds from profit	155,296
Allocation to undistributed profit	0
<b>Total</b>	<b>261,244</b>

TABLE NO. 21.2 CHANGES TO RESERVES AND CAPITAL FUNDS IN CZK THOUSAND

Balance	1998	1997	Reason for changes
<b>Reserve funds</b>	<b>2,408,156</b>	<b>2,603,156</b>	
statutory reserve funds	1,902,992	1,902,992	
reserve funds for own shares	5,000	200,000	Reduction in the Bank's holding of own shares (-195,000)
other reserve funds	500,164	500,164	
<b>Capital funds and other funds created from profit</b>	<b>11,377,423</b>	<b>11,009,133</b>	
capital funds	54,699	54,415	Donations received by the Bank (+136) Return of land connected to "Travná" (+148)
other funds created from profit	11,322,724	10,954,718	Reduction in the Bank's holding of own shares (+195,000) Transfer to social fund 1997 (+105,948) Transfer to other funds created from profit of 1997 (+155,296) Reduction in social fund 1998 (-88,338)

A preliminary proposal for the coverage of the 1998 loss is as follows:

TABLE NO. 21.3 PROPOSAL FOR COVERAGE OF 1998 LOSS

	Amount in CZK thousand
<b>Loss of 1998 for coverage</b>	<b>(9,804,536)</b>
Sources of coverage:	
capital funds	54,699
other funds from profit	9,749,837
Total sources of coverage	9,804,536

The preliminary proposal is in agreement with the decision of the Extraordinary General Meeting of the Bank on 24 November 1998, which states: "The accounting loss for 1998 will be covered by capital funds and other funds created from profit. The coverage of this accounting loss will be performed in accordance with accounting regulations."

## 22) TOTAL AMOUNT OF ASSETS AND LIABILITIES IN FOREIGN CURRENCIES TRANSLATED TO CZK IN CZK THOUSAND

	Balance as at 31. 12. 1998	Balance as at 31. 12. 1997
Sum of foreign currency assets	87,829,810	96,342,937
Sum of foreign currency liabilities	83,580,158	98,565,068

## 23) NET RECEIVABLES ON TERM TRANSACTIONS

TABLE NO. 23.1 TERM TRANSACTIONS - FOR HEDGING  
IN CZK THOUSAND

Description	Financial instrument	Receivables	Commitments
Spot	Interest	0	0
	Currency	908,348	909,661
Forward	Interest	3,842,606	3,842,606
	Currency	0	0
Swap	Interest	21,772,960	21,772,960
	Currency	19,012,794	19,539,323
Options	Interest	3,842,606	3,842,606
	Currency	0	0
<b>Total</b>		<b>49,379,314</b>	<b>49,907,156</b>

TABLE NO. 23.2 TERM TRANSACTIONS - FOR TRADING PURPOSES  
IN CZK THOUSAND

Description	Financial instrument	Receivables	Commitments
Spot	Interest	0	0
	Currency	2,787,881	2,787,212
Forward	Interest	0	0
	Currency	4,677,625	4,676,855
Forward rate agreements	Interest	28,509,710	25,712,685
	Currency	0	0
Swap	Interest	52,478,333	52,478,333
	Currency	81,372,315	81,041,994
Options	Interest	439,406	439,406
	Currency	18,318,589	17,164,099
<b>Total</b>		<b>188,583,859</b>	<b>184,300,584</b>

**24) ASSETS ACCEPTED BY THE BANK INTO CUSTODY  
IN CZK THOUSAND**

	1998	1997
Values received from clients for administration and custody (materialised securities)	18,185,414	18,555,153
Asset reserve in evidence (materialised securities)	189,603	486,361
<b>Total</b>	<b>18,375,017</b>	<b>19,041,514</b>

**25) GENERAL OPERATING COSTS**

General operating costs in the total amount of CZK 11,315,162 thousand include, in addition to wages and social expenses, purchased services and depreciation of tangible and intangible assets (other general operating costs as detailed in Table No. 25.1). Emoluments of statutory and supervisory bodies are shown in the Profit and Loss statement in the line item Other expenses (Table 25.2).

TABLE NO. 25.1 GENERAL OPERATING COSTS IN CZK THOUSAND

General operating costs	1998	1997
Staff costs including management emoluments	5,063,606	4,822,338
Wages and salaries	3,711,666	3,531,591
Social expenses and health insurance costs	1,351,940	1,290,747
Emoluments of statutory and supervisory bodies members	16,174	43,032
Other general operating costs	6,251,556	6,225,902

TABLE NO. 25.2 EMOLUMENTS FOR MEMBERS OF STATUTORY AND  
SUPERVISORY BODIES IN CZK THOUSAND

Emoluments for members of statutory and supervisory bodies	1998	1997
Emoluments for Board of Directors members	9,432	35,802
Emoluments for Supervisory Board members	6,742	7,230
<b>Total</b>	<b>16,174</b>	<b>43,032</b>

The average number of employees is stated in table No. 25.3. The management of the Bank is formed by the Chief Executive, deputies of the Chief Executive, directors of divisions and their deputies.

TABLE NO. 25.3 NUMBER OF EMPLOYEES OF THE BANK

	1998	1997
Average number of employees	14,025	14,843
Number of members of management	22	21
Number of Board of Directors members	6	7
Number of Supervisory Board members	12	12

## 26) RELATIONS TO PERSONS WITH SPECIAL RELATIONSHIP TO THE BANK IN CZK THOUSAND

Receivables from	1998	1997
Members of statutory bodies, the Supervisory Board and Bank directors	48,065	43,996
Main shareholders of bank (over 1% portion of share capital)	1,942,348	4,539,715

Interest rates of the above stated receivables are between 1 and 18 %. No persons with a special relationship to the Bank have provided any guarantees to their account.

## 27) YEAR 2000 RISK

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field. Beginning in the year 2000, these date code fields will need to accept four-digit entries to distinguish 21st century dates from 20th century dates. As a result, in less than one year, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. With the assistance of outside consultants, the Bank has developed a detailed plan starting in mid-1997 to address its Year 2000 requirements. This plan has involved a comprehensive review of the Bank's computer systems. The Bank has developed its plan following a methodology issued by the Bank Committee for Bank Supervision. Despite the fact that the CNB has issued guidelines with respect to the Year 2000 problem as it affects inter-bank clearing systems, it has not established any regulations for the whole banking industry or provided any other systematic guidance. There can be no assurance that coding errors or other defects will not be discovered in the future. Any Year 2000 compliance problem of the Bank, its service providers, its customers, the internet infrastructure or other institutions with which the Bank interacts could result in a material adverse effect, which cannot be quantified, on the Bank's business, operating results and financial condition. The Bank has incurred costs of CZK 236 million on updating its software and hardware, and expects to incur additional costs of CZK 180 million in respect of future rectification work.

## 28) FINANCIAL SITUATION OF THE BANK

The Bank incurred a loss of CZK 9.8 billion in 1998 under CAS. The Bank's management has estimated that the 1999 loss will approximate CZK 5.8 billion. Under this assumption the Bank's capital adequacy at December 31, 1999 would decrease to the level nearing the minimum CNB requirements. Any unexpected negative economic development would likely result in a higher loss which could cause a failure to meet the capital adequacy requirements. Failure to meet capital adequacy requirements could result in sanctions by the Czech National Bank. The Bank's management recognises and understands these risks. Therefore, in collaboration with privatisation advisors, management is discussing and negotiating with the government as a major shareholder, options and alternatives in the event of such negative development, including as regards increasing the Bank's capital or providing government guarantees for risk loans, or a combination of these two alternatives. These discussions and negotiations are still pending at the financial statements date and their ultimate outcome is not known.

## REPORT BY THE SUPERVISORY BOARD

The Supervisory Board carried out its tasks in accordance with the statutory requirements and with the Statutes of the Bank. The Board of Directors submitted to it all necessary documents and information. The Supervisory Board exercised its powers of supervision over the Bank's activities and also submitted its proposals and observations to the Board of Directors.

Having checked the financial statements of the Bank for the period from 1 January to 31 December 1998 the Supervisory Board reports that the accounts were maintained in accordance with the legal requirements on banks and with the Bank's own Statutes. The accounts and records present a full and accurate picture of the Bank's financial situation.

Deloitte & Touche submitted the annual financial statements of the Bank to two audits:

- audit under current Czech standards declaring the correctness and accuracy of the assets, liabilities and financial results reported as at 31 December 1998 without qualification.
- audit under International Accounting Standards, also without qualification.

Although the findings of the auditors are unqualified, attention is drawn to a significant degree of uncertainty in relation to realization of the collateral securing the Bank's loan portfolio, the recovery of problem loans, the future state of the Czech economy and the development of the legal environment. Although the impact of the aforementioned factors cannot be estimated at the present time, they may necessitate the creation of further provisions to cover the loan portfolio and thus put at risk capital adequacy requirements. The financial statements include no adjustments that could ensue from the aforementioned uncertainty. The Supervisory Board fully respects the auditors' report and concludes from it that the Bank needs to increase its share capital.

The Supervisory Board recommends the Annual General Meeting to approve the assets, liabilities, equity and financial results for the year 1998.

Prague, 19 March 1998

On behalf of the Supervisory Board



KAREL KOPP  
CHAIRMAN

# attention



EXCEPTIONAL ATTENTION TO IMPROVING THE LOAN PORTFOLIO QUALITY  
IS THE KEY TO HIGHER PROFITABILITY OF THE BANK.





## CONSOLIDATED FINANCIAL STATEMENTS (CAS)

### COMPOSITION OF THE KOMERČNÍ BANKA FINANCIAL GROUP

The Komerční banka Financial Group ("the Group") represents a stable and purpose-linked group of companies. In 1998, as in preceding years, it set itself two major targets - the satisfaction of clients and effective business operations within the Group. Inter-company cooperation is an important factor underlying the comprehensive offer of financial products for Group clients, including pension insurance, building savings, life and other insurance, comprehensive services relating to investment in securities, leasing and factoring and, last but not least, combined products and product packages for specific client groups. The Group also helps effectively in the provision of selected support and service activities in the fields of consultancy, valuation, control, revitalization and providing information on clients as well as ATM operation, security of premises and transport of valuables. The Bank's two subsidiaries abroad make it possible to extend the offer of products and services to clients in Slovak Republic and to ensure international bond issues.

In 1998, as in the preceding year, the Group included 18 companies with Komerční banka's direct participation. Of these 8 were wholly-owned subsidiaries, 4 associated companies and 6 capital investments with the Bank's stake less than 20 % of the share capital of the company.

Although the composition of the Group did not change in 1998, Komerční banka increased its holdings in I. S. C. MUZO to 49.9 % and in Investiční privatizační fond KB to 35 % through the purchase of additional shares.

The composition of the consolidated whole remained unchanged, which means that all subsidiaries and associated companies with the exception of Penzijní fond Komerční banky and the company CAC LEASING Slovakia are consolidated. Also included in the consolidation are the consolidated results of the ALL IN and CAC LEASING groups. Komerční banka's total fixed asset investments in the companies of the Group stood at CZK 4.1 billion as at 31 December 1998, which is an increase of approximately 21 % compared with the end of 1997.

## BRIEF CHARACTERISTICS OF COMPANIES IN THE GROUP

**ALL IN** This company is a wholly-owned subsidiary of Komerční banka. The ALL IN Group includes four subsidiaries - the wholly-owned ALL IN REAL ESTATE LEASING and A-TRADE and the 90 % owned AIREL IMMO which are consolidated and further the wholly-owned company ALLA PRIMA, which was not included into the consolidated whole.

In 1998 the ALL IN Group continued to provide services in consultancy, market evaluation and expert opinions, leasing of real property and movables, real estate transactions, operations with receivables and control services. It was also involved in development activities relating to housing construction.

The year 1998 saw no new group activities aimed at extending its business involvement. The intention in the further development of the ALL IN Group is that it should become more integrated into the Group, particularly with regard to classified loans, credit risk management and real estate and development business. The controlling activities will be focused especially on the system of control of the preparation and implementation of investment projects and their financing from funds granted by the Bank.

The share capital of ALL IN as at 31 December 1998 amounted to CZK 104.5 million. Equity was CZK 99.1 million, total assets CZK 1,116.9 million and loss CZK 28.6 million. Lower consolidated whole comprising the group of ALL IN companies reported a consolidated loss of CZK 592.1 million as at the end of 1998.

**INVESTIČNÍ KAPITÁLOVÁ SPOLEČNOST KB** This wholly-owned subsidiary is one of the largest and most important investment companies in the Czech Republic, with funds under management in excess of CZK 11 billion. There are nine funds of which two were established under the Voucher Privatization Scheme. The funds' shares and participation certificates are currently listed on the Prague Stock Exchange. At a time the company also manages a part of the assets of Penzijní fond Komerční banky (KB Pension Fund).

The company is a founder member of the Unie investičních společností ČR (Union of Czech Investment Companies). In 1998 Investiční kapitálová společnost KB was rated by the Czech Rating Agency and received Baa+/Acr long-term and Prime-2 short-term CRA ratings.

Pursuant to an amendment in the relative statutory provisions the company, working closely with Investiční privatizační fond KB embarked upon preparations for the transformation of the privatization funds (IPF KB, IKS KB Plus) into open-end share funds. The transformation is to be implemented in the year 2000.

The volume of assets managed in the IKS KB family of funds doubled in the course of the year and exceeded CZK 1.3 billion.

The share capital remained unchanged at CZK 50.0 million. Equity at the year end totalled CZK 349.3 million. Total assets were CZK 404.2 million and profit CZK 58.2 million.

**BANKOVNÍ OCHRANNÁ SLUŽBA** This wholly-owned subsidiary of Komerční banka holds a strong position in the transport of valuables in the banking sector, which is expressed in long-term master agreements concluded with the largest financial institutions. The agreements, representing an important stabilizing element, relate particularly to cash payments between the financial institutions and the Czech National Bank, and to the transport of cash for financial institutions, are essential to gain additional prime clients and increase the competitiveness of the company on the market in both the banking and non-banking sectors. The company is further extending the use of central security desks and further strengthening its position in the sector of international transport of valuables which is based particularly on the exclusive cooperation agreement with the company Brink's. The company obtained a licence for road transportation which will permit its further development.

The share capital was CZK 62.0 million. Equity stood at CZK 105.9 million as at 31 December 1998 and total assets at CZK 167.4 million. The company posted a profit of CZK 6.2 million.

**PENZIJNÍ FOND KOMERČNÍ BANKY** Penzijní fond Komerční banky is a wholly-owned subsidiary. In the fourth year of its existence it continued to achieve results as good as in the previous years and, despite the general stagnation of clients' interest in pension insurance which was most notable in 1998, the company managed to maintain its leading position on the market. Although the year 1998 was the first in which a number of policy holders became eligible to receive their pensions, the fund's share of the market reached 15 %. The number of clients exceeded 264 thousand by the year-end.

The share capital was CZK 200.0 million, total assets amounted to CZK 4,998.9 million and the client funds including the state contribution represented CZK 3,960.8 million. While adhering to the investment restrictions imposed on pension funds and the principle of security of the funds managed, the company achieved a profit of CZK 405.1 million, putting the company in first position among the pension funds operating on the Czech market.

**KOMERČNÍ BANKA BRATISLAVA** The first wholly-owned foreign subsidiary of the Bank continued to develop its business activities and extended its offer of products and services. It introduced a new product, V-Account, that contributed to the stabilization of primary deposits and the acquisition of new clients. Business activities formed a significant element not only in the major increase in foreign payments, particularly with the Czech Republic, but also in the increase of the share of the new business outlets launched in 1997 (Bratislava, Banská Bystrica, Košice), in the Bank's loan and deposit operations and the stabilization of the number of clients from companies ranking in the "Top 100" chart.

The share capital was SKK 500.0 million. Equity after conversion to Czech koruna was CZK 511.5 million as at 31 December 1998. Total assets were CZK 12,073.3 million and profit CZK 28.7 million.

**KOMERČNÍ POJIŠŤOVNA** Komerční pojišťovna is a wholly-owned subsidiary of Komerční banka. It entered the year 1998 as a universal insurance company licensed to provide property and third party insurance for citizens and insurance of industrial and business risk. Its business activities showed high growth due to a principal extension of the offer. The company developed and introduced to the market new products within the full scope of the universal licence, created a comprehensive offer of basic insurance for industrial companies and entrepreneurs and developed property and third party insurance products for private individuals. It also worked closely with important foreign insurance companies in travel insurance and the insurance of payment cards. It introduced a comprehensive insurance programme for the holders of American Express cards issued exclusively by Komerční banka. The programme represents a significant qualitative contribution for the Czech market.

In relation to the obtaining of the universal licence granted to it in November 1997 the Bank raised the share capital of the company to CZK 300 million in 1998. Equity was CZK 234.6 million and total assets CZK 372.6 million. Komerční pojišťovna posted a loss for 1998 of CZK 84.4 million which was in accordance with projections.

**KOMERCNI FINANCE, B. V.** In pursuit of its sole object this wholly-owned subsidiary of Komerční banka issues certificated debt on foreign capital markets and grants loans to its shareholder. In 1998 the company issued bonds to the value of USD 200 million.

An equivalent of CZK 634 thousand was injected into the company with share capital of 40,000 guilders. Equity converted as at 31 December 1998 was CZK 51.8 million. Total assets were CZK 19,319.8 million. For 1998 the company recorded a profit of CZK 25.8 million.

**FACTORING KB** The youngest wholly-owned subsidiary of Komerční banka completed its first full year of operation in 1998. It provided services in domestic regressive factoring - discounting, collecting, administration and financing of receivables. By the end of 1998 it started to offer export factoring to its clients. The company achieved a significant position in the domestic factoring market. The business activities of the company are particularly orientated on medium-sized companies and businesses especially from among the existing and prospective clients of Komerční banka as well as at export factoring with the aim of expanding the territory of its operations.

The share capital was CZK 40.0 million as at 31 December 1998. Equity stood at CZK 44.0 million. Assets totalled CZK 856.4 million. Factoring KB reported a profit of CZK 2.2 million.

**CAC LEASING** In this associated company Komerční banka has a 50% stake in the share capital. The balance is held by CA-LEASING, GmbH and Bank Austria Creditanstalt International, AG.

Even under the deteriorated macro-economic environment the company fulfilled its projections and strengthened its dominant position as the largest universal leasing company in the Czech Republic. Car leasing took the major share in total business activities, followed by leasing of machinery and equipment, leasing of consumer durables and special businesses. The company was much helped by the business activities of other financially linked entities in maintaining its position on the market, too.

The overall consolidated results of the Group include the results of the CAC LEASING Group with its subsidiary DLB LEASING and the associated company CAC LEASING Slovakia. By the end of 1998 CAC LEASING participated in the founding and incorporating of the brokers ALLRISK-CAC and the company Renault LEASING CZ.

The share capital of CAC LEASING as at 31 December 1998 was CZK 226.0 million. Equity amounted to CZK 449.7 million. Assets totalled CZK 19,137.0 million. The 1998 profit was CZK 42.4 million.

**I. S. C. MUZO** In 1998 Komerční banka increased its holding in its associated company I. S. C. MUZO to 49.9 %.

The company provides first and foremost a comprehensive range of services for the operation of ATMs, electronic terminals and payment and identity cards for both domestic and international payments as well as information about clients within the "FIPOK" system. Administration of payment cards was provided to seven banks and four non-banking institutions. The certificates granted to the company enable it to process the card products of AMEX, EUROCARD/MASTERCARD, JCB and VISA. Possibilities to connect electronic terminals through the public mobile net GSM including connection through the SMS server were tested with the company Radiomobil and pilot operation is projected in 1999. The construction of a backup centre was commenced by the end of 1998 to increase the security of the operated networks.

The share capital of I. S. C. MUZO at year end was CZK 102.0 million. Equity totalled CZK 398.0 million and assets CZK 475.2 million. The company returned a profit of CZK 83.0 million.

**VŠEOBECNÁ STAVEBNÍ SPORITELNA KOMERČNÍ BANKY** Komerční banka holds 40 % of this company. Other shareholders are BHW Holding, GmbH and Česká pojišťovna.

In 1998 the company successfully continued its activities. More than 113 thousand contracts for building savings were concluded and the average target sum developed favourably as well. Besides the ongoing programme "Junior" , the "Blue Pyramid Club" (Klub modrá pyramida) was set up; it gives advantage to the clients who conclude a second or third building savings contract. Continued to be granted were loans to clients who became entitled under the building savings law, but also favourable bridging loans for the purchase of full ownership flats or for the maintenance of the flat fund within the privatization or renovation programmes. The company also actively mediates for its clients zero interest loans from the state resources.

The share capital as at 31 December 1998 was CZK 500.0 million. Equity was CZK 1,088.6 million. Assets totalled CZK 17,081.9 million. The company posted a profit of CZK 372.3 million.

**INVESTIČNÍ PRIVATIZAČNÍ FOND KOMERČNÍ BANKY** Komerční banka increased its stake in the share capital of the company to 35 % in 1998 and is the largest shareholder of this company.

The crucial task for the company during 1998 was the preparation to open the fund which will continue in 1999 and which includes the creation of the fund opening project and the arrangement of the related legislative and organizational duties. The portfolio of the fund is cultivated by way of structural change, increase of allocation to liquid instruments and intensifying the sales of strategic items. The development of the Czech capital market in 1998, featuring considerable volatility and correlation with the movements on international markets, had an adverse reflection in the financial results of the company.

The share capital of Investiční privatizační fond Komerční banky as at 31 December 1998 was CZK 9,315.2 million. Equity was CZK 7,443.5 million. Assets totalled CZK 7,531.2 million. The company reported a loss amounting to CZK 341.5 million.

The group of companies in which the Bank has capital investments of less than 20 % comprised six companies at the end of 1998. Of these companies CAC LEASING Slovakia which provides leasing services within the Slovak Republic, is co-owned by Komerční banka, CAC LEASING and Komerční banka Bratislava and is therefore incorporated in the consolidated whole.

The other capital investments, which are excluded from consolidation, are: Českomoravská záruční a rozvojová banka, whose banking activity focuses on the support of small and medium-sized businesses, Burza cenných papírů Praha (Prague Stock Exchange) which ensures the concentration and organization of securities trading, Bankovní institut concerned with collating and disseminating information from the banking sector and also with publishing interests. The activities of Economia centre mainly upon the publishing and distribution of the financial press. In early 1999 Komerční banka sold its share in the company Česká kapitálová informační agentura.

## CONSOLIDATED RESULTS

In addition to the parent bank, the results of the consolidated financial group comprise the fully consolidated subsidiaries (including the consolidated results of the ALL IN Group) as well as the associated companies (including the consolidated results of the CAC LEASING Group) through the equivalence method. Neither the subsidiary company Penzijní fond Komerční banky nor those companies in which Komerční banka has capital investments less than 20 % (with the exception of CAC Leasing Slovakia) have been included.

As in previous years, the controlling subject of the consolidated whole remains the parent bank.

The consolidated financial statements show a moderate inter-year decrease in assets which amounted to CZK 490,623 million as at 31 December 1998. The assets of the consolidated whole dropped approximately by 4.4 % against 1997.

The consolidated loss for the year 1998 without minority interests was CZK 10,086 million. The contribution to the financial result created by the associated companies was CZK 103 million.

Note: The complete text of the consolidated financial statements as at 31 December 1998 together with the auditors' report for the Komerční banka Financial Group (CAS) can be inspected at the Head Office of the Bank at Na Příkopě 33, Prague 1.

CONSOLIDATED FINANCIAL STATEMENTS (CAS)  
PARTICIPATIONS OF KOMERČNÍ BANKA

PARTICIPATIONS OF KOMERČNÍ BANKA

Company	Group	Share capital	KB participation	KB participation in the share capital	KB stock in the share capital or in funds, i. e. purchase cost	Nominal value of share
		CZK thousand	CZK thousand	%	CZK thousand	CZK thousand
ALL IN, a. s.	A	104,500	104,500	100.00	100,000	500
Investiční kapitálová společnost KB, a. s.	A	50,000	50,000	100.00	75,000	100
Bankovní ochranná služba, a. s.	A	62,000	62,000	100.00	64,535	1
Penzijní fond						
Komerční banky, a. s.	A	200,000	200,000	100.00	230,000	100
Komerční banka Bratislava, a. s.	A	500,000 (SKK thousand)	404,845	100.00	445,330	100 (SKK thousand)
Komerční pojišťovna, a. s.	A	300,000	300,000	100.00	370,000	100
Komerční Finance, B. V.	A	40 (NLG thousand)	634	100.00	634	1 (NLG thousand)
Factoring KB, a. s.	A	40,000	40,000	100.00	46,000	100
CAC LEASING, a. s.	B	226,000	113,000	50.00	110,900	100
						500
I. S. C. MUZO, a. s.	B	102,000	50,900	49.90	60,998	1
Všeobecná stavební spořitelna KB, a. s.	B	500,000	200,000	40.00	220,000	100
Investiční privatizační fond KB, a. s.	B	9,315,242	3,260,335	35.00	2,268,439	1
Bankovní institut, a. s.	C	43,700	6,000	13.73	8,400	100
Českomoravská záruční a rozvojová banka, a. s.	C	890,000	115,700	13.00	60,000	1,000
CAC LEASING Slovakia, a. s.	C	50,000 (SKK thousand)	4,453	11.00	4,453	100 (SKK thousand)
Economia, a. s.	C	3,682	400	10.86	200	2
Burza cenných papírů Praha, a. s.	C	384,948	30,429	7.90	30,469	1
Česká kapitálová informační agentura, a. s.	C	27,000	1,100	4.07	1,110	1
<b>Total</b>		<b>x</b>	<b>4,944,296</b>	<b>x</b>	<b>4,096,468</b>	<b>x</b>

Group A - participation over 50 % (subsidiaries)

Group B - participation between 20 % and 50 % (associated companies)

Group C - participation less than 20 % (capital investments)



**Deloitte &  
Touche**  
spol. s r.o.



Týn 641/4  
110 00 Praha 1  
Czech Republic

Telephone: + 420 (2) 248 95 500  
Facsimile: + 420 (2) 248 95 555

**AUDITORS' REPORT TO SHAREHOLDERS  
OF KOMERČNÍ BANKA, A. S.**

We have audited the consolidated annual financial statements of the Financial Group of Komerční banka, a.s. ("the Group") for the year ended 31 December 1998 prepared in accordance with Act No. 563/1991 Coll. on Accounting and other relevant legislation. We conducted our audit in accordance with Act No. 524/1992 Coll. on Auditors and the Chamber of Auditors of the Czech Republic and the auditing standards issued by the Chamber of Auditors. The consolidated profit and loss statement and the consolidated balance sheet included in this Annual Report for the year ended 1998 were derived from the financial statements, on which we issued unqualified audit opinion dated 2 April 1999.

Without qualifying our opinion we draw attention to the explanatory note included in our report related to substantial continuing uncertainties concerning the realisation of collateral securing the loan portfolio and recovery of problem loans, and in connection with the future condition of the Czech economy and development of the legal environment. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses and failure to meet minimum capital requirements. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In our opinion, the consolidated profit and loss statement and consolidated balance sheet prepared in accordance with Czech Accounting Standards are consistent, in all material aspects, with the financial statements from which they were derived.

For better understanding of the Group's financial position and the results of its operations and of the scope of our audit, the attached consolidated profit and loss statement and consolidated balance sheet should be read in conjunction with the consolidated financial statements from which were derived and our audit report thereon.

Prague, 22 April 1999

Audit firm:  
Deloitte & Touche, spol. s r. o.  
Licence No. 79

Statutory auditor:  
Michal Petrman  
Licence No. 1105

## CONSOLIDATED BALANCE SHEET FOR YEARS 1998 AND 1997

### ASSETS

According to Accounting Methodology of the Czech Banks (CAS)

in CZK million

	1998	1997
<b>1. Cash in hand, deposits with central banks, post checking accounts</b>	<b>30,620</b>	<b>40,596</b>
<b>2. Treasury bills and other bills accepted</b>		
by Czech National Bank for refinancing	60,472	38,114
a) treasury bills and similar bonds issued by the state	1,832	5,496
b) other bills	58,640	32,618
<b>3. Amounts due from banks</b>	<b>115,884</b>	<b>107,436</b>
a) payable on demand	1,513	1,475
b) other receivables	114,371	105,961
of which: subordinated assets	0	0
<b>4. Amounts due from clients</b>	<b>217,096</b>	<b>258,326</b>
a) payable on demand	818	1,085
b) other receivables	216,278	257,241
of which: subordinated assets	0	0
<b>5. Bonds and other fixed income securities for trading</b>	<b>16,469</b>	<b>7,945</b>
a) issued by banks	4,529	2,559
of which: own bonds	1,143	1,112
b) issued by other subjects	11,940	5,386
<b>6. Shares and other variable yield securities for trading</b>	<b>555</b>	<b>2,577</b>
<b>7. Fixed asset investments in associated undertakings</b>	<b>3,472</b>	<b>2,975</b>
<b>8. Capital investments (not included in consolidation)</b>	<b>330</b>	<b>366</b>
<b>9. Active consolidation difference</b>	<b>0</b>	<b>0</b>
<b>10. Other financial investments</b>	<b>16,185</b>	<b>24,327</b>
<b>11. Intangible assets</b>	<b>621</b>	<b>430</b>
<b>12. Tangible assets</b>	<b>14,973</b>	<b>14,761</b>
a) land and buildings for banking activities	9,884	8,671
b) other	5,089	6,090
<b>13. Own shares</b>	<b>0</b>	<b>0</b>
<b>14. Other assets</b>	<b>6,296</b>	<b>4,460</b>
<b>15. Subscribed capital called-up and not paid</b>	<b>0</b>	<b>0</b>
<b>16. Prepayments and accrued income</b>	<b>7,650</b>	<b>10,786</b>
<b>TOTAL ASSETS</b>	<b>490,623</b>	<b>513,099</b>

CONSOLIDATED FINANCIAL STATEMENTS (CAS)  
CONSOLIDATED BALANCE SHEET FOR YEARS 1998 AND 1997

LIABILITIES

According to Accounting Methodology of the Czech Banks (CAS)

in CZK million

	1998	1997
<b>1. Amounts due to banks</b>	<b>130,885</b>	<b>115,349</b>
a) payable on demand	6,871	6,358
b) other liabilities	124,014	108,991
<b>2. Amounts due to clients</b>	<b>261,908</b>	<b>283,687</b>
a) saving accounts	38,406	48,543
<i>of which: payable on demand</i>	<i>1,771</i>	<i>2,425</i>
b) other liabilities	223,502	235,144
<i>of which: payable on demand</i>	<i>114,406</i>	<i>121,319</i>
<b>3. Certificates of deposit and similar debentures</b>	<b>47,831</b>	<b>55,444</b>
a) certificates of deposit	1	2
b) other	47,830	55,442
<b>4. Accruals and deferred income</b>	<b>8,111</b>	<b>8,713</b>
<b>5. Reserves</b>	<b>5,842</b>	<b>8,463</b>
a) reserves for standard loans and guarantees	4,131	3,306
b) reserves for foreign exchange rate losses	836	1
c) reserves for other banking risks	506	363
d) other reserves	369	4,793
<b>6. Subordinated liabilities</b>	<b>5,976</b>	<b>0</b>
<b>7. Other liabilities</b>	<b>9,401</b>	<b>10,326</b>
<b>8. Share capital (excluding minority interests)</b>	<b>9,502</b>	<b>9,502</b>
<i>of which: share capital paid-up</i>	<i>9,502</i>	<i>9,502</i>
<b>9. Capital funds (excluding minority interests)</b>	<b>17,391</b>	<b>17,022</b>
<b>10. Reserve funds and other funds from profit (excluding minority interests)</b>	<b>2,384</b>	<b>2,498</b>
a) reserve funds	1,859	1,887
b) other (excluding retained earnings or not compensated loss from previous years)	525	611
<b>11. Retained earnings or not compensated loss from previous years (excluding minority interests)</b>	<b>739</b>	<b>632</b>
<b>12. Consolidated reserve fund</b>	<b>369</b>	<b>208</b>
<b>13. Passive consolidation difference</b>	<b>338</b>	<b>452</b>
<b>14. Profit or loss for the current year (excluding minority interests and associated companies)</b>	<b>(10,086)</b>	<b>553</b>
<b>15. Profit or loss accruing to associated companies</b>	<b>103</b>	<b>260</b>
<b>16. Minority interests in equity</b>	<b>(71)</b>	<b>(10)</b>
<i>of which:</i>		
<i>Minority interests in share capital</i>	<i>2</i>	<i>2</i>
<i>Minority interests in capital funds</i>	<i>0</i>	<i>0</i>
<i>Minority interests in funds from profit</i>	<i>0</i>	<i>0</i>
<i>Minority interests in retained earnings or not compensated loss from previous years</i>	<i>(12)</i>	<i>(9)</i>
<i>Minority interests in profit/loss for the current year</i>	<i>(61)</i>	<i>(3)</i>
<b>TOTAL LIABILITIES</b>	<b>490,623</b>	<b>513,099</b>

CONSOLIDATED FINANCIAL STATEMENTS (CAS)  
CONSOLIDATED BALANCE SHEET FOR YEARS 1998 AND 1997

OFF - BALANCE SHEET

According to Accounting Methodology of the Czech Banks (CAS)

in CZK million

	1998	1997
<b>1. Future potential liabilities total</b>	<b>35,671</b>	<b>18,416</b>
of which:		
a) received bills of exchange/(acceptance) and endorsements of bills of exchange	0	1
b) commitments from guarantees	35,671	18,415
c) commitments from collateral	0	0
<b>2. Other irrevocable commitments</b>	<b>21,629</b>	<b>3,944</b>
<b>3. Receivables from spot, forward and option operations</b>	<b>239,456</b>	<b>203,075</b>
<b>4. Liabilities from spot, forward and option operations</b>	<b>235,718</b>	<b>195,672</b>

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR YEARS 1998 AND 1997

According to Accounting Methodology of the Czech Banks (CAS)

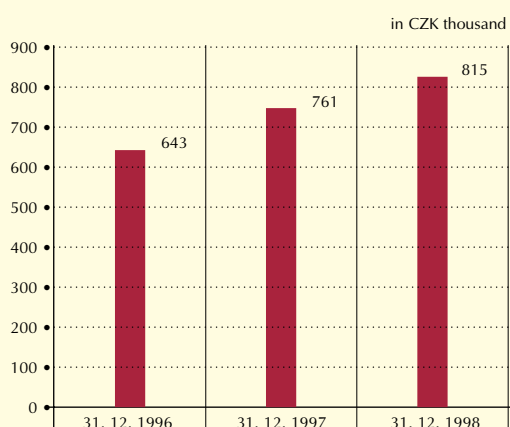
in CZK million

	1998	1997
<b>1. Interest income and similar income</b>	<b>55,990</b>	<b>54,111</b>
of which: interest income from fixed income securities	2,997	5,208
<b>2. Interest expense and similar expense</b>	<b>(40,899)</b>	<b>(38,247)</b>
of which: interest expense on fixed income securities	(4,985)	(5,317)
<b>3. Income from variable yield securities</b>	<b>94</b>	<b>68</b>
of which:		
a) income from shares and other variable yield securities	88	68
b) income from subsidiary undertakings	6	0
c) income from associated undertakings	0	0
d) income from capital investments	0	0
<b>4. Fee and commission income</b>	<b>5,053</b>	<b>4,801</b>
<b>5. Fee and commission expense</b>	<b>(389)</b>	<b>(426)</b>
<b>6. Profit (loss) from financial operations</b>	<b>4,804</b>	<b>3,110</b>
<b>7. Other income</b>	<b>5,073</b>	<b>2,954</b>
<b>8. General operating costs</b>	<b>(12,373)</b>	<b>(12,389)</b>
of which:		
a) staff costs	(5,525)	(5,252)
b) other operating costs	(6,848)	(7,137)
<b>9. Creation of reserves and provisions for tangible and intangible assets</b>	<b>(3)</b>	<b>(2)</b>
of which:		
a) creation of reserves for tangible assets	(3)	(2)
b) creation of provisions for tangible assets	0	0
c) creation of provisions for intangible assets	0	0
<b>10. Use of reserves and provisions for tangible and intangible assets</b>	<b>2</b>	<b>0</b>
of which:		
a) use of reserves for tangible assets	2	0
b) use of provisions for tangible assets	0	0
c) use of provisions for intangible assets	0	0
<b>11. Other costs</b>	<b>(25,902)</b>	<b>(9,383)</b>
<b>12. Creation of provisions and reserves for loans and guarantees</b>	<b>(23,475)</b>	<b>(15,341)</b>
<b>13. Use of provisions and reserves for loans and guarantees</b>	<b>23,331</b>	<b>10,986</b>
<b>14. Creation of provisions and reserves for fixed asset investments and other financial investments</b>	<b>(426)</b>	<b>(247)</b>
<b>15. Use of provisions and reserves for fixed asset investments and other financial investments</b>	<b>90</b>	<b>1</b>
<b>16. Creation of other provisions and reserves</b>	<b>(3,800)</b>	<b>(1,418)</b>
<b>17. Use of other provisions and reserves</b>	<b>2,117</b>	<b>1,683</b>
<b>18. Extraordinary income</b>	<b>760</b>	<b>427</b>
of which: accounting for passive consolidation difference	113	170
<b>19. Extraordinary costs</b>	<b>(133)</b>	<b>(135)</b>
of which: accounting for active consolidation difference	0	0
<b>20. Profit or loss for accounting period (excluding minority interests)</b>	<b>(10,086)</b>	<b>553</b>
<b>21. Profit or loss accruing to associated companies</b>	<b>103</b>	<b>260</b>
<b>22. Profit or loss for accounting period accruing to minority interest</b>	<b>(61)</b>	<b>(3)</b>

## COMMENTARY ON THE RESULTS OF KOMERČNÍ BANKA FOR 1998 ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS (IAS)

In 1998 Komerční banka recorded profit before provision for loan losses and tax in the amount of CZK 11.4 billion, which is 1.7 % up on 1997. This favourable financial result was achieved under adverse conditions such as the aforementioned unfavourable economic situation in the Czech Republic and changes in the relevant regulatory measures. The Bank also succeeded in raising productivity which is evidenced by the increase of profit before provision for loan losses per employee by 7.1 % to final CZK 815 thousand.

### PROFIT BEFORE PROVISION FOR LOAN LOSSES PER EMPLOYEE



CNB's Measure No. 193/1998 Coll. stipulating the principles of loan classification of outstanding loans and the creation of provisions for such loans came into effect in August 1998. As a consequence of this measure, Komerční banka was obliged to create a considerable amount of additional specific provisions for loss loans collateralized by real estate. This was one of the reasons why the provision for loan losses almost doubled to CZK 21.0 billion and principally affected the final financial result. Komerční banka reported an accounting loss of CZK 9.5 billion under International Accounting Standards as at 31 December 1998.

**PROFIT AND LOSS ACCOUNT** *Net interest income* was CZK 14.9 billion, down by 6.0 % on the year 1997. The main reason for this decrease was the falling trend of the development of interest rates on the market which for Komerční banka meant a decrease in its reference rate by a full 6.6 percentage points within the year. The drop of net interest income also reflects a decline in the amount of loans granted, i. e. interest-bearing assets, faster than that on the funding side. A contributory factor was also a lower volume of income from securities. There was a change in the structure of net interest income resulting from the increased activities of the Bank on the interbank market; the volume of interest income from loans and deposits to financial institutions rose by 87.4 % to CZK 14.5 billion. Simultaneously the amount of interest expense on loans and deposits from financial institutions rose by 26.2 % to a final figure of CZK 9.6 billion. Almost one half of the interest received from financial institutions - CZK 6.5 billion - is made up of income from REPO operations.

Due to the above stated decrease in net interest income, the *net interest margin* was 3.97 %, 0.22 of a percentage point down on 1997. This is in line with the development of the margin within the whole banking sector.

*Net fees and commissions* in the amount of CZK 4.6 billion rose by 6.2 % against 1997. This follows the Bank's intention to increase the share of non-interest income in total income. The share of fees and commissions in the total income of the Bank was almost 20 % as at the year-end.

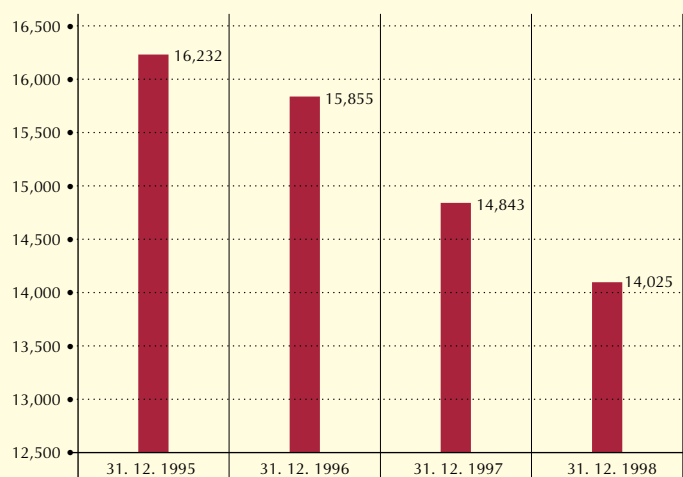
Good results were also achieved in trading operations on the capital and money markets. *Dealing profits* increased almost eight times to CZK 2.0 billion against 1997. The item includes gains or loss from operations in securities, interest swaps and foreign currency trading. As in 1997 foreign exchange trading accounting for most of the dealing profits as the realized and unrealized gains from trading amounted to CZK 2.5 billion. In securities trading the Bank realized profit of CZK 0.3 billion in 1998 and reported an unrealized loss amounting to CZK 1.0 billion.

*Other income* showed a fall by 17.6 % to CZK 1.7 billion in 1998. The reason for this fall was the decrease of net income from exchange rate transactions by 22.2 %. Such income is generated by operations at exchange offices.

In comparison with 1997, the *share of non-interest income* in the total income of the Bank rose by 6.3 percentage points. Thus the share at the end of 1998 was 35.9 %.

*Administrative expenses* grew by 5.6 % to a final figure of CZK 10.4 billion in 1998. However, taking into account the annual inflation rate of 10.7 percent, the Bank achieved a real decrease in administrative expenses by almost 5 %. This positive trend in the development of costs is maintained due to effective cost management and supported by the current programme of rationalization of operations within the Bank. The main cause of the rise in administrative expenses was a change in the rules for the payment of the obligatory contribution to the Deposit Insurance Fund resulting in the increase of other administrative expenses by over 6 %. Wages and salaries showed an inter-year rise of 5.1 % to CZK 3.7 billion. The continuing reduction in the number of employees also contributed to the favourable development of administrative expenses, the number dropping by 818 persons to 14,025 in 1998.

NUMBER OF EMPLOYEES



Note: Average number of employees

The *cost/income ratio* rose by 0.71 of a percentage point to 50.95 % against the end of 1997. Despite this moderate increase the Bank kept the indicator below the limit of 54 % set as the maximum figure in its financial plan for 1998.

The accounting loss for 1998 was caused by *provision for loan losses* amounting to almost CZK 21 billion. The main reasons for the increase included the direct impact of the CNB's measure compelling banks to replace the value of real estate collateral securing loss loans by provisions and the deterioration of the loan portfolio quality (reclassification of loans).

As the Bank reported an accounting loss, the effective tax rate was 0 %. The *income tax* of CZK 10 million paid in 1998 relates to the previous tax period.

**ASSETS** *Total assets* fell by 9.5 % to CZK 422.1 billion at the end of 1998. This was due to the unfavourable development of the Czech economy which affected the Bank's results, particularly through the deterioration in the financial situation of its clients. The response of the Bank was to modify the structure of its assets in such a way as to minimize the effect of market risk and maintain an adequate level of liquidity. This measure was reflected above all in the increase in the share of interbank operations at the expense of operations with clients as well as in a greater share of securities held for trading at the expense of investment securities.

*Cash and balances with central banks* amounting to CZK 31.8 billion fell by 23.3 %. The main reason was the lower obligatory minimum reserves which make up 62 % of the item. In July the level of obligatory minimum reserve rate was reduced from 9.5 % to 7.5 % and consequently the Bank was able to reduce its obligatory zero-interest balance with the Czech National Bank by over 23 % to CZK 19.7 billion.

*Due from financial institutions* rose by 7.5 % to CZK 115.1 billion and accounted for 27 % of total assets. By means of this increased activity on the interbank market the Bank was able to compensate for the shortage of quality investment opportunities in the client sector. Almost a half of the total amount of debts - CZK 57.2 billion - is formed by a loan to the Czech National Bank in the form of REPO operations.

*Loans and advances to customers* decreased during 1998 by 14.4 percent, reaching the amount of CZK 214.0 billion. The decrease reflected inter alia the recession in the Czech economy and thus the reduced investment activities in the business sector. Also contributing to the decrease was the preference on the Bank's part for quality rather than quantity and the resulting stricter manner of risk assessment applied to clients and business plans under the new credit procedure. A further factor underlying the fall in client loans was the higher creation of specific provisions for loan losses following the CNB measure. 1998 saw a change in methodology under which a part of general provisions in the amount of CZK 4.0 billion, which had been created to cover loan risk, was distributed directly to loans in the individual classification categories as specific provisions.

There were also changes in the *securities* portfolio, the main change being the above mentioned fall in the volume of securities in the investment portfolio and the subsequent reduction of this component of total assets by 1.6 percentage points to 3.8 % during the year. On the other hand, the share of the trading portfolio grew by 1.9 percentage points to 3.9 %.

The total volume of *dealing securities* was CZK 16.3 billion as at 31 December 1998. Its structure underwent a modification in favour of bonds, the volume of which increased almost three times to CZK 13.8 billion. The volume of shares and other variable yield securities fell by 27.4 % to CZK 2.6 billion. As at 31 December 1998 the trading portfolio also included own shares at the market price of CZK 4.0 million and bonds issued by the Bank at the market price of CZK 2.1 billion bought by the Bank for the purpose of further trading.



Of the total volume of the *investment securities* of CZK 16.1 billion, investment bonds accounted for 89 %. The portion of shares and bonds with variable interest rate in the investment portfolio keeps falling.

Total *investments in subsidiaries and associates* rose by 20.1 % to CZK 4.0 billion at the end of 1998. The main reason for the growth is the increase of the Bank's shares in its associated undertakings, namely I. S. C. MUZO, Investiční privatizační fond KB and CAC Leasing Slovakia.

*Tangible and intangible fixed assets* totalling CZK 15.3 billion rose by only 3.2 % in comparison against the end of 1997.

**LIABILITIES** *Amounts owed to customers* showed a drop of 7.8 % to CZK 273.7 billion against the end of 1997. In spite of this overall decrease in the amount of client deposits, caused mainly by the decrease of balances on corporate current accounts, the year 1998 saw an increase in the balances of term deposits of private individuals.

*Amounts owed to financial institutions* fell by 13.6 % to CZK 71.8 billion in the course of 1998.

*Certificated debts* totalling CZK 31.6 billion were down by 14.6 % on the end of 1997. This decline was caused by the redemption of three issues of bonds in the course of 1998. Due to the unfavourable situation on the Czech capital market, and because the need of financial funds was met from other sources, the Bank issued no new bonds in 1998.

In May 1998 the Bank placed an issue of subordinated bonds in the amount of USD 200 million on international capital markets via its subsidiary Komerční Finance, B. V., and so strengthened its capital. The *subordinated debt* expressed as a koruna equivalent was CZK 6.0 billion as at 31 December 1998.

*Share capital* of the Bank consists of more than 19 million shares at the nominal value of CZK 500 per share and totals CZK 9.5 billion.

The fall in the volume of *share premium and reserves* by over 46 % to CZK 11.0 billion is due to the inclusion of the reported accounting loss.

The *capital adequacy ratio* of the Bank is well in excess of the minimum 8 % laid down by the CNB. Under BIS methodology the ratio was 9.56 % as at 31 December 1998, which represents an increase of 1.25 percentage points on 1997.



# strength

INVOLVEMENT OF A STRATEGIC PARTNER AS A RESULT OF PRIVATIZATION WILL IMPROVE  
THE BANK'S POSITION AND RESTORE ITS PLACE AMONG THOSE COMPANIES  
WITH STRONG GROWTH POTENTIAL OF THE SHAREHOLDERS' VALUE.



UNCONSOLIDATED FINANCIAL STATEMENTS  
OF KOMERČNÍ BANKA  
ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS (IAS)

**Deloitte &  
Touche**  
spol. s r.o.



Týn 641/4  
110 00 Praha 1  
Czech Republic

Telephone: + 420 (2) 248 95 500  
Facsimile: + 420 (2) 248 95 555

INDEPENDENT AUDITORS' REPORT TO SHAREHOLDERS OF  
KOMERČNÍ BANKA, A. S.

We have audited the accompanying unconsolidated balance sheet of Komerční banka, a. s. (the Bank) as of December 31, 1998, and the related unconsolidated statements of income, shareholders' equity and cash flows for the year 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 audit. The unconsolidated financial statements of the Bank as of December 31, 1997, before the restatement described in Note 2s to the unconsolidated financial statements, were audited by another auditor whose report dated March 27, 1998 on those statements included an explanatory paragraph as to the adequacy of the provision for classified loans.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

As discussed in Note 2s to the unconsolidated financial statements, the Bank changed its method of accounting for fixed assets from the revaluation method to the cost basis method and retroactively restated the 1997 financial statements for the change.

We also audited the adjustments described in Note 2s to the unconsolidated financial statements that were applied to restate the 1997 financial statements to give retroactive effect to the change in the method of accounting for the valuation of fixed assets. In our opinion, such adjustments are appropriate and have been properly applied.

Without qualifying our opinion we draw attention to Notes 16 and 40 to the unconsolidated financial statements related to substantial continuing uncertainties concerning the realisation of collateral securing the Bank's loan portfolio and recovery of problem loans, and in connection with the future condition of the Czech economy and development of the legal environment. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses and failure to meet minimum capital requirements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

17 March 1999

Deloitte & Touche

**DeloitteTouche**  
**Tohmatsu**  
**International**

## UNCONSOLIDATED PROFIT AND LOSS ACCOUNT AS AT 31 DECEMBER 1998

According to International Accounting Standards (IAS)

	Notes	1998	1997
		CZKm	CZKm
			Restated
Interest income	3	<b>49,342</b>	48,224
Interest expense	3	<b>(34,403)</b>	(32,333)
<b>Net interest income</b>		<b>14,939</b>	15,891
Net fees and commissions	5	<b>4,627</b>	4,358
Dealing profits/(losses)	6	<b>2,017</b>	246
Other income	7	<b>1,714</b>	2,080
<b>Operating profit</b>		<b>23,297</b>	22,575
Administrative expenses	8	<b>(10,424)</b>	(9,868)
Depreciation and other provisions	9	<b>(1,446)</b>	(1,474)
<b>Profit before provision for loan losses and income taxes</b>		<b>11,427</b>	11,233
Provision for loan losses	10	<b>(20,963)</b>	(10,763)
<b>Profit/(loss) before income taxes</b>		<b>(9,536)</b>	470
Income taxes	11	<b>(10)</b>	58
<b>Net profit/(loss) for the year</b>		<b>(9,546)</b>	528
<b>Earnings/(loss) per share (in CZK)</b>	27	<b>(502)</b>	28

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

UNCONSOLIDATED FINANCIAL STATEMENTS OF KOMERČNÍ BANKA (IAS)  
UNCONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1998

**UNCONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 1998**

According to International Accounting Standards (IAS)

	Notes	1998 CZKm	1997 CZKm Restated
<b>ASSETS</b>			
Cash and balances with the central bank	13	31,827	41,476
Due from financial institutions	14	115,077	107,040
Treasury bills and other bills eligible for refinancing	15	1,833	5,341
Loans and advances to customers (net)	16	214,018	249,989
Dealing securities	17	16,349	9,108
Prepayments, accrued income and other assets	18	7,686	10,501
Investment securities	19	16,056	24,961
Investments in subsidiaries and associates	20	3,960	3,296
Tangible and intangible fixed assets (net)	21	15,278	14,805
<b>Total assets</b>		<b>422,084</b>	<b>466,517</b>
<b>LIABILITIES</b>			
Amounts owed to financial institutions	22	71,769	83,064
Amounts owed to customers	23	273,698	296,882
Certificated debts	24	31,646	37,046
Accruals, provisions and other liabilities	25	18,542	19,520
Subordinated debt	26	5,971	0
<b>Total liabilities</b>		<b>401,626</b>	<b>436,512</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	27	9,502	9,502
Share premium and reserves		10,956	20,503
<b>Total shareholders' equity</b>		<b>20,458</b>	<b>30,005</b>
<b>Total liabilities and shareholders' equity</b>		<b>422,084</b>	<b>466,517</b>

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

UNCONSOLIDATED FINANCIAL STATEMENTS OF KOMERČNÍ BANKA (IAS)  
UNCONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 1998

**UNCONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
AS AT 31 DECEMBER 1998**

According to International Accounting Standards (IAS)

in CZK million

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Distributable profit and loss reserve	Non- distributable reserve	Total
<b>Closing balance as at 31 December 1996 as previously stated</b>	9,502	6,008	3,663	2,164	12,962	760	<b>35,059</b>
Restatement to adjust fixed assets (Note 2s)	0	0	(3,663)	0	0	0	<b>(3,663)</b>
<b>Closing balance as at 31 December 1996 as restated</b>	9,502	6,008	0	2,164	12,962	760	<b>31,396</b>
Transfers	0	0	0	0	236	(236)	<b>0</b>
Net profit for the year	0	0	0	0	528	0	<b>528</b>
Dividends	0	0	0	0	(1,919)	0	<b>(1,919)</b>
<b>Closing balance as at 31 December 1997</b>	9,502	6,008	0	2,164	11,807	524	<b>30,005</b>
Transfers and other	0	0	0	244	(245)	0	<b>(1)</b>
Net loss for the year	0	0	0	0	(9,546)	0	<b>(9,546)</b>
<b>Closing balance as at 31 December 1998</b>	9,502	6,008	0	2,408	2,016	524	<b>20,458</b>

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

## UNCONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 1998

According to International Accounting Standards (IAS)

	1998	1998	1997	1997
	CZKm	CZKm	CZKm	CZKm
			Restated	Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Interest and commission receipts	58,790		45,814	
Interest and commission payments	(35,615)		(28,637)	
Other income receipts	4,669		3,999	
Cash payments to employees and suppliers	(14,371)		(9,888)	
Operating cash flow before changes in operating assets and operating liabilities	13,473		11,288	
Due from financial institutions	(7,509)		(46,160)	
Loans and advances to customers	15,008		(10,927)	
Treasury bills and other bills eligible for discounting	3,508		12,570	
Shares and other variable yield securities	319		(327)	
Other assets	2,260		6,222	
<i>(Increase)/decrease in operating assets:</i>	13,586		(38,622)	
Amounts owed to financial institutions	(11,295)		7,468	
Amounts owed to customers	(23,184)		16,425	
Certificated debts	0		(2,935)	
Other liabilities	(324)		(3,623)	
<i>Increase/(decrease) in operating liabilities:</i>	(34,803)		17,335	
Net cash from operating activities before taxes	(7,744)		(9,999)	
Income taxes paid	0		187	
<b>Net cash from operating activities</b>		<b>(7,744)</b>		<b>(9,812)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Dividends received	71		84	
Net sale of fixed income investment securities	564		3,523	
Net purchase of tangible and intangible fixed assets	(1,919)		(3,747)	
Purchase of shares in fixed asset investments	(664)		(1,573)	
<b>Net cash from investing activities</b>		<b>(1,948)</b>		<b>(1,713)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issue of bonds and medium term notes	5,971		6,283	
Maturities of certificated debt	(5,400)		(1)	
Dividends paid	0		(1,919)	
<b>Net cash from financing activities</b>		<b>571</b>		<b>4,363</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(9,121)</b>		<b>(7,162)</b>	
<b>Cash and cash equivalents at beginning of year</b>	<b>39,753</b>		<b>46,915</b>	
<b>Cash and cash equivalents at end of year</b>		<b>30,632</b>		<b>39,753</b>

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



NOTES TO THE UNCONSOLIDATED  
FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 1998

1) PRINCIPAL ACTIVITIES

The Bank is incorporated in the Czech Republic. 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 retail 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 registered office of the Bank is Na Příkopě 33, 114 07 Prague 1, Czech Republic.

2) PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") and general practices within the banking industry.

The accompanying financial statements are presented in the national currency of the Czech Republic, the Czech Crown "CZK". The particular accounting policies adopted are described below.

A) BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention, as modified by the inclusion of marketable securities and derivatives contracts at market value.

The Bank maintains its books of account and prepares statements for regulatory purposes in accordance with Czech accounting principles. The accompanying financial statements are based on the accounting records of the Bank, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with accounting standards as prescribed by the International Accounting Standards Committee. A reconciliation of reserves and profit for the year reported under Czech accounting principles to reserves and profit for the year reported under IAS is shown as note 32 to the financial statements.

The presentation of financial statements in conformity with international accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Bank holds controlling interest in subsidiaries. These financial statements do not consolidate the financial statements of the Bank's subsidiaries in management's desire to present parent company only financial statements.

The Bank will also prepare consolidated financial statements which will be available at the Bank's registered address and will be also part of the annual report.

B) RECLASSIFICATIONS

Certain reclassifications were made to the 1997 financial statements in order to conform with current year presentation (see Notes 3, 6, 7, 9, 14, 16, 17, 19, 20, 21, 25 and 32).

#### C) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiary and associated undertakings are stated at cost less any provision for permanent diminution in value and included in fixed asset investments. Dividend income is recognised in the profit and loss account when received.

#### D) LOANS AND ADVANCES

Loans and advances to customers and financial institutions are stated net of provisions for possible loan losses. Specific provisions are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees. Interest on non-performing loans is accrued on a case by case basis with appropriate provisions against these amounts being included in the specific provision. Penalty interest is accounted for on a cash basis.

The Bank writes off loss loans when clients are unable to fulfil their obligations to the Bank in respect of these loans. The writing off of loans is an internal matter of the Bank as the Bank does not wish to lose legal rights to the loan obligation.

#### E) DEALING SECURITIES

Equity and fixed income dealing securities purchased for trading purposes are accounted for on the trade date basis and valued at market value based on prices quoted on the Prague stock exchange or the RM-system. In the event of holdings of illiquid securities, market value is estimated as the value based on market quotes net of a provision for the illiquidity of the securities. Unrealised profits or losses arising as a result of stating shares and variable yield securities at market value are taken to dealing profits/(losses) in the profit and loss statement.

#### F) INVESTMENT SECURITIES

Shares held for investment purposes are included within investment securities. Shares and fixed income securities held for investment purposes are carried at market value. The premium or discount arising on the purchase of fixed income securities held for investment purposes is amortised over the term to maturity with the amortisation being included within net interest income in the profit and loss statement.

#### G) TREASURY BILLS

Treasury bills, comprising bills issued by Czech Republic government agencies, are stated at cost including amortised premium or discount arising on purchase. The premium or discount is amortised over the term to maturity with the amortisation being included within net interest income.

#### H) TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is provided on a straight line basis over the estimated useful economic life of the asset. Assets under construction are not depreciated. For assets acquired on the establishment of the Bank on 1 January 1990, cost is determined as the net book value attributed to the assets transferred from the former State Bank. The depreciation rates used are as follows:

Land	0%
Buildings	2%
Office equipment	25%
Fixtures and fittings	12.5%

Depreciation calculated at the depreciation rates given above is recognised in the profit and loss account during the year. Gains and losses on disposal of fixed assets are recognised in the profit and loss account in the year of disposal.

**I) 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 shorter of the lease terms and their useful lives. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Rental costs under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

**J) PROVISIONS FOR GUARANTEES AND FINANCIAL INSTRUMENTS**

In the normal course of business, the bank enters into financial instruments with off-balance sheet risk, which include foreign exchange contracts and issued guarantees. These financial instruments involve, to varying degrees, elements of credit, interest rate and currency risk. Provision is made for estimated losses, if any, on such off-balance sheet items.

**K) CERTIFICATED DEBTS**

Certificated debts issued by the Bank are stated at their nominal value net of any unamortised premium or discount arising on issue. The premium or discount is amortised over the term to maturity with the amortisation being included within interest expense.

**L) FOREIGN CURRENCY**

Transactions denominated in foreign currencies are translated into CZK at official Czech National Bank exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All resulting gains and losses are included in the profit and loss statement in other revenues in the period in which they arise.

**M) INCOME RECOGNITION**

Interest income and expense and fees and commissions are recognised on the accrual basis.

**N) TAXATION**

Taxation is calculated in accordance with provisions of the relevant legislation of the Czech Republic based on the profit recognized in the income statement prepared pursuant to Czech accounting standards, after adjustments for tax purposes. Deferred taxation is provided using the liability method on temporary differences between the accounting and taxation treatment of income and expenses. Deferred tax liabilities are recognised for deductible temporary differences. Deferred tax assets are not recorded due to uncertainties about future realisation.

**O) SALE AND REPURCHASE AGREEMENTS**

Under sale and repurchase agreements, where the Bank is the transferor, assets transferred remain on the Bank's balance sheet and are subject to the Bank's usual accounting policies for such assets, with the purchase price received included as a liability owed to the transferee. Where the Bank is the transferee, the assets are not included in the Bank's balance sheet, but the purchase price paid by it to the transferor is included as an asset.

**P) EARNINGS PER SHARE**

Earnings per share has been calculated by dividing the attributable profit or loss for the year, CZK (9,546) million (1997 - CZK 528 million), by the weighted average number of shares in issue during the year of 19,004,926 (1997 - 19,004,926).

**Q) DERIVATIVE FINANCIAL INSTRUMENTS**

In the normal course of business the Bank is a party to contracts for derivative financial instruments including interest rate swap agreements, currency options and forward exchange rate contracts. These are currently used by the Bank to hedge interest rate risk and currency exposures associated with its assets and liabilities and anticipated future cash flows in foreign currencies and to recognise market views in investing the Bank's liquidity. Derivatives used to hedge interest rate risk are accounted for in a similar manner to trading derivatives, i. e. on a mark to market basis. Derivatives associated with the Bank's dealing and proprietary trading activities and hedging of currency exposures are accounted for on a trade date basis and marked to market with the associated gains and losses being included within dealing profits/(losses). The Bank also acts as an intermediate provider of these instruments to certain clients.

**R) REGULATORY REQUIREMENTS**

The bank is subject to the regulatory requirements of the Czech National Bank ("CNB"). These requirements include limits and other restrictions concerning the capital adequacy, classification of loans and off-balance sheet liabilities, credit exposure with clients of the Bank, liquidity and the Bank's foreign currency position.

**S) CHANGE IN ACCOUNTING POLICY**

During 1998, the Bank changed its method of accounting for fixed assets from the revaluation method to the cost basis method. At the time of its privatisation, the Bank adopted the revaluation approach where fixed assets are carried at their fair value at the date of revaluation less subsequent accumulated depreciation. Management believes that the historical cost basis method would be a more appropriate method to value its fixed assets because they are long-term assets, rarely sold, and it is consistent with the treatment of other long-term assets of the Bank.

The 1997 financial statements were retroactively restated for the change as if the new policy had always been in use. The effect of the change was a decrease in the depreciation adjustment between CAS and IAS of CZK 73 million for the year ended 31 December 1997. The value of fixed assets at 31 December 1997 was reduced by the value of the revaluation reserve of CZK 3,663 million and increased by the write-back of depreciation of CZK 73 million from CZK 18,395 million to CZK 14,805 million. Reserves at 31 December 1997 were reduced because of this change by the value of the revaluation reserve (CZK 3,663 million) and increased by the write-back of depreciation (CZK 73 million) from CZK 24,093 million to CZK 20,503 million. Profit for the year ended 31 December 1997 was increased by CZK 73 million from CZK 455 million to CZK 528 million.

### 3) NET INTEREST INCOME

NET INTEREST INCOME COMPRISES:

	1998	1997
	CZKm	CZKm
		Restated
INTEREST INCOME		
- loans and advances to financial institutions	14,463	7,718
- loans and advances to customers	31,961	33,237
- treasury bills	152	1,651
- bonds and other fixed income securities	2,766	5,618
<b>Total interest income</b>	<b>49,342</b>	<b>48,224</b>
INTEREST EXPENSE		
- amounts owed to financial institutions	(9,580)	(7,590)
- amounts owed to customers	(19,753)	(19,426)
- certificated debts	(5,070)	(5,317)
<b>Total interest expense</b>	<b>(34,403)</b>	<b>(32,333)</b>
<b>Net interest income</b>	<b>14,939</b>	<b>15,891</b>

Interest income for 1997 has been adjusted to the value of CZK (615) million and interest expense for 1997 has been adjusted to the value of CZK (702) million due to a reclassification of interest on interest rate swaps to dealing profits/(losses).

### 4) SOURCES OF PROFITS AND LOSSES

Substantially all income included in operating profit was generated in the Czech Republic.

### 5) NET FEES AND COMMISSIONS

NET FEES AND COMMISSIONS COMPRISE:

	1998	1997
	CZKm	CZKm
Fee and commission income	5,001	4,783
Fee and commission expense	(374)	(425)
<b>Net fees and commissions</b>	<b>4,627</b>	<b>4,358</b>

## 6) DEALING PROFITS / (LOSSES)

DEALING PROFITS/(LOSSES) COMPRISE:

	1998	1997
	CZKm	CZKm
		Restated
Realised and unrealised gains/(losses) on securities and bonds	<b>(703)</b>	(930)
Realised and unrealised gains/(losses) on interest rate swaps	<b>224</b>	(121)
Realised and unrealised gains/(losses) on foreign exchange trading	<b>2,485</b>	1,234
Dividend income on marketable securities	<b>11</b>	63
<b>Total dealing profits</b>	<b>2,017</b>	246

Dealing profits/(losses) for 1997 has been adjusted for net interest from interest rate swaps to the value of CZK 87 million.

## 7) OTHER INCOME

OTHER INCOME COMPRISES:

	1998	1997
	CZKm	CZKm
		Restated
Net gain from foreign currency translation	<b>1,458</b>	1,873
Other income	<b>256</b>	207
<b>Total other income</b>	<b>1,714</b>	2,080

## 8) ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES COMPRISE:

	1998	1997
	CZKm	CZKm
Wages and salaries	<b>3,711</b>	3,531
Social security costs	<b>1,440</b>	1,392
	<b>5,151</b>	4,923
Other administrative expenses	<b>5,273</b>	4,945
<b>Total administrative expenses</b>	<b>10,424</b>	9,868
Average number of employees during the year	<b>14,025</b>	14,843

## 9) DEPRECIATION AND OTHER PROVISIONS

### DEPRECIATION AND OTHER PROVISIONS COMPRISE:

	1998	1997
	CZKm	CZKm
		Restated
Depreciation of fixed assets	<b>1,476</b>	1,444
Other net provisions	<b>(30)</b>	30
<b>Total depreciation and other provisions</b>	<b>1,446</b>	1,474

During 1998, the Bank changed its accounting policy for tangible fixed assets and subsequently records tangible fixed assets at cost net of accumulated depreciation. This accounting approach is consistent with the fact that the appropriate assets are held for the long term and are not intended for sale. The change results in a decrease in the depreciation charge in 1997 by CZK 73 million to CZK 1,444 million (the depreciation charge prior to this change in accounting policy was CZK 1,517 million).

## 10) PROVISION FOR LOAN LOSSES

### THE MOVEMENT IN THE ALLOWANCE WAS AS FOLLOWS:

	1998	1997
	CZKm	CZKm
1 January balance	<b>30,180</b>	25,676
Write-off of loans (including recoveries)	<b>(20,724)</b>	(6,259)
Charged in the year	<b>20,963</b>	10,763
<b>31 December balance</b>	<b>30,419</b>	30,180

### THE BALANCE AT 31 DECEMBER COMPRISES BALANCES OF:

	1998	1997
	CZKm	CZKm
Provisions for loans to clients (see Note 16)	<b>29,760</b>	29,885
Provisions for loans to financial institutions (see Note 14)	<b>556</b>	176
Provisions for guarantees and financial instruments (see Note 25)	<b>103</b>	119
<b>31 December balance</b>	<b>30,419</b>	30,180

## 11) TAXATION

THE MAJOR COMPONENTS OF CORPORATE INCOME TAX EXPENSE  
ARE AS FOLLOWS:

	1998	1997
	CZKm	CZKm
Tax paid	(21)	(14)
Deferred tax	11	72
<b>Total tax expense</b>	<b>(10)</b>	<b>58</b>

Deferred income taxes relate principally to temporary differences in the accounting basis and tax basis of depreciation. Potential future tax benefits of provisions for bad debts which have not been deducted for income tax purposes and loss carry-overs are not recorded until realised because of the uncertainty of future realisation. The balance of deferred tax liability included in the balance sheet at 31 December 1998 is CZK 48 million (1997 CZK 59 million).

The corporate tax rate for the year was 35 % (1997 - 39 %). The effective tax rate for the year, comprising all elements of the tax provision, was 0 % (1997 - 0 %). The main adjustments in computing taxable profit from the accounting profit relate to tax exempt income and provisions for loan losses. In particular, in 1998 a significant proportion of the Bank's income was generated from holdings of tax exempt and low tax securities and accordingly this income was excluded in computing taxable income at the standard rate of 35% for the year 1998.

	CZK million
Loss for the accounting period under CAS before taxation	(9,795)
Costs – non tax deductible	15,677
Income – non taxable	(5,320)
Tax basis	562
Reduction in the tax basis	(560)
Reduced tax basis	2
Tax at the current rate	1
Reduction in tax	(1)
Tax charge for 1998	0
Tax according to amended tax returns	(21)
<b>Tax payable</b>	<b>(21)</b>
Reduction in the deferred tax liability	11
<b>Total income tax</b>	<b>(10)</b>

## 12) DISTRIBUTIONS

The Bank incurred a loss in the accounting period to 31 December 1998. The loss will be covered from capital funds and other funds created from profit, in accordance with a decision taken at the Extraordinary General Meeting on 24 November 1998.



### 13) CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK COMPRISES:

	1998	1997
	CZKm	CZKm
Cash in hand	<b>6,389</b>	7,350
Cash with the Czech National Bank	<b>24,106</b>	32,998
Current accounts with other banks	<b>1,332</b>	1,128
<b>Total cash and balances with the central bank</b>	<b>31,827</b>	41,476

Deposits with the Czech National Bank includes the obligatory minimum reserve maintained under Czech National Bank regulations. At 31 December 1998 balances maintained at the Czech National Bank totaled CZK 24,106 million (1997 - CZK 32,998 million) of which CZK 19,688 million (1997 - CZK 25,666 million) represented the obligatory minimum reserve.

### 14) DUE FROM FINANCIAL INSTITUTIONS

DUE FROM FINANCIAL INSTITUTIONS COMPRISES:

	1998	1997
	CZKm	CZKm
		Restated
Amounts owed by financial institutions	<b>115,633</b>	107,216
Less provisions	<b>(556)</b>	(176)
<b>Total due from financial institutions</b>	<b>115,077</b>	107,040

Interest on loans and deposits is accounted for on an accruals basis.

In 1998 the Bank has included forfeits in due from financial institutions. Accordingly, the year 1997 was restated by the amount of forfeits of CZK 4,672 million.

### 15) TREASURY BILLS

TREASURY BILLS COMPRISE:

	1998	1997
	CZKm	CZKm
<b>Treasury bills and other bills eligible for refinancing</b>	<b>1,833</b>	5,341

Treasury bills are stated at cost plus amortised discounts of CZK 2 million (1997 - CZK 34 million). All treasury bills held at 31 December 1997 and 1998 had a remaining maturity of less than one year.

## 16) LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS COMPRISE:

	1998	1997
	CZKm	CZKm
		Restated
Loans and advances to customers	232,344	262,654
Bills of exchange	3,698	8,856
Forfaits	7,736	8,364
<b>Total gross receivables</b>	<b>243,778</b>	<b>279,874</b>
Less provisions for loan losses	(29,760)	(29,885)
<b>Total net loans and advances to clients</b>	<b>214,018</b>	<b>249,989</b>

Included within forfeits issued by other borrowers are forfeits issued by foreign borrowers of CZK 266 million (1997 - CZK 5,240 million).

In 1998 forfeits and bills of exchange and general provisions for loan losses have been included in loans and advances to customers. This has led to an adjustment in the prior year's figures of CZK 8,856 million for bills of exchange and CZK 8,364 million for forfeits.

Provisions and reserves for receivables from customers are determined and created based on the financial position and activities of the client taking into account the value of collateral as well as guarantees from third parties.

THE LOAN PORTFOLIO AS AT 31 DECEMBER 1998 OF THE BANK  
COMPRISES THE FOLLOWING BREAKDOWN BY CLASSIFICATION:

	Gross receivable	Collateral applied	Net exposure	Provision
	CZKm	CZKm	CZKm	CZKm
Standard	141,795	(81,492)	60,303	0
Watch	32,144	(28,536)	3,608	(180)
Substandard	10,501	(8,614)	1,887	(378)
Doubtful	6,507	(4,510)	1,997	(999)
Loss	52,831	(28,634)	24,197	(24,197)
<b>Total</b>	<b>243,778</b>	<b>(151,786)</b>	<b>91,992</b>	<b>(25,754)</b>
General provisions				(4,006)
<b>Total provisions</b>				<b>(29,760)</b>

Loss classified loans in the above table include loans of CZK 37,232 million (1997 - CZK 35,145 million) on which interest is not being accrued.

COLLATERAL TYPES FOR CLIENT LOANS ARE SUMMARISED AS FOLLOWS:

	1998	1997
	CZKm	CZKm
Guarantees	11,405	8,379
Guarantee deposits	1,541	1,114
Issued bonds collateralised	4,816	11,123
Land and buildings	94,887	120,965
Other collateral	39,137	35,510
<b>Total collateral</b>	<b>151,786</b>	<b>177,091</b>

Amounts included in the table represent estimated realisable value.

Management is maximising its efforts to realise collateral on a timely basis. In the event that this proves to be unsuccessful, additional provisions will be made in the future to provide for any possible shortfall.

The Bank's management has recorded provisions and reserves for all known and estimated risks as at the balance sheet date. However, there are significant uncertainties concerning the actual future recoverability of loans, including the following:

- The Bank's portfolio contains a large number of debtors in a risky financial position that are involved in a restructuring process that is expected to lead to either partial or complete recovery of the Bank's receivables. The receivables from such debtors were classified based on the latest available information and expected course of the restructuring process. The ultimate results of such complex and long-term processes are uncertain.
- The value of loan collateral, mainly in the form of land and buildings is subject to significant uncertainties concerning creditors legal rights and market risks. The valuation of collateral was based on appraisal reports reduced by correction coefficients reflecting the risk of non-marketability and price volatility. However, due to the weaknesses in legal protection of creditors, recovery of certain types of collateral can be a long-term process with substantial uncertainty about the results. Management of the Bank believes that the ultimate recoverability of collateral is dependent on favourable legislative changes, the enforcement of creditors' right and favourable future economic and market conditions.
- The Bank's portfolio consists of loans provided to debtors from all major industries. The persisting recession thus impacts the overall quality of the loan portfolio. If future unexpected economic deterioration occurs, the amount of estimated loan losses might be significantly impacted.

Should the development in one or more of the above presented areas be negative compared to the estimates of the Bank's management, a substantial increase in loan provisions and reserves might be required.

In December 1998, the Bank entered into a transaction with an internationally recognised investment bank that provides for a guarantee of funding of the estimated value of collateral of a portfolio of loans classified as loss. Under the terms of the contracts, the Bank may receive funding of CZK 5,062 million (USD 169 million) of defaulted loans. The contracts also provide for a guarantee of a portfolio of zero coupon U. S. Treasury Bonds to be purchased by the Bank during the year 2002 at a presently estimated cost of USD 129 million. The counterparty has the right to borrow the Bonds. The Bank retains interest earnings and fees on the Bonds. Having signed the contract in December 1998 the Bank has paid a refundable deposit of USD 9 million and is obligated to make 40 fixed payments of USD 7 million semiannually. The contracts may be terminated by the Bank before final maturity with a payment of penalty charges. The maturities of the U. S. Treasury Bonds approximate the timing of the payments required to be made by the Bank thereby providing funding of the major part of the future required payments. The Bank also expects to recover the defaulted loans by repayment or liquidation of collateral.

The payments received by the Bank from the counterparty will be recorded as a liability. Payments made by the Bank to the counterparty will be recorded as a reduction of the liability and as interest expense at the calculated annual interest rate inherent in the transaction. The defaulted loans will continue to be recorded in the assets, net of provisions for estimated losses. Any gains or losses realised from liquidation of the loans will be recognised in the profit and loss account. The U. S. Treasury Bonds will be recorded in assets and all related earnings will be included in the profit and loss account.

## 17) DEALING SECURITIES

DEALING SECURITIES COMPRISE:

	1998	1998	1997	1997
	Market value	Purchase cost	Market value	Purchase cost
			Restated	Restated
	CZKm	CZKm	CZKm	CZKm
SHARES AND OTHER VARIABLE YIELD SECURITIES				
Shares	496	474	1,951	1,837
Other variable yield securities	2,101	2,101	1,626	1,626
	2,597	2,575	3,577	3,463
FIXED INCOME SECURITIES				
	13,752	13,748	5,531	5,531
<b>Total dealing securities</b>	<b>16,349</b>	<b>16,323</b>	<b>9,108</b>	<b>8,994</b>

Included in dealing securities are Komerční banka shares for CZK 4 million (1997 – 108 CZK million) and variable yield bonds issued by Komerční banka for CZK 2,101 million (1997 – CZK 977 million), which have been re-acquired by the Bank for trading purposes and which are stated at market value.

In 1998 securities held for trading purposes are included within dealing securities. Comparative figures have been reclassified for this change.

SHARES AND OTHER VARIABLE YIELD SECURITIES  
AT MARKET VALUE COMPRISE:

	1998	1997
	CZKm	CZKm
SHARES		
- Czech crowns	491	1,867
- other currencies	5	84
<b>Total shares</b>	<b>496</b>	<b>1,951</b>
OTHER VARIABLE YIELD SECURITIES		
- Czech crowns	1,363	1,180
- other currencies	738	446
<b>Total other variable securities</b>	<b>2,101</b>	<b>1,626</b>

FIXED INCOME SECURITIES INCLUDED WITHIN DEALING SECURITIES  
AT MARKET VALUE COMPRISE:

	1998	1997
	CZKm	CZKm
TRADING PORTFOLIO BONDS ISSUED BY:		
- public bodies	4,004	726
- other bodies	9,748	4,805
<b>Total fixed income securities</b>	<b>13,752</b>	<b>5,531</b>

At 31 December 1998 the Bank held CZK 522 million of Slovak state bonds and bonds of Komerční Finance, B. V., (1997 – CZK 39 million of German state bonds). All other fixed income securities are issued by entities in the Czech Republic.

Included within bonds issued by other entities are fixed income bonds issued by the Bank for CZK 1,143 million (1997 - CZK 135 million), which have been re-acquired by the Bank for trading purposes and which are stated at market value.

## 18) PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS COMPRISE:

	1998	1997
	CZKm	CZKm
Prepayments and accrued income	<b>4,506</b>	6,842
Net receivables on derivative transactions	<b>35</b>	110
Settlement balances	<b>1,982</b>	1,452
Other trading receivables	<b>21</b>	752
Other assets	<b>1,142</b>	1,345
<b>Total prepayments, accrued income and other assets</b>	<b>7,686</b>	10,501

## 19) INVESTMENT SECURITIES

INVESTMENT SECURITIES COMPRISE:

	1998	1998	1997	1997
	Market value	Purchase cost	Market value	Purchase cost
	Restated	Restated	Restated	Restated
	CZKm	CZKm	CZKm	CZKm
Investment portfolio bonds issued by:				
- public bodies	10,708	10,793	16,293	16,290
- other bodies	3,581	3,581	6,282	6,282
	<b>14,289</b>	<b>14,374</b>	<b>22,575</b>	<b>22,572</b>
Variable yield bonds	1,308	1,308	850	850
Shares	459	459	1,536	1,536
<b>Total investment securities</b>	<b>16,056</b>	<b>16,141</b>	<b>24,961</b>	<b>24,958</b>

In 1998 securities held for the long-term are included in Investment securities. Comparatives for 1997 have been restated for this reclassification.

## 20) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

FIXED ASSET INVESTMENTS COMPRISE:

	1998	1997
	CZKm	CZKm
		Restated
Shares in subsidiary undertakings	1,196	1,228
Shares in associated undertakings	2,764	2,068
<b>Total investments in subsidiaries and associates</b>	<b>3,960</b>	<b>3,296</b>

As the Bank reports its investment portfolio separately in 1998, there has been a change in the reporting of shares in Česká pojišťovna, a. s., and this item is included in the investment portfolio. For purposes of comparison, CZK 804 million of shares in Česká pojišťovna, a. s., have been reclassified.

### SUBSIDIARY UNDERTAKINGS

THE FOLLOWING COMPANIES ARE WHOLLY-OWNED SUBSIDIARY UNDERTAKINGS OF THE BANK AT 31 DECEMBER 1998:

Company name	Direct holding %	Principal activity	Registered office	Investment CZKm
ALL IN, a. s.	100	Valuation services	Praha	100
Investiční kapitálová společnost KB, a. s.	100	Investment fund	Praha	75
Komerční banka Bratislava, a. s.	100	Banking services	Bratislava	445
Bankovní ochranná služba, a. s.	100	Security services	Praha	65
Penzijní fond Komerční banky, a. s.	100	Pension fund	Praha	230
Komerční pojišťovna, a. s.	100	Insurance activities	Praha	236
Komerční Finance, B. V.	100	Finance	Amsterdam	1
Factoring KB, a. s.	100	Factoring	Praha	44
<b>Total</b>				<b>1,196</b>

### ASSOCIATED UNDERTAKINGS

THE FOLLOWING COMPANIES ARE DEFINED AS ASSOCIATED UNDERTAKINGS AT 31 DECEMBER 1998:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Investment CZKm
CAC Leasing, a. s.	50	50	Leasing	Praha	111
I. S. C. MUZO, a. s.	49.9	49.9	Financial services	Praha	61
Všeobecná stavební spořitelna KB, a. s.	40	40	Building society	Praha	220
Investiční privatizační fond KB, a. s.	35	35	Investment fund	Praha	2,268
Other associated companies (with holdings less than 20 %)					104
<b>Total</b>					<b>2,764</b>

## 21) TANGIBLE AND INTANGIBLE FIXED ASSETS

THE MOVEMENT DURING THE YEAR ARE AS FOLLOWS:

	Land and Buildings CZKm	Fixtures, Fittings and Equipment CZKm	Assets under Construction CZKm	Total CZKm
<b>COST</b>				
1 January 1998 (restated)	10,253	10,378	1,874	<b>22,505</b>
Additions net of disposals	1,997	(1,819)	(1,153)	<b>(975)</b>
31 December 1998	12,250	8,559	721	<b>21,530</b>
<b>ACCUMULATED DEPRECIATION</b>				
1 January 1998	833	6,867	0	<b>7,700</b>
Net charge for the year	820	(2,268)	0	<b>(1,448)</b>
31 December 1998	1,653	4,599	0	<b>6,252</b>
<b>NET BOOK VALUE</b>				
31 December 1997	9,420	3,511	1,874	<b>14,805</b>
<b>31 December 1998</b>	<b>10,597</b>	<b>3,960</b>	<b>721</b>	<b>15,278</b>

In 1998 the Bank changed its accounting policy for land and buildings and subsequently records tangible fixed assets at cost net of accumulated depreciation (see Note 2s). This accounting treatment is consistent with the fact that the appropriate assets are held for a long term and are not intended for sale. The reclassification results in a decrease in the balance tangible and intangible fixed assets in 1997 by CZK 3,590 million to CZK 14,805 million (last year's comparative in 1997 was CZK 18,395 million).

Included in fixtures, fittings and equipment at 31 December 1998 is CZK 3,141 million (1997 - CZK 2,987 million) of assets held under finance lease agreements. The related accumulated depreciation is CZK 2,699 million (1997 - CZK 2,321 million). The Bank leases fixtures, fittings and equipment from an associated undertaking (see Note 31).

Included in fixtures, fittings and equipment at 31 December 1998 are intangible fixed assets relating to software products with a net book value of CZK 404 million (1997 - CZK 387 million).

## 22) AMOUNTS OWED TO FINANCIAL INSTITUTIONS

AMOUNTS OWED TO FINANCIAL INSTITUTIONS COMPRISE:

	1998 CZKm	1997 CZKm
Amounts owed to banks	<b>1,195</b>	1,723
Amounts owed to other financial institutions	<b>70,574</b>	81,341
<b>Total amounts owed to financial institutions</b>	<b>71,769</b>	83,064

## 23) AMOUNTS OWED TO CUSTOMERS

AMOUNTS OWED TO CUSTOMERS COMPRISE:

	1998	1997
	CZKm	CZKm
Savings deposits	<b>38,390</b>	48,513
Other deposits according to remaining maturity:		
- on demand	<b>132,108</b>	132,081
- less than one year	<b>95,102</b>	100,667
- one to five years	<b>8,077</b>	15,551
- greater than five years	<b>21</b>	70
<b>Total amounts owed to customers</b>	<b>273,698</b>	296,882

## 24) CERTIFICATED DEBTS

CERTIFICATED DEBTS COMPRISE:

	1998	1997
	CZKm	CZKm
Bonds	<b>31,645</b>	37,044
Certificates of deposit	<b>1</b>	2
<b>Total certificated debts</b>	<b>31,646</b>	37,046

CERTIFICATED DEBTS ARE REPAYABLE, ACCORDING TO REMAINING MATURITY, AS FOLLOWS:

	1998	1997
	CZKm	CZKm
In less than one year	<b>12,001</b>	6,002
In one to two years	<b>2,000</b>	12,000
In two to three years	<b>3,000</b>	2,000
In three to four years	<b>10,000</b>	3,000
Thereafter	<b>4,645</b>	14,044
<b>Total certificated debts</b>	<b>31,646</b>	37,046



INCLUDED IN THE ABOVE ARE BONDS AND MEDIUM TERM NOTES  
ISSUED BY THE BANK, WHICH COMPRISE:

Interest Rate	Issue Date	Maturity Date	1998 CZKm	1997 CZKm
Fixed/Floating (see below)	3 May 1993	3 May 1998	0	1,500
11.4 %	28 September 1994	28 September 2001	3,000	3,000
6M PRIBOR + 0.5 %	12 December 1994	12 December 1999	4,000	4,000
6M PRIBOR + 0.5 %	9 March 1995	9 March 2000	2,000	2,000
6M PRIBOR + 0.3 %	9 March 1995	9 March 1998	0	1,000
11.1 %	26 June 1995	26 June 1998	0	3,500
6M PRIBOR + 0.3 %	23 October 1995	23 April 1999	3,000	3,000
6M PRIBOR + 0.1 %	20 May 1996	20 May 1999	5,000	5,000
6M PRIBOR + 0.15 %	10 February 1997	10 February 2002	6,000	6,000
Zero Coupon	8 August 1997	8 August 2004	4,645	4,044
6M PRIBOR + 0.1 %	29 September 1997	29 September 2002	4,000	4,000
<b>Total bonds</b>			<b>31,645</b>	<b>37,044</b>

The bonds above denoted as 6M PRIBOR pay interest based on the six month Prague Prime Interest Rate plus an agreed percentage as shown above. The rate is adjusted semi-annually.

The fixed/floating rate bonds issued on 3 May 1993 bore interest at a rate of 17 % in their first year. During years two to five, the bonds bear interest at the six month sell PRIBOR plus 0.5 percentage points, adjusted semi-annually.

Six month PRIBOR at 31 December 1998 was 9.09 % (1997 - 17.02 %).

## 25) ACCRUALS, PROVISIONS AND OTHER LIABILITIES

### ACCRUALS, PROVISIONS AND OTHER LIABILITIES:

	1998	1997
	CZKm	CZKm
		Restated
Net payables on derivatives transactions	1,542	560
Settlement balances	1,217	524
Payments in clearing	3,857	5,195
Other trading payables	185	870
Taxation	29	496
Other liabilities	2,781	2,693
Provisions, accruals and deferred income	8,828	9,063
Provision for guarantees	103	119
<b>Total accruals, provisions and other liabilities</b>	<b>18,542</b>	<b>19,520</b>

## 26) SUBORDINATED DEBT

In 1998, Komerční Finance, B. V., (a wholly owned subsidiary of the Bank) issued guaranteed step-up callable notes due 15 May 2008, bearing interest at 9 % per annum to, but excluding, 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 percentage points. The notes constitute direct, unsecured, unconditional, subordinated obligations of Komerční 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 Komerční Finance, B. V., in whole on any interest payment date on or after 15 May 2003. The value of the subordinated debt is USD 200 million.

## 27) SHARE CAPITAL

The share capital of the Bank at 31 December 1998 comprised 19,004,926 ordinary shares with the nominal value of CZK 500 (19,004,926 ordinary shares with the nominal value of CZK 500 at 31 December 1997).

## 28) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENT AS SHOWN IN THE BALANCE SHEET

	1998	1997	Change
	CZKm	CZKm	in the year
			CZKm
Cash and balances with the central bank	30,495	40,348	(9,853)
Current accounts with other banks	1,332	1,128	204
Amounts owed to banks	(1,195)	(1,723)	528
<b>Total cash and cash equivalents</b>	<b>30,632</b>	<b>39,753</b>	<b>(9,121)</b>

## 29) FINANCIAL COMMITMENTS AND CONTINGENCIES

### FINANCIAL COMMITMENTS AND CONTINGENCIES COMPRISE:

	1998	1997
	CZKm	CZKm
Guarantees	26,090	8,794
Letters of credit	9,633	10,108
Loan commitments	21,103	38,227
<b>Total financial commitments and contingencies</b>	<b>56,826</b>	<b>57,129</b>

The risk associated with contingent receivables and payables is assessed similarly as for loans to clients taking into account the financial position and activities of the entity to whom the Bank issued a guarantee and taking into account the collateral proposed. The Bank created a reserve for these risks amounting to CZK 103 million (1997 – CZK 119 million). See Note 25.

The Bank has entered into finance leases in respect of office equipment, the payments for which extend over a three-year period. The future commitments amounting to CZK 427 million (1997 - CZK 474 million) are included in the unconsolidated balance sheet in other liabilities.

## 30) DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business the Bank enters into financial instrument transactions. Financial instruments are used to hedge the interest rate and foreign currency risk of the Bank as well as for the Bank's proprietary trading purposes.

### TRADING TRANSACTIONS

	1998		1997	
	Notional Assets	Notional Liabilities	Notional Assets	Notional Liabilities
	CZKm	CZKm	CZKm	CZKm

#### FOREIGN CURRENCY INSTRUMENTS

Options	18,318	17,164	9,726	9,673
Forwards and currency swaps	4,678	4,677	5,032	5,083
Foreign currency swaps	81,372	81,042	79,744	79,579
Spot	2,788	2,787	4,870	4,861
<b>Total foreign currency instruments</b>	<b>107,156</b>	<b>105,670</b>	<b>99,372</b>	<b>99,196</b>

#### INTEREST RATE INSTRUMENTS

Forward rate agreements	28,510	25,713	7,380	7,380
Interest rate swaps	52,478	52,478	72,759	72,759
Options	439	439	0	0
<b>Total interest rate instruments</b>	<b>81,427</b>	<b>78,630</b>	<b>80,139</b>	<b>80,139</b>

REMAINING MATURITY OF INTEREST RATE INSTRUMENTS

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
	CZKm	CZKm	CZKm	CZKm
<b>Interest rate swaps</b>	<b>9,822</b>	<b>30,008</b>	<b>12,648</b>	<b>52,478</b>

Other derivative instruments, for example forwards, spot transactions and swaps have maturities of less than one year.

FINANCIAL INSTRUMENTS FOR HEDGING CURRENCY  
AND INTEREST RATE RISK

	1998		1997	
	Notional	Notional	Notional	Notional
	Assets	Liabilities	Assets	Liabilities
	CZKm	CZKm	CZKm	CZKm

FOREIGN CURRENCY INSTRUMENTS

Spot	<b>908</b>	<b>909</b>	0	0
Foreign currency swaps	<b>19,012</b>	<b>19,539</b>	14,168	14,477
<b>Total foreign currency instruments</b>	<b>19,920</b>	<b>20,448</b>	14,168	14,477

INTEREST RATE INSTRUMENTS

Options	<b>3,842</b>	<b>3,842</b>	0	0
Interest rate swaps	<b>21,773</b>	<b>21,773</b>	8,927	8,927
Forwards	<b>3,843</b>	<b>3,843</b>	10,556	1,146
<b>Total interest rate instruments</b>	<b>29,458</b>	<b>29,458</b>	19,483	10,073

REMAINING MATURITY OF INTEREST RATE INSTRUMENTS

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
	CZKm	CZKm	CZKm	CZKm
<b>Interest rate swaps</b>	<b>0</b>	<b>21,773</b>	<b>0</b>	<b>21,733</b>

Other derivative instruments, for example forwards, spot transactions and swaps have maturities of less than one year.

**CREDIT RISK OF FINANCIAL INSTRUMENTS** Credit exposure or replacement cost on derivative instruments represents the cost to replace contracts with a positive value in the event that counterparties fail to perform their obligations and is usually a small fraction of the notional amounts of the contracts. At 31 December 1998 the Bank has a possible exposure of CZK 5,600 million (1997 - CZK 2,203 million) in the event of non-performance by counterparties to its derivative instruments. This amount represents the gross replacement cost at market rates at 31 December 1998 of all outstanding agreements in the event of all counterparties defaulting and does not allow for the effect of netting arrangements. The exposure, after taking account of available netting arrangements, would be CZK 1,703 million (1997 - CZK 999 million). The Bank is selective in its choice of counterparties and considers that non-performance is unlikely.

### 31) RELATED PARTIES

At 31 December 1998 the Bank had loans outstanding of CZK 4,344 million (1997 - CZK 936 million) to subsidiary and associated undertakings. At 31 December 1998 the Bank had loans outstanding of CZK 12,741 million (1997 - CZK 14,362 million) from Komerční Finance, B. V., which are included within - "amounts owed to customers".

The Bank has also entered into certain finance lease agreements with an associated undertaking. Included in other liabilities is an amount of CZK 141 million (1997 - CZK 474 million), net of interest, outstanding under these finance lease agreements. The Bank paid CZK 560 million (1997 - CZK 447 million) to the associated undertaking during 1998 in relation to finance leases.

### 32) RECONCILIATION OF RESERVES AND PROFIT UNDER CZECH ACCOUNTING PRINCIPLES TO IAS

	1998	1997
	CZKm	CZKm
		Restated
Reserves at 31 December under Czech accounting principles (net of the social fund reserve)	<b>10,392</b>	20,302
ADD / (DEDUCT) :		
Cumulative unrealised gains on trading securities	(60)	22
Cumulative depreciation adjustments	362	42
Cumulative leasing adjustments	213	104
Revaluation of option positions	4	4
Transfers to other provisions	45	29
Reserves at 31 December under IAS	<b>10,956</b>	20,503

	1998	1997
	CZKm	CZKm
		Restated
Profit for the year ended 31 December under Czech accounting principles	<b>(9,805)</b>	261
ADD / (DEDUCT) :		
Unrealised losses on trading securities	(82)	(277)
Depreciation adjustment	320	412
Leasing adjustment	109	169
Revaluation of option positions	0	63
Transfers to other provisions	(88)	(103)
Other	0	3
Profit for the year ended 31 December under IAS	<b>(9,546)</b>	528

### 33) FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial statements are presented on the historical cost basis, including adjustments and provisions to reduce assets to estimated recoverable amounts. It is the policy of the Bank to disclose fair value information on those assets or liabilities for which published market information is readily available, and where the fair value is materially different from recorded amounts. Sufficient market experience, stability and liquidity does not exist for purchases and sales of loans and other financial assets or liabilities for which published market information is not readily available. Also, published market information may not be a reliable indicator of fair values because markets are not sufficiently active. Accordingly, fair values cannot be reliably determined. In the opinion of management, the reported cost basis amounts are the most valid and useful reporting values in the circumstances.

### 34) FOREIGN EXCHANGE RISK

The table below provides an analysis of the Bank's main currency exposures at 31 December 1998.

	Czech crowns CZKm	German marks CZKm	United States dollars CZKm	Austrian schillings CZKm	Swiss francs CZKm	Other CZKm	Total CZKm
<b>ASSETS</b>							
Cash in hand, central banks	28,261	1,311	453	410	231	1,161	<b>31,827</b>
Loans and advances to financial institutions	83,310	11,317	16,224	507	1,110	2,609	<b>115,077</b>
Treasury bills	1,833	0	0	0	0	0	<b>1,833</b>
Loans and advances to customers	175,658	23,714	11,940	331	1,397	978	<b>214,018</b>
Dealing and investment securities	20,981	5,158	5,116	42	1,094	14	<b>32,405</b>
Prepayments, accrued income and other assets	5,617	468	1,194	28	2	377	<b>7,686</b>
Fixed asset investments	3,509	0	0	0	0	451	<b>3,960</b>
Tangible fixed assets	15,278	0	0	0	0	0	<b>15,278</b>
<b>Total assets</b>	<b>334,447</b>	<b>41,968</b>	<b>34,927</b>	<b>1,318</b>	<b>3,834</b>	<b>5,590</b>	<b>422,084</b>
<b>LIABILITIES</b>							
Amounts							
owed to financial institutions	46,702	10,551	13,388	23	242	863	<b>71,769</b>
Amounts owed to customers	224,819	24,778	20,363	1,269	637	1,832	<b>273,698</b>
Certificated debts	31,646	0	0	0	0	0	<b>31,646</b>
Provisions, accruals and other liabilities	15,072	918	2,055	44	79	374	<b>18,542</b>
Subordinated debt	0	0	5,971	0	0	0	<b>5,971</b>
Shareholders' funds	20,458	0	0	0	0	0	<b>20,458</b>
<b>Total liabilities and shareholders' funds</b>	<b>338,697</b>	<b>36,247</b>	<b>41,777</b>	<b>1,336</b>	<b>958</b>	<b>3,069</b>	<b>422,084</b>
<b>Net currency position at 31 December 1998</b>	<b>(4,250)</b>	<b>5,721</b>	<b>(6,850)</b>	<b>(18)</b>	<b>2,876</b>	<b>2,521</b>	<b>0</b>

### 35) 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 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. Securities that comprise the Bank's marked to market portfolio are assumed to reprice within the "Up to 3 months" category. It is the policy of the directors of the Bank to manage the exposure of the Bank 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 a contractual maturity date or are not interest-bearing are grouped together in the "maturity undefined" category.

	Up to 3 months CZKm	From 3 months to 1 year CZKm	From 1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
<b>A S S E T S</b>						
Cash in hand, central banks	0	0	0	0	31,827	<b>31,827</b>
Loans and advances to						
financial institutions	101,919	13,245	476	0	(563)	<b>115,077</b>
Treasury bills	1,833	0	0	0	0	<b>1,833</b>
Loans and advances to						
customers	119,009	40,112	26,185	3,863	24,849	<b>214,018</b>
Dealing and investment						
securities	1,493	7,841	17,212	4,346	1,513	<b>32,405</b>
Prepayments, accrued						
income and other assets	0	0	0	0	7,686	<b>7,686</b>
Fixed asset investments	0	0	0	0	3,960	<b>3,960</b>
Tangible fixed assets	0	0	0	0	15,278	<b>15,278</b>
<b>Total assets</b>	<b>224,254</b>	<b>61,198</b>	<b>43,873</b>	<b>8,209</b>	<b>84,550</b>	<b>422,084</b>
<b>L I A B I L I T I E S</b>						
Amounts owed to						
financial institutions	50,151	21,471	147	0	0	<b>71,769</b>
Amounts owed to customers	136,358	4,196	16,534	0	116,610	<b>273,698</b>
Certificated debts	12,000	12,000	3,000	4,646	0	<b>31,646</b>
Provisions, accruals						
and other liabilities	0	0	0	0	18,542	<b>18,542</b>
Subordinated debt	0	0	5,971	0	0	<b>5,971</b>
<b>Total liabilities</b>	<b>198,509</b>	<b>37,667</b>	<b>25,652</b>	<b>4,646</b>	<b>135,152</b>	<b>401,626</b>
<b>Net interest rate position</b>						
<b>at 31 December 1998</b>	<b>25,745</b>	<b>23,531</b>	<b>18,221</b>	<b>3,563</b>	<b>(50,602)</b>	<b>20,458</b>
<b>Cumulative interest rate position</b>	<b>25,745</b>	<b>49,276</b>	<b>67,497</b>	<b>71,060</b>	<b>20,458</b>	<b>-</b>

### 36) 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. The Bank maintains its liquidity profiles in accordance with guidelines laid down by the Czech National Bank. The table below provides an analysis of assets, liabilities and shareholders' funds into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest possible repayment date is shown while for assets the latest possible repayment date is shown. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "maturity undefined" category.

	On demand CZKm	Up to 3 months CZKm	From 3 months to 1 year CZKm	From 1 year to 5 years CZKm	Over 5 years CZKm	Overdue CZKm	Maturity undefined CZKm	Total CZKm
<b>ASSETS</b>								
Cash in hand, central banks	12,139	0	0	0	0	0	19,688	<b>31,827</b>
Loans and advances								
to financial institutions	971	57,740	53,340	1,251	1,577	754	(556)	<b>115,077</b>
Treasury bills	0	1,589	244	0	0	0	0	<b>1,833</b>
Loans and advances to customers	314	66,816	58,593	34,448	35,449	48,160	(29,762)	<b>214,018</b>
Dealing and investment securities	0	1,813	2,489	7,735	1,716	0	18,652	<b>32,405</b>
Prepayments, accrued								
income and other assets	0	0	0	0	0	0	7,686	<b>7,686</b>
Fixed asset investments	0	0	0	0	0	0	3,960	<b>3,960</b>
Tangible fixed assets	0	0	0	0	0	0	15,278	<b>15,278</b>
<b>Total assets</b>	<b>13,424</b>	<b>127,958</b>	<b>114,666</b>	<b>43,434</b>	<b>38,742</b>	<b>48,914</b>	<b>34,946</b>	<b>422,084</b>
<b>LIABILITIES</b>								
Amounts owed to								
financial institutions	4,361	12,314	38,237	10,715	6,142	0	0	<b>71,769</b>
Amounts owed to customers	133,879	82,514	49,207	8,077	21	0	0	<b>273,698</b>
Certificated debts	0	0	12,000	19,646	0	0	0	<b>31,646</b>
Provisions, accruals								
and other liabilities	0	0	0	0	0	0	18,542	<b>18,542</b>
Subordinated debt	0	0	0	0	0	0	5,971	<b>5,971</b>
Shareholders' funds	0	0	0	0	0	0	20,458	<b>20,458</b>
<b>Total liabilities</b>								
<b>and shareholders' funds</b>	<b>138,240</b>	<b>94,828</b>	<b>99,444</b>	<b>38,438</b>	<b>6,163</b>	<b>0</b>	<b>44,971</b>	<b>422,084</b>
<b>Net liquidity risk position</b>	<b>(124,816)</b>	<b>31,130</b>	<b>15,222</b>	<b>4,996</b>	<b>32,579</b>	<b>48,914</b>	<b>(10,025)</b>	<b>0</b>
<b>Cumulative liquidity risk</b>	<b>(124,816)</b>	<b>(93,686)</b>	<b>(78,464)</b>	<b>(73,468)</b>	<b>(40,889)</b>	<b>8,025</b>	<b>(2,000)</b>	<b>0</b>



### 37) AVERAGE INTEREST RATES IN DECEMBER 1998

Assets	Average Rate	Liabilities	Average Rate
Cash and balances with CNB	0.00 %	Loans from the CNB	6.97 %
Treasury bills and other bills			
eligible for refinancing	9.25 %	Amounts owed to financial institutions	8.80 %
Due from financial institutions	9.49 %	Amounts owed to customers	5.56 %
Loans and advances to customers	11.38 %	Certificated debts	12.30 %
Interest bearing securities	8.91 %	Subordinated debt	18.42 %
<b>Total assets</b>	<b>8.96 %</b>	<b>Total liabilities</b>	<b>6.06 %</b>
<b>Total interest bearing assets</b>	<b>10.51 %</b>	<b>Total interest bearing liabilities</b>	<b>6.93 %</b>

### 38) CONCENTRATION OF CREDIT RISK

Of "amounts owed to financial institutions", CZK 14,000 million (1997 – CZK 16,000 million) relates to amounts deposited with the Bank by Česká Spořitelna, a. s., of which CZK 5,500 million (1997 – CZK 9,000 million) is due within one year.

### 39) YEAR 2000 RISK

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field. Beginning in the year 2000, these date code fields will need to accept four-digit entries to distinguish 21st century dates from 20th century dates. As a result, in less than one year, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. With the assistance of outside consultants, the Bank has developed a detailed plan starting in mid-1997 to address its Year 2000 requirements. This plan has involved a comprehensive review of the Bank's computer systems. The Bank has developed its plan following a methodology issued by the Bank Committee for Bank Supervision. There can be no assurance that coding errors or other defects will not be discovered in the future. Any Year 2000 compliance problem of the Bank, its service providers, its customers, the internet infrastructure or other institutions with which the Bank interacts could result in a material adverse effect, which cannot be quantified, on the Bank's business, operating results and financial condition. The Bank has incurred costs of CZK 236 million on updating its software and hardware, and expects to incur additional costs of CZK 180 million in respect of future rectification work.

#### 40) CAPITAL ADEQUACY

The Bank calculates its capital adequacy ratio in accordance with Czech National Bank and Bank for International Settlements ("BIS") criteria.

The Bank incurred a loss of CZK 9.8 billion in 1998 under CAS. The Bank's management has estimated that the 1999 loss will approximate CZK 5.8 billion. Under this assumption the Bank's capital adequacy at December 31, 1999 would decrease to the level nearing the minimum CNB requirements. Any unexpected negative economic developments would likely result in a higher loss which could cause a failure to meet the capital adequacy requirements. Failure to meet capital adequacy requirements could result in sanctions by the Czech National Bank. The Bank's management recognises and understands these risks. Therefore, in collaboration with privatisation advisors, management is discussing and negotiating with the government as a major shareholder, options and alternatives in the event of such negative developments, including as regards increasing the Bank's capital or providing government guarantees for risk loans, or a combination of these two alternatives. These discussions and negotiations are still pending at the balance sheet date and their ultimate outcome is not known.

THE CAPITAL ADEQUACY RATIOS UNDER BIS AND CNB FOR THE YEAR  
END ARE PROVIDED BELOW:

	1998	1997
According to the methodology of the Bank for International Settlements	<b>9.56 %</b>	8.31 %
According to the methodology of the Czech National Bank	<b>10.45 %</b>	10.03 %

## RECONCILIATION OF KOMERČNÍ BANKA'S FINANCIAL STATEMENTS

### MAIN DIFFERENCES BETWEEN CZECH ACCOUNTING STANDARDS (CAS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

The following is an explanation of the main differences between the balances shown in the balance of the Bank under CAS and IAS as at 31 December 1998. Reconciliation of the differences between CAS and IAS in relation to the profit and loss statement and reserves as at 31 December 1998 are included in Note 32 to the unconsolidated financial statements.

**CASH AND BALANCES WITH THE CENTRAL BANK** Current accounts at banks are contained in Cash and balances with the central bank in the financial statements prepared in accordance with IAS as they represent nostro accounts held at other banks which are repayable on demand. These balances are included in Due from banks in the CAS financial statements. The value of nostro accounts as at 31 December 1998 was CZK 1,332 million (1997 - 1,128 million).

**TREASURY BILLS AND OTHER BILLS ELIGIBLE FOR REFINANCING** Under CAS, for repurchase transactions, the Bank records the borrowing from the counterparty, removes the security from the investment portfolio and records a receivable for that underlying security. For reverse repurchase transactions, the Bank records the loan to the counterparty, records the security underlying the transaction and records a payable to the counterparty for the security. In accordance with IAS, only the receivable/payable from the counterparty is recognized on the balance sheet. The transaction is treated as a secured lending/borrowing transaction and the difference between sale/repurchase price is recognized as interest income or expense.

As at 31 December 1998, the Bank held CZK 58,640 million (1997 - CZK 32,618 million) of Treasury bills in respect of reverse repurchase agreements which have been recognised on the balance sheet under CAS but which have been de-recognised for IAS purposes. These balances are included in Treasury bills and other bills eligible for refinancing and in Amounts owed to financial institutions.

**LOANS AND ADVANCES TO CUSTOMERS** In accordance with CAS, expected losses related to identified receivables are covered by specific reserves/provisions that are shown in the balance sheet netted against loans receivable. Potential losses related to the loan portfolio as a whole and off-balance sheet lending commitments are covered by general reserves/provisions and are shown in the balance sheet on the liability side as reserves.

Under IAS, potential losses related to the loan, not yet identified but expected to arise on the basis of previous experience, are shown in the balance sheet as provisions for loan losses, which are netted against loans receivable.

The value of the general reserve which has been included in liabilities under CAS and reclassified to Loans and advances to customers for the purposes of IAS as at 31 December 1998 was CZK 4,006 million (1997 - CZK 8,110 million).

**CERTIFICATED DEBTS** Under CAS, accrued interest on certificated debts are shown within the balance Certificated debts. Under IAS the accrued interest is shown separately in Accruals, provisions and other liabilities. The value of accrued interest as at 31 December 1998 was CZK 3,358 million (1997 - 3,956 million).



# drive

DEFINITE DRIVE TOWARDS ENTRY INTO THE EUROPEAN UNION CONNECTS THE BANK  
EVER MORE CLOSELY WITH THE RAPIDLY DEVELOPING WORLD OF FINANCE.

AUDITORS' REPORT ON CONSOLIDATED  
FINANCIAL STATEMENTS

ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS (IAS)

**Deloitte &  
Touche**

spol. s r.o.



Týn 641/4  
110 00 Praha 1  
Czech Republic

Telephone: + 420 (2) 248 95 500  
Facsimile: + 420 (2) 248 95 555

AUDITORS' REPORT TO SHAREHOLDERS  
OF KOMERČNÍ BANKA, A. S.

We have audited the consolidated annual financial statements of the Financial Group of Komerční banka, a. s., ("the Group") for the year ended 31 December 1998 prepared in accordance with International Accounting Standards. We conducted our audit in accordance with International Standards on Auditing. The consolidated profit and loss statement and the consolidated balance sheet included in this Annual Report for the year ended 1998 were derived from the financial statements, on which we issued unqualified audit opinion dated 22 April 1999.

Without qualifying our opinion we draw attention to the explanatory note included in our report related to substantial continuing uncertainties concerning the realisation of collateral securing the loan portfolio and recovery of problem loans, and in connection with the future condition of the Czech economy and development of the legal environment. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses and failure to meet minimum capital requirements. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In our opinion, the consolidated profit and loss statement and the consolidated balance sheet prepared in accordance with International Accounting Standards are consistent, in all material aspects, with the financial statements from which they were derived.

For better understanding of the Group's financial position and the results of its operations and of the scope of our audit, the attached consolidated profit and loss statement and consolidated balance sheet should be read in conjunction with the consolidated financial statements from which were derived and our audit report thereon.

Prague, 22 April 1999

Deloitte & Touche

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS (IAS)  
CONSOLIDATED PROFIT AND LOSS STATEMENT AS AT 31 DECEMBER 1998

CONSOLIDATED PROFIT AND LOSS STATEMENT  
AS AT 31 DECEMBER 1998

According to International Accounting Standards (IAS)

	1998	1997
	CZKm	CZKm
		Restated
Interest income	49,385	48,519
Interest expense	(34,454)	(32,555)
<b>Net interest income</b>	<b>14,931</b>	<b>15,964</b>
Net fees and commissions	4,699	4,358
Net dealing profits/(losses)	2,069	286
Other income	3,380	2,646
<b>Operating profit</b>	<b>25,079</b>	<b>23,254</b>
Administrative expenses	(11,901)	(10,163)
Depreciation and other provisions	(2,232)	(1,490)
Income from interests in associated undertakings	12	356
<b>Profit/(loss) before provision for loan losses and income taxes</b>	<b>10,958</b>	<b>11,957</b>
Provision for loan losses	(20,867)	(10,767)
<b>Profit/(loss) before income taxes</b>	<b>(9,909)</b>	<b>1,190</b>
Income taxes	(67)	(101)
<b>Net profit/(loss) for the year before minority interest</b>	<b>(9,976)</b>	<b>1,089</b>
<b>Net profit/(loss) attributable to minority interest</b>	<b>(10)</b>	<b>(3)</b>
<b>Net profit (loss) for the year</b>	<b>(9,986)</b>	<b>1,086</b>
<b>Earnings/(loss) per share (in CZK)</b>	<b>(525)</b>	<b>57</b>

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS (IAS)  
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 1998

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 1998

According to International Accounting Standards (IAS)

	1998 CZKm	1997 CZKm Restated
<b>A S S E T S</b>		
Cash and balances with the central bank	33,631	43,506
Due from financial institutions	113,851	107,120
Treasury bills and other bills eligible for refinancing	1,833	5,341
Loans and advances to customers, net	213,041	250,336
Dealing securities	16,907	9,337
Prepayments, accrued income and other assets	10,423	11,822
Investment securities	16,731	25,657
Investments in associated undertakings and unconsolidated subsidiaries	3,801	3,172
Tangible and intangible fixed assets, net	16,402	15,867
<b>Total assets</b>	<b>426,620</b>	<b>472,158</b>
<b>L I A B I L I T I E S</b>		
Amounts owed to financial institutions	73,240	85,270
Amounts owed to customers	261,820	284,242
Certificated debts	44,476	51,488
Accruals, provisions and other liabilities	19,993	19,994
Subordinated debt	5,976	0
<b>Total liabilities</b>	<b>405,505</b>	<b>440,994</b>
<b>Minority interest in subsidiaries</b>	<b>-</b>	<b>(10)</b>
<b>S H A R E H O L D E R S ' E Q U I T Y</b>		
Share capital	9,502	9,502
Share premium and reserves	11,613	21,672
<b>Total shareholders' equity</b>	<b>21,115</b>	<b>31,174</b>
<b>Total liabilities and shareholders' equity</b>	<b>426,620</b>	<b>472,158</b>

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
AS AT 31 DECEMBER 1998

According to International Accounting Standards (IAS)

	Share capital	Share premium	Revaluation reserve	Statutory reserve fund	Other capital, reserve funds and undistrib- uted profit	Total
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm
<b>31 December 1996,</b>						
<b>as previously reported</b>	<b>9,502</b>	<b>6,008</b>	<b>3,663</b>	<b>2,164</b>	<b>14,241</b>	<b>35,578</b>
Adjustment of tangible fixed assets	-	-	(3,663)	-	-	(3,663)
<b>31 December 1996, as restated</b>	<b>9,502</b>	<b>6,008</b>	<b>0</b>	<b>2,164</b>	<b>14,241</b>	<b>31,915</b>
Paid dividends	-	-	-	-	(1,919)	(1,919)
FX gains from foreign investments	-	-	-	-	81	81
Other transfers	-	-	-	-	11	11
Profit for the year before dividends	-	-	-	-	1,086	1,086
<b>31 December 1997</b>	<b>9,502</b>	<b>6,008</b>	<b>-</b>	<b>2,164</b>	<b>13,500</b>	<b>31,174</b>
FX gains from foreign investments	-	-	-	-	(73)	(73)
Transfer to statutory reserve funds	-	-	-	220	(220)	-
Net loss for the year	-	-	-	-	(9,986)	(9,986)
<b>31 December 1998</b>	<b>9,502</b>	<b>6,008</b>	<b>-</b>	<b>2,384</b>	<b>3,221</b>	<b>21,115</b>



AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS (IAS)  
CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 1998

CONSOLIDATED CASH FLOW STATEMENT  
AS AT 31 DECEMBER 1998

According to International Accounting Standards (IAS)

	1998	1998	1997	1997
	CZKm	CZKm	CZKm	CZKm
			Restated	Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Interest and commission receipts	58,924		46,109	
Interest and commission payments	(35,684)		(28,859)	
Other income receipts	6,372		4,625	
Cash payments to employees and suppliers	(15,848)		(10,163)	
Operating cash flow before changes in operating assets and operating liabilities	13,764		11,712	
Due from financial institutions	(6,203)		(45,735)	
Loans and advances to customers	16,295		(9,801)	
Treasury bills and other bills eligible for discounting	3,508		12,648	
Shares and other variable yield securities	324		362	
Other assets	844		5,597	
<i>(Increase)/decrease in operating assets:</i>	14,768		(36,929)	
Amounts owed to financial institutions	(12,030)		8,825	
Amounts owed to customers	(22,421)		15,223	
Certificated debts	0		(2,929)	
Other liabilities	653		(3,645)	
<i>Increase/(decrease) in operating liabilities:</i>	(33,798)		17,474	
Net cash from operating activities before taxes	(5,266)		(7,743)	
Income taxes paid	0		(75)	
<i>Net cash from operating activities</i>		(5,266)		(7,818)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Dividends received	71		64	
Net sale of fixed income investment securities	251		3,801	
Net purchase of tangible and intangible fixed assets	(2,913)		(3,968)	
Purchase of shares in fixed asset investments	(454)		(1,646)	
<i>Net cash from investing activities</i>		(3,045)		(1,749)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issue of bonds and medium term notes	5,976		6,283	
Maturities of certificated debt	(7,012)		(1)	
Dividends paid	0		(1,919)	
<i>Net cash from financing activities</i>		(1,036)		4,363
<b>Net decrease in cash and cash equivalents</b>	<b>(9,347)</b>		<b>(5,204)</b>	
<b>Cash and cash equivalents at beginning of year</b>	<b>41,783</b>		<b>46,987</b>	
<b>Cash and cash equivalents at end of year</b>		<b>32,436</b>		<b>41,783</b>

FOREIGN SUBSIDIARIES AND REPRESENTATIVE OFFICES  
OF KOMERČNÍ BANKA  
AS AT 31 DECEMBER 1998

FOREIGN SUBSIDIARIES

BRATISLAVA - SLOVAK REPUBLIC

Komerční banka Bratislava  
Medená 6  
811 06 Bratislava  
Slovak Republic  
Telephone: (004217) 52 93 21 54  
Facsimile: (004217) 36 19 59

Marián Šedo  
Chief Executive

AMSTERDAM - THE NETHERLANDS

Komercni Finance, B. V.  
Prinses Irenestraat 61  
1077 WV Amsterdam  
The Netherlands  
Telephone: (003120) 540 58 00  
Facsimile: (003120) 644 70 11

FOREIGN REPRESENTATIVE OFFICES

LONDON - UNITED KINGDOM

35, Moorgate  
London EC2R 6BT  
United Kingdom  
Telephone: (0044171) 588 71 25  
(0044171) 588 71 26  
Facsimile: (0044171) 588 71 20  
E-mail: komercni-banka@cygnet.co.uk

Otakar Bobko  
Chief Representative

MOSCOW - RUSSIAN FEDERATION

Ul. 4-aja Tverskaja-Jamskaja 33/10  
125047 Moscow  
Russian Federation  
Telephone: (007095) 234 33 92  
Facsimile: (007095) 978 76 38  
E-mail: kb-moskva@col.ru

Petr Votoupal  
Chief Representative

FRANKFURT AM MAIN - GERMANY

Westendstraße 21  
60 325 Frankfurt am Main  
Germany  
Telephone: (004969) 74 09 70  
Facsimile: (004969) 74 09 90  
E-mail: kb-repoffice.de@t-online.de

Pavel Bittner  
Chief Representative

NEW YORK - UNITED STATES OF AMERICA

660 Madison Avenue  
New York, N. Y. 10021  
United States of America  
Telephone: (001212) 593 16 16  
Facsimile: (001212) 593 29 29  
E-mail: kobany@mindspring.com

Pavel C. Geczi  
Chief Representative

BUDAPEST - HUNGARY

Horvát utca 14-24  
1027 Budapest  
Hungary  
Telephone: (00361) 214 07 80  
Facsimile: (00361) 214 07 81  
E-mail: kb-repoffice@mail.matav.hu

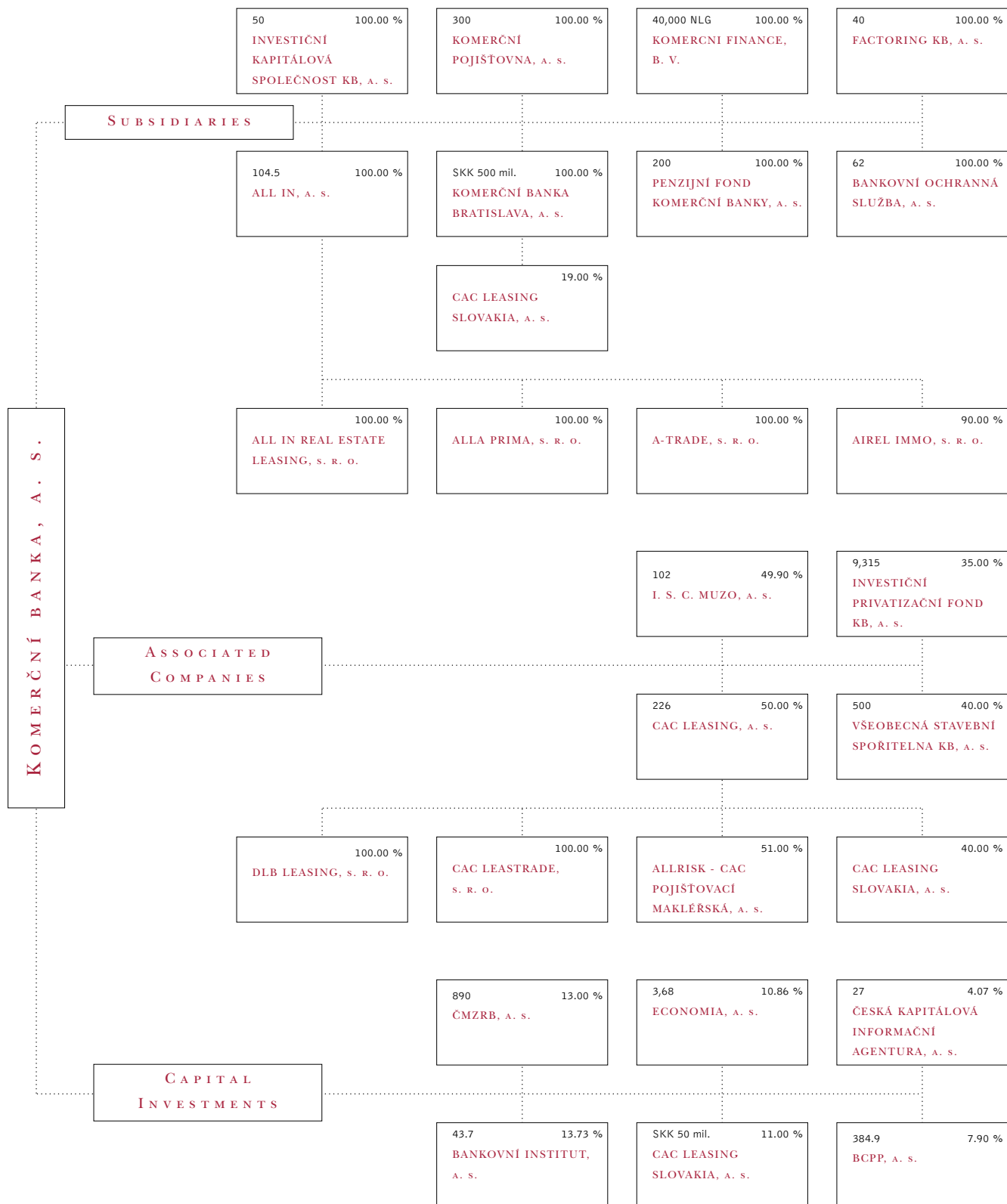
István Nagy  
Chief Representative

WARSAW - POLAND

Ul. Jana Pawła II. 15  
00-828 Warszawa  
Poland  
Telephone: (004822) 697 76 26  
Facsimile: (004822) 697 76 28  
E-mail: repKB@warszawa.mtl.pl

Marcela Mayerová  
Chief Representative

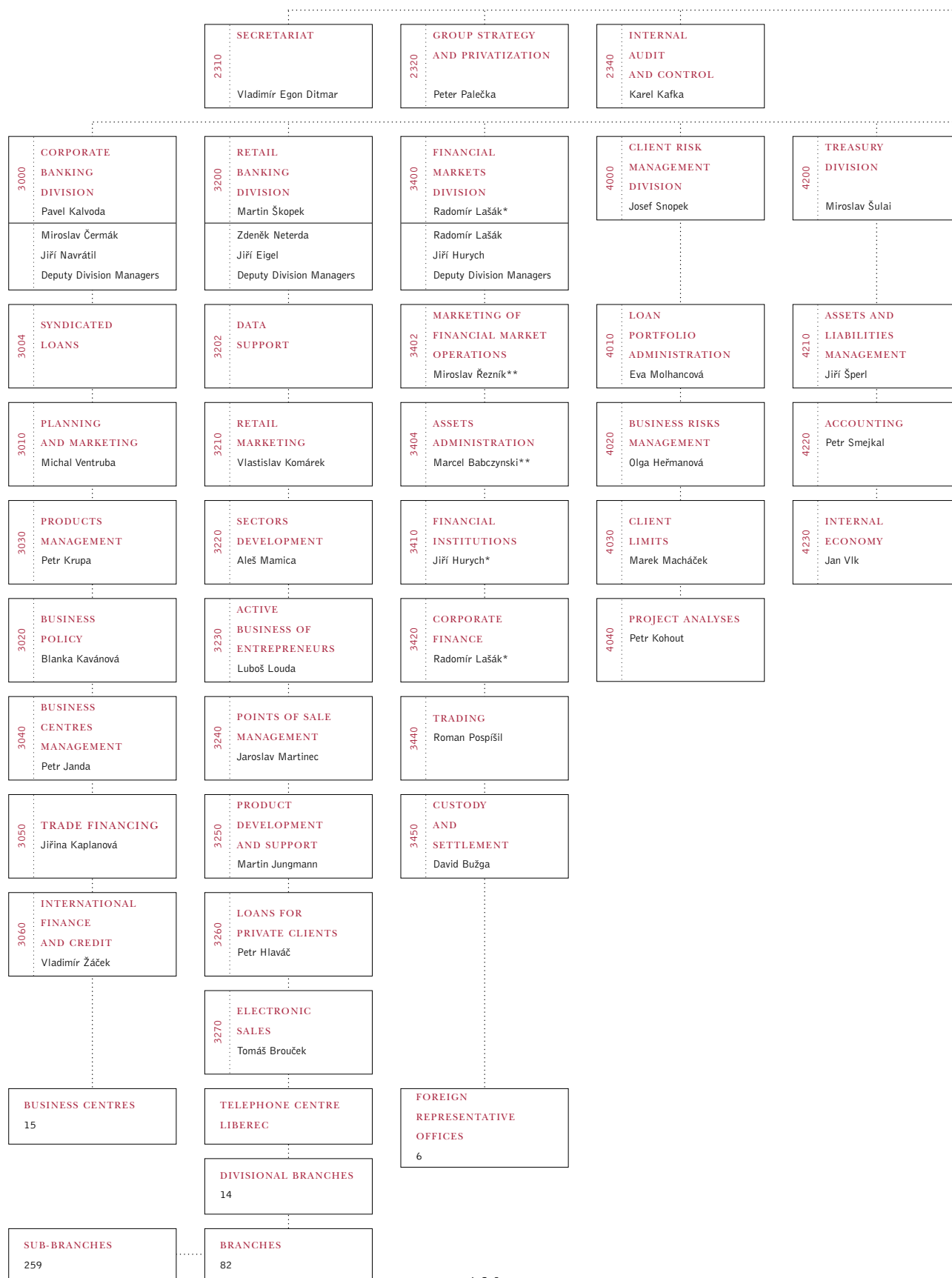
# ORGANIZATIONAL CHART OF KOMERČNÍ BANKA'S FINANCIAL GROUP AS AT 31 DECEMBER 1998



Consolidated results do not include results of PENZIJNÍ FOND KB, a. s., and capital investments excluding CAC LEASING Slovakia, a. s.

Share capital in CZK mil.      % participation

# ORGANIZATIONAL CHART OF KOMERČNÍ BANKA, A. S., AS AT 31 DECEMBER 1998



## GENERAL MEETING

## SUPERVISORY BOARD

## BOARD OF DIRECTORS

CHAIRMAN OF THE BOARD  
AND CHIEF  
EXECUTIVE  
Jan Kollert

MEMBER OF THE BOARD  
AND DEPUTY  
CHIEF EXECUTIVE  
Petr Budinský

MEMBER OF THE BOARD  
AND DEPUTY  
CHIEF EXECUTIVE  
Tomáš Doležal

MEMBER OF THE BOARD  
AND DEPUTY  
CHIEF EXECUTIVE  
Jaroslav Mareš

MEMBER OF THE BOARD  
AND DEPUTY  
CHIEF EXECUTIVE  
Vladimír Šulc

MEMBER OF THE BOARD  
AND DEPUTY  
CHIEF EXECUTIVE  
Ladislav Vinický

2350  
FINANCIAL  
GROUP  
ADMINISTRATION  
Ladislav Petrásek

2360  
COMMUNICATIONS  
Miloš Růžička\*

2370  
BANKING  
FOR PRIVATE  
V.I.P.  
CLIENTS

4410  
BANK  
RISKS  
Ivan Duda

4600  
RISK  
DEBTS  
DIVISION  
Oldřich Dobrý  
Josef Čadek  
Deputy Division Manager

5000  
HUMAN  
RESOURCES  
DIVISION  
Zdeněk Šimek  
Deputy Division Manager

5200  
SUPPORT  
SERVICES  
DIVISION  
Miloslav Šum

5400  
INFORMATION  
SERVICES  
DIVISION  
Miroslav Škorpík

5600  
PAYMENT  
SERVICES  
DIVISION  
Otakar Schlossberger

4602  
LEGAL  
SUPPORT  
Josef Richter\*\*

5010  
PERSONNEL  
Petr Janout

5210  
PREMISES  
AND CONSTRUCTION  
Jan Sladký

5410  
INFORMATION  
SERVICES  
MANAGEMENT  
Jaroslav Kunzl

5610  
CASH  
OPERATIONS  
Karel Vítkovský

4603  
COLLATERAL  
AND DEBTS  
Miroslav Hes\*\*

5020  
ORGANIZATION  
Petr Skok

5220  
COMMUNICATION  
AND RECORDS  
Petr Štegl

5420  
USER SUPPORT  
SERVICES  
Pavel Pražák

5620  
PAYMENT  
OPERATIONS  
Dagmar Eisenreichová

4604  
ADMINISTRATION OF  
RISK DEBTS  
Renata Adámková\*\*

5030  
TRAINING  
Vlasta Střížová

5230  
INTERNAL SUPPORT  
SERVICES  
Ladislav Koucký

5430  
APPLICATION  
DEVELOPMENT  
Josef Černý

5630  
PAYMENT CARDS  
Ladislav Hozák

5040  
LEGAL  
Jiří Černý

5240  
SECURITY  
Petr Vencí

5440  
APPLICATION  
SUPPORT  
Roman Žaloudek

5450  
TECHNICAL  
SUPPORT  
Pavel Veselý

4620  
RISK DEBTS PRAGUE  
Roman Schramm

4630  
RISK DEBTS BOHEMIA  
Miroslav Štoulf

4640  
RISK DEBTS MORAVIA  
Jiřina Mevaldová

4710  
RISK DEBTS PARDUBICE  
Josef Kolář

4720  
RISK DEBTS KROMĚŘÍŽ  
Miroslav Grunt

4730  
RISK DEBTS PRAGUE - EAST  
Petr Zacha

4740  
RISK DEBTS PRAGUE - WEST  
Michal Petr

4750  
RISK DEBTS BRNO  
Zdeňka Mahovská

4760  
RISK DEBTS OPAVA  
Jiří Jurán

4770  
RISK DEBTS PLZEŇ  
Milan Dolanský

4780  
RISK DEBTS ÚSTÍ NAD LABEM  
Pavel Klug

TRANING CENTRE  
LIBOHOŠŤ  
Ivan Hradec\*\*

\* acting manager

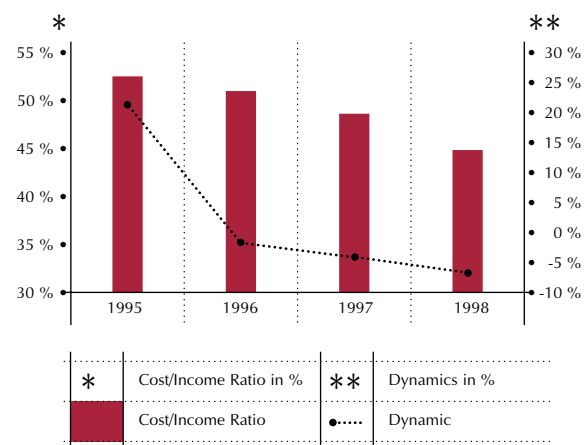
\*\* non-managerial position

# BASIC CHARACTERISTICS OF KOMERČNÍ BANKA FROM 1993 TO 1998 (CAS)

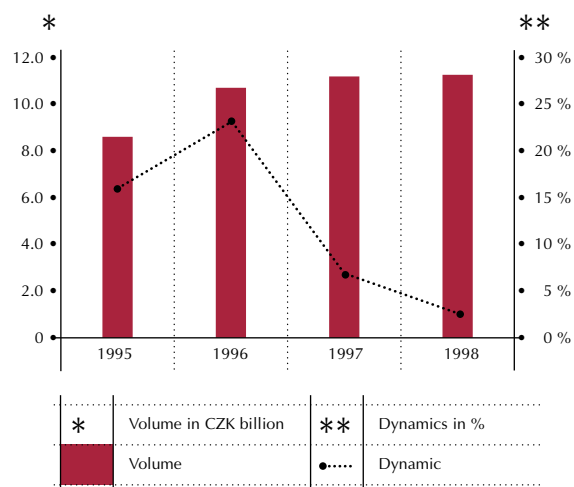
Item	Indicator	1998		1997		1996	
		state	index in %	state	index in %	state	index in %
a	b	1	2	3	4	5	6
1.	Return on Average Equity - ROAE (in %)	x	x	0,85	4,7	17,97	91,0
2.	Return on Average Assets - ROAA (in %)	x	x	0,05	4,1	1,24	89,2
3.	Net Interest Margin (in %)	3.51	91.2	3.85	98.5	3,91	94,4
4.	Cost/Income Ratio (in %)	44.65	92.5	48.27	94.7	50.99	97.6
5.	Total Provisions and Reserves (in CZK million)	31 961	104.8	30 504	113.5	26 868	94.2
6.	Total Shareholders' Equity (in CZK million)	20 015	66.9	29 908	94.5	31 648	112.3
7.	Number of Employees	14 043	95.1	14 759	93.2	15 840	96.8
8.	Number of Outlets	354	97.3	364	98.4	370	98.7
9.	Net Interest Income (in CZK million)	15 099.1	95.7	15 772.6	109.5	14 406.2	105.1
10.	Net Fees and Commissions (in CZK million)	4 627.0	106.2	4 357.8	105.4	4 135.7	109.8
11.	Total Net Income (in CZK million)	28 304.0	114.7	24 673.0	105.0	23 506.6	123.1
12.	Operating Costs incl. Depreciation of Tangible and Intangible Assets (in CZK million)	11 315.2	102.4	11 048.2	106.3	10 389.2	122.0
13.	Balance of Provisions and Reserves for Loans (in CZK million)	-1 480.0	x	-4 344.1	x	2 166.9	x
14.	Profit/(Loss) for Accounting Period (in CZK million)	-9 805.0	x	261.2	4.9	5 360.6	103.8
15.	Total Assets (in CZK million)	487 318.7	95.5	510 224.7	110.7	460 881.3	113.2
16.	Client Loans (in CZK million)	218 025.1	84.5	257 979.6	98.5	262 021.0	107.9
17.	Client Deposits (in CZK million)	273 697.7	92.2	296 881.9	105.9	280 456.7	121.0

	1995		1994		1993	98/93
	state	index in %	state	index in %	state	index in %
	7	8	9	10	11	12
	19,74	201,0	9,82	55,9	17,57	x
	1,39	252,7	0,55	72,4	0,76	x
	4.14	78.6	5.27	76.2	6.92	50.7
	52.27	120.2	43.50	145.7	29.86	149.5
	28 522	100.4	28 404	130.6	21 749	147.0
	28 173	115.4	24 422	155.7	15 687	127.6
	16 368	96.4	16 979	102.0	16 644	84.4
	375	97.2	386	90.0	429	82.5
	13 194.2	93.6	14 090.0	82.7	17 044.8	88.6
	3 767.2	122.7	3 069.6	100.4	3 057.1	151.4
	19 098.1	103.3	18 492.2	81.8	22 603.0	125.2
	8 516.8	117.6	7 243.3	118.9	6 093.6	185.7
	-201.4	x	-7 548.7	x	-7 737.2	x
	5 162.4	301.2	1 714.1	78.1	2 196.0	x
	407 174.3	122.3	333 033.2	114.5	290 931.7	167.5
	245 609.0	109.1	225 079.2	114.8	196 134.2	111.2
	237 699.1	112.7	210 828.1	116.5	180 941.9	151.3

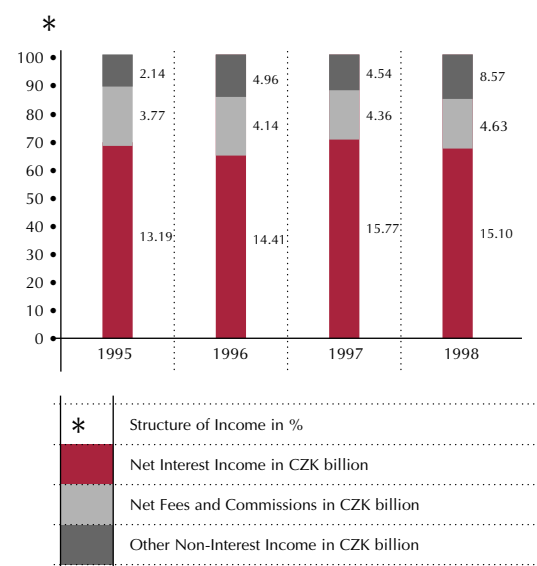
## COST/INCOME RATIO



## GENERAL OPERATING COSTS

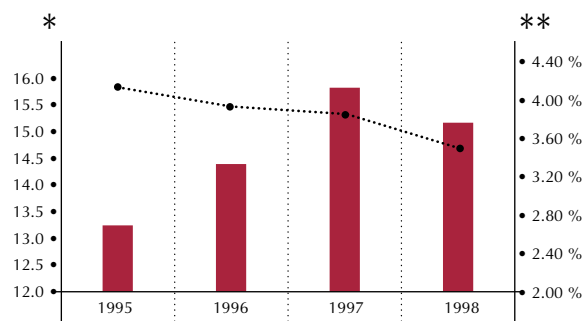


## STRUCTURE AND VOLUME OF INCOME



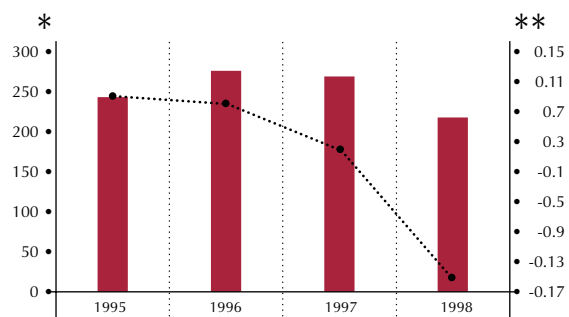


# NET INTEREST INCOME AND NET INTEREST MARGIN



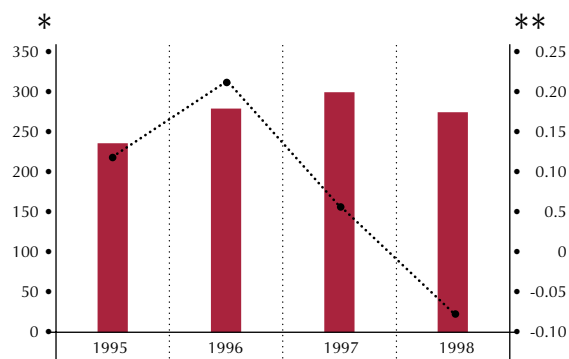
*	Net Interest Income in CZK billion	**	Net Interest Margin in %
	Volume	●.....	Dynamic

## CLIENT LOANS



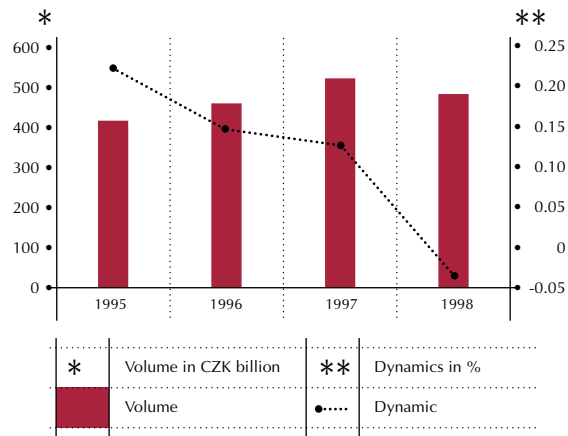
*	Volume in CZK billion	**	Dynamics in %
	Volume	●.....	Dynamic

## CLIENT DEPOSITS

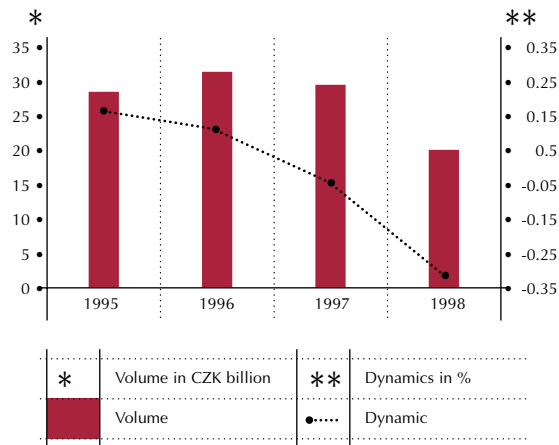


*	Volume in CZK billion	**	Dynamics in %
	Volume	●.....	Dynamic

## TOTAL ASSETS



## SHAREHOLDERS' EQUITY



## TOTAL PROVISIONS AND RESERVES

