

**KOMERČNÍ BANKA, A. S.**

ANNUAL REPORT

1999

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## Komerční banka's Financial Highlights

(in CZK million)

	CAS			IAS		
	1999	1998	1997	1999	1998	1997
<b>FINANCIAL RESULTS</b>						
Net Interest Income	11,915	15,099	15,773	11,947	14,939	15,891
Net Fees and Commissions	4,350	4,627	4,358	4,350	4,627	4,358
Total Net Income	20,190	24,723	22,605	20,390	23,297	22,575
Operating Costs	(11,039)	(11,315)	(11,048)	(10,291)	(10,424)	(9,868)
Net Profit/(Loss)	(9,242)	(9,805)	261	(9,782)	(9,546)	528
Market Price of Share on Prague Stock Exchange as at 31 December (in CZK)	613	369	1,305	613	369	1,305
<b>BALANCE SHEET</b>						
Total Assets	439,110	487,319	510,225	390,122	422,084	466,517
Loans to Clients	183,644	218,025	257,980	181,754	214,018	249,989
Deposits of Clients	259,191	273,698	296,882	259,191	273,698	296,882
Bonds Issued	30,501	35,001	41,002	27,742	31,646	37,046
Total Shareholders' Equity	17,826	20,015	29,908	17,776	20,458	30,005
Share Capital	16,604	9,502	9,502	16,604	9,502	9,502
<b>RATIOS</b>						
Return on Average Assets (ROAA)	x	x	0.05%	x	x	0.12%
Return on Average Equity (ROAE)	x	x	0.85%	x	x	1.62%
Capital Adequacy	10.69%	10.45%	10.03%	10.26%	9.56%	8.31%
Net Interest Margin	2.93%	3.51%	3.85%	3.42%	3.97%	4.19%
Cost/Income Ratio	61.39%	51.12%	52.69%	62.63%	50.95%	50.24%
Net Fees and Commissions/Total Net Income	21.55%	18.72%	19.28%	21.33%	19.86%	19.30%
Loans under Special Review/Total Loans	32.81%	28.65%	25.99%	32.81%	28.65%	25.99%
Assets per Share (in CZK)	23,105	25,642	26,847	20,527	22,209	24,547
<b>OTHER DATA</b>						
Average Number of Employees	13,487	14,025	14,843	13,487	14,025	14,843
Number of Outlets	349	354	364	349	354	364
Number of ATMs	297	277	262	297	277	262
Number of EPOs	2,904	1,727	886	2,904	1,727	886

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 of the Board of Directors and Chief Executive

The Bank's strategic priority during 1999 was its comprehensive preparation for the sale of the state holding, a process that will obviously continue into the year 2000. Many crucial steps were taken in pursuit of this goal, both by the state as the major shareholder and by the Bank's management. Their purpose was primarily to strengthen capital and restructure the loan portfolio by removing the problem loans, which have proved so burdensome for the Bank.

In 1999 the Annual General Meeting approved an increase in share capital of up to CZK 9.5 billion. Following completion of the share issue at the beginning of 2000 the Bank's share capital exceeded CZK 19 billion and the state's holding had risen to 60%.

The state's position with regard to the Bank's privatisation was clarified by the governmental agreement reached between the Czech and Slovak Republics as to their respective holdings in Komerční banka and Všeobecná úvěrová banka.

During the year special attention was paid to the solution of the problem of the Bank's bad loans. The government-approved sale in September 1999 of loss receivables amounting to CZK 23.1 billion to Konsolidační banka significantly strengthened the Bank's financial stability. In February 2000 the government approved the further sale of CZK 60 billion of receivables to Konsolidační banka at 60% of their nominal value. With the agreement of the external auditor the estimated positive effects of this operation were included in the financial results for 1999.

As part of the detailed review of the Bank's portfolio of business transactions we discovered discrepancies in case of a certain foreign client, to whom the Bank had exposure of CZK 8.4 billion. In conformity with the Bank's policy of prudence this exposure was fully covered by provisions and reserves by the end of 1999. An independent forensic audit was ordered by the Bank's management of all operations connected with this case. The resulting investigation led to a number of corrective measures being taken, including changes in personnel at all levels of management.

The macro-economic environment and the impact of the economy on the Bank's financial results are also factors, which have to be taken into account when considering the Bank's development. Despite the complicated state of the Czech economy, however, Komerční banka managed to achieve positive results in many areas. Staff numbers were reduced by more than 500 persons and a fall in real terms of 3.5% was recorded in administrative expenses.

The benefits from the development of modern forms of banking services are already apparent. Telephone and electronic banking, where Komerční banka is the market leader in terms of transactions and client numbers, have proved particularly successful. A significant increase was recorded in consumer and mortgage loans. Especially in the area of mortgages the Bank holds more than a quarter share of the market.

Together with my colleagues I am fully aware that Komerční banka can do still more to improve particularly the way in which it offers products to clients. This is essential if the Bank is to achieve its fundamental aim, which is to become the buttress of the Czech banking system. I am convinced that in its employees Komerční banka contains the ability and the talent to bring this about and that it is they which form the potential for the Bank's future development. Our goal in 2000 is to ensure that upon privatisation the Bank represents a sound investment and is attractive to clients. We shall all do our utmost to achieve this.



**Radovan Vávra**

## The Board of Directors

(as at 19 May 2000)

### **Radovan Vávra, Chairman of the Board of Directors and Chief Executive**

Born 1963, graduated from the University of Economics (Faculty of Economic Production, Department of Industrial Economy). From 1992 to 1993 he was engaged in post-graduate study at the University of South Carolina, College of Business Administration, Columbia, South Carolina, USA. Between 1990 and 1992 he was employed in DHL Int. Czechoslovakia, a. s., and from 1993 to 1994 in Creditanstalt Securities, a. s. From 1994 to 1996 he was Manager for Analysis and Trading at Creditanstalt Investiční Společnost, a. s., and from 1996 to 1997 he worked as Executive Head and Chief Executive of Citicorp Securities (CR), s. r. o. From 1997 to 1998 he held the position of Chairman of the Board of Directors and Chief Executive of Citicorp Investiční Společnost, a. s. From 1998 to his election as a member of the Board of Directors of Komerční banka, a. s., he was a member of the Board of Directors and Vice-President for Small and Medium-Sized Business Clients at Citibanka, a. s. He was elected a member of the Board of Directors of Komerční banka by the Supervisory Board on 12 April 2000. He took up his position on 19 April 2000. At the meeting of the Board of Directors held on 19 April 2000 he was elected its Chairman and Chief Executive of Komerční banka upon the recommendation of the Supervisory Board.

### **Peter Palečka, Vice-Chairman of the Board of Directors and Senior Deputy Chief Executive**

Born 1959, graduated from the University of Economics (Department of Foreign Trade). After finishing his studies he worked in the foreign trade organisations Petrimex and Technoexport. From 1990 he was the Department Director for Multilateral Trade Policy at the Federal Ministry for Foreign Trade and between 1992 and 1998 the permanent representative of the Czech and Slovak Federal Republic (later the Czech Republic) to GATT and the WTO in Geneva. He has worked in Komerční banka since 1998, firstly as a Department Director and then as Director for the Group Strategy and Privatisation Division. He has been a member of the Board of Directors since 13 October 1999. On 16 February 2000, following the resignation of the Chairman of the Board of Directors and Chief Executive Mr. Jan Kollert, he was entrusted with the management of the Bank with effect until the election of a new Chairman of the Board of Directors. At the meeting of the Board of Directors held on 16 May 2000 he was elected its Vice-Chairman and Senior Deputy Chief Executive.

### **Radomír Lašák, M. B. A., Member of the Board of Directors and Deputy Chief Executive**

Born 1965, graduated from the University of Economics, Department of Industrial Economy and the Prague International Business School - MBA program. After completing his studies at the University of Economics he worked in a Komerční banka branch, where in his last year he held the position of assistant to the Divisional Branch Director in Ústí nad Labem. In 1995 he moved to Komerční banka Head Office to take up the position of Department Director for Custody and Settlement. In February 1999 he was appointed Director of the Financial Markets Division. Since 1 March 2000 he has been a member of the Board and Deputy Chief Executive.

### **Tomas Spurny, M. B. A., Member of the Board of Directors and Deputy Chief Executive**

Born 1965, graduated from the Stern School of Business, New York University and Columbia Business School, Columbia University. From 1985 to 1989 he worked as a Treasury Analyst in London Star Limited, New York, and from 1989 to 1990 as a Credit Trainee in Manufactures Hannover Trust. Between 1990 and 1992 he was employed as a Treasury Analyst in European American Bank and from 1994 to 1999 he worked firstly in McKinsey & Company, Inc., New York, USA, and from 1995 in the representation of this company in the Czech Republic. Since 1999 he has held the position of Chief Executive and member of the Board of Directors of CCS Česká společnost pro platební karty, a. s., Prague. He has been a member of the Board of Directors and Deputy Chief Executive of Komerční banka since 16 May 2000.

**Vladimír Šulc, Member of the Board of Directors and Deputy Chief Executive (until 3 March 1999)**

**Pavel Ševčík, Member of the Board of Directors and Deputy Chief Executive (from 4 March to 16 December 1999)**

**Jan Kollert, Chairman of the Board of Directors and Chief Executive (until 16 February 2000)**

**Tomáš Doležal, Member of the Board of Directors and Deputy Chief Executive (until 1 March 2000)**

**Ladislav Vinický, Member of the Board of Directors and Deputy Chief Executive (until 1 March 2000)**

**Petr Budinský, Vice-Chairman of the Board of Directors and Senior Deputy Chief Executive (until 16 May 2000)**

**Jaroslav Mareš, Member of the Board of Directors and Deputy Chief Executive (until 16 May 2000)**

## Supervisory Board

**Karel Kopp, Chairman of the Supervisory Board**

**Jan Stiess, Deputy Chairman of the Supervisory Board (from 8 April 1999)**

**Martin Fassmann, Member of the Supervisory Board (from 31 May 1999)**

**Jarmila Hanáková\*), Member of the Supervisory Board**

**Jan Hanousek, Member of the Supervisory Board**

**Jiří Havel, Member of the Supervisory Board (from 1 March 2000)**

**Jan Juchelka, Member of the Supervisory Board (from 31 May 1999)**

**Marie Klucová\*), Member of the Supervisory Board**

**Antonín Koláček\*), Member of the Supervisory Board**

**Karel Malý, Member of the Supervisory Board**

**Pavel Pafko\*), Member of the Supervisory Board**

**Radek Pokorný, Member of the Supervisory Board**

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**Petr Čermák, Deputy Chairman of the Supervisory Board (until 7 April 1999)**

**Miroslav Bartoň, Member of the Supervisory Board (until 31 May 1999)**

**Miloslav Fiedler, Member of the Supervisory Board (until 1 March 2000)**

**Evžen Kočenda, Member of the Supervisory Board (until 31 May 1999)**

\*) elected by the employees of Komerční banka, a. s.

## Shareholder Structure

During 1999 the concentration in ownership of the Bank's shares continued. The number of shareholders fell by 6,026 compared to the end of 1998 and as at 31 December 1999 amounted to 72,768.

The proportion of Komerční banka's shares owned by foreign investors amounted to 31.2%. Of this, 17.6% is in the form of Global Depository Receipts (GDRs) administered by The Bank of New York and traded on the London and Frankfurt Stock Exchanges. Despite the increase of 11.9 percentage points in the proportion of shares owned by foreign investors in comparison with 1998, the majority of shares is still held by domestic shareholders. Their proportion of the Bank's share capital represented 68.8% as at the end of 1999. The proportion held by domestic institutional investors fell by 10.5 percentage points to 59.7%.

### Shareholder Structure of Komerční banka (before the increase in share capital)

Statement from Securities Register as at 31 December 1999		Proportion of total shareholders	Proportion of share capital
Number of shareholders	72,768	100.00%	100.00%
- of which: corporate entities	322	0.44%	90.40%
private individuals	72,446	99.56%	9.60%
Corporate entities	322	100.00%	90.40%
- of which: from the Czech Republic	236	73.29%	59.69%
from other countries	86	26.71%	30.71%
Private individuals	72,446	100.00%	9.60%
- of which: from the Czech Republic	66,000	91.10%	9.09%
from other countries	6,446	8.90%	0.51%

### Major Shareholders of Komerční banka with over 1% of Share Capital as at 31 December 1999 (before the increase in share capital)

Shareholder	Proportion of share capital
Fond národního majetku ČR	48.74%
The Bank of New York ADR Department 1)	17.61%
Česká pojišťovna, a. s.	2.90%
State Street Bank and Trust Company	2.13%
Bank Austria AG	1.87%
Restituční investiční fond ČR	1.73%
Rentiérský investiční fond I. IN, a. s.	1.04%
Chase Nominees Limited	1.00%

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



The Annual General Meeting of Komerční banka, a. s., was held on 31 May 1999. The shareholders approved the annual financial statements for 1998, when the Bank recorded a net loss of CZK 9,805 million according to the accounting methodology of the Czech banks. Shareholders passed a resolution that the loss from 1998 should be covered from capital funds amounting to CZK 55 million and from other funds from profit amounting to CZK 9,750 million. They also approved an allocation to the social fund of CZK 55 million from retained earnings of previous periods.

The Annual General Meeting approved the Board of Directors' report on the Bank's business activity and state of its assets, the acquisition of its own ordinary shares up to a maximum volume of 10% of the Bank's share capital and the maximum amount of emoluments for the Board of Directors and Supervisory Board for 1999.

The Annual General Meeting also approved a change in the Bank's Statutes and decided on an increase of CZK 7,500 million in the share capital by means of a new share issue, with the proviso that the share issue could reach the amount of CZK 9,502 million, i. e. an issue of between 15,000,000 and 19,004,926 ordinary shares with a nominal value of CZK 500. The Annual General Meeting also entrusted the Board of Directors with the decision as to the final amount of the increase in the share capital resulting from the share issue and gave its consent to the application for a license for free trading with the newly issued shares.

The Annual General Meeting released Mr. Miroslav Bartoň and Mr. Evžen Kočenda from their positions as members of the Supervisory Board and elected to the Supervisory Board Mr. Jan Juchelka, Mr. Martin Fassmann and Mr. Jan Stieß, who was appointed a substitute member of the Supervisory Board in April 1999.

The Annual General Meeting gave its approval to due diligence being performed by potential strategic investors in the Bank within the context of the run-up to the sale of the Czech National Property Fund's holding in Komerční banka.

## Report by Komerční banka's Board of Directors

### General Results (CAS)

For Komerční banka 1999 proved to be an eventful and complicated year. The ongoing recession in the Czech economy, which at the year-end showed signs of staging a slight recovery, was obviously reflected in the Bank's results. Many economic entities, including some of the largest, encountered profound financial problems, and hence suffered a further deterioration in their already low payment morale. This inevitably had a significant impact upon the Bank's loan portfolio quality.

In 1999 several important steps were taken towards preparing the Bank for the privatisation of the state holding. These significantly affected its final financial results.

The first such step was the increase in share capital in the amount of CZK 9.5 billion, which was approved by the Annual General Meeting in May 1999. Due to the fact that the share issue bridged the end of 1999 and the beginning of 2000 the accounts as at 31 December 1999 recorded under the item share capital the amount subscribed as at that date, i. e. CZK 7.1 billion. The remainder was subscribed in January 2000 and the entire operation was completed by its entry in the Commercial Register on 11 February 2000.

Another measure taken with the Bank's privatisation in mind was the government's decision on the partial restructuring of the loan portfolio. This resulted in an agreement being concluded between Komerční banka, a. s., and Konsolidační banka Praha, s. p. ú. (state financial institution), for the transfer of part of the Bank's non-performing loans. Under the agreement problem receivables in the total amount of CZK 23.1 billion were sold to Konsolidační banka for the contractual price of CZK 13.6 billion, which represented 60% of their nominal value. The operation took place in the third quarter of 1999 and not only led to an improvement in the quality of the loan portfolio but also had a positive effect upon the financial results for 1999, benefiting the Bank to the amount of CZK 9.5 billion and thereby also strengthening its capital stability.

The final pre-privatisation measure took the form of a resolution passed by the Czech government on 16 February 2000 for the further restructuring of the Bank's assets. This involved the transfer to Konsolidační banka of selected loss, doubtful and already written-off receivables in the nominal value of CZK 60 billion for an amount corresponding to 60% of this value. Approximately CZK 47.9 billion were loss and doubtful loans to clients (of which CZK 1.9 billion represented receivables transferred to Komerční banka from companies within its financial group), CZK 10.0 billion were loans to clients already written off and CZK 2.1 billion were securities. On 29 February 2000 the Bank concluded a general agreement with Konsolidační banka for the implementation of further agreements specifying the manner of transfer of these assets. A further agreement was signed on 17 March 2000 relating to the implementation of the general agreement. The transfer of assets to a subsidiary of Konsolidační banka took place on 25 March 2000. This transaction represents an essential step towards the solution of the Bank's problems with the quality of its loan portfolio, which is a decisive factor for the successful privatisation of the Bank. Despite the fact that the transaction will only fully be recorded in the results for the year 2000 its estimated positive effect was included in the financial statements for 1999 through a reduction in the required level of general provisions of approximately CZK 7 billion.

In 1999 the Bank continued to restructure the loan portfolio, for example through the write-offs of loss receivables from the balance sheet with the possibility of their further recovery and by means of the sale and assignment of receivables and the realisation of collateral. At the same time the Bank followed stricter procedures in granting new loans. The aforementioned measures resulted in an inter-year fall of almost 16% in the total volume of loans to clients, the net figure as at 31 December 1999 amounting to CZK 183.6 billion.

The reduced volume of loans to clients and the unfavourable macro-economic situation were also apparent in the lower need for funds. This was reflected *inter alia* in a reduction in the volume of amounts due to banks, which fell by 21.3%. Amounts due to clients fell by 5.3% compared to the end of 1998, a consequence also of the increased options for depositing liquid funds.

The Bank reacted to the continuing fall in interest rates on the Czech financial market by progressively reducing its reference rate. As at 31 December 1999 this was 2.6 percentage points lower than at the end of 1998. This inevitably affected net interest income, which fell by 21.1%. However, a reduction of more than 2% in general operating costs managed to compensate for this somewhat. The largest single factor impacting on the final financial results, as in previous years, proved to be costs relating to the restructuring of the loan portfolio and to the coverage of the credit risk.

The final financial result was also affected by the emergence of unanticipated risk of losses from loans, letters of credit and guarantees granted to clients by the Trade Finance Department. Provisions and reserves for these risks recorded in the profit and loss account for 1999 include costs for written-off receivables amounting to CZK 5.3 billion and provisions and reserves for potential risks amounting to CZK 5.9 billion. These costs also include CZK 8.4 billion to cover risk of losses from guarantees, letters of credit and foreign exchange transactions relating to a single foreign client. An investigation has been set up to look into the possibility of fraud and measures are being considered with the aim of reducing losses and eliminating similar future risks.

As a result of the aforementioned factors the Bank closed its books for 1999 with an accounting loss of CZK 9.2 billion according to the accounting methodology of the Czech banks.

## Czech Economy in 1999

In the first quarter of 1999, the fall of the gross domestic product reached its lowest point; from the second quarter on, a gradual upturn took place - followed by a phase of stagnation and, in the second half of 1999, there was a slight growth. Exports, followed by private household consumption, were the main factors of the upturn. Government consumption contributed only slightly to the increase of domestic demand. The GDP rose by 1% in the fourth quarter, for the whole year of 1999, the GDP practically stagnated (a decline of 0.2%).

The fall of gross capital formation slowed down over the year 1999. This included two contradictory trends: while building investment fell by 19.9%, investment in machinery increased by 6%. The fall of building investment had a direct impact on building output, which decreased by 7%. Industrial output, too, showed a yearly decrease by 3.1%; the decrease stopped by the end of the year. The recession, together with unfinished restructuring of the enterprise sector, led, in the labour market, to another fall of employment, and growth of the unemployment rate to a historical maximum of 9.4% at the end of December 1999.

A significant fall of inflation was one of the leading features of economic development in 1999. In 1999, after five years of moving around 10%, the average yearly inflation fell to 2.1% in 1999. The year 1999 was therefore the first year when the Czech economy was able - at least theoretically - to comply with the respective Maastricht criterion for inflation. The combination of positive external factors and domestic restriction enabled the suppression of inflation below levels that would correspond to the real situation of the domestic economy.

Monetary policy reacted to the suppressed price development by a sequence of cuts in nominal interest rates, decreasing the key interest rate, 2-week repo-rate during 1999 from 8.75% to 5.25%. In the same period, the growth rate of money supply increased to 10% (compared to 5% in the end of 1998). This development may not have been due to an easing of monetary policy, since the main factor behind the growth of money supply was the rapid growth of net foreign assets. Moreover, exchange rate remained strong, and the availability of credits for firms was low. The CZK's reactions to the changes in interest rates were in fact negligible in 1999, as the major factor of the appreciation trend was an inflow of long-term capital that does not react to changes in short-term interest rates. As a result, the exchange rate transmission channel of monetary policy was substantially weakened during 1999. The average exchange rate reached 36.9 CZK/EUR in 1999, equivalent to 18.9 CZK/DEM, which meant a year-on-year depreciation by less than 3%.

In 1999, the development of external environment was quite favourable for the Czech economy: foreign demand for Czech exports recovered and foreign investors were interested in placing their money in the Czech Republic. These factors affected the trade deficit, which declined from CZK 80 billion to CZK 70 billion. Respectively, the current account deficit declined from CZK 43 billion to CZK 36.6 billion (2% of GDP) which is quite a safe level. The inflow of foreign direct investments reached a record-high level in the whole transition period - CZK 150 billion.

Contrary to direct investments, the inflow of portfolio investments was rather weak. In the first half of 1999, the growth of stock prices was enabled by a gradual overcoming of the financial crises in emerging markets and quickly declining domestic interest rates. However, in the second half of the year, the tendency to slow decline or stagnation of stock market indices prevailed.

Residuals of economic recession caused deteriorated financial conditions of Czech companies, again, as well as growing number of bankruptcy proceedings. This was adversely reflected in the development of loan portfolios of major Czech banks. In spite of great efforts to restructure loans, the share of classified loans, especially loss ones did not change. Moreover, banks continued to increase reserves and provisions to cover collateral real estate, according to stricter rules of CNB. These two factors caused the significant part of operating profits to be allocated to additional reserves, which made two major banks to record accounting loss.

In the same time banks stopped more risky operations, which resulted in a credit crunch despite a significant fall in interest rates. Only at the end of 1999, moderate growth of new loans could be registered. Nevertheless, a very circumspect attitude towards providing new loans can be expected to continue in 2000.

## Komerční banka in 1999

### Preparation for privatisation

The process of Komerční banka's privatisation was launched through the placing of an advertisement in the foreign and domestic press on 10 August 1999, announcing the State's intention to sell its holding in the Bank. Following its publication the Government's adviser for Komerční banka privatisation - Goldman Sachs International - received preliminary expressions of interest from potential strategic investors. During 1999 the Bank was an active participant in the preparation of the Information Memorandum and it equipped a "Data Room" for due diligence.

During 1999 the original schedule for privatisation was extended due to the need to resolve certain problematic matters with regard to potential strategic investors before the actual sale of the Bank.

One such unresolved matter was the Slovak National Property Fund's claim for part of Komerční banka shares held by the Czech National Property Fund. Share holdings in Komerční banka and Všeobecná úvěrová banka were settled under the Czech - Slovak Agreement on the Division of Federal Property (or the Protocol between the Czech National Property Fund and the Slovak National Property Fund) which was signed by the prime ministers of both countries on 24 November 1999. By this agreement the existing holding of the Czech National Property Fund in Komerční banka became binding on the part of the Slovak National Property Fund.

### Increase in share capital

The Annual General Meeting, held in May 1999, approved an increase in share capital up to CZK 9.5 billion through a new share issue. The share issue was interrupted due to a lawsuit on the part of a minority shareholder for the invalidity of the Annual General Meeting's resolutions. On 10 November 1999 the High Court in Prague, in rejecting the minority shareholder's appeal, fully upheld the original decision of the District Commercial Court and thereby allowed the new share issue to proceed as approved by the May Annual General Meeting.

The first round of the share issue thus took place from 20 December 1999 to 3 January 2000, during which shares in the nominal value of CZK 7,361 million were subscribed. The second round, which took place from 10 to 14 January 2000, saw the further issue of the remaining shares in the nominal value of CZK 2,141 million to a party previously stipulated by the Annual General Meeting, i. e. the Czech National Property Fund. This marked the end of the Bank's share issue.

As at 31 December 1999 the increase in the Bank's share capital was still not effective, as it had not yet been entered in the Commercial Register. This took place on 11 February 2000. Following registration of the new shares on the shareholders' owner accounts in the Securities Register in March 2000 the State's proportion of Komerční banka's share capital rose to 60%.

### Transactions with Konsolidační banka

In 1999 the Czech government decided to restructure Komerční banka's assets with the aim of ensuring its capital stability throughout the period leading up to the planned privatisation of the state holding. The first measure was approved on 28 July 1999 as an alternative to the interrupted increase in share capital with the intention of producing the same positive effect on the Bank's results, i. e. CZK 9.5 billion. Under this decision an agreement was concluded and then implemented on the transfer of selected loss and written-off receivables in the total nominal amount of CZK 23.1 billion (of which CZK 11.1 billion were balance sheet receivables and CZK 12.0 billion loans already written off to the off-balance sheet) to Konsolidační banka Praha, s. p. ú., at a sale price of CZK 13.6 billion.

On 16 February 2000 the Czech government decided on the further restructuring of Komerční banka's assets. Under this decision the Bank established and fully equipped the subsidiary company Konpo, s. r. o. This was then sold to Konsolidační banka and assets transferred to it in the nominal value of CZK 60 billion at an amount corresponding to 60% of the nominal value, i. e. CZK 36 billion. Although this operation was implemented and accounted for in the first quarter of 2000 its estimated positive impact also registered on the results for 1999 (see chapter "Financial Results").

For the financing of both operations Komerční banka granted Konsolidační banka loans in an amount corresponding to the sale prices of the assets transferred in individual transactions. The loans were granted for a period of 5 years under usual market conditions.

### Personnel development

The number of Komerční banka's employees has fallen consistently since 1995. In 1999 the average number of employees fell by 538 to 13,487.

With regard to the results of the RAC project ("Rationalisation of Activities in the Head Office of Komerční banka") the decision was taken to reduce the number of positions in Head Office by 462 by 1 April 2000 in comparison with 1 April 1999. In the year 2000 a proposal will be prepared for the optimal model of centralisation of activities in Komerční banka and is expected to result in a further reduction in the number of employees.

Komerční banka's training system reflects the Bank's current and future requirements with the aim of ensuring the systematic development of staff professionalism. The quality of the training system is fully compatible with the quality of training in top banking institutions.

### Technical support

Komerční banka's main priority in this area was the preparation of the information system for the changeover to the year 2000. The chief aim in 1999 was to conduct the final testing of the state of preparation of all the Bank's information systems. Under an assessment of the preparation of financial institutions active in the Czech Republic carried out by the Czech National Bank Komerční banka received the highest possible rating, A+. The result of the many years of preparation was a smooth transition to the year 2000 and the uninterrupted provision by the Bank of its normal services.

The Bank's other main projects in the area of technical support included the optimisation of the technical infrastructure and the operation of the information system for payments, the launch of SET operations (Secure Electronic Transaction) for the execution of secure payments via the Internet with payment card, the issuing of credit cards and an expansion of telephone banking services for entrepreneurs.

### Investment in buildings and equipment

In 1999 Komerční banka spent CZK 1.2 billion on investment. The priority was investments in information technology, which made up more than half of this sum. About a third went towards construction activity within the Komerční banka branch network.

	In CZK million	Proportion	
Total expenditure on investment in 1999		1,170	100.0%
of which: branch network	355	30.3%	
information technology	618	52.8%	
other	197	16.9%	

### **Sponsorship**

Within its sponsorship activities Komerční banka spends significant sums on the support of humanitarian and social projects. In 1999 the Bank donated CZK 7.5 million for these purposes.

Donations were made for the protection of items of public heritage - e. g. for the building of the Kampa Museum, the repair of the mosaic on the Golden Gate of Saint Vitus Cathedral in the Prague Castle or for the renewal of the permanent exhibition of the History of the Jews in the Czech lands in the Jewish Museum in Prague.

A substantial part of the funds was allocated to health care. The beneficiaries included, for example, the Club of Parents and Friends of Children Suffering from Cystic Fibrosis, HAIMA - the Union for the Support of Children with Blood-Related Illnesses and the České Budějovice Hospital.

Education and training was also sponsored in the form of funds donated to the Centre for Economics and Politics, the Junior Achievement Foundation in the Czech Republic and the Palacký University in Olomouc.

In choosing how to allocate its funds the Bank was also sensitive to the current political situation. Through the Rose Foundation it helped ensure that children affected by the war in the former Yugoslavia could enjoy holidays in the Czech Republic.

Donations to the fire and rescue services in Sokolov and Brno for the protection of life, health and property form a special category in the sponsorship activities of the Bank.

## Business Activities

### Corporate Banking

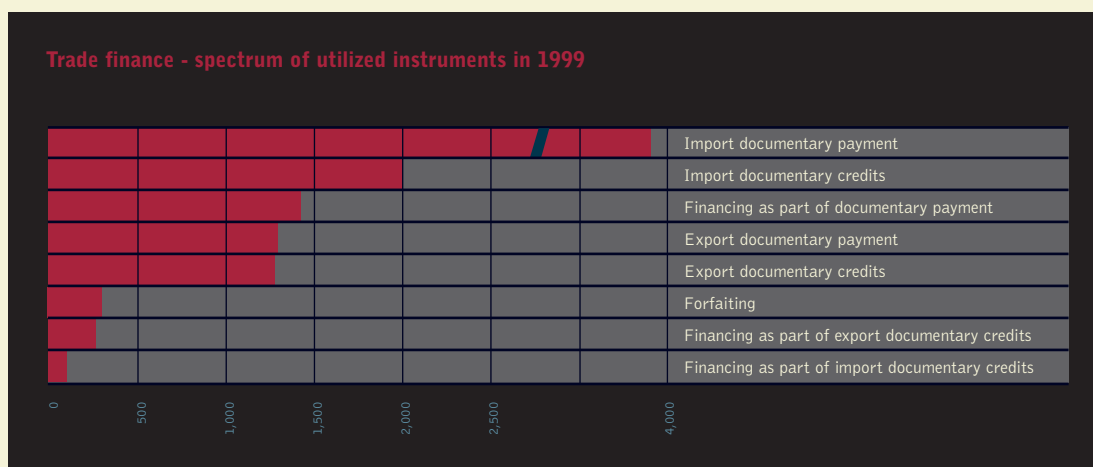
The Corporate Banking Division concentrates its activities on serving the largest companies registered in the Czech Republic. The Division counts among its basic principles the offer of tailor-made services for clients through relationship managers and the provision of services under individual business conditions.

In comparison with previous years 1999 saw the reorganisation of the Division and a switch in emphasis. Instead of serving several thousand clients it concentrated its attention on the few dozen largest companies in the Czech Republic. The majority of clients were transferred to the care of the Retail Banking Division, into which the 14 regional business centres serving these clients were incorporated. The main aim of the organisational changes was to intensify the individual approach to the largest clients and increase the scale, efficiency and speed of services. For this reason specialist sections for syndicated loans, bank guarantees and trade financing were incorporated into the Corporate Banking Division, which provides services for the clients of other divisions as well. The Division's activities were also improved by the creation of Transaction Settlement Department, or Back Office, which processes transactions for the Corporate Banking Division and the Financial Markets Division, including a comprehensive service for selected important clients. The integration of the Back Office into the structure of the Division ensures direct contact with sales personnel and thereby the possibility of the immediate implementation of solutions devised according to the specific needs of the client.

The Division maintained its market share in the newly defined target segment of top companies. Market research conducted by the GFK agency shows that more than 80% of those in the relevant segment were clients of Komerční banka. The Division's concentration upon the top companies was reflected in greater client satisfaction, as confirmed by research carried out by the AISA agency.

The Division provides comprehensive financing through its range of products and services from the entire Komerční banka Financial Group. Among the most popular banking products are loans (including foreign currency loans), guarantees, exchange operations and hedging operations. Money market and capital market products, together with deposit products in Czech and foreign currency with maturity ranging from one day, exist to ensure the optimal return on investments. For the financing of foreign trade the most popular services are documentary payments, forfaiting, export credit lines and customer export loans. The majority of the Division's clients make use of the electronic banking services provided through BEST KB. Client interest is also growing in the newly introduced service for the electronic transfer of large volumes of data - EDI KB.

In the year 2000 the Corporate Banking Division will aim to further intensify its client approach and maintain the levels of satisfaction and loyalty among its clients. In addition to a systematic improvement in its products and





services the Division's main target is to expand the number of products used by clients. In line with the drive to generate greater non-interest income a new conception of trade finance products has been prepared. Significant emphasis shall be placed upon further expanding electronic banking services as well.

### Retail Banking

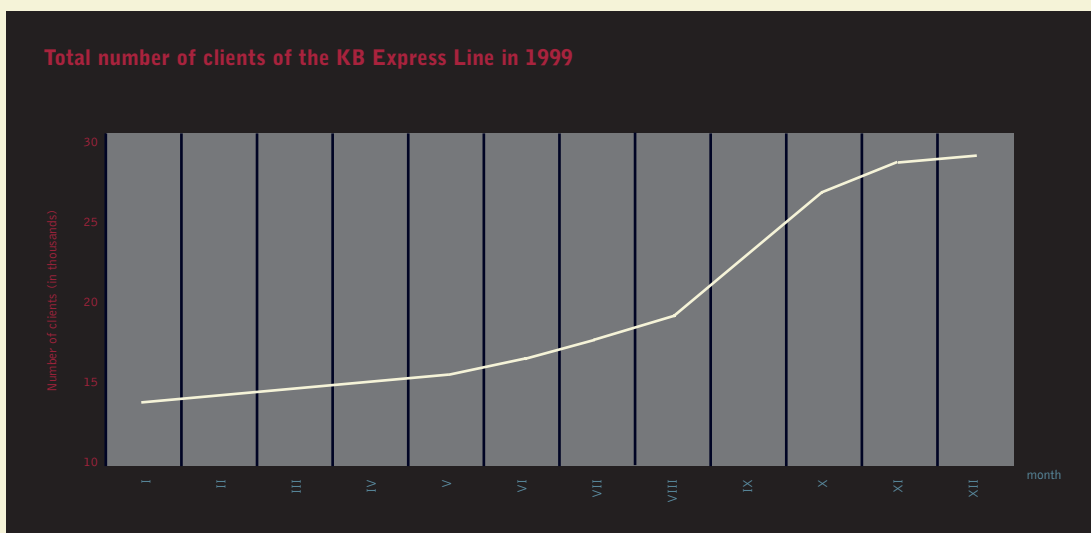
The aim of the Retail Banking Division is to provide a comprehensive range of services and products from Komerční banka and its Financial Group and to satisfy effectively the needs of all clients. For the achievement of these goals the Bank has at its disposal a wide network of outlets which, as at 31 December 1999, comprised 14 regional branches (including 14 business centres for large corporate clients), 81 branches, 235 sub-branches and 19 agencies. Special attention, however, is paid to selected client segments. These comprise high net-worth individuals and companies and entrepreneurs with sound prospects, who receive individual service from personal bankers or relationship managers and business representatives.

The year 1999 proved very successful for consumer lending; with both the number and volume of client consumer loans provided by Komerční banka recording significant increases. The total volume of consumer loans rose by almost CZK 1.3 billion, amounting to just under CZK 2.5 billion as at 31 December 1999. Their increase was partly due to the consumer goods loan, which the client can obtain directly at the point of sale. Consumer goods loans are provided under conditions, which are precisely specified in the co-operation agreement concluded between the bank branch and the point of sale. This type of loan recorded ever greater success throughout 1999 and is becoming one of the main products in the client consumer loans portfolio.

On 17 November 1999 Komerční banka became one of the first banks in the Czech Republic to introduce a new type of consumer loan on the market - the Eurocard/MasterCard credit card. This provides clients with access to funds for an unlimited period in the form of a loan attached to the issued credit card. The cardholder may draw the loan automatically up to the stipulated amount.

In 1999 Komerční banka directed its mortgage loans business and related products towards private individuals - citizens. The procedures introduced during 1998, i. e. the greater accessibility of mortgage loans for clients - citizens (by which private individuals who are related can apply singly or jointly for a loan by means of a single application) were favourably reflected in the Bank's results for 1999. In the volume of mortgage loans Komerční banka occupies a significant position among competing banks with a 26.6% share of the market. The total volume of mortgage loans amounted to CZK 8 billion as at 31 December 1999.





In conjunction with the introduction of the single European currency Komerční banka launched a range of products and services in euro with effect from 1 January 1999. These are comparable in quality and range to similar products and services offered by banks in the countries of the European Union. The Bank offers the basic range of euro products, such as current accounts, clean payments, documentary payments, foreign cheques, term accounts and hedging of exchange and interest rate risks.

Komerční banka recorded a further rise in the number of payment cards issued. As at 31 December 1999 a total of almost 499 thousands cards had been issued from the VISA, EC/MC and American Express systems. The Bank is the only institution in the Czech Republic to issue American Express payment cards on koruna accounts.

Throughout 1999 the Bank worked intensively on developing modern forms of providing products and services. In June the "KB Express Line" services were expanded to take in private individuals - entrepreneurs. The KB Express Line - telephone banking service - allows clients to have access to their accounts 24 hours a day and contributes to the greater comfort, satisfaction and loyalty of clients. The services are provided to clients by specially trained staff from the Telephone Centre Liberec (so-called telephone bankers) employing special technology. The security system accompanying this state-of-the-art service, developed from the experience of leading world banks, gives clients the opportunity to select specific types of security, including a daily limit for the transfer of funds from the client's accounts. Security is further ensured by the automatic recording and archiving of all telephone conversations.

As at 31 December 1999 almost 28.5 thousands clients were using the KB Express Line services, an increase of more than 15 thousands compared to the end of 1998. In the year 2000 Komerční banka is preparing the opportunity for clients to send applications for the opening of the KB Express Line or KB Express Account via the Internet and an expansion of the KB Express Line services to persons authorised by the account holder and eventually corporate entities.

Another form of direct banking, which the Bank is seeking to develop, is Internet banking. Since January 1999 it has been possible to send applications for the opening of a Gaudeamus student account via the Internet. In November 1999 the SET system went into full operation, enabling clients to pay for goods and services by payment card over the Internet in full safety. The service also ensures confidentiality of information on the order and the payment instructions, as well as the identification and verification of the payment card holder. The SET system, which is currently available only to Eurocard/MasterCard payment card holders, can be used at selected merchants in the Czech Republic and abroad which sell their products and services over the Internet.

Through its fee policy Komerční banka is striving to attract large numbers of clients to the possibility of expanding their business with the Bank and at the same time motivate clients to use the services which are more suitable for the Bank in terms of costs. Accordingly, there was a decrease in certain fees for the electronic banking services EDI KB,

BEST KB, BBS, HIS KB and a reduction in the limit for the average balance on a current account (for private individuals - citizens) necessary to access the KB Express Line in the given month free of charge.

In terms of its business targets for 2000 the Division will take measures to increase the volume of deposits and loans in the segment of private individuals, as well as to increase the turnover of deposits on the accounts of prospective small businesses and to increase in volume of transactions of affluent clients. Other plans include encouraging non-cash payments, developing alternative distribution channels (including virtual) and the enhanced integration of products and services of the Financial Group in the branch network of Komerční banka.

### V. I. P. Private Banking Department

The V. I. P. Private Banking Department was established 1 January 1999 with the aim of paying maximum attention to selected clients and offering them sophisticated products and private banking services, including *inter alia* investments in foreign securities, or securities funds. The basic principle of the Department's activities is the provision of discreet service for V. I. P. clients from one place by means of the products of Komerční banka and its Financial Group, including financial consultancy.

As at 31 December 1999 the Department was responsible for 189 clients. The volume of deposits, including funds invested abroad, amounted to CZK 504 million.

### Financial Markets

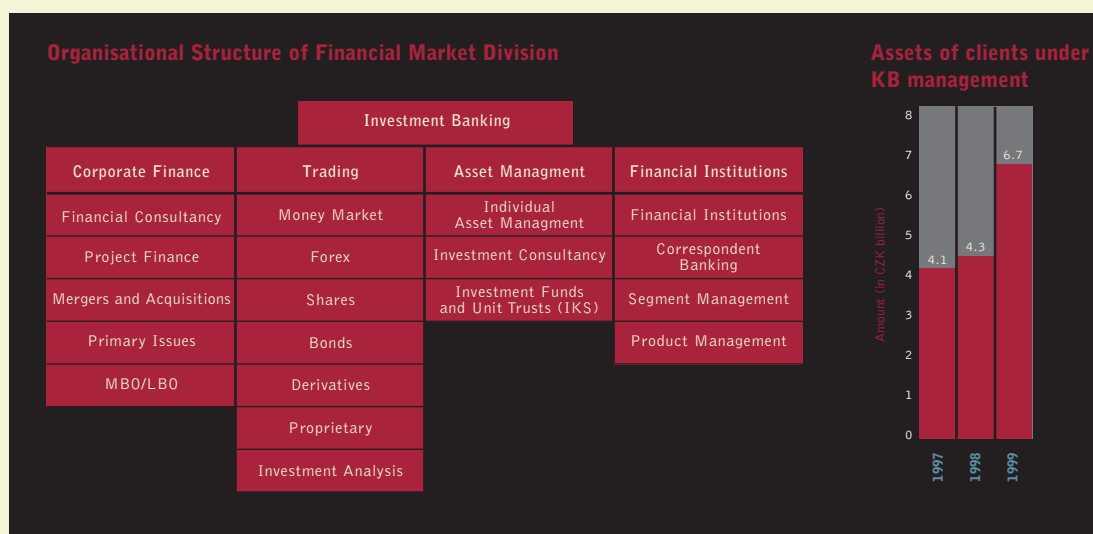
Through the Financial Markets Division Komerční banka is successfully developing its activities on the money, capital and currency markets. In investment banking the Bank continues to strengthen its leading position amongst banking houses in the Czech Republic with regard to efficiency, business and client references.

Due to the active approach of top experts with international experience the Financial Markets Division has succeeded in achieving excellent results, and this in spite of the reduced performance of the Czech economy reflected *inter alia* in a fall in demand for services for primary issues, financial consultancy and project financing.

The drive to minimise costs also contributed to the positive results. Personnel restructuring led to a gradual reduction in the number of employees, their number falling by 18% on an inter-yearly basis.

The Division's new organisational structure, put in place in 1999, allows for the pro-active sale of investment products and services which are flexible in reacting to changes in the demands and needs of clients.

The Komerční banka Trading Department can boast the most up-to-date dealing room in use in the Czech market. It daily conducts deals with a volume of approximately CZK 30 billion. The Bank holds a leading position in the primary



and secondary share and bond markets. As regards volume, it has acted as lead manager and co-manager on more than 40% of primary issues, while on the secondary market it has achieved a 9% share of the AOS system, 11% of direct trades and 6% of trades in the SPAD system. On the secondary bond market its share amounts to 25%. As concerns securities trading Komerční banka in 1999 significantly improved its position in foreign securities, with the number of trades rising by 294% against 1998. On the capital market the Bank conducted client trades with a total volume of CZK 356 billion, of which 71% comprised trades on the Prague Stock Exchange. Another area of services in which the Bank holds a leading position is that of hedging instruments connected with movements in financial markets, so-called derivatives. The volume of option transactions rose by 35%, client options by 50% and swap and forward transactions by 400%.

The total volume of assets managed in 1999 exceeded CZK 7 billion, which represents a year-on-year rise of CZK 2.4 billion, or 56%. Komerční banka thus reinforced its position as the largest administrator of assets among the banking houses in the Czech market. The number of managed portfolios rose by 617%. In 1999 the Bank achieved an average return of 10% on these portfolios.

In 1999 Komerční banka placed three issues of its own bonds in a total volume of CZK 10.5 billion. Of this figure mortgage bonds amounted to CZK 1.5 billion.

The Bank also holds a leading position in the Czech market in project financing, financial consultancy, mergers and acquisitions, management buy-outs (MBO/LBO) and primary issues. The largest consultancy mandates of 1999 are shown in the table.

COMPANY	TYPE OF TRANSACTION
Economia, a. s.	Mandate for the sale of company shares
Českomoravský len, a. s.	Mandate for the sale of company shares
IPS, a. s.	Mandate for the sale of a majority share package

The Financial Markets Division also provides services for financial institutions. Its clients include the largest insurance companies, pension funds and investment companies in the Czech Republic.

Through its 1,100 foreign correspondent banks and 49 nostro accounts in 13 freely convertible currencies Komerční banka is fully capable of meeting the foreign payment needs of its clients. It is one of the most important clearing banks on the domestic market. Via loro accounts in CZK it helps execute payments for more than 200 foreign correspondent banks. The Bank's 5 foreign representative offices provide support for clients' business activities abroad.

In 1999 the Financial Markets Division completed qualitative system changes in the field of strategic planning, product management, management of client services and human resources management. The basic priorities for the year 2000 are to use electronic banking to maximum effect, to concentrate on client business, to introduce an advanced company culture and to penetrate selected segments of the investment banking market in the Czech Republic with the aim of permanently increasing profit in all areas of the Division's services.

### Payment Services

As in previous years the Payment Services Division provided intensive support to the business divisions by expanding the range and improving the quality of products and through the realisation of long-term business plans and requirements from the development of payment services.

In the course of 1999 the Division dedicated itself to the careful preparation of all its systems and technology, which resulted in a smooth transition to the year 2000. Due to intensive analysis and testing conducted in co-operation with Europay, MasterCard, VISA, American Express and JCB and the service associated company MUZO, a. s., the Division was also able to ensure that all card operations continued into the new Millennium without a hitch.

The Division's extensive preparation for the introduction of the euro meant that foreign payment transactions in the new currency were launched 4 January 1999 without problems. All standard cheque products and services were also expanded to include euro transactions. As part of the Bank's preparations for the introduction of euro (i. e. coins and notes) the Division began the process of the gradual withdrawal of IN currencies (i. e. currencies of the member states of the European Monetary Union) from circulation.

On 11 October 1999 Komerční banka became a participating bank in the European payment system BACEE (Banking Association for Central and Eastern Europe). This permits the processing of payments on the same day that the client submits payment instructions to the bank. Membership of this system will lead to a further improvement in foreign payment services given that with the growing number of participating banks there will be an increase in the volume of payments which are processed quickly and cheaply. One of the Division's targets for the year 2000 is thus to increase the number of payments executed by this payment system inter-yearly by 20%.

At the end of 1999, as part of the general development of electronic banking, the Division took on the task of developing a new retail banking product, the M-BEST system. Like the existing BEST KB system, this enables clients to be directly linked up to the Bank's clearing system. The Division is also working with other departments to prepare Internet banking services - a project with high potential.

On the payment cards market Komerční banka has maintained its prime position as regards the number of international EC/MC payment cards issued (46% share) and VISA cards issued (49% share). As regards Maestro electronic cards the Bank occupies second position with a 28% share of the market. In all, almost 131 thousand new payment cards were issued in 1999, bringing the total number of cards issued by Komerční banka to nearly 499 thousand.

The number of points of sale accepting Komerční banka payment cards amounted to 11,231 as at the end of 1999, of which 2,904 were equipped with electronic terminals (EFT-POS). The number of such points of sale thus increased by 42% in comparison with 1998, while over the same period the number of electronic terminals rose by 68%. The Bank is the market leader in terms of the number of points of sale accepting payment cards on a contractual basis, as well as in the number of installed electronic terminals.

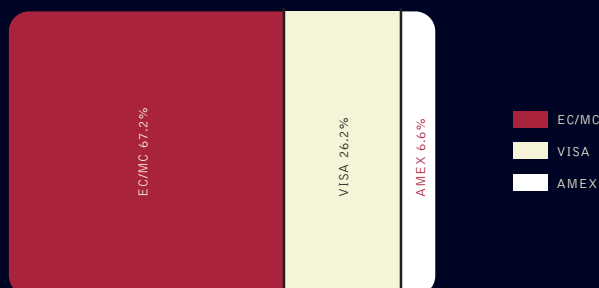
By the end of 1999 the total number of Komerční banka ATMs accepting American Express, Eurocard/MasterCard, Maestro, VISA and VISA/Electron payment cards amounted to 297. The year also saw the completion of the first phase of renewing the ATM network with 35 reinstallations. Komerční banka payment card holders can make use of a network which comprises 1,470 ATMs, including the ATMs of other financial institutions.

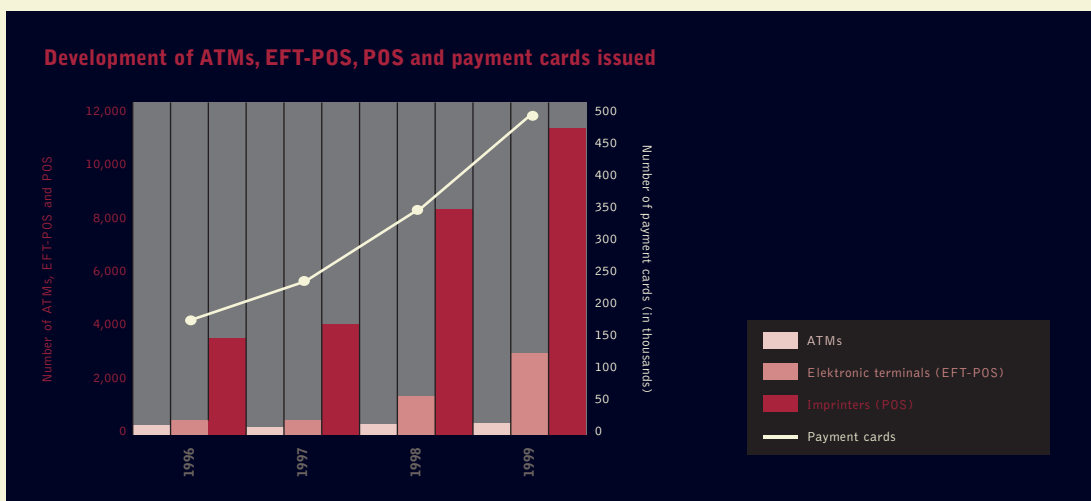
In co-operation with the business divisions a new product, the KB credit card, was developed and launched on the market. Unlike existing payment cards, which the holder uses to access funds from his or her account, the credit card enables the holder to draw a short-term loan provided by the Bank.

In the developing field of electronic transactions EC/MC card holders were offered the new service of payment by card for goods and services purchased over the Internet. Payment by means of the SET system, on the basis of an internationally valid certificate, is protected against the abuse of data on the Internet.

As part of the development of payment cards the Division, in conjunction with MUZO, a. s., continues to prepare for the changeover to chip technology in relation to the acceptance of cards in the electronic cash-desk terminals network.

Structure of payment cards issued by Komerční banka in 1994 - 1999





### Revitalisation Department

The Revitalisation Department was established 1 May 1999 in order to focus the maximum effort from Komerční banka Head Office on resolving the Bank's exposure to certain major clients experiencing financial difficulties. The Department harmonised the methodological procedures and, using international know-how (in particular the so-called London Rules), improved the methods by which these complex business cases are resolved. In the first phase, companies or the financially-linked groups ŠKODA, ČKD, ALIACHEM, TATRA and ZPS, were included in the Department's portfolio, followed by Vítkovice, a. s., and ZETOR, a. s. From detailed analyses of the companies concerned strategies were developed whose fundamental aim was to minimise the forecast losses. The strategies include a wide range of possible solutions, from the participation of Komerční banka in the process of the company's stabilisation to a petition for bankruptcy. The successfully revitalised companies can then become solvent clients of Komerční banka and be transferred back from the Revitalisation Department to the business divisions.

The problems involved in the revitalisation of selected clients were also addressed under the Czech government's revitalisation program, which resulted in the government's recommendation to the Revitalisation Agency that the approved plan be implemented in 9 companies. Following the launch of the Revitalisation Agency's activities Komerční banka entered into intensive negotiations as to the possibility of turning round the financial situation of the relevant companies. Concrete results from the Revitalisation Agency's operations are expected during the first half of the year 2000.

### Debt Recovery Division

The Debt Recovery Division was established with effect from 1 January 1997 with the aim of optimising the Bank's recovery of receivables. As at 31 December 1999 this specialised division had on its books 6,880 clients, or 29.3 thousand client accounts, representing a total volume of CZK 69.3 billion of the portfolio.

The basic principle in recovering problem and unpaid receivables consists in the creation of expert restructuring teams. These include employees trained both in economics and law. The teams have also been set up at a regional level and are responsible for all activities relating to the recovery and administration of the Bank's risk receivables. A client is indicated as risk category and transferred to the Debt Recovery Division upon his or her being unable to repay the loan according to the standard procedures.

The transfer of risk receivables to a specialised unit is on the one hand intended to put concentrated pressure on the debtor and on the other hand to use the special training of employees for this purpose. The procedure prioritises recovery of the receivable without recourse to legal action. This means both the actual recovery of the receivable

through concerted pressure on the debtor as well as the out-of-court realisation of collateral and the assignment of receivables. Recovery through legal action is also an option, i. e. by means of an action for non-payment or a petition for bankruptcy. Another method employed is restructuring, which takes into account the essential share of the debtor in the overall solution to the problem, in the overall restructuring and revitalisation of the company.

Under current legislation Komerční banka was only able to realise collateral from those debtors who gave it due authorisation. Improved results in the realisation of collateral can be expected in connection with the approved Public Auction Law, which is shortly to come into effect. Due to the time limits stipulated by the legal and administrative periods the first auctions will probably take place at the beginning of the fourth quarter of 2000. The new legislation can therefore be expected to have a significant impact on the Bank's financial results in 2001. The approved Amendment to the Bankruptcy Law should also have a positive effect on the results of debt recovery.

One of the main aims of the Debt Recovery Division in the year 2000 is to participate actively in finding a general solution to the problem of the Bank's risk assets. Throughout the next year the Division will be involved in the individual recovery of other risk receivables in order to ensure the maximum efficiency of this activity.

## Financial Results (CAS)

### Profit and Loss Account

#### Interest income

*Net interest income* fell by 21.1% in 1999. This was caused by the lower volume of loan transactions on the part of the Bank and by a fall in market interest rates, on which the Bank is - given by the structure of its assets and liabilities - negatively sensitive. The net interest margin thus fell to a final figure of 2.9% in 1999.

#### Non-interest income

*Net fees and commissions* fell by 6.0% against the end of 1998. This was mainly due to the increase in fees paid by the Bank in relation *inter alia* to the operation initiated in 1998 with a major investment bank with a view to solving the quality of its collateral securing the loan portfolio.

The Bank continued to reduce its exposure on the securities market, particularly with regard to shares. This resulted in a reduction in *income from variable yield securities*.

*Profit from financial operations* fell by more than 24%. The major part of the profit was obtained from foreign currency operations.

In addition to *other income* the item other income also includes income from loan portfolio operations. More than 98% is comprised of income from written-off and assigned receivables. In 1999 the Bank conducted a major write-off of receivables and sold a significant number of loss loans to Konsolidační banka. This was the reason for other income recording a sharp rise compared to 1998.

#### Costs

*General operating costs* continue to fall as a result of the Bank's strict and continual supervision of the effectiveness of its activities. The largest single factor in the fall of 2.4% in general operating costs was the 5.6% reduction in other operating costs, which comprised services and supplies and the depreciation of tangible and intangible assets. Staff costs rose nominally by 1.5% in comparison with 1998, although after taking into account annual inflation of 2.1% this represents a fall in real terms of 0.6%. This positive trend is supported by the continuing reduction in the average number of employees, which during 1999 fell by 538 to 13,487 persons.

*Other costs* rose by 41.6%. As is the case with other income the reason for the increase lies in the Bank's attempts to restructure its loan portfolio. Costs arising from the write-off of receivables make up almost CZK 35 billion of this item.

#### Creation of provisions and reserves

During 1999 the Bank created almost 17% more in *provisions and reserves for loans and guarantees* than in 1998. This was due to the Bank's decisive approach in improving the coverage of risks from loans. Of these provisions and reserves the Bank used more than CZK 26 billion. As at 31 December 1999 risks relating to the deterioration in client classification, collateral and risks relating to off-balance sheet receivables and liabilities were covered by CZK 5.8 billion of general provisions.

In addition to the aforementioned provisions and reserves the Bank created CZK 1.3 billion of *other provisions and reserves* in 1999, using CZK 1.9 billion during the same year. *Provisions and reserves for fixed asset investments and other financial investments* in 1999 exceeded their use by CZK 0.1 billion.

The total of provisions and reserves for loans, guarantees and other receivables from securities rose by 2.7% during 1999 to CZK 34.9 billion.

#### Tax

The Bank recorded an accounting loss for 1999 and there was zero income tax for 1999. *Income tax from current activities* recorded in the profit and loss account in the amount of CZK 23.9 million is composed of payments from additional tax declarations and an increase in deferred tax liability.



## Balance Sheet

### Assets

Total assets fell by almost 10% in 1999. Changes in the asset structure were mainly due to the unfavourable state of the Czech economy. The volume of loans to clients continued to fall, while on the other hand the Bank increased its presence on the securer inter-bank market. Loans to clients as a proportion of total assets thus fell during 1999 by 2.9 percentage points to 41.8%, while the proportion of amounts due from banks rose by 6.5 percentage points to 30.4%. The volume of securities also fell during 1999, both in the Bank's investment and dealing portfolio.

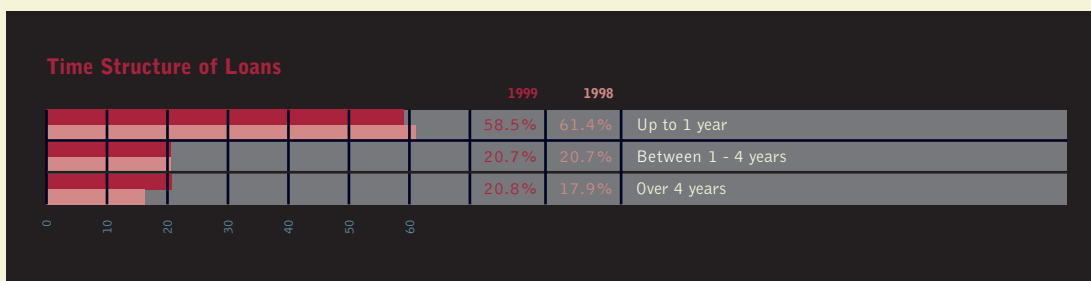
As at 31 December 1999 the volume of *cash in hand, deposits with central banks and post checking accounts* was 33.2% lower than at the end of 1998. The main reason for the fall was the double reduction by the Czech National Bank in the rate of obligatory minimum reserves. The volume of obligatory minimum reserves thus fell by 73.6% to CZK 5.2 billion.

The volume of *treasury bills and other bills* fell by almost 20% from the beginning of 1999. Other bills fell by 24.7% and proved relatively unproductive in terms of yield. On the other hand the volume of treasury bills and similar bonds issued by the state rose sharply and were used by the Bank as a highly liquid and non-risk form of investment.

*Amounts due from banks* increased by 14.6%. By raising its presence on the inter-bank market the Bank reacted to the growing risk attached to loans to clients and the lack of sound investment opportunities caused by the ongoing recession in the Czech economy. This item also includes the loan of CZK 49.6 billion granted to the Czech National Bank under repo operations.

*Amounts due from clients* fell by 15.8% compared to the end of 1998. The fall was the consequence on the one hand of external macro-economic factors, which resulted in a paucity of quality business projects, and on the other





hand of operations undertaken as part of the restructuring of the loan portfolio, in particular through the write-off and sale of loss receivables.

The nominal value of loans (i. e. before the deduction of provisions) amounted to CZK 209.2 billion as at the same date. Of this amount 67.2% of loans fall under the first two categories, standard and watch, which are regarded as problem-free. The proportion of loss loans to the total volume of loans fell to 21.6%. During 1999 the Bank sold loss loans in the amount of CZK 17.3 billion and wrote off receivables worth CZK 17.7 billion. These were fully covered by provisions. Through the write-off of loss receivables the Bank is decidedly not rejecting the possibility of their future recovery. The balance of written-off receivables recorded in the special operational database outside the Bank's balance sheet thus rose to CZK 31.2 billion.

Despite the Bank's reduced loan exposure in these sectors loans to subjects in the processing industry retained the highest proportion of the total loan portfolio (38%), followed by trade, catering, transport and communication (26%). Loans to the construction sector fell by 23%, while there was a 10% rise in loans to administrative bodies. As regards client groups the largest recipients of loans were companies in the private sector, the proportion of which to the total loan portfolio remained at approximately 69%. The Bank also reduced its loan exposure to predominantly state-owned companies (11.5%). On the other hand the proportion of loans to banks and insurance companies rose by 4.8%. A breakdown of loans by remaining maturity shows that the largest volume of loans is short-term with maturity of up to one year (58.5%). The proportion of long-term loans with remaining maturity over 4 years rose during 1999 to 20.8%.

The volume of *securities* in the Bank's assets fell by 25.9% against the end of 1998, with reductions being recorded both in the trading and investment portfolios. The trading portfolio volume of CZK 13.1 billion was 96% composed of bonds and other fixed income securities. Fixed income securities also comprised the major part (85%) of the investment portfolio, which at the end of 1999 amounted to CZK 11.0 billion.

*Fixed asset investments in associated or subsidiary undertakings* rose by 13.1% against the end of 1998. This was derived mainly from Komerční banka's increased investment in the company Komerční pojišťovna, a. s., and the new subsidiary undertaking in the company A-TRADE, s. r. o.

No substantial quantitative or qualitative changes were recorded in the composition of the Bank's *tangible and intangible assets*.

As at 31 December 1999 Komerční banka held its *own shares* in the amount of CZK 10.4 million, which were intended for further trading.

In relation to the increase in share capital, which got under way at the end of the year, the Bank recorded, as at 31 December 1999, CZK 1.4 billion of *subscribed share capital*, which at the end of the period was called-up and not paid.

## Liabilities

The structure of liabilities and its changes fully correspond to the asset side of the balance sheet, the result of which is a reduced need for funds. Amounts due to banks and clients thus fell, as did certificates of deposit and similar debentures. The total volume of external funds thereby fell by 9.8% from the beginning of 1999, although their

proportion of total assets remained the same. After accounting for the recorded loss, share capital as at 31 December 1999 amounted to CZK 17.8 billion. This represents a reduction of almost 11% from the beginning of the year.

*Amounts due to banks* fell compared to the end of 1998 by 21.3%, with 93% of this item comprising bank term deposits and loans accepted from other banks. Amounts due to banks made up 23.4% of the total fund base. A comparison with amounts due from banks shows that Komerční banka was a net lender on the inter-bank market in 1999.

As at 31 December 1999 *amounts due to clients* were 5.3% lower than at the end of 1998. This was due to the increased interest of clients in alternative means of saving in response to falling interest rates. Clients were attracted primarily by pension funds, building societies or participation certificates in investment funds. As in previous years more than 57% of amounts due to clients were term and saving deposits (excluding deposits of municipalities).

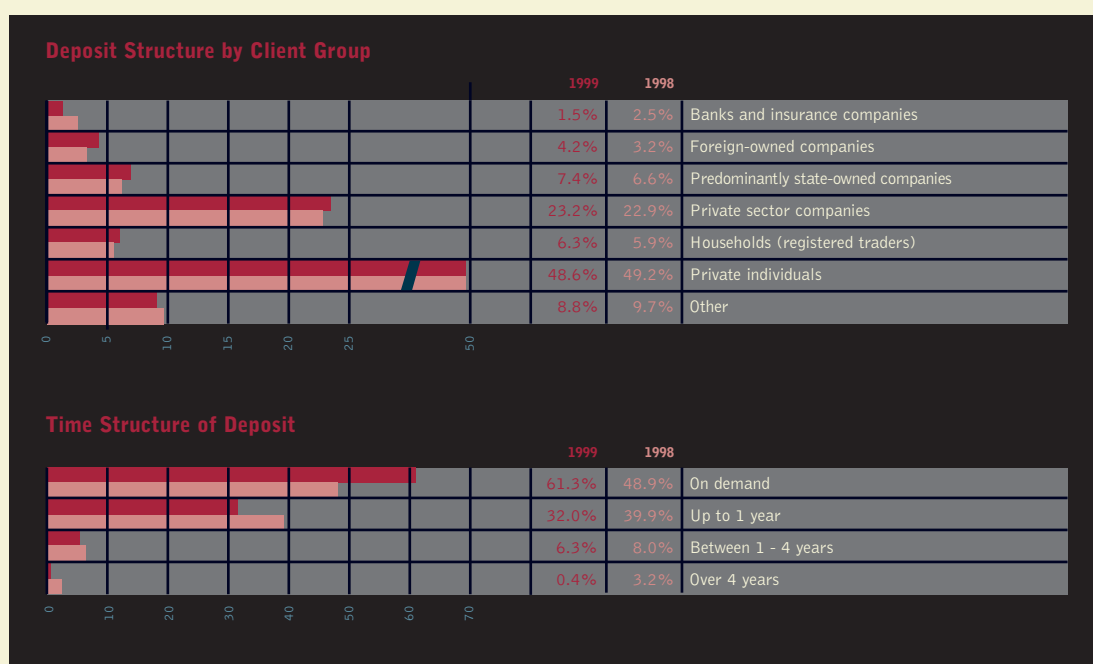
The main single category of depositors remained private individuals, which was responsible for almost 50% of the total volume of deposits. The proportion of company deposits made by both private and predominantly state-owned companies rose in comparison with 1998. A breakdown of the total volume of deposits according to the remaining maturity shows a sharp rise in deposits payable on demand and a reduction in the proportion of deposits with remaining maturity over one year.

The volume of funds acquired through issues of its *own bonds* during 1999 fell by 12.9%. The Bank repaid several earlier issues and also placed three new bond issues. Due to the lower need for funds, however, their volume did not fully compensate for the repayment of earlier issues. The proportion of this item to the balance sheet total thus fell by 0.3 of a percentage point to 6.9%.

*Subordinated debt* in koruna rose by 20.5% against the end of 1998. The rise was purely the result of movements in the rate of the American dollar. Komerční banka did not issue any new subordinated debt in 1999.

The volume of *reserves* for banking risks including risks related to the loan portfolio increased by 24.2% compared to the end of 1998, due partly to the need to cover risks from the Bank's exposure to a single foreign client. Reserves for standard loans and guarantees in particular were strengthened. As at 31 December 1999 these comprised 82.0% of total reserves.

The previously mentioned increase in *share capital*, which as at 31 December 1999 stood at CZK 16.6 billion,



was also included in the Bank's results. At the end of the period the total increase of CZK 7.1 billion had been more than 80% paid for.

The total volume of *reserve funds* amounting to CZK 2.4 billion rose by 0.5% in 1999 as a result of a strengthening of reserve funds for the Bank's own shares. As at 31 December 1999 *capital funds and other funds from profit* amounted to CZK 1.6 billion, which represents a fall of more than 86% against the end of 1998. The reduction was due to the coverage of the loss of CZK 9.8 billion for 1998.

*Retained earnings of previous periods* fell by 10.5%. After taking into account the loss of CZK 9.2 billion for 1999 the total volume of equity amounted to CZK 17.8 billion.

The capital adequacy ratio according to CNB methodology amounted to 10.69%, which represents an increase of 0.24 of a percentage point compared to the end of 1998.

### Off-balance sheet

Of the total volume of future potential and other irrevocable liabilities amounting to CZK 44.7 billion, the guarantee for loan collateral accepted by the subsidiary company Komerční Finance, B. V., makes up CZK 16.2 billion, irrevocable loan commitments CZK 15.7 billion and letters of credit CZK 6.9 billion.

Receivables from spot, forward and option operations amounted to CZK 250.8 billion, while liabilities under such operations stood at CZK 246.5 billion.

More detailed information on off-balance sheet items as at 31 December 1999 can be found in the following table.

OFF-BALANCE SHEET	1999 in CZK thousand	1998 in CZK thousand
Non-payment guarantees	4,117,899	4,778,146
Payment guarantees	17,707,604	21,311,870
Received bills of exchange/acceptances and endorsements of bills of exchange	375,130	0
Open customer/import uncovered letter of credit	5,289,873	9,107,730
Stand by letters of credit	1,542,233	0
<b>Total future potential liabilities</b>	<b>29,032,739</b>	<b>35,197,746</b>
Loan commitments	4,006,997	6,830,618
Undrawn loans	11,616,634	14,271,660
Confirmed supplier/export letter of credit	71,723	525,361
<b>Other irrevocable commitments</b>	<b>15,695,354</b>	<b>21,627,639</b>
<b>Total future potential liabilities and irrevocable commitments</b>	<b>44,728,092</b>	<b>56,825,386</b>

## Risk Management

### Market Risk Management

#### Principles of market risk management

Market risks are defined as a risk of a loss in the value of a portfolio caused by a change in market prices. They cover liquidity, interest rate, currency, share and price volatility risks.

The risk management system in Komerční banka is based upon the principle of separating the business and risk management functions. Both functions are independent of each other in terms of personnel and organisation.

The purpose of the system is to establish mechanisms, which limit in advance potential losses from open market positions in the event of an unfavourable change in market prices. Risk management is responsible for the methodology of evaluating risks, consolidating particular risks for the whole Bank, proposing limits on risk and reporting risks.

The Bank separates the management of risk for the trading portfolio from that of the banking portfolio.

#### Management of banking portfolio market risks

The basis of liquidity risk management is the contractual maturity of assets and liabilities. For some liabilities, moreover, reliable statistical means can be employed in describing their repayment. In addition to limits for so-called normal liquidity, limits must also be fulfilled for a liquidity crisis scenario, for which a minimum balance of highly liquid assets must be held in the Bank's portfolios.

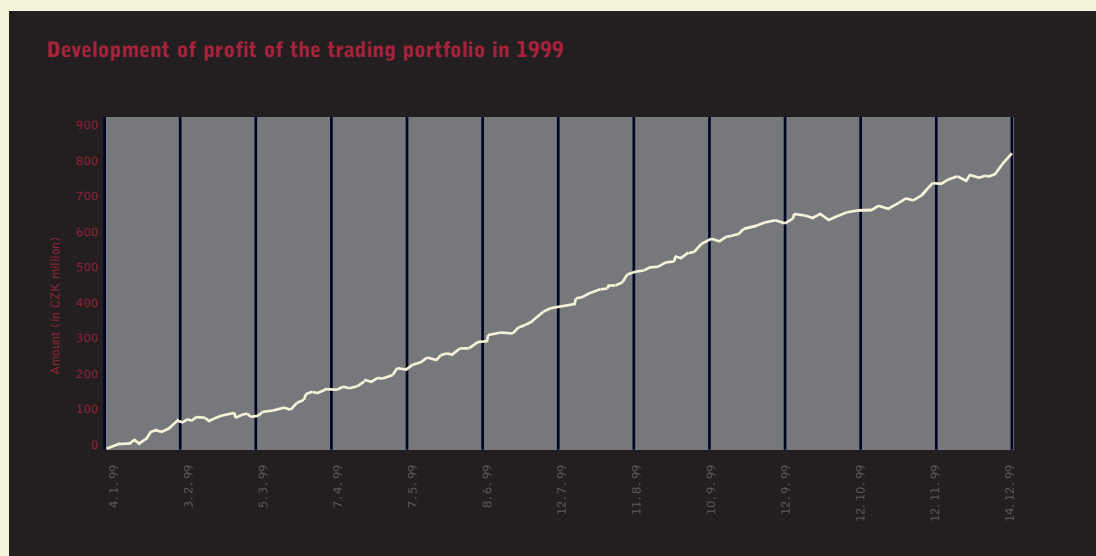
Interest rate risk is restricted by a system of limits for interest rate gaps. Separate limits are imposed on Czech koruna and foreign currency transactions.

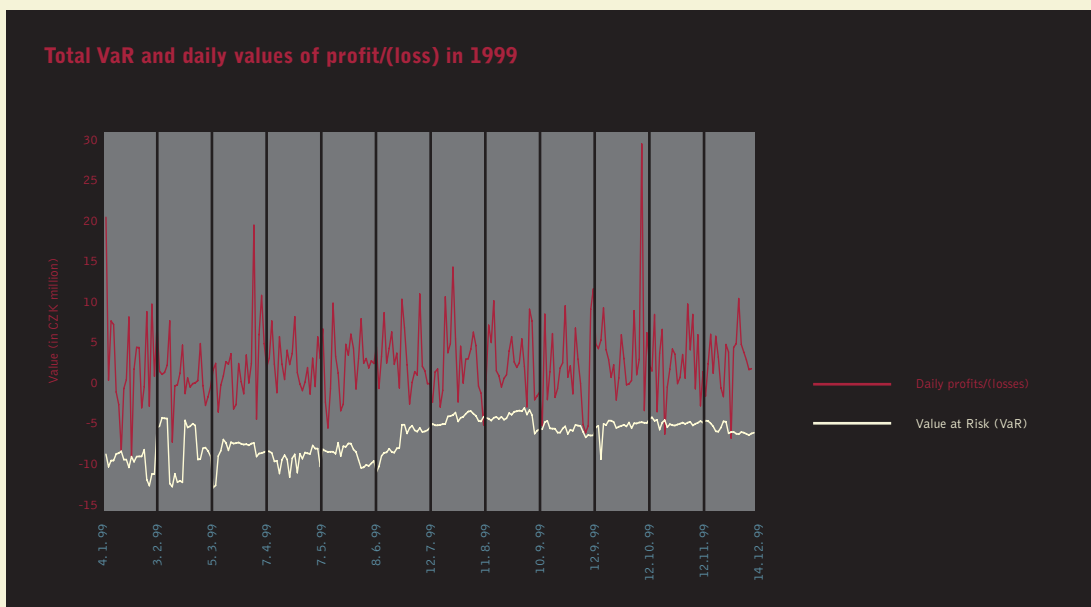
Currency risk is limited both by CNB regulations and by the implementation of a stricter "Value at Risk" (VaR) internal disposal by Komerční banka. This measure takes into account correlations between changes in the exchange rates of individual currencies.

Share price risk is also limited by the amount of the Value at Risk.

#### Management and control of trading portfolio market risks

Komerční banka has developed control and management systems intended to determine, monitor and limit any potentially negative impact of fluctuations in market prices on the Bank's operations.





The basic limit set by the Board of Directors at the suggestion of the Bank Risks Department is on the amount of Value at Risk. This defines a maximum annual loss, which the trading portfolio could experience with a probability factor of 95%. In 1999 the primary limit was stipulated at CZK 600 million. The limit is further broken down into limits for currency, interest rate and share price risk as well as volatility risk. These are then sub-divided into limits for portfolios and traders.

Middle office, which administers the front office system, is an integral part of the market risks control system. The office is responsible for ensuring on an ongoing basis that specific limits are maintained. It also specifies profit and loss, value at risk and other risk indicators. Every day, reports on the state of individual portfolios, their risk exposure and aggregate data on the entire trading portfolio are provided directly to the responsible members of the Board.

The proportion of transactions with financial derivatives in the trading portfolio continues to grow. Currency and interest swaps, forwards and options are instruments, which require particular attention with regard to risk. Portfolios, which contain financial derivatives, are tested using the Monte Carlo method. Stress simulations are applied and their exposure is analysed using not only standard methods but also procedures, which take into account possible non-linear factors.

### Credit risks management

The management of credit risks is founded upon objective methods of evaluating client risk. The evaluation is conducted by means of scoring systems for corporate banking clients, while for clients served by the business centres the evaluation is combined with a so-called "qualitative evaluation" and the client's inclusion in a rating category. The Bank can then develop a personal approach towards the client and devise an overall business strategy towards him.

The credit risk management system also comprises the activity of independent business risk specialists whose main role is to supervise the accuracy of the risk evaluation of clients and their transactions and to monitor the fulfilment of operational guidelines and the quality of the credit procedure directly in the sales network of the business divisions.

Investment projects are assessed by experts from a special department with regard to the technical and economic feasibility and to the level of the industry risk.

One of the primary instruments for the management of risk is a set of limits established for specific clients, industries and groups of clients. The degree of exposure on the part of the Bank towards any one client is stipulated by an individual limit.

The limits on net loan exposure to clients are determined by CNB measures to ensure the prudent business approach of banks. These limits are supplemented by internal strategic business limits aimed at minimising the risk to the Bank's assets.

Loan exposure limits are stipulated in percentage terms as a ratio of all receivables from a debtor or a financially linked group of clients to the Bank's capital. Compliance with this limit takes priority over all others.

The approval system for the new credit procedure places greater emphasis upon the level of risk incurred by the Bank's credit exposure to a client. The business centres are responsible for determining the Bank's limit of exposure to the client. The authority for approving specific transactions is overwhelmingly that of the director of the business centre.

Particular transactions are always approved by the relevant body in accordance with the degree of the Bank's exposure to the client, while observing the principle of including financial groups within the exposure, the possibility of dividing authority for individual business centre directors and delegating authority to lower levels.

Credit risk towards banks is managed in an analogous way.

The management of credit risks covers the following types of operations: loans, granted guarantees, documentary letters of credit, overdrafts and loans to banks. All receivables are monitored regularly in accordance with the conditions stipulated for the granting of loans. This assessment includes, amongst other things, an evaluation of the debtor's financial situation. Sub-standard, doubtful and loss loans are evaluated more frequently depending on the specific circumstances relevant to each transaction.

The Bank creates provisions for loans to banks, municipalities and clients classified as watch, sub-standard, doubtful and loss. They are calculated according to the classification and amount of uncovered risk.

Credit risk management also includes the monitoring and revaluation of collateral. In order to quantify uncovered risk and create provisions the value of collateral instruments is discounted according to the quality of collateral in relation to its liquidity.

The organisational and staff functions for the management of credit risk in investment banking are separate from those for commercial banking.

## Strategy and Plans for the Future

### Strategy of Komerční banka and its financial group

The principles of the updated medium-term strategy of the Bank take into account the complex external conditions which apply to its activities. These are, in particular, the continuing recession in the economy, its impact on domestic demand and the still unsatisfactory state of legislation, chiefly as regards the enforcement of creditors' rights. It is also designed to react to the more intense competition on the banking and financial markets in the Czech Republic, the ongoing privatisation of the state's holdings in the largest Czech banks and the revolutionary development in technology, which, in our ever more connected world, directly impacts upon the domestic environment.

The Komerční banka Financial Group is determined to be regarded as the leading financial group in the Czech Republic. As such, its main aim must be to meet the needs of its target clients and ensure their satisfaction and loyalty through the right combination of banking and non-banking products and services provided by the separate companies which make up the financial group. At the same time it will seek to be innovative and introduce new products in order to satisfy the ever more demanding requirements of its clients.

In relation to its clients the Group's strategy is based on its universality, although with markedly differing approaches towards the different service needs of specific client segments. The Bank will provide individual service to these target client segments and groups in the role of a professional financial partner. Large and medium-sized businesses, which expect to be dealt with on an individual basis, shall be provided not only with the standard banking products but also first-class services such as financial consultancy, finance development projects etc. In addition, Komerční banka wishes to become a sought-after provider of services in private banking, in which field it will strive to reach a level comparable with the major international banking houses.

In its retail banking operations the Bank's priorities are flexibility and an active approach to client needs. Through specially designed product and service packages the Bank can offer its clients attractive investment and savings possibilities as well as meeting the clients' needs, including housing and insurance.

In its range of products the Bank will place emphasis on the further development of consumer and mortgage loans, primarily by means of simplifying administrative procedures. One of the key medium-term strategic goals is the development of direct banking services and alternative distribution channels. These concern, for example, the further expansion of services in the telephone centre, home banking and the introduction of Internet banking.

The Bank will prioritise the sale of those products and services which are a source of non-interest income, with the aim of increasing its share of overall income, stabilising the Bank's income and eliminating the negative results of the current stage of the economic cycle and changes in clients' behaviour.

Komerční banka will also continue to pursue its policy of strict cost management. The Bank is well aware that, if it wishes to maintain its leading position in an increasingly competitive market, the further reduction of costs and cuts in staff numbers must be linked to a general redefinition of business procedures and the use of information technology. With regard to the development of alternative distribution channels the Bank shall seek to optimise the operational possibilities of its branch network.

In the period prior to the Czech Republic's entry into the EU the Bank, in order to ensure its future competitiveness, is comprehensively mapping the needs and expectations of its clients with regard to euro products and is harmonising operational conditions, banking products and services with the standards of the EU.

Of all the changes which await the Bank and its financial group in the short and medium term, the most significant is undoubtedly the privatisation of the majority state holding, which is expected to be finalised by the end of 2000. In whatever way the entry of a foreign strategic investor and its policies may affect the Bank's direction following privatisation, the fundamental components of the existing medium-term strategy can be regarded as a sound basis for its future development. The Bank can thus present itself to strategic interested parties as an institution which has prepared itself for the new owner's entry and has an immense amount to offer with regard to its future development.



**Plans for 2000 and the expected development of the financial situation**

Standing as it does on the threshold of the sale of the state holding to a foreign strategic partner the Bank is committed to maintaining its existing client base, resolving the question of the quality of the loan portfolio, offering an extensive distribution network and modern information systems with the aim of optimising its sale price. Through the privatisation of the state holding the Bank will form part of an institution of international statute. This will enable it to acquire further banking and non-banking know-how, reinforce its stability, strengthen its position on the Central European market and ensure its full connection to a globalised financial world. In anticipation of the conclusion to the privatisation process, which will include the detailed due diligence of the Bank by potential investors, the Bank has already established sound organisational, procedural, technical and other bases.

A decisive step in the pre-privatisation period was the decision by the government to restructure the Bank's assets, with the aim of purging the loan portfolio of its loss loans. This has resulted in a substantial improvement in the Bank's financial indicators and thereby enhanced the government's position when negotiating the sale of the state holding. The Bank will continue to use all restructuring possibilities in order to achieve the highest possible return on its bad loans.

The extensive restructuring of assets during the first quarter of 2000, together with the completion of the increase in share capital, will have a highly positive impact on the financial results for the year 2000. The improvement in the legal environment with regard to creditors' rights and their enforceability (the already passed Auctions Act and the amended Bankruptcy and Settlement Act) should also begin to have an effect.

Due to its prudent credit policy and as a result of stagnation, or the further slight fall in interest rates, the Bank expects net interest income to decline somewhat in the forthcoming year. Komerční banka will therefore continue its efforts to change the income structure with the aim of actively increasing the proportion of non-interest income to total income and thereby stabilise its income. It intends to do so by expanding those business activities which are based on the sale of a wide range of products and services generating fees and commissions, i. e. through the offer of modern payment services, private and investment banking products, the products of subsidiaries and associated companies in the Komerční banka branch network, new products and services with high added value for the client, etc.

At the same time the Bank will impose close management on any risks which may arise from the ongoing difficulties experienced in the economic environment. It will closely monitor administrative expenses and push through improvements in productivity, which shall be reflected in further reductions in the number of employees.

## 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 adopted in 1998. In addition to exercising its powers of supervision over the Bank's activities the Supervisory Board also proposed solutions to problems arising in the business of the Bank.

Having checked the financial statements of the Bank for the period from 1 January to 31 December 1999, and on the basis of the report of the external auditor and the Internal Audit and Control Department, the Supervisory Board reports that the accounts were maintained in accordance with legal requirements on banks and with the Bank's own Statutes and present a full and accurate picture of the Bank's financial situation.

Deloitte & Touche performed an audit of the financial statements of the Bank:

- under current Czech accounting methodology which declared that assets and liabilities and the financial result as at 31 December 1999 were fairly and correctly stated. The report was unqualified.
- under International Accounting Standards which also issued an unqualified report.

Although the findings of the auditors are unqualified, the report drew attention to:

- a) the extraordinary nature of the positive effect on the Bank's financial results caused by the decision of the Czech government to transfer the Bank's problem loans in order to assist the Bank in the period prior to privatisation,
- b) the existing uncertainty concerning the future state of the Czech economy, realisation of collateral securing the Bank's loan portfolio and the repayment of loans. Although it is impossible at present to estimate the outcome of these uncertainties, they could result in the need to create additional provisions for the loan portfolio. The financial statements do not include any adjustments, which might result from these uncertainties.

The Supervisory Board recommends the Annual General Meeting to approve the assets, liabilities, share capital and financial result for the year 1999.

Prague, Czech Republic  
12 April, 2000

On behalf of the Supervisory Board



**Karel Kopp**  
Chairman

## Unconsolidated Financial Statements (CAS)

### Auditors' Report to the Shareholders of Komerční banka

Based upon our audit we issued the following audit report dated 24 March 2000 on the financial statements which is included in this annual report on pages 42 to 66:

We have audited the accompanying financial statements of Komerční banka, a. s., for the year ended December 31, 1999. The Board of Directors is responsible for the preparation of the financial statements and for maintaining accounting record 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.

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, 1999, 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 Note 1a) to the financial statements. The Bank received financial assistance from the Government of the Czech Republic in 1999 in order to provide it with support in the period prior to privatisation. This assistance had a material impact on the results for the year. Furthermore we draw your attention to the fact that there are uncertainties concerning the future development of the Czech economy, the realisation of collateral securing the Bank's loan portfolio and the repayment of loans. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

We have reviewed other financial information included in this annual report for consistency with the audited financial statements. In our opinion, this information is consistent, in all material respects, with the audited financial statements.

Prague, 15 May 2000

Audit firm:

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

License No. 79

Statutory auditor:

**Michal Petrman**

License No. 1105

**Profit and Loss Account for the Year 1999 (CAS)****Costs/Income**

(in CZK thousand)

Item	Accounting period	
	Current	Prior year
	1	2
1. Interest income and similar income	38,137,478	55,946,612
of which: interest income from fixed income securities	2,174,624	2,917,869
2. Interest expense and similar expenses	(26,222,742)	(40,847,466)
of which: interest expense on fixed income securities	(2,973,584)	(4,984,710)
3. Income from variable yield securities	35,478	71,133
a) income from shares and other variable yield securities	12,978	10,645
b) income from investments in associated undertakings	7,500	45,488
c) income from investments in subsidiary undertakings	15,000	15,000
d) income from other investments	0	0
4. Fee and commission income	5,043,127	5,000,527
5. Fee and commission expense	(692,781)	(373,511)
6. Profit/(loss) from financial operations	3,569,476	4,730,845
7. Other income	19,058,388	3,775,893
8. General operating costs	(11,038,576)	(11,315,162)
a) staff costs	(5,140,034)	(5,063,606)
aa) salaries and wages	(3,777,958)	(3,711,666)
ab) social insurance	(1,023,878)	(1,020,004)
ac) health insurance	(338,198)	(331,936)
b) other operating costs	(5,898,542)	(6,251,556)
9. Creation of reserves and provisions for tangible and intangible assets	(600)	0
a) creation of reserves for tangible assets	(600)	0
b) creation of provisions for tangible assets	0	0
c) creation of provisions for intangible assets	0	0
10. Use of reserves and provisions for tangible and intangible assets	0	0
a) use of reserves for tangible assets	0	0
b) use of provisions for tangible assets	0	0
c) use of provisions for intangible assets	0	0
11. Other costs	(36,296,312)	(25,628,681)
12. Creation of provisions and reserves for loans and guarantees	(27,551,370)	(23,569,085)
13. Use of provisions and reserves for loans and guarantees	26,376,230	23,329,839
14. Creation of provisions and reserves for fixed asset investments and other financial investments	(951,548)	(326,269)
15. Use of provisions and reserves for fixed asset investments and other financial investments	817,616	73,161
16. Creation of other provisions and reserves	(1,330,633)	(3,013,131)
17. Use of other provisions and reserves	1,855,312	2,025,461
18. Income tax from current activities	(23,926)	(9,663)
19. Loss from ordinary activities before taxation	(9,215,383)	(10,129,497)
20. Extraordinary income	227,521	446,132
21. Extraordinary costs	(254,130)	(121,171)
22. Income tax from extraordinary activities	0	0
23. Profit or loss from extraordinary activities after tax	(26,609)	324,961
24. Profit or loss for accounting period	(9,241,992)	(9,804,536)

## Balance Sheet as at 31 December 1999 (CAS)

## Assets

Item	(in CZK thousand)			
	Current year		Prior year	
	Gross amount 1	Provision 2	Net amount 3	Net amount 4
1. Cash in hand, deposits with central banks, post checking accounts	20,380,955	0	20,380,955	30,494,160
2. Treasury bills and other bills	48,524,886	0	48,524,886	60,471,764
a) treasury bills and similar bonds issued by the state	4,395,709	0	4,395,709	1,831,912
b) other bills	44,129,177	0	44,129,177	58,639,852
3. Amounts due from banks	133,444,665	100,231	133,344,434	116,410,044
a) payable on demand	1,383,060	0	1,383,060	1,332,262
b) other receivables	132,061,605	100,231	131,961,374	115,077,782
of which: subordinated assets	0	0	0	0
4. Amounts due from clients	209,226,638	25,582,691	183,643,947	218,025,126
a) payable on demand	431,639	0	431,639	313,697
b) other receivables	208,794,999	25,582,691	183,212,308	217,711,429
of which: subordinated assets	0	0	0	0
5. Bonds and other fixed income securities for trading	12,806,401	269,178	12,537,223	15,849,679
a) issued by banks	3,398,163	1,373	3,396,790	4,291,301
of which: own bonds	324,621	1,167	323,454	1,142,526
b) issued by other subjects	9,408,238	267,805	9,140,433	11,558,378
6. Shares and other variable yield securities for trading	1,414,938	877,855	537,083	470,664
7. Fixed asset investments in associated undertakings	2,763,460	0	2,763,460	2,763,922
a) in banks	280,000	0	280,000	280,000
b) in other entities	2,483,460	0	2,483,460	2,483,922
8. Fixed asset investments in subsidiary undertakings	1,714,115	0	1,714,115	1,195,778
a) in banks	467,924	0	467,924	445,330
b) in other entities	1,246,191	0	1,246,191	750,448
9. Other financial investments	11,759,754	769,709	10,990,045	16,141,410
10. Intangible assets	1,389,682	532,713	856,969	590,573
a) expenses of foundation	0	0	0	0
b) goodwill	0	0	0	0
11. Tangible assets	20,367,271	7,331,142	13,036,129	13,879,669
a) land and buildings for banking activities	11,658,826	1,955,697	9,703,129	9,813,885
b) other	8,708,445	5,375,445	3,333,000	4,065,784
12. Own shares	10,404	0	10,404	3,532
13. Other assets	2,537,455	261,345	2,276,110	3,439,804
14. Subscribed capital called-up and not paid	1,390,181	0	1,390,181	0
15. Prepayments and accrued income	7,104,389	0	7,104,389	7,582,607
Total assets	474,835,194	35,724,864	439,110,330	487,318,732

**Liabilities**

Item	(in CZK thousand)	
	Accounting period	
	Current 5	Previous 6
<b>1. Amounts due to banks</b>	<b>102,582,919</b>	<b>130,411,767</b>
a) payable on demand	6,865,949	6,885,725
b) other liabilities	95,716,970	123,526,042
<b>2. Amounts due to clients</b>	<b>259,191,282</b>	<b>273,697,713</b>
a) savings deposits	30,481,162	38,390,244
of which: payable on demand	1,733,840	1,771,375
b) other amounts due to clients	228,710,120	235,307,469
of which: payable on demand	109,154,367	113,818,635
<b>3. Certificates of deposit and similar debentures</b>	<b>30,500,720</b>	<b>35,000,799</b>
a) certificates of deposit	720	799
b) other	30,500,000	35,000,000
<b>4. Accruals and deferred income</b>	<b>4,927,079</b>	<b>8,062,418</b>
<b>5. Reserves</b>	<b>7,020,342</b>	<b>5,651,010</b>
a) reserves for standard loans and guarantees	5,756,273	4,108,820
b) reserves for foreign exchange rate losses	631,275	835,802
c) reserves for other banking risks	136,994	505,895
d) other reserves	495,800	200,493
<b>6. Subordinated liabilities</b>	<b>7,195,800</b>	<b>5,971,000</b>
<b>7. Other liabilities</b>	<b>9,866,649</b>	<b>8,508,606</b>
<b>8. Share capital</b>	<b>16,604,291</b>	<b>9,502,463</b>
of which: share capital paid-up	15,214,034	9,502,463
<b>9. Share premium fund</b>	<b>6,008,027</b>	<b>6,008,027</b>
<b>10. Reserve funds</b>	<b>2,421,156</b>	<b>2,408,156</b>
a) obligatory reserve funds	1,902,992	1,902,992
b) reserve funds for own shares	18,000	5,000
c) statutory reserve funds	500,164	500,164
<b>11. Capital funds and other funds from profit</b>	<b>1,565,171</b>	<b>11,377,423</b>
a) capital funds	328	54,699
b) other funds from profit	1,564,843	11,322,724
<b>12. Retained earnings and not compensated loss of previous periods</b>	<b>468,886</b>	<b>523,886</b>
<b>13. Profit or loss for accounting period</b>	<b>(9,241,992)</b>	<b>(9,804,536)</b>
<b>Total liabilities</b>	<b>439,110,330</b>	<b>487,318,732</b>

**Off-balance Sheet**

Item	(in CZK thousand)	
	Accounting period	
	Current 7	Previous 8
<b>1. Total future potential liabilities</b>	<b>29,032,739</b>	<b>35,197,746</b>
of which:		
a) received bills of exchange/acceptances and endorsements of bills of exchange	375,130	0
b) commitments from guarantees	28,657,609	35,197,746
c) commitments from collateral	0	0
<b>2. Other irrevocable commitments</b>	<b>15,695,354</b>	<b>21,627,639</b>
<b>3. Receivables from spot, forward and option operations</b>	<b>250,827,048</b>	<b>237,963,173</b>
<b>4. Liabilities from spot, forward and option operations</b>	<b>246,470,908</b>	<b>234,207,740</b>

## Notes to the Financial Statements as at 31 December 1999 (CAS) (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 Act on Banks no. 21/1992 Coll., and has its registered address at Na Příkopě 33, 114 07 Praha 1.

#### 1a) Specific events impacting the Bank's results for the year ended 31 December 1999

The Bank incurred a net loss of CZK 9,242 million in 1999 (CZK 9,805 million in 1998) primarily as a result of loan and credit losses. The economic recession in the Czech Republic during 1998 and 1999 resulted in a deterioration in the financial condition of many of the Bank's clients impairing their ability to repay their debts. The recession also negatively impacted the value of loan collateral (primarily real estate). The legal framework relating to creditors' rights severely restricts the ability of the Bank to realise collateral values on non-performing loans. In addition, many of the Bank's largest clients are undergoing financial restructuring. Further, during 1999 the Bank incurred large, unexpected and unusual losses relating to its trade finance activities. See Note 7b) to the financial statements for further information.

During 1999 the Government of the Czech Republic provided financial support to the Bank to ensure its financial stability in preparation for the planned privatisation of the state's ownership interest in the Bank. The Government sponsored transfers of non-performing loans totaling approximately CZK 83,100 million nominal value to Konsolidační Banka. When completed, these transfers will result in the net recovery of losses previously recorded totaling approximately CZK 16,543 million, including recoveries of CZK 9,516 million for loan transfers totaling CZK 23,100 million nominal value completed during 1999. The terms of the remaining transfers have been contractually agreed and are expected to be concluded in the near future. These recoveries have been fully taken into account in determining the value of the Bank's assets and level of required provisions for losses reported for 1999 resulting in a favourable impact to the profit and loss account of CZK 16,543 million for 1999. Also, the Fund of National Property of the Czech Republic (the largest shareholder of the Bank) recently participated in a CZK 9,502 million capital increase of the Bank together with other shareholders. The portion of the capital increase subscribed and included in the Bank's capital account as at 31 December 1999 totalled CZK 7,102 million. The remainder of the capital increase was completed in January 2000. See Notes 5 and 7c) to the financial statements for further information.

The management of the Bank has made its best efforts to analyse the Bank's credit risk and to record provisions for estimated losses on a prudent basis. As a result of the uncertainties related to the future development of the Czech economy, of the financial condition of the Bank's clients and of the realisation of collateral values, the ultimate losses may be different than presently estimated and provisioned.

#### 1b) Information about methods used for valuation of assets and liabilities

Komerční banka, a. s. (the "Bank") values its assets in accordance with the Act 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 denominated in foreign currency are translated into Czech crowns in accordance with § 24 par. 2 of the Act on Accounting, using the foreign exchange rate issued by the Czech National Bank for the currencies which are not included in the European Monetary Union (hereinafter only "OUT") and the CNB conversion rate for the currencies which are included in the European Monetary Union (hereinafter only "IN"). The financial statements for the year ended 31 December 1999 use for the currencies "OUT" the foreign exchange rate announced by the Czech National Bank at 31 December 1999 and for the currencies "IN" the CNB conversion rate prevailing at 31 December 1999.

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

Treasury bills and notes are valued at cost upon acquisition. The FIFO method (first in, first out) 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 "Regulation 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 amortized 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 fixed assets and inventory are stated at cost. Wear and tear of the assets is indicated by way of accumulated depreciation for fixed assets.

Transactions with foreign exchange derivatives are stated in the off-balance sheet at realisable values. The Bank creates reserves for unrealized 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 1999.

### **1c) Information about depreciation of tangible and intangible assets**

Depreciation of tangible and intangible fixed assets is provided according to a depreciation plan. The period for depreciation of tangible and intangible fixed assets is the same as that determined by Act No. 586/1992 Coll., on Income Taxes, as subsequently amended. The Bank uses the straight line method of depreciation. In 1999 there were changes in the depreciation method as a result of the Act No. 168/1998 Coll.

Depreciation group	Depreciation period
1. Tools, instruments and computers	4 years
2. Fixtures, fittings and equipment	6 years
3. Means of transport	12 years
4. Energy producing plants	20 years
5. Buildings, structures and land	30 years

### **1d) Information about accounting procedures**

For accounting purposes the Bank uses a valid, up-to-date Chart of Accounts and the relevant accounting procedures for banks, valid in 1999. In 1999, 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 1999, depreciation for accounting purposes is lower than depreciation for tax purposes.

The corporate tax rate for 1999 was 35%. Income tax recorded in the profit and loss statement is CZK 23,926 thousand. This amount is calculated from tax paid according to the regular tax return of CZK 98 thousand, and from tax paid according to additional tax returns of CZK (1,582) thousand and from an increase in the deferred tax liability of CZK 25,411 thousand. The main adjustments when computing the tax base from accounting profit relate to tax exempt income and income subject to lower tax rate.



**2.1 Calculation of tax payable from income (in CZK thousand)**

	1999	1998
<b>Profit/loss for accounting period</b>	<b>(9,241,992)</b>	<b>(9,804,536)</b>
Tax paid according to regular and additional tax returns	(1,485)	21,311
Increase/decrease of deferred tax liability	25,411	(11,647)
<b>Loss before tax</b>	<b>(9,218,066)</b>	<b>(9,794,872)</b>
Tax base decreased/increased	9,227,166	9,796,511
Reduced tax base	9,100	1,639
Tax at the current rate	3,185	573
Reduction in tax	3,185	(573)
Income tax	0	0
Tax on dividend income from abroad	98	0
<b>Tax charge for 1999</b>	<b>98</b>	<b>0</b>
Tax according to additional tax returns	(1,583)	21,311
<b>Tax payable</b>	<b>(1,485)</b>	<b>21,311</b>

**3) Summary of Fixed Asset Investments**

During 1999, the Bank increased the share capital of Komerční pojišťovna, a. s., by CZK 150,000 thousand to CZK 450,000 thousand. In addition, the Bank was a party to a capital increase of the company A-TRADE, s. r. o., where invested CZK 210 million and acquired a direct ownership interest of 75%. In 1999, the Bank sold its whole shareholdings in the companies Economía, a. s., and ČEKIA, a. s., and a portion of the fixed asset investment in CAC LEASING Slovakia, a. s. With the exception of the company A-TRADE, s. r. o., all fixed asset investments of the Bank are joint stock companies.

**3.1 Fixed asset investments by issuer**

	Resident at	Amount of profit/loss in 1998 (in CZK thousand)	Bank's ownership percentage
ALL IN, a. s.	Praha 1, Vodičkova 30	(28,584)	100.00
Investiční kapitálová společnost KB, a. s.	Praha 1, Dlouhá 34	58,255	100.00
Bankovní ochranná služba, a. s.	Praha 9, Kolčavka 75	6,246	100.00
Penzijní fond KB, a. s.	Praha 1, Na Příkopě 33	405,094	100.00
Komerční banka Bratislava, a. s.	Bratislava, Medená 6	28,661	100.00
Komerční pojišťovna, a. s.	Praha 1, Jindřišská 17	(84,410)	100.00
Komercni Finance, B. V.	Drentestraat 24, 1083 HK Amsterdam, The Netherlands	25,817	100.00
Factoring KB, a. s.	Praha 1, Na Poříčí 36	2,204	100.00
A-TRADE, s. r. o.	Praha 1, V jámě 1	(69,447)	75.00
CAC LEASING, a. s.	Praha 5, Janáčkovo náměstí 55	42,398	50.00
MUZO, a. s.	Praha 1, Jindřišská 24	83,024	49.90
Všeobecná stavební spořitelna KB, a. s.	Praha 2, Bělehradská 128	372,299	40.00
Investiční privatizační fond KB, a. s.	Praha 1, Dlouhá 34	(341,475)	35.43
Bankovní institut, a. s.	Praha 7, Letenské nám. 4	(6,944)	13.73
Českomoravská záruční a rozvojová banka, a. s.	Praha 1, Jeruzalémská 4	230,994	12.99
CAC LEASING Slovakia, a. s.	Bratislava, Hurbanovo nám. 1	15,625	10.00
Burza cenných papírů Praha, a. s.	Praha 1, Rybná 14	14,601	7.90

#### 4) Number and Nominal Value, or Acquisition Price of Subscribed Shares or Shares of Registered Capital of Fixed Assets Investments

4.1 Fixed asset investments by issuer (CZK thousand)					
	Amount invested by the Bank in share capital	Amount invested by the Bank in funds	Amount invested by the Bank - acquisition cost	Nominal value of shares	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.	425,386	42,538	467,924	100 (SKK)	5,000
Komerční pojišťovna, a. s.	450,000	70,000	520,000	100 and 50	3,000 and 3,000
Komerční Finance, B. V.	656	0	656	1 (NLG)	40
Factoring KB, a. s.	40,000	6,000	46,000	100	400
A-TRADE, s. r. o.	210,000	0	210,000	–	–
<b>Total subsidiary undertakings</b>	<b>1,533,577</b>	<b>180,538</b>	<b>1,714,115</b>	–	–
CAC LEASING, a. s.	110,900	0	110,900	100 and 500	130 and 200
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 (interest below 20%)	100,673	2,450	103,123	–	–
<b>Total associated undertakings</b>	<b>2,741,010</b>	<b>22,450</b>	<b>2,763,460</b>	–	–

In compliance with the CNB Regulation the Bank restated its portfolio of fixed asset investments as at 31 December 1999. This restatement resulted in positive revaluation differences of CZK 352,127 thousand and negative revaluation differences of CZK (345,697) thousand. As a result of the aggregate positive balance of CZK 6,430 thousand the Bank records a zero balance of provisions for fixed asset investments.

#### 5) Shareholders

The number of shares owned by parties with a special relationship to the Bank, pursuant to Table No. 5.2, is 4,716 shares of stock, i. e. 0.025% of the registered capital.

5.1 Shareholders of the Bank (limit 3% of registered capital)		
Enterprise	Resident at	Portion of registered capital (%)
National Property Fund of the Czech Republic	Rašínovo nábř. 42, Praha 2	48.736
The Bank of New York ADR Department	101 Barclay Street, New York	17.607

5.2 Number of Bank shares owned by persons with a special relationship to the Bank	
	Number of shares
Board of Directors	830
Supervisory Board members	1,471
Bank management members	2,365
Members of Banking Council of Czech National Bank	50
<b>Total</b>	<b>4,716</b>

The share of the above companies in the share capital of Komerční banka, a. s., is disclosed in terms of the Excerpt of the Issuer Register dated 31 December 1999, which reads 19,004,926 shares of the Bank representing CZK 9,502,463 thousand of the share capital entered into the Commercial Register at 31 December 1999.

At the General Meeting held on 31 May 1999 it was resolved to increase the share capital of Komerční banka, a. s., by subscription of new shares. In terms of the resolution adopted by the General Meeting the Bank's share capital should increase by CZK 7,500,000 thousand up to an amount of CZK 9,502,463 thousand. The first subscription round was carried out in the period from 20 December 1999 to 3 January 2000 and shares with a nominal value of CZK 7,361,617 thousand were subscribed. In the second round, the party pre-determined by the General Meeting, that is the National Property Fund of the Czech Republic, subscribed CZK 2,140,847 thousand and completed the capital increase of the Bank. The capital increase process was recorded in the Commercial Register on 11 February 2000. The shareholding of the National Property Fund was equal to 60% as at 11 February 2000 and holdings of other shareholders decreased.

The subscribed share capital of the Bank at 31 December 1999 amounts to CZK 16,604,291 thousand. As at 11 February 2000 the Bank's paid share capital recorded in the Commercial Register is CZK 19,004,926 thousand.

## 6) Commitments from Accepted Loans of a Special Nature

At 31 December 1999 the Bank had commitments from long-term accepted loans of a special nature relating to subordinated debt to the value of CZK 7,195,800 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 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 68,894,010 thousand, of which a loan provided to the Czech National Bank in respect of REPO operations is CZK 49,620,000 thousand.

Loans to customers amounted to CZK 209,226,638 thousand, of which CZK 103,858,476 thousand are standard loans including loans to local authorities and CZK 105,368,162 thousand of classified loans (Table No. 7.3).

Receivables from customers include interest of CZK 6,131,412 thousand (1998 - CZK 7,989,865 thousand). Of this sum, CZK 5,682,421 thousand (1998 - CZK 7,535,739 thousand) relates to defaulted interest and CZK 448,991 thousand (1998 - CZK 454,126 thousand) relates to accrued interest which is not overdue.

#### 7.1 Gross loans according to contractual maturity (CZK thousand)

	On demand	Less than 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years
Loans to banks	0	51,158,752	1,973,347	1,061,242	6,433,333
Loans to customers	431,639	56,591,729	65,305,363	13,394,078	29,959,855
- standard	431,639	10,620,012	40,219,787	7,788,720	22,120,174
- classified	0	45,971,717	25,085,576	5,605,358	7,839,681

#### 7.1 Gross loans according to contractual maturity (CZK thousand) - continued

	From 4 to 5 years	Over 5 years	Total 1999	Total 1998
Loans to banks	8,267,336	0	68,894,010	65,333,336
Loans to customers	9,454,492	34,089,483	209,226,638	243,778,790
- standard	6,228,230	16,449,914	103,858,476	141,794,790
- classified	3,226,262	17,639,569	105,368,162	101,984,000

**7.2** Gross loans according to remaining maturity (CZK thousand)

	On demand	Less than 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years
<b>Loans to banks</b>	<b>0</b>	<b>51,158,752</b>	<b>1,973,347</b>	<b>1,061,242</b>	<b>6,433,333</b>
Agriculture	4,854	2,588,696	3,400,907	1,603,005	3,229,682
Processing industry	55,913	24,108,411	31,510,649	4,321,102	10,078,797
Distribution, production of energy	675	376,824	788,628	63,566	774,530
Construction	4,689	2,759,125	3,332,893	666,098	853,763
Trade, catering, transport and telecommunication	76,055	20,264,682	18,027,013	3,092,122	5,585,138
Insurance, banking	2,672	916,740	3,324,963	1,718,244	6,384,018
Administration and other parties	286,781	5,577,251	4,920,311	1,929,940	3,053,927
<b>Total loans to clients</b>	<b>431,639</b>	<b>56,591,729</b>	<b>65,305,364</b>	<b>13,394,077</b>	<b>29,959,855</b>

**7.2** Gross loans according to remaining maturity (CZK thousand) - continued

	From 4 to 5 years	Over 5 years	Total 1999	Total 1998
<b>Loans to banks</b>	<b>8,267,336</b>	<b>0</b>	<b>68,894,010</b>	<b>65,333,336</b>
Agriculture	922,041	1,687,401	13,436,586	16,420,189
Processing industry	3,086,322	6,988,878	80,150,072	98,022,067
Distribution, production of energy	2,312,626	4,504,006	8,820,855	9,225,397
Construction	109,221	369,838	8,095,627	10,551,073
Trade, catering, transport and telecommunication	1,399,502	5,968,860	54,413,372	66,034,722
Insurance, banking	130,422	142,140	12,619,199	14,547,941
Administration and other parties	1,494,357	14,428,360	31,690,927	28,977,401
<b>Total loans to clients</b>	<b>9,454,491</b>	<b>34,089,483</b>	<b>209,226,638</b>	<b>243,778,790</b>

**7.3** Analysis of classified gross loans (CZK thousand)

	Classification				1999	1998
	Watch	Sub-standard	Doubtful	Loss	Total	Total
Loans to banks	2,295,294	504,361	0	422,795	3,222,450	1,966,218
Loans to customers	36,720,788	14,102,747	9,358,293	45,186,334	105,368,162	101,984,000
<b>Total</b>	<b>39,016,082</b>	<b>14,607,108</b>	<b>9,358,293</b>	<b>45,609,129</b>	<b>108,590,612</b>	<b>103,950,218</b>

**7.4** Collateral for short-term receivables (CZK thousand)

	Bank loans collateral	Client loans collateral
Guarantees of state and governmental institutions	0	843,376
Bank guarantees	0	414,830
Guaranteed deposits	0	715,195
Issued debentures in pledge	0	150
Pledge of immovable assets	0	82,839,406
Pledge of movable assets	0	1,718,305
Guarantee by legal entity	0	12,100,150
Guarantee by individual (physical entity)	0	631,862
Pledge of receivable	0	3,520,333
Insurance of loan risk	0	1,445,198
Other	0	7,895,167
<b>Total</b>	<b>0</b>	<b>112,123,972</b>

Short-term loans to banks are not collateralized. Loans extended to the Czech National Bank as a result of REPO transactions are collateralized by securities. Short-term loans to clients are collateralized by being insured with the Exportní garanční a pojišťovací společnost, a. s. (Export guarantee and insurance company), to the value of CZK 720,742 thousand (included in row "Credit risk insurance"). Values listed in Tables No. 7.4. and 7.6. include collateral underlying loans on the face of the balance sheet. 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. This table contains a nominal value of the collateral, that is collateral value not discounted.

With regard to the calculation of provisions for loans, the collateral values referred to above are discounted. The level of the discount is determined according to the quality and liquidity of the collateral. Real estate collateral is discounted depending upon the following factors:

- appraiser (that is the quality of the appraisal);
- appraisal method (that is if at market value or at value determined based upon regulations);
- date of the collateral appraisal (that is collateral value is discounted depending on the year of preparation of the appraisal report
- the longer the period from the date of the appraisal the greater the applied discount); and
- type of real estate. Correction coefficients are applied to individual groups of real estate (such as family houses, residential houses, industrial buildings, administrative buildings).

With regard to other collateral types such as guarantees, bills and pledged receivables the Bank has implemented a new method of discounting of collateral. This method discounts the collateral value depending on the quality of the guarantor (based upon the methods implemented by the Bank previously such as scoring and rating) and the date of the assessment of guarantor. In addition to the results of assessment of the guarantor, the Bank takes into account information concerning the performance on guarantee commitments of the guarantor in relation to the Bank. The new methodology policies have been gradually implemented since the fourth quarter of 1999 to the middle of 2000.

#### 7.5 Loan portfolio of the Bank by classification (CZK thousand)

	Gross amount	Collateral	Uncovered risk	Provisions	Net book value
Standard	103,858,476	64,659,348	39,199,128	–	103,858,476
Watch	36,720,788	32,712,607	4,008,181	(200,409)	36,520,379
Sub-standard	14,102,747	10,994,264	3,108,483	(621,697)	13,481,050
Doubtful	9,358,293	7,154,058	2,204,235	(1,101,720)	8,256,573
Loss	45,186,334	21,527,469	23,658,865	(23,658,865)	21,527,469
<b>Total</b>	<b>209,226,638</b>	<b>137,047,746</b>	<b>72,178,892</b>	<b>(25,582,691)</b>	<b>183,643,947</b>

The collateral relates to the total loan portfolio and is therefore higher than the total of collateral in Table 7.4 Collateral for short-term receivables. Collateral is based upon the discounted value. Real estate collateral is discounted in accordance with the CNB Regulation on Real Estate Collateral and replaced by provisions. The balance of provisions created in respect of this collateral as at 31 December 1999 was CZK 3.0 billion.

#### 7.6 Collateral for the entire loan portfolio (CZK thousand)

	Bank loans collateral	Client loans collateral
Guarantees of state and governmental institutions	0	11,752,979
Bank guarantees	0	2,397,608
Guaranteed deposits	24,050	1,683,652
Issued debentures in pledge	0	650
Pledge of immovable assets	0	272,255,973
Pledge of movable assets	0	6,197,375
Guarantee by legal entity	0	34,431,593
Guarantee by individual (physical entity)	0	7,096,142
Pledge of receivable	0	7,592,850
Insurance of loan risk	2,227,161	7,874,254
Other	0	13,972,924
<b>Total</b>	<b>2,251,211</b>	<b>365,256,000</b>

The values listed in the table are at cost prior to the discount applied by the Bank.

**7b) Trade finance losses**

During 1999, the Bank incurred unexpected losses relating to loans, letters of credit and guarantees provided to clients of the Bank's trade finance division. The losses recorded in the profit and loss account in 1999 relating to these risks include CZK 5,304 million receivables fully provided for and written off and CZK 5,889 million of provisions for expected losses. These losses include CZK 8,393 million relating to guarantees, letters of credit and foreign currency trading of one foreign client of the Bank. CZK 3,582 million of this amount is shown as a reserve under Note 16 to the financial statements. Investigations of suspected fraud and evaluation of possible actions are continuing with the objective of mitigating losses and limiting future exposure to similar risk.

**7c) Transfers of loans to Konsolidační banka**

On 31 August 1999, in accordance with the resolution of the Czech Republic referred to above, the Bank transferred selected loss and written off receivables with a nominal value of CZK 23.1 billion to Konsolidační banka Praha, s. p. ú. ("Konsolidační banka"). The receivables were transferred for a contractual price of CZK 13.6 billion representing approximately 60% of their nominal value. The net positive effect of this transaction on the Bank's result for the year was CZK 9.5 billion.

On 16 February 2000, the Government of the Czech Republic adopted a resolution that approved the further restructuring of the assets of the Bank in the period prior to its privatisation. The Bank agreed to transfer selected doubtful and loss receivables and previously written off receivables with a nominal value of CZK 60 billion to Konsolidační banka for a consideration equivalent to 60% of their nominal value. Of this amount, approximately CZK 46 billion relates to doubtful and loss receivables from clients, approximately CZK 10 billion relates to receivables from clients already written off and approximately CZK 4 billion involves securities. On 29 February 2000 the Bank entered into a framework contract with Konsolidační banka, which provided for the execution of the further agreements specifying the actual transfer of these assets. On 17 March 2000, the Bank signed further agreements underlying the execution of the framework contract. Management anticipates that the final transfer of the receivables will be completed in the near future. In accordance with the resolution of the Government of the Czech Republic, the Bank will sell these assets for an amount greater than their net book value. Management estimate that the net positive impact of this transaction is CZK 7 billion. Management has taken this net positive impact into account when assessing the valuation of the credit portfolio and the amount of required loan loss provision as at 31 December 1999.

The table below sets out a pro-forma analysis of the portfolio of the Bank as if the second transfer of loans to Konsolidační banka had taken place as at 31 December 1999 (in CZK million).

Loan analysis according to classification as at 31 December 1999	Remaining portfolio after transfer 31 December 1999		Transfer of loans to Konsolidační banka 31 December 1999		Loan portfolio as at 31 December 1999	
	Gross receivable	Provisions	Gross receivable	Provisions	Gross receivable	Provisions
Standard	103,859	0	0	0	103,859	0
Watch	36,721	200	0	0	36,721	200
<b>Total standard and watch</b>	<b>140,580</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>140,580</b>	<b>200</b>
Sub-standard	14,103	622	0	0	14,103	622
Doubtful	3,081	828	6,277	274	9,358	1,102
Loss	5,012	4,262	40,174	19,397	45,186	23,659
Loans under special review	22,196	5,712	46,451	19,671	68,647	25,383
<b>Total loans to clients</b>	<b>162,776</b>	<b>5,912</b>	<b>46,451</b>	<b>19,671</b>	<b>209,227</b>	<b>25,583</b>
Impact of the transfer after the 1999 year end		7,027				
General provision recorded		1,890				1,890
<b>Total reserves and provisions</b>		<b>14,829</b>				<b>27,473</b>

#### **7d) Collateral realisation and other matters**

The remaining portfolio of the Bank continues to be collateralised primarily by real estate. With regard to loans under special review 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 legal framework relating to creditors rights severely restrict the Bank's ability to realise collateral values on non-performing loans. Recent (or pending) modifications in legislation aimed at strengthening the position of creditors may improve future realisations.

The Bank's management has recorded provisions and reserves for all known and estimated risks as at the balance sheet date. The Bank's portfolio contains a number of debtors 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 Bank's loan portfolio contains a number of clients which are State owned or are regulated or funded by the State. In determining the level of provisioning required against such exposures the Bank has taken into account expected continuing support the State.

The Bank's portfolio consists of loans provided to debtors from all major industries. The economic recession in the Czech Republic in 1998 and 1999 negatively impacted the overall quality of the loan portfolio.

There remain significant uncertainties concerning the actual future recoverability of loans. 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 an agreement with an internationally recognised investment bank that under regulatory guidelines qualified as a guarantee of a portfolio of loans classified as loss. The guarantee replaced real estate collateral that would otherwise require additional provisioning for statutory accounting purposes. The Bank paid a refundable deposit of USD 9 million in 1998 and is obligated to make 40 fixed payments of USD 7 million semi-annually. In 1999, the Bank paid the first guarantee fee of CZK 291 million. The agreement may be terminated by the Bank before final maturity with a payment of penalty charges. Under the terms of the agreement, the Bank received the first funding in 1999 of CZK 201.2 million (USD 6.7 million) of defaulted loans. The Bank retains all ownership and rights to the defaulted loans. The agreements 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 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 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's management has decided to terminate early the agreement because a substantial portion of the loans collateralised by the agreement will be transferred within the transaction described above in Note 7c). Management has estimated that the impact of termination on the profit and loss account will not be material.

#### **7e) Loans to group companies**

At 31 December 1999 the Bank had loans to subsidiary and associated undertakings to the value of CZK 3,670,866 thousand. Of this, the value of loans with contractual maturity of less than one year is CZK 1,052,186 thousand, one to four years CZK 2,331,182 thousand and over four years CZK 287,498 thousand. The value of loans according to remaining maturity is CZK 2,310,155 thousand for loans with remaining maturity of less than one year, CZK 1,090,229 thousand for loans between one and four years and CZK 270,482 thousand for loans over 4 years.

A total of CZK 2,331,461 thousand from these loans is classified. The largest loans were to the subsidiary companies of ALL IN, a. s., amounting to CZK 2,136,593 thousand.

**8) Loans Accepted**

No collateral was provided for accepted loans. Specification of accepted loans according to remaining maturity can be seen from table No. 8.1.

<b>8.1 Loans accepted specified according to remaining maturity (CZK thousand)</b>					
	On demand	To 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years
Loans from CNB	0	11,594	11,594	23,187	46,375
Loans from other banks	0	2,087,645	7,095,339	4,561,132	2,941,751
Loans from clients	10,518,125	5,259,062	1,753,021	9,014,300	320,725
<b>Total</b>	<b>10,518,125</b>	<b>7,358,301</b>	<b>8,859,954</b>	<b>13,598,619</b>	<b>3,308,851</b>

<b>8.1 Loans accepted specified according to remaining maturity (CZK thousand) - continued</b>				
	From 4 to 5 years	Over 5 years	Total 1999	Total 1998
Loans from CNB	23,187	81,156	197,093	825,248
Loans from other banks	1,160,241	5,994,547	23,840,655	36,693,271
Loans from clients	0	0	26,865,233	20,048,607
<b>Total</b>	<b>1,183,428</b>	<b>6,075,703</b>	<b>50,902,981</b>	<b>57,567,126</b>

Loans accepted from clients also include loans from Komerční Finance, B. V., totalling CZK 8,917,881 thousand with remaining maturity less than 2 years (1998 - CZK 12,741,111 thousand).

**9) Share of Granted Loans and Accepted Loans with Maturity within One Year**

Loans with remaining maturity up to 1 year represent 63% of the total volume of provided loans. The share of accepted loans with remaining maturity up to 1 year represents 32% of the total volume of accepted loans.

**10) Syndicated Loans Granted**

In 1999, the Bank had in its loan portfolio syndicated loans as shown in Tables No. 10.1 - 10.2.

<b>10.1 Non-banking syndicated loans (CZK thousand)</b>			
	Loan share amount	Interest rate (%)	Portion of risk (%)
Komerční banka, a. s.	1,121,482	7.45	50.00
Česká spořitelna, a. s.	1,121,482		50.00
<b>Total to the client</b>	<b>2,242,964</b>		<b>100.00</b>
Komerční banka, a. s.	1,531,833	8.205	55.56
ČSOB, a. s.	816,923		29.63
Bank Austria Creditanstalt CR, a. s.	408,323		14.81
<b>Total to the client</b>	<b>2,757,079</b>		<b>100.00</b>
Komerční banka, a. s.	207,858	8.45	28.19
HSBC Bank plc	118,565		16.08
Česká spořitelna, a. s.	237,057		32.15
BNP Dresdner Bank	134,345		18.22
CLBP	39,522		5.36
<b>Total to the client</b>	<b>737,347</b>		<b>100.00</b>



**10.2** Loans provided as part of the CAEF (Czech American Enterprise Fund)

	Loan share amount	Interest rate (%)	Portion of risk (%)
Komerční banka, a. s.	10,441	0	50.00
CAEF	10,441		50.00
<b>Total to the client</b>	<b>20,882</b>		<b>100.00</b>
Komerční banka, a. s.	351	0	37.38
CAEF	588		62.62
<b>Total to the client</b>	<b>939</b>		<b>100.00</b>

**11) Receivables and Liabilities Other than Receivables and Liabilities from Loans**

The receivables from the Czech National Bank ("CNB") amounted to CZK 11,908,466 thousand, of which CZK 5,203,159 thousand represents obligatory minimum reserves and CZK 3,391,638 thousand represents deposits payable on demand.

The Bank has other commitments to the CNB to the value of CZK 54,499,436 thousand, of which CZK 50,242,000 thousand relates to treasury bills used to secure REPO loans. A listing of non-loan receivables and liabilities of other banks is provided in Table No. 11.1. With regard to other banks, the largest creditor is one of the major Czech banks; the commitments of the Bank to this institution are to the value of CZK 11,000,000 thousand.

**11.1** Other receivables and commitments to banks according to remaining maturity (CZK thousand)

	On demand	Less than 3 months	Less than 1 year	Total 1999	Total 1998
Bank deposits received	6,865,949	13,091,215	58,588,007	78,545,171	92,893,248
Bank deposits placed	1,383,158	52,802,643	10,364,854	64,550,655	51,632,879

**11.2** Commitments to customers according to contractual maturity (CZK thousand)

	On demand	Less than 3 months	Less than 1 year	From 1 to 2 years	From 2 to 4 years
Current accounts	94,548,330	0	0	0	0
Savings deposits	1,733,840	5,483,437	17,567,064	1,987,436	2,839,194
Time deposits	37,865,794	43,957,110	7,753,807	1,867,194	245,604
Deposits from budget	9,519,298	0	0	0	0
Out of budget deposits	4,699,753	523,292	784,939	150	0
Accepted client loans	10,518,124	5,259,062	1,753,021	9,014,300	320,725
<b>Commitments to clients</b>	<b>158,885,139</b>	<b>55,222,901</b>	<b>27,858,831</b>	<b>12,869,080</b>	<b>3,405,523</b>

**11.2** Commitments to customers according to contractual maturity (CZK thousand) - continued

	From 4 to 5 years	Over 5 years	Total 1999	Total 1998
Current accounts	0	0	94,548,330	103,445,396
Savings deposits	851,757	18,434	30,481,162	38,390,244
Time deposits	78,914	703	91,769,126	99,162,083
Deposits from budget	0	0	9,519,298	8,310,265
Out of budget deposits	0	0	6,008,134	4,341,118
Accepted client loans	0	0	26,865,232	20,048,607
<b>Commitments to clients</b>	<b>930,671</b>	<b>19,137</b>	<b>259,191,282</b>	<b>273,697,713</b>

In addition to credit-related receivables and payables the Bank has material amounts of receivables from or commitments to subsidiary and associated undertakings as follows: term deposit of CZK 1,000,000 thousand received from Všeobecná stavební spořitelna KB, a. s., an overdraft account receivable of CZK 570,675 thousand from CAC Leasing, a. s., and a receivable from a term placement with Komerční banka Bratislava, a. s., in the amount of CZK 630,023 thousand.

**12) Receivables Written-off**

In 1999, the Bank wrote off CZK 16,873,281 thousand of receivables from clients and CZK 793,774 thousand from banks. The write-off of CZK 17,658,782 thousand was covered by the use of provisions. Income from written-off receivables amounted to CZK 7,613,210 thousand from clients, of which recoveries from loans sold to Konsolidační banka amounted to CZK 6,008,775 thousand. Income from written-off receivables from banks amounted to CZK 47,941 thousand. In addition, overdrafts on current accounts to the value of CZK 20,081 thousand were written off and income from these written-off overdrafts on current accounts amounted to CZK 1,628 thousand.

**12.1** Costs and income from receivables written-off according to industry (CZK thousand)

Industry	Costs of written-off loans to banks	Costs of written-off loans to clients	Income from written-off loans to banks	Income from written-off loans to clients	Of which: recoveries from loans sold to Konsolidační banka
Agriculture, fishing	0	276,673	0	432,222	395,066
Forestry and wood production	0	100	0	261	0
Mineral working	0	174	0	3	0
Processing industry	0	5,233,481	0	3,918,374	2,946,287
Production, energy distribution	0	9	0	0	0
Construction, building	0	371,006	0	121,139	93,084
Trade, catering	0	4,055,854	0	1,694,953	1,434,121
Transport, communications	0	208,860	0	150,872	125,387
Banking and insurance	0	1,119,983	0	391,491	389,422
Other activities	793,774	5,607,141	47,941	903,895	625,408
<b>Total loans written-off</b>	<b>793,774</b>	<b>16,873,281</b>	<b>47,941</b>	<b>7,613,210</b>	<b>6,008,775</b>
Written-off overdrafts on current accounts	0	20,081	0	1,628	0
<b>Total</b>	<b>793,774</b>	<b>16,893,362</b>	<b>47,941</b>	<b>7,614,838</b>	<b>6,008,775</b>

**13) Information on Securities**

As at 31 December 1999 provisions for bonds in the trading portfolio were created to the value of CZK 269,178 thousand and for shares in the trading portfolio to the value of CZK 877,855 thousand. The provisions are calculated as the difference between acquisition cost and market price (determined on the basis of Czech National Bank regulations). The difference between cost and provisions is shown in column "Net book value." 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.

**13.1** Fixed income securities - trading portfolio (CZK thousand)

	1998	Cost Addition/ Disposal	1999	Provision 1999	Net book value 1999	Market price 1999
State bonds	5,252,705	(2,027,449)	3,225,256	1,196	3,224,060	3,224,801
Municipal bonds	692,226	(454,830)	237,396	0	237,396	237,396
Banks	853,002	1,703,986	2,556,988	183	2,556,805	2,556,805
Own bonds	1,142,526	(817,905)	324,621	1,167	323,454	323,454
Other	6,379,650	(1,265,754)	5,113,896	266,632	4,847,264	4,906,618
<b>Total for trading</b>	<b>14,320,109</b>	<b>(2,861,952)</b>	<b>11,458,157</b>	<b>269,178</b>	<b>11,188,979</b>	<b>11,249,074</b>

**13.2** Fixed income securities - investment portfolio (CZK thousand)

	1998	Cost Addition/ Disposal	1999	Market price 1999
Čs. obchodní banka, a. s.	1,898,918	0	1,898,918	1,950,350
State bonds	10,674,707	(5,382,373)	5,292,334	5,509,774
Škoda, a. s.	850,000	0	850,000	850,000
Municipality of Brno	233,228	0	233,228	233,228
ČEZ	447,634	(447,634)	0	0
Konsolidační banka, s. p. ú.	1,000,000	0	1,000,000	1,000,000
SPT Telecom, a. s.	167,071	(167,071)	0	0
Vereinsbank	78,889	0	78,889	78,889
ČKD	458,000	0	458,000	0
Aspekta	0	98,588	98,588	0
Destá	0	54,960	54,960	0
<b>Total for investment</b>	<b>15,808,447</b>	<b>(5,843,530)</b>	<b>9,964,917</b>	<b>9,622,241</b>

As at 31 December 1999, the Bank created provisions for fixed income securities held in the investment portfolio to the value of CZK 611,548 thousand.

**13.3** Variable yield securities (CZK thousand)

	1998	Cost Addition/ Disposal	1999	Provisions 1999	Net book value 1999	Market price 1999
Investment funds	39,067	(39,062)	5	0	5	7
Banks and insurance companies	25,310	(4,260)	21,050	7,170	13,880	15,952
Production, energy distribution	3,892	7,997	11,889	7	11,882	12,464
Engineering and metallurgy	532,305	(1,436)	530,869	530,868	1	87,973
Other processing industry	51,917	200,380	252,297	39,299	212,998	173,435
Construction, building	564,986	(4,121)	560,865	300,509	260,356	289,329
Transport, communication	2	37,955	37,957	0	37,957	39,856
Other	94,374	(94,368)	6	2	4	7
<b>Total trading</b>	<b>1,311,853</b>	<b>103,085</b>	<b>1,414,938</b>	<b>877,855</b>	<b>537,083</b>	<b>619,023</b>
Česká pojišťovna, a. s.	963,839	0	963,839	212,007	751,832	751,832
Investiční privatizační fond KB, a. s.	0	822,476	822,476	(53,846)	876,322	876,322
S.W.I.F.T	8,241	281	8,522	0	8,522	8,522
Total investment	972,080	822,757	1,794,837	158,161*)	1,636,676	1,636,676
Own shares held	3,545	6,859	10,404	0	10,404	11,025

\*) The amount is netted for the entire investment portfolio of shares.

The Bank does not have in its trading portfolio shares of an associated company Investiční privatizační fond KB, a. s., ("IPF") (1998 - CZK 2,550 thousand). The Bank holds the IPF shares in its investment portfolio until the date of the opening of the fund. Further strategy for the IPF shares in the investment portfolio will be subject to the decision of the Bank following the opening of the fund.

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

**13.4** Securities quoted on the Stock Exchange (CZK thousand)

	1998	Cost Addition/ Disposal	1999	Market price 1999
Fixed income securities	27,917,344	(6,772,669)	21,144,675	20,263,950
Variable yield securities	2,023,957	965,466	2,989,423	1,797,653
<b>Total</b>	<b>29,941,301</b>	<b>(5,807,203)</b>	<b>24,134,098</b>	<b>22,061,603</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 18.6%. Issued bonds with maturity within one year represent 6.6% 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. Provisions and reserves against losses on loans and guarantees are recorded in compliance with the Act on Reserves to Determine Income Tax Base No. 593/1992 Coll., as amended.

In 1999 the Bank created tax deductible provisions of 2% of the average of uncollectible loan receivables and additional non-tax deductible provisions.

Provisions for loans to borrowers in bankruptcy proceedings are recorded on special analytical accounts. In 1999 the Bank recorded tax deductible and non-tax deductible provisions in terms of the Act on Reserves.

In 1999 the Bank created tax deductible reserves for pass loans equal to 1% of the average balance of these loans and reserves for issued guarantees equivalent to 2% of the average balance of these receivables. In addition, the Bank recorded non-tax deductible reserves for pass loans above the set limit.

The balance of general reserves covers risks associated with the deterioration of the client's financial performance and the risk related to collateral and risks connected with the off-balance sheet receivables (that is issued guarantees, avals and letters of credit).

The total amount of reserves and provisions for receivables from loans and guarantees is CZK 31,593,795 thousand.

##### 16.1 Development of provisions and reserves against the loan portfolio in 1999 (CZK thousand)

	Balance as at 1. 1. 1999	Creation	Use	Transfer of provisions created in 1998 (balance sheet)	Balance as at 31. 12. 1999
<b>Provisions for classified loans</b>	<b>19,346,906</b>	<b>19,404,509</b>	<b>20,653,547</b>	<b>(470,000)</b>	<b>17,627,868</b>
of which: tax deductible	2,805,787	4,586,376	6,025,343		1,366,820
non-tax deductible	16,541,119	14,818,133	14,628,204	(470,000)	16,261,048
<b>Total provisions for debtors in bankruptcy</b>	<b>6,962,929</b>	<b>5,914,808</b>	<b>5,292,683</b>	<b>470,000</b>	<b>8,055,054</b>
of which: tax deductible	6,962,929	5,094,604	4,822,683		7,234,850
non-tax deductible		820,204	470,000	470,000	820,204
<b>Total provisions</b>	<b>26,309,835</b>	<b>25,319,317</b>	<b>25,946,230</b>	<b>0</b>	<b>25,682,922</b>
<b>Total reserves</b>	<b>4,108,820</b>	<b>2,232,053</b>	<b>430,000</b>		<b>5,910,873</b>
of which: tax deductible	4,108,820	2,077,453	430,000		5,756,273
non-tax deductible	0	154,600	0		154,600
<b>Total provisions and reserves</b>	<b>30,418,655</b>	<b>27,551,370</b>	<b>26,376,230</b>	<b>0</b>	<b>31,593,795</b>

Reserves for issued guarantees, avals and letters of credit are included in Table 16.2 in the line entitled "For loans and guarantees." Reserves for currency differences, reserves related to market value for term operations and for securities are shown in Table 16.2 in the line entitled "Other reserves".

**16.2 Summary of reserves (CZK thousand)**

	Balance as at 1. 1. 1999	Creation of reserves	Usage of reserves	Release to income	Balance as at 31. 12. 1999
For loans and guarantees	4,108,820	2,232,053	0	430,000	5,910,873
Reserves for repairs of tangible fixed assets	600	600	0	0	1,200
Other reserves	1,541,590	1,621,884	1,855,312	199,893	1,108,269
<b>Total reserves</b>	<b>5,651,010</b>	<b>3,854,537</b>	<b>1,855,312</b>	<b>629,893</b>	<b>7,020,342</b>

**16.3 Summary of provisions for classified loans to customers and banks (CZK thousand)**

	Balance as at 1. 1. 1999	Creation of provisions	Usage of provisions	Reversal to income	Transfer of provisions created in 1998 (balance sheet)	Balance as at 31. 12. 1999
Provisions for classified loans	19,346,906	19,404,509	18,896,187	1,757,360	(470,000)	17,627,868
- watch	185,321	100,420	0	43,693		242,048
- sub-standard	445,747	542,102	63,228	279,002		645,619
- doubtful	998,731	5,728,370	4,852,981	772,401		1,101,719
- loss	17,717,107	13,033,617	13,979,978	662,264	(470,000)	15,638,482
For loans in bankruptcy and liquidation proceedings	6,962,929	5,914,808	4,877,041	415,642	+470,000	8,055,054
<b>Total provisions</b>	<b>26,309,835</b>	<b>25,319,317</b>	<b>23,773,228</b>	<b>2,173,002</b>	<b>0</b>	<b>25,682,922</b>

**16.4 Summary of other provisions (CZK thousand)**

	Balance as at 1. 1. 1999	Creation of provisions	Usage of provisions	Reversal to income	Balance as at 31. 12. 1999
For securities	1,663,765	781,277	0	528,299	1,916,743
For fixed asset investments	136,768	0	0	136,768	0
For various borrowers	212,596	48,749	0	0	261,345
<b>Total</b>	<b>2,013,129</b>	<b>830,026</b>	<b>0</b>	<b>665,067</b>	<b>2,178,088</b>

**17) Establishment Costs**

The Bank does not record any establishment costs.

**18) Tangible and Intangible Assets****18.1 Tangible assets (CZK thousand)**

	Balance as at 1. 1. 1999 (Purchase cost)	Additions in 1999	Disposals in 1999	Balance as at 31. 12. 1999 (Purchase cost)	Accumulated depreciation as at 31.12.1999	Balance as at 31. 12. 1999 (Net book value)
Land	367,777	6,214	3,879	370,112	0	370,112
Buildings and structures	11,801,797	410,582	110,088	12,102,291	2,088,073	10,014,218
Machines and equipment	3,771,574	356,715	335,899	3,792,390	2,799,682	992,708
Energy machines and equipment	665,216	63,924	1,009	728,131	290,856	437,275
Fixtures, fittings, equipment	2,881,649	169,307	59,245	2,991,711	2,152,531	839,180
Assets not depreciated	48,263	208	122	48,349	0	48,349
Acquisition of assets	534,356	1,704,804	1,904,873	334,287	0	334,287
<b>Total</b>	<b>20,070,632</b>	<b>2,711,754</b>	<b>2,415,115</b>	<b>20,367,271</b>	<b>7,331,142</b>	<b>13,036,129</b>

**18.2 Intangible assets (CZK thousand)**

	Balance as at 1. 1. 1999 (Purchase cost)	Additions in 1999	Disposals in 1999	Balance as at 31. 12. 1999 (Purchase cost)	Accumulated depreciation as at 31. 12. 1999	Balance as at 31. 12. 1999 (Net book value)
Software	756,972	555,427	57,413	1,254,986	519,216	735,770
Other intangible assets	21,007	2,088	0	23,095	13,497	9,598
Acquisition of assets	186,486	496,263	571,148	111,601	0	111,601
<b>Total</b>	<b>964,465</b>	<b>1,053,778</b>	<b>628,561</b>	<b>1,389,682</b>	<b>532,713</b>	<b>856,969</b>

**19) Tangible Assets Acquired under Lease Contracts**

	Amount (CZK thousand)
Sum of installments for whole term of assumed leasing	2,190,044
Installments paid including lease advances	1,684,262
Specification of amounts of future lease payments	505,782
of which: payments in 2000	271,878
payments in 2001	152,179
payments in further years	81,725

**20) Other Assets and Liabilities, Other Costs and Revenues****20.1 Split of other assets and liabilities (CZK thousand)**

	Assets 1999	Liabilities 1999	Assets 1998	Liabilities 1998
Other receivables/due to customers	320,714	804,875	299,557	1,276,239
Other debtors/creditors	94,510	1,272,881	145,610	1,463,983
Provided/accepted operating advances	457,824	40,374	293,559	34,447
Receivables/liabilities from trading with securities	72,246	439,765	20,083	80,341
Liabilities from issued securities	0	76,504	0	104,727
Paid/received option premiums	150,664	194,664	178,136	350,520
Values for collection/with payment recorded after collection	411,954	345,392	415,413	343,484
Balances with employees	0	293,261	0	277,663
Balances related to the state budget	45,458	464,771	61,762	637,666
Contingencies gains/losses	39,602	140,380	43,068	112,270
Settlement accounts	683,138	788,636	1,982,616	1,280,694
of which: for operations in foreign currency	223,443	174,475	549,501	161,705
Other	0	5,005,146	0	2,546,572
<b>Total</b>	<b>2,276,110</b>	<b>9,866,649</b>	<b>3,439,804</b>	<b>8,508,606</b>

**20.2 Other revenues and costs (CZK thousand)**

	1999		1998	
	Other revenues	Other costs	Other revenues	Other costs
Other operational income/expense (including Emoluments of Board and Supervisory Board)	89,235	1,268,121	99,352	1,235,053
Revenue/cost of asset transfers	85,800	87,035	95,814	88,961
Income/expense from disposal of interest in group companies	144,931	0	0	0
Income/expense from written-off receivables	7,662,779	34,941,156	536,073	24,304,667
Income/expense from sale of receivables	11,075,643	0	3,044,654	0
<b>Total</b>	<b>19,058,388</b>	<b>36,296,312</b>	<b>3,775,893</b>	<b>25,628,681</b>

## 21) Use of Net Profit/Loss of Previous Accounting Period and Proposed Use of Net Profit/Loss of Current Accounting Period

The General Meeting held on 31 May 1999 approved the settlement of the loss for the year to 31 December 1998 as follows:

21.1 Settlement of the 1998 loss (CZK thousand)		Amount
Loss of 1998 to be covered		(9,804,536)
Sources of settlement:		
- capital funds		54,699
- other funds created from profit		9,749,837
<b>Total</b>		<b>9,804,536</b>

21.2 Changes to share premium, reserves and capital funds (CZK thousand)			
Balance	1999	1998	Reason for changes
Share premium	6,008,027	6,008,027	
Reserves	2,421,156	2,408,156	
Statutory reserve fund	1,902,992	1,902,992	
Reserve for own shares	18,000	5,000	
Other reserves	500,164	500,164	
<b>Capital funds and other reserves created from profit</b>	<b>1,565,171</b>	<b>11,377,423</b>	
Capital funds	328	54,699	Settlement of the 1998 loss of CZK 54,699
Other funds created from profit	1,564,843	11,322,724	Settlement of the 1998 loss of CZK 9,749,837
Retained earnings or accumulated losses of prior years	468,886	523,886	Allocation to the Social Fund for 1998 amounting to CZK 55,000

The preliminary proposal for the coverage of the 1999 loss is as follows:

21.3 Proposal for coverage of the 1999 loss		Amount (CZK thousand)
Loss of 1999 to be settled		(9,241,992)
Source of coverage:		
- mandatory reserve funds		1,344,941
- other reserve funds		500,164
- other funds created from profit		1,388,532
- capital funds		328
- share premium		6,008,027
<b>Total</b>		<b>9,241,992</b>

## 22) Total Amount of Assets and Liabilities in Foreign Exchange Translated to CZK

	(CZK thousand)	
	Balance as at 31. 12. 1999	Balance as at 31. 12. 1998
Sum of foreign currency assets	78,569,578	87,829,810
Sum of foreign currency liabilities	69,078,828	83,580,158

**23) Net Receivables on Derivative Transactions**

<b>23.1</b> Term transactions - for hedging (CZK thousand)			
Description	Financial instrument	Receivables	Commitments
Spot	Interest	0	0
	Currency	577,627	577,325
Forward	Interest	4,630,819	4,630,819
	Currency	0	0
Swap	Interest	32,691,870	32,691,870
	Currency	5,523,281	5,495,471
Options	Interest	4,630,819	4,630,819
	Currency	0	0
<b>Total</b>		<b>48,054,416</b>	<b>48,026,304</b>

<b>23.2</b> Term transactions - for trading purposes (CZK thousand)			
Description	Financial instrument	Receivables	Commitments
Spot	Interest	0	0
	Currency	469,510	473,678
Forward	Interest	0	0
	Currency	5,919,507	6,035,057
Forward rate agreements	Interest	25,081,667	22,141,667
	Currency	0	0
Swap	Interest	64,603,034	64,603,034
	Currency	59,402,623	59,734,533
Options	Interest	0	0
	Currency	27,506,119	26,344,377
<b>Total</b>		<b>182,982,460</b>	<b>179,332,346</b>

The level of contingent commitments and other irrevocable commitments totals CZK 44,728,093 thousand, of which CZK 16,190,550 thousand is a guarantee to the subsidiary Komerční Finance, B. V., by way of collateral for received loans, CZK 15,670,000 thousand relates to irrevocable commitments to extend loans and CZK 6,939,808 relates to letters of credit.

**24) Assets Accepted by the Bank into Custody**

	(CZK thousand)	
	1999	1998
Values received from clients for administration and custody (materialized securities)	15,432,756	18,185,414
Asset reserve in evidence (materialized securities)	64,022	189,603
<b>Total</b>	<b>15,496,778</b>	<b>18,375,017</b>



## 25) General Operating Costs

General operating costs in the total amount of CZK 11,038,576 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 on the Profit and Loss statement in the line item Other expenses (Table 25.2).

25.1 General operating costs (CZK thousand)		
	1999	1998
General operating costs		
Staff costs including management emoluments	5,140,034	5,063,606
Wages and salaries	3,777,958	3,711,666
Social expenses and health insurance costs	1,362,076	1,351,940
Emoluments of statutory and supervisory bodies members	10,725	16,174
Other general operating costs	5,898,542	6,251,556

25.2 Emoluments for members of statutory and supervisory bodies (CZK thousand)		
	1999	1998
Emoluments of statutory and supervisory body members		
Emoluments for Board of Directors members	3,391	9,432
Emoluments for Supervisory Board members	7,334	6,742
<b>Total</b>	<b>10,725</b>	<b>16,174</b>

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

25.3 Number of employees of the Bank		
	1999	1998
Average number of employees	13,487	14,025
Number of members of management	22	22
Number of Board of Directors members	6	6
Number of Supervisory Board members	12	12

## 26) Relationships to Persons with Special Relationships to the Bank

Receivables from persons with special relationships to the Bank (CZK thousand):

Group of persons	Average contractual maturity	Interest rate spread	1999	1998
Members of Supervisory Board		–	0	0
Members of statutory bodies	1.5 year	7% p.a.	244	0
Bank management*)	6.8 year	4 - 19% p.a.	9,373	48,065
Main shareholders of bank (over 1% portion of share capital)	–	–	1,480,162	1,942,348
<b>Total</b>	–	–	<b>1,489,779</b>	<b>1,990,413</b>

\*) these are persons appointed by the KB Board of Directors at the top management level pursuant to the applicable Organization Rules

Receivables from persons with special relationships to the Bank (CZK thousand):

Balance at 1 January 1999	1,990,413
Paid receivables	503,582
Loans newly granted	2,948
Balance at 31 December 1999	1,489,779

Intercompany receivables are disclosed in Note 7e).

No persons with a special relationship to the Bank have provided any guarantees on their own account. The Bank issued a guarantee of CZK 16,190,550 thousand for its subsidiary company Komerční Finance, B. V., to collateralize received loans.

### **27) Post Balance Sheet Events - Changes in Management**

On 16 February 2000, Mr. Jan Kollert resigned from his position as Chairman of the Board of Directors. As of that date Mr. Peter Palečka was appointed as Acting Chairman of the Board. On 1 March 2000 Mr. Tomáš Doležal resigned from the Board and Mr. Ladislav Vinický was recalled. As of that date, Mr. Radomír Lašák, M. B. A. was elected as a member of the Board.

## Komerční banka Financial Group

### Composition of the Komerční banka Financial Group and the Consolidated Whole

Komerční banka, aware of its important position in the banking market, has gradually assembled a powerful financial group, which in an environment of intense competition supports the comprehensive provision of services to target client segments.

The Komerční banka Financial Group ("the Group") can, in addition to banking products and services, also offer clients a large range of other financial products and services, in particular pension insurance, building savings, life or non-life insurance, comprehensive services for investments in securities including foreign and domestic investment consultancy, leasing and factoring as well as combined products and so-called product packages for target client segments. It also supports service activities in other fields, primarily economic consultancy, property evaluation, controlling, revitalisation of companies and their parts, client reports, as well as organising the operation of ATMs, providing security services for buildings and other property and the transport of valuables. The Bank's two subsidiaries abroad enable it to expand its products and client services in the Slovak Republic and to organise foreign bond issues.

During 1999 there were several changes in the composition of the financial group and in the overall volume of invested funds. Komerční banka sold off its minority holding in the companies ČEKIA, a. s., and Economia, a. s. In relation to the granting of a license to the subsidiary Komerční pojišťovna, a. s., for the provision of obligatory car self-insurance, the Bank increased its share capital by CZK 150 million. The Bank also participated in the increase in share capital of A-TRADE, s. r. o., which is a subsidiary of ALL IN, a. s., and through an investment of CZK 210 million acquired a direct participation with a holding of 75%. At the end of 1999 the Bank sold 1% of its holding in CAC LEASING Slovakia, a. s., to Komerční banka Bratislava, a. s.

The Group is currently comprised of seventeen companies with the direct participation of Komerční banka, of which nine are wholly-owned subsidiaries, four associated undertakings and four capital investments, i. e. companies with a holding in the share capital of less than 20%.

As at 31 December 1999 Komerční banka's total fixed asset investments in the companies which make up the Group amounted to CZK 4.5 billion. This represents an increase of approximately 9% compared to 1998.

In comparison with 1998 the consolidated whole remained substantially unchanged. The company ALLA PRIMA, s. r. o., was newly consolidated in the ALL IN group and Allrisk-CAC pojišťovací makléřská, s. r. o., and RENAULT LEASING CZ, s. r. o., in the CAC LEASING group. As in previous years all subsidiaries and associated undertakings were consolidated with the exception of Penzijní fond Komerční banky, a. s. The consolidated results of the subsidiary ALL IN, a. s., and the associated undertaking CAC LEASING, a. s., are also included in the consolidated results of the Group.

### Brief Characteristics of Companies in the Group

#### **ALL IN, a. s.**

This company is a wholly-owned subsidiary of Komerční banka. The ALL IN Group includes three subsidiaries - the wholly-owned ALL IN REAL ESTATE LEASING (AIREL), s. r. o., AIREL IMMO, s. r. o., and the company ALLA PRIMA, s. r. o.

In 1999 the ALL IN Group provided services particularly in the area of property evaluation, economic consultancy and controlling of investment projects. It was also involved in the processing of expert reports, the leasing of moveable items and real estate, real estate activities and operations with receivables. In accordance with the Bank's strategic plans the Group's organisation and activities underwent extensive restructuring. The company's further development includes plans to widen the role of its subsidiaries to include support for banking services, developing its activities in property evaluation, economic consultancy, supervision of investments, trading with receivables, public auctions and company revitalisation.

Share capital of ALL IN, a. s., as at 31 December 1999 amounted to CZK 104.5 million. Shareholders' equity amounted to CZK 99.4 million, total assets CZK 117.7 million and profit CZK 0.4 million.

**Investiční kapitálová společnost KB, a. s.**

With funds under management exceeding CZK 17 billion this wholly-owned subsidiary is one of the largest investment companies in the Czech Republic. The company manages six funds, of which two were established under the Voucher Privatisation Scheme. The company currently also manages part of the assets of Penzijní fond Komerční banky, a. s.

In 1999 IKS KB, a. s., received a long-term Baa+/Acr and short-term Prime-2 rating from the Czech Rating Agency, confirming the high rating it had received the previous year. The company was extremely active both in the conversion of the IKS KB Plus and IPF KB, a. s., privatisation funds into open-end unit trusts as well as the market promotion of the so-called "Family of open-end unit trusts", which saw a tripling in the volume of funds under management to an amount in excess of CZK 5.5 billion at the end of the year. The company plans further to increase the funds under its management by means of cross-selling within the Group and through alternative distribution channels, in particular telephone sales and the Internet.

Share capital remained unchanged at CZK 50.0 million. Shareholders' equity at the year-end totalled CZK 362.6 million. Total assets were CZK 502.9 million and profit CZK 35.5 million.

**Bankovní ochranná služba, a. s.**

This wholly-owned subsidiary occupies a strong market position both as regards the transport of valuables and the provision of security services, particularly in the banking sector. Through the banking houses the company offered clients from the retail chains a comprehensive service for the collection and counting of cash in its own processing site. As regards the international land and air transport of valuables the company continues to work together with the international company Brink's, with whom it has an exclusive partnership agreement in the Czech Republic. It also intensified its co-operation with private security services in Slovakia and Poland with the aim of setting up joint projects and procedures for the provision of security services in these countries. In order to strengthen further its position the company became a member of the Czech Association of Private Security Services, which began the process of standardisation in anticipation of the Czech Republic's entry into the EU.

Share capital was CZK 62.0 million. Shareholders' equity stood at CZK 106.6 million as at 31 December 1999 and total assets at CZK 157.0 million. The company recorded a profit of CZK 5.9 million.

**Penzijní fond Komerční banky, a. s.**

This company is a wholly-owned subsidiary of Komerční banka. It holds a leading position in the pension insurance market both as regards the number of clients (currently more than 234 thousand) and its total assets, which exceeded CZK 5,911 million. In 1999 the company received a long-term Czech Rating Agency (CRA) Rating of Baa+/Acr and a short-term CRA Rating of Prime-2.

The year 1999 was the second year in which, apart from collecting contributions the fund also paid out pensions. The main event in the fund's business and operational activities was the passing of the amendment to the Pension Insurance Act, which led to increased interest in pension insurance and was partly responsible for the conclusion of almost 39 thousand new pension insurance policies. The fund continues to strengthen and improve its insurance portfolio, in particular through an increase in the proportion of employee policyholders. Client services will be improved through the connection of the fund's information system to the outlets in Komerční banka's branch network.

Share capital was CZK 200.0 million. Total assets stood at CZL 5,911.2 million and the volume of client funds including the state contribution at CZK 4,425 million. The company's profit of CZK 357.1 million makes it the leading pension fund in the Czech market.

**Komerční banka Bratislava, a. s.**

In spite of the complicated economic situation in the Slovak Republic this wholly-owned foreign subsidiary of the Bank continued to develop its business activities and expanded its offer of products and services (euro accounts, term deposits in SKK with 7-day maturity). This contributed to the stabilisation of primary deposits and helped the Bank acquire new clients. Transactions with bills of exchange from residents under favourable interest conditions and also with bills of exchange in foreign currency from non-residents contributed to the improvement in the foreign exchange position coefficient for currency purposes. Foreign payments also improved and electronic banking was developed. The Bank continues to direct its activities towards creating a comprehensive range of client services of a European standard with the maximum use of electronic banking.

The poor financial results for 1999 were due to the low effectiveness of financial operations and the higher creation of provisions and reserves. The main strategic goal is to ensure the Bank's stabilisation and return on equity through effective cost management.

Share capital was SKK 500.0 million. Shareholders' equity after conversion to Czech koruna was CZK 426.3 million as at 31 December 1999. Total assets were CZK 7,098.5 million and loss CZK 110.7 million.

### **Komerční pojišťovna, a. s.**

Komerční pojišťovna, a. s., is a wholly-owned subsidiary of Komerční banka. The most important event in 1999 for the company's future development was its acquisition of a licence for obligatory car self-insurance. After the successful launch of this product the company managed to become the fourth largest in the relevant market. The company's dynamic development is evidenced by the indicator for gross insurance premiums, which amounts to CZK 473.4 million, more than three times the amount in 1998. The company stands just outside the top ten companies providing insurance services in the Czech Republic. Its goal over the next year is above all to stabilise the positions it has gained, to provide high-quality client service and bring the company into profit by 2001.

In relation to the acquisition of a licence for obligatory car self-insurance the Bank increased the company's share capital to CZK 450.0 million. Shareholders' equity stood at CZK 285.7 million and total assets at CZK 1,382.5 million. In accordance with the company financial plan it ended the year with a loss of CZK 98.9 million.

### **Komerční Finance, B. V.**

This wholly-owned subsidiary was set up with the sole object of issuing certificated debt on foreign capital markets and providing loans to its shareholder. During its existence it has placed three issues of certificated debt in DEM and USD.

The Bank invested CZK 0.7 million into the company, which has share capital of NLG 40 thousand. Shareholders' equity converted as at 31 December 1999 was CZK 72.0 million. Total assets were CZK 16,759.7 million. For 1999 the company recorded a profit of CZK 18.4 million.

### **Factoring KB, a. s.**

During 1999 this wholly-owned subsidiary provided services in the area of domestic regress factoring - the purchase of receivables, organisation of collection, administration and financing of receivables, and strengthened its second-place position in the market. While maintaining strict risk management principles it managed to increase the number of clients and expand its operations with high net-worth clients. A priority for the future is to arrange conditions for the development of export factoring, including its harmonisation with the rules of the international factoring associations. It also plans to develop joint operations with insurance companies. Factoring KB, a. s., expects to achieve further success by developing new products (non-regress domestic factoring and import factoring for the company's clients), updating its information systems, effective communication with clients and through offensive marketing campaigns.

As at 31 December 1999 the company's share capital stood at CZK 40.0 million. Shareholders' equity was CZK 47.9 million and total assets were CZK 1,212.6 million. The company recorded a profit of CZK 3.9 million.

### **A-TRADE, s. r. o.**

Komerční banka has a 75% holding in A-TRADE, s. r. o. Other shareholders are the Bank's subsidiary ALL IN, a. s., with 17.9% and the company AIREL, s. r. o., which is a subsidiary of ALL IN, a. s., with 7.1%.

As part of its main activities as a developer the company completed projects for the Multifunctional House in Barrandov and the apartment buildings in Michle and Mrázovka. It also organised the sale of apartments from these projects and administered the real estate from the Barrandov and Michle projects. The company's performance was enhanced by the introduction of project management and the financing of investment projects. It is preparing offensive plans for the sale of apartments and commercial space under individual projects. The company has also introduced a client-oriented organisational management structure and the material interest of sellers in the results of sale.

As at 31 December 1999 the company's share capital was CZK 280.0 million. Shareholders' equity stood at CZK 202.7 million and total assets at CZK 1,825.4 million. The company recorded a loss of CZK 9.6 million.

**CAC LEASING, a. s.**

This is an associated company in which Komerční banka has a 50% holding. The other shareholders are Bank Austria Creditanstalt Leasing, GmbH and Bank Austria Creditanstalt International, AG.

In 1999 the company far exceeded its business and financial targets, thereby reinforcing its position as the largest universal leasing company. From the point of view of business activities the year 1999 was very successful. A record number of more than 25 thousand new contracts were concluded, of which, as in previous years, car leasing transactions made up the majority with 94%. The remainder comprises the leasing of machinery and equipment, leasing of consumer durables and special transactions. In competing with other companies the company developed new products the company and it also offered accident and compulsory contractual insurance free of charge.

CAC LEASING, a. s., itself has two subsidiaries, DLB LEASING, s. r. o., and Allrisk-CAC pojišťovací makléřská, s. r. o., and the associated companies CAC LEASING Slovakia, a. s., and Renault LEASING CZ, s. r. o. The company's main goal is to maintain its profitability and its leading position among leasing companies.

The company's share capital as at 31 December 1999 was CZK 226.0 million. Shareholders' equity was CZK 512.6 million. Assets totalled CZK 18,951.2 million. The company reported a profit of CZK 88.7 million.

**MUZO, a. s.**

Komerční banka's holding in this associated company is 49.9%.

MUZO, a. s., has consistently proved a profitable and stable member of the Financial Group. In 1999 it again fulfilled its demanding business plans and targets. It continues to provide and expand its comprehensive range of services for the operation of ATMs, payment terminals and payment and identity cards for both domestic and international payments. At the year-end 562 ATMs from 15 banks and 6,311 payment terminals were connected to the company's authorisation centre. A total of 123 users were connected through the Paegas GSM network. Apart from payment terminals the most successful item was the sale and customisation of plastic cards. The company has also introduced the sale of software, Internet payment services, mobile commerce etc. In the year 2000 MUZO, a. s., expects to complete the construction of a new authorisation centre and launch its operations.

Share capital at year-end was CZK 102.0 million. Shareholders' equity totalled CZK 496.3 million and assets CZK 872.3 million. The company recorded a profit of CZK 103.5 million.

**Všeobecná stavební spořitelna KB, a. s.**

Komerční banka owns 40% of this company. Other shareholders are BHW Holding, GmbH and Česká pojišťovna, a. s.

In 1999 Všeobecná stavební spořitelna KB, a. s., concluded a record total of 145 thousand new contracts. As at the year-end the company had almost 482 thousand contracts on its books, which represents a 17.2% share of the building savings market. It also granted more than 13 thousand building savings loans and more than 20 thousand bridging loans. The total number of bridging loans currently amounts to more than 37 thousand, which represents a 29% share of all such loans granted by building societies. The company continues to build on programs launched in previous years and strengthen its position in the building savings market. In order to achieve its basic target of a 25% share of the building savings market the company will, in addition to expanding its own sales network, also further develop its client approach and receive support from Komerční banka's branch network.

Share capital as at 31 December 1999 was CZK 500.0 million. Shareholders' equity was CZK 1,288.2 million. Total assets amounted to CZK 20,784.3 million. The company recorded a profit of CZK 211.5 million.

**Investiční privatizační fond KB, a. s.**

With a holding of 35.4% Komerční banka is the largest single shareholder in this company.

The company continued to improve the structure of its portfolio in preparation for its changeover from a closed-end to an open-end fund, as well as to ensure the better allocation of assets. This inevitably impacted on the company's results. However, despite the loss recorded for 1999 the company's net asset value increased by 16.23% against 1998 and the share price rose from CZK 499 to CZK 800.

In 2000 the fund will undergo a fundamental transformation both in investment strategy and in its future formation. The Extraordinary General Meeting held 21 January 2000 resolved to change Investiční privatizační fond KB, a. s., into IKS globální, an open-end unit trust of Investiční kapitálová společnost KB, a. s. This should take place in July 2000.

Share capital as at 31 December 1999 was CZK 9,201.9 million. Shareholders' equity amounted to CZK 8,559.2 million and assets totalled CZK 8,595.7 million. The company recorded a loss of CZK 201.8 million.

By selling its holdings in *Economia, a. s.*, and *Česká kapitálová informační společnost, a. s.*, the Bank reduced its **capital investments with participation lower than 20%** from six to four companies.

The leasing services in the Slovak Republic are being developed by *CAC LEASING Slovakia, a. s.*, which is included in the consolidated whole due to the participation of the parent Bank. The company is co-owned by the parent bank, *Komerční banka Bratislava, a. s.*, and *CAC LEASING, a. s.* The other investments excluded from consolidation are *Českomoravská záruční a rozvojová banka, a. s.*, whose banking activity focuses on the support of small and medium-sized businesses, *Burza cenných papírů Praha, a. s.*, which ensures the concentration and organisation of securities trading and *Bankovní institut, a. s.*, concerned with collating and disseminating information from the banking sector. *Bankovní institut, a. s.*, also comprises a college for the training of experts for the banking sector.

## Consolidated Results

In addition to the parent Bank the results of the consolidated whole comprise fully consolidated subsidiaries (including the consolidated results of the ALL IN Group) as well as associated companies (including the consolidated results of the CAC LEASING Group) consolidated through the equivalence method. Neither the subsidiary Penzijní fond Komerční banky, a. s., nor those companies in which Komerční banka has investments of less than 20% have been included.

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

The consolidated balance sheet records an inter-yearly decline in total assets, which amounted to CZK 445.0 billion as at 31 December 1999. The consolidated loss for 1999 amounted to CZK 8.8 billion and the share in the profit in equivalence created by associated companies CZK 116.0 million.

## Participations of Komerční banka

Company	Group	Share capital (CZK thousand)	KB participation in the share capital (CZK thousand)	KB holding in share capital %	KB stock in the share capital, or in funds, i. e. purchase cost (CZK thousand)	Nominal value of 1 share (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	425,385	100.00	467,924	100
		SKK thousand				SKK thousand
Komerční pojišťovna, a. s.	A	450,000	450,000	100.00	520,000	100
Komerční Finance, B. V.	A	40	656	100.00	656	1
		NLG thousand				NLG thousand
Factoring KB, a. s.	A	40,000	40,000	100.00	46,000	100
A-TRADE, s. r. o.	A	280,000	210,000	75.00	210,000	–
CAC LEASING, a. s.	B	226,000	113,000	50.00	110,900	100
						500
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	9,201,895	3,260,335	35.43	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	1,100,000	142,900	12.99	60,000	1,000
CAC LEASING Slovakia, a. s.	C	50,000	4,254	10.00	4,254	100
		SKK thousand				SKK thousand
Burza cenných papírů Praha, a. s.	C	384,948	30,429	7.90	30,469	1
<b>Total</b>		<b>x</b>	<b>5,350,359</b>	<b>x</b>	<b>4,477,574</b>	<b>x</b>

Group A - fixed asset investment over 50% (subsidiaries)

Group B - fixed asset investment between 20% and 50% (associated companies)

Group C - fixed asset investment under 20% (capital investments)



## Consolidated Financial Statements (CAS)

### Auditors' Report to the Shareholders of Komerční banka

We have audited the consolidated financial statements of Komerční banka, a. s., for the year ended 31 December 1999, from which the summarised financial statements were derived, 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. In our report dated 20 April 2000, we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

Without qualifying our opinion we drew attention to explanatory notes included in the financial statements related to the financial assistance received by the Group from the Government of the Czech Republic in 1999 in order to provide it with support in the period prior to privatisation. This assistance had a material impact on the results for the year. Furthermore we drew attention to the fact that there are uncertainties concerning the future development of the Czech economy, the realisation of collateral securing the Group's loan portfolio and the repayment of loans. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In our opinion, the accompanying summarised financial statements, prepared in accordance with Czech Accounting Standards are consistent, in all material aspects, with the financial statements from which they were derived.

For a better understanding of the Group's financial position and the result of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit report thereon.

Prague, 4 May 2000



Audit firm:

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

Licence No. 79



Responsible auditor:

**Michal Petrman**

Licence No. 1105

## Consolidated Profit and Loss Account for the Year 1999 (CAS)

	(CZK mil.)	
	1999	1998
1. Interest income and similar income	38,339	55,990
of which: interest income from fixed income securities	2,465	2,997
2. Interest expense and similar expenses	(26,462)	(40,899)
of which: interest expense on fixed income securities	(3,127)	(4,985)
3. Income from variable yield securities	25	94
a) income from shares and other variable yield securities	25	88
b) income from investments in associated undertakings	0	6
c) income from investments in subsidiary undertakings	0	0
d) income from investments in associated entities	0	0
4. Fee and commission income	5,159	5,053
5. Fee and commission expense	(739)	(389)
6. Profit/(loss) from financial operations	3,621	4,804
7. Other income	20,565	5,073
8. General operating costs	(12,201)	(12,373)
a) staff costs	(5,647)	(5,525)
b) other operating costs	(6,554)	(6,848)
9. Creation of reserves and provisions for tangible and intangible assets	(33)	(3)
a) creation of reserves for tangible assets	(11)	(3)
b) creation of provisions for tangible assets	(22)	0
c) creation of provisions for intangible assets	0	0
10. Use of reserves and provisions for tangible and intangible assets	240	2
a) use of reserves for tangible assets	0	2
b) use of provisions for tangible assets	240	0
c) use of provisions for intangible assets	0	0
11. Other costs	(36,915)	(25,902)
12. Creation of provisions and reserves for loans and guarantees	(27,027)	(23,475)
13. Use of provisions and reserves for loans and guarantees	26,466	23,331
14. Creation of provisions and reserves for fixed asset investments and other financial investments	(1,016)	(426)
15. Use of provisions and reserves for fixed asset investments and other financial investments	841	90
16. Creation of other provisions and reserves	(1,677)	(3,800)
17. Use of other provisions and reserves	1,950	2,117
18. Extraordinary income	356	760
of which: settlement of negative goodwill	113	113
19. Extraordinary costs	(258)	(133)
of which: settlement of positive goodwill	0	0
20. Profit or loss for accounting period without minority stakes	(8,766)	(10,086)
22. Stake in profit/loss in equivalence	116	103
23. Minority profit/loss of the current period	0	(61)

## Consolidated Balance Sheet as at 31 December 1999 (CAS)

### Assets

	(CZK mil.)	
	1999	1998
1. Cash in hand, deposits with central banks, post checking accounts	20,697	30,620
2. Treasury bills and other bills	48,982	60,472
a) treasury bills and similar bonds issued by the state	4,821	1,832
b) other bills	44,161	58,640
3. Amounts due from banks	133,634	115,884
a) payable on demand	1,475	1,513
b) other receivables	132,158	114,371
of which: subordinated assets	0	0
4. Amounts due from clients	183,200	217,096
a) payable on demand	453	818
b) other receivables	182,747	216,278
of which: subordinated assets	0	0
5. Bonds and other fixed income securities for trading	13,833	16,469
a) issued by banks	3,618	4,529
of which: own bonds	323	1,143
b) issued by other subjects	10,215	11,940
6. Shares and other variable yield securities for trading	756	555
7. Fixed asset investments in equivalence	3,589	3,472
8. Fixed asset investments in entities not included in consolidation	329	330
9. Positive goodwill	0	0
10. Other financial investments	11,016	16,185
11. Intangible assets	887	621
12. Tangible assets	13,961	14,973
a) land and buildings for banking activities	9,772	9,884
b) other	4,189	5,089
13. Treasury shares	0	0
14. Other assets	5,357	6,296
15. Subscribed capital called-up and not paid	1,390	0
16. Prepayments and accrued income	7,393	7,650
<b>Total assets</b>	<b>445,024</b>	<b>490,623</b>

## Liabilities

	(CZK mil.)	
	1999	1998
<b>1. Amounts due to banks</b>	<b>104,382</b>	<b>130,885</b>
a) payable on demand	6,854	6,871
b) other liabilities	97,528	124,014
<b>2. Amounts due to clients</b>	<b>251,382</b>	<b>261,908</b>
a) savings deposits	30,437	38,406
of which: payable on demand	1,708	1,771
b) other amounts due to clients	220,945	223,502
of which: payable on demand	109,653	114,406
<b>3. Certificates of deposit and similar debentures</b>	<b>38,815</b>	<b>47,831</b>
a) certificates of deposit	1	1
b) other	38,814	47,830
<b>4. Accruals and deferred income</b>	<b>4,955</b>	<b>8,111</b>
<b>5. Reserves</b>	<b>7,496</b>	<b>5,842</b>
a) reserves for standard loans and guarantees	5,769	4,131
b) reserves for foreign exchange rate losses	633	836
c) reserves for other banking risks	137	506
d) other reserves	957	369
<b>6. Subordinated liabilities</b>	<b>7,194</b>	<b>5,976</b>
<b>7. Other liabilities</b>	<b>12,114</b>	<b>9,401</b>
<b>8. Share capital (without minority stakes)</b>	<b>16,604</b>	<b>9,502</b>
of which: share capital paid-up	15,214	9,502
<b>9. Capital funds (without minority stakes)</b>	<b>7,574</b>	<b>17,391</b>
<b>10. Reserve funds and other funds from profit (without minority stakes)</b>	<b>2,399</b>	<b>2,384</b>
a) reserve funds	1,857	1,859
b) other (without retained profit/not compensated loss from previous periods)	542	525
<b>11. Retained earnings and not compensated loss of previous periods (without minority stakes)</b>	<b>251</b>	<b>739</b>
<b>12. Consolidation reserve fund</b>	<b>282</b>	<b>369</b>
<b>13. Negative goodwill</b>	<b>226</b>	<b>338</b>
<b>14. Profit or loss for accounting period without minority stakes and stakes in profit/loss in equivalence</b>	<b>(8,766)</b>	<b>(10,086)</b>
<b>15. Share in the profit/ loss in equivalence</b>	<b>116</b>	<b>103</b>
<b>16. Minority shareholder equity</b>	<b>0</b>	<b>(71)</b>
of which: Minority capital/share capital	0	2
Minority capital funds	0	0
Minority funds from profit	0	0
Minority retained profit/not compensated loss from previous periods	0	(12)
Minority profit/loss of the current period	0	(61)
<b>Total liabilities</b>	<b>445,024</b>	<b>490,623</b>

## Off-balance Sheet

	(CZK mil.)	
	1999	1998
<b>1. Total future potential liabilities</b>	<b>29,224</b>	<b>35,671</b>
of which: a) received bills of exchange/acceptances and endorsements of bills of exchange	567	0
b) commitments from guarantees	28,657	35,671
c) commitments from collateral	0	0
<b>2. Other irrevocable commitments</b>	<b>15,695</b>	<b>21,629</b>
<b>3. Receivables from spot, forward and option operations</b>	<b>252,117</b>	<b>239,456</b>
<b>4. Liabilities from spot, forward and option operations</b>	<b>247,758</b>	<b>235,718</b>

## Commentary on the Results of Komerční banka (IAS)

In 1999 Komerční banka recorded a net loss of CZK 9.8 billion, due primarily to the creation of provisions for loan losses. The Czech economic recession during 1998 and 1999 was reflected in the deteriorating financial situation of many clients and seriously affected their ability to meet loan obligations. The recession also had a negative effect upon the value of loan collateral, particularly collateralised real estate. The legal framework relating to the creditors' rights protection still significantly hampers Banks' attempts to realise collateral for problem loans. Furthermore, many important clients are also currently undergoing financial restructuring.

The results for 1999 were also profoundly affected by the Bank's exposure to a single foreign client. Towards the end of the year this exposure showed itself to be highly problematic. In keeping with the Bank's cautious policy it was fully covered by provisions and reserves.

Operating profit, i. e. profit before provision for loan losses, amounted to CZK 7.6 billion, which represents a fall of 33.3% against 1998. This result was particularly affected by the sharp fall in net operating income (and net interest income, respectively) accompanied by only a slight reduction in administrative expenses.

### Profit and Loss Account

*Net interest income* fell by 20.0% to CZK 11.9 billion in 1999, a manifestation primarily of the year-round fall in market interest rates. Komerční banka reacted to the falling rates by reducing its own inter-year reference rate by 2.6 percentage points. This trend was most clearly evident in the fall of 28.4% in net interest income from clients, an item which makes up 73.2% of net interest income. A further reason for the fall in interest income can be found in the continuing reduction in the volume of loans to clients.

The fall in net interest income led to a reduction of 0.6 of a percentage point in the net interest margin to 3.4%.

*Net fees and commissions* fell by 6.0% to CZK 4.4 billion, mainly as a result of the increase in fees and commissions paid to clients (a rise of 251.9%). These were substantially affected by fees paid to a major investment company as part of a transaction launched in 1998, under which a specific guarantee was provided for part of the loan portfolio. Komerční banka decided to terminate the transaction as a result of the sale of receivables to Konsolidační banka - an operation conducted in accordance with a government resolution - among which were receivables covered by the aforementioned transaction. The increase in fees and commissions from securities also had a significant impact upon net fees and commissions, the increase coming about as a result of the payment of fees for newly issued bonds.

As at 31 December 1999 the proportion of net fees and commissions to total net operating income amounted to 21.3%. This represents a rise of 1.4 percentage points against 1998.

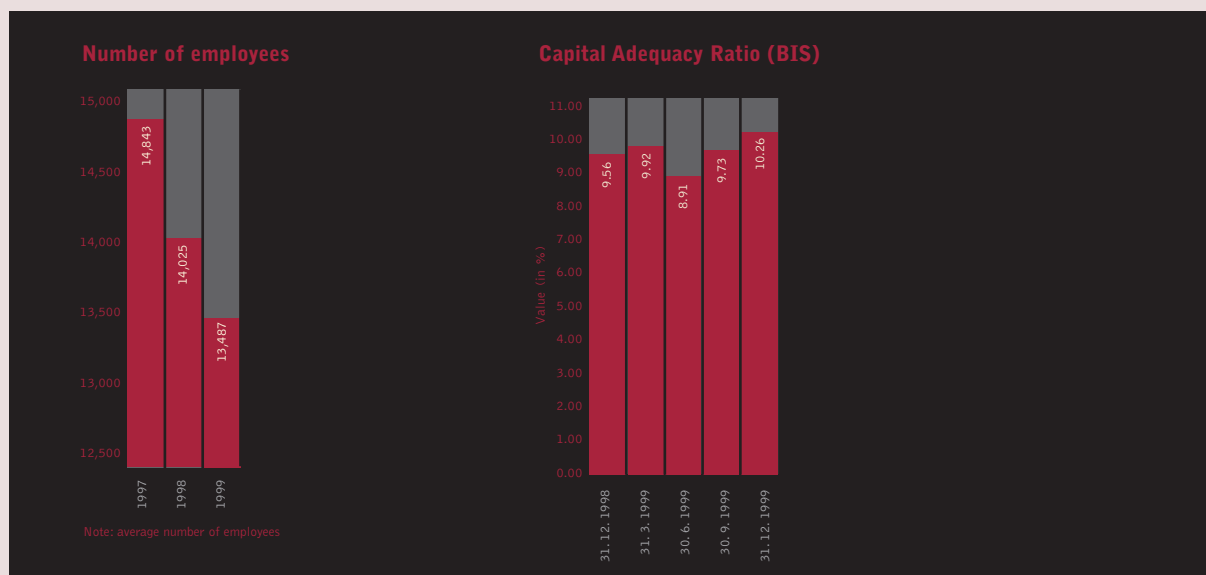
The Bank continues to record very positive results in trading on the financial markets. *Dealing profit* of CZK 2.4 billion is 19.3% higher than in 1998. As in 1998 the largest single contributory factor was FX trading, from which the Bank made a net profit of CZK 2.5 billion. The loss from securities trading was 89.3% lower than in 1998, a result of lower unrealised losses from securities.

*Other income* totalling CZK 1.7 billion was comparable to the result attained in 1998. The larger part of this item is made up of income from exchange operations, which fell by 6.9% against the same period in 1998.

The proportion of non-interest income to the bank's total income rose aggregately by 5.5 percentage points and as at 31 December 1999 amounted to 41.5%.

Effective cost management meant that *administrative expenses* continued to fall, this time by the nominal amount of 1.3%. The real fall in administrative expenses, i. e. after taking into account inflation, came to 3.5%.

Rationalisation of staff numbers contributed to the falling trend in administrative expenses. During 1999 the average converted number of employees fell by 538 to its current level of 13,487.



The cost/income ratio as at 31 December 1999 came to 62.6%, an increase of 11.6 percentage points against 1998. This reflects the significant fall in net operating income of 12.5%.

*Provision for loan losses* totalling CZK 17.4 billion was mainly due to the additional creation of provisions to cover the CZK 12.6 billion deterioration in the quality of the loan portfolio, as well as the aforementioned case involving a single foreign client, which necessitated the creation of a further CZK 8.4 billion in provisions. The impact was also felt of the CNB measure with regard to collateralised real estate. This resulted in the further creation of CZK 3.9 billion. On the other hand the impact of the sale of receivables to Konsolidační banka in August 1999 totalling CZK 9.5 billion improved the balance of provision for loan losses. Upon agreement with the auditor the estimated positive impact of another government-approved measure to restructure assets, which took place in the first quarter of 2000, was also included in the final creation of provisions and reserves for 1999. The result was a reduction of CZK 7.0 billion in the required amount of general provisions as at 31 December 1999.

## Balance Sheet

*Total assets* fell by CZK 32.0 billion, or 7.6%, to CZK 390.1 billion against the end of 1998. The main reason for the fall can be located in the development of the Czech economy, the main impact of which upon the Bank was felt through the worsening financial situation of its clients. In response the Bank altered the structure of its assets so as to minimise the effect of market risks. During 1999 the proportion of inter-bank transactions thus increased at the expense of client transactions.

### Assets

The fall of 31.0% to CZK 21.9 billion in the volume of *cash in hand and balances with central banks* was mainly caused by the reduction in the rate of obligatory minimum reserves on the part of the CNB. This resulted in a fall of CZK 14.0 billion in the volume of obligatory funds deposited at the CNB. Reduced cash requirements also influenced the increasing proportion of non-cash payments, which the Bank is also supporting through its fee policy.

*Due from financial institutions* totalling CZK 131.8 billion rose by 14.5% against 1998. This item also includes the loan of CZK 13.6 billion granted to Konsolidační banka for the refinancing of the purchase of receivables from Komerční banka in August 1999.

The volume of *treasury bills and other bills* amounted to CZK 4.4 billion, which represents an increase of 139.9% compared to 1998. The increase was due to the purchase of treasury bills mainly in the fourth quarter of 1999.

*Loans and advances to customers* fell by 15.1% to the net figure of CZK 181.8 billion. This was caused by the higher creation of provisions particularly in relation to the worsening in the financial situation of many clients as a result of the economic

recession and the Bank's prudent credit procedure, which led to fewer loans being granted. The total fall was also affected by the sale of the nominal value of CZK 23.1 billion of loans to Konsolidační banka in the third quarter of 1999.

As in previous years, however, mortgage and consumer loans recorded a significant increase. The volume of mortgage loans rose from the end of 1998 by 27.5% to CZK 8.0 billion, while consumer loans rose by 81.3% to CZK 3.0 billion.

As a result of the reduction in the total volume of loans there was a deterioration in the parameters of the quality of the loan portfolio, with the proportion of so-called loans under special review (i. e. loans classified as sub-standard, doubtful and loss) rising to 32.8% of total loans. The proportion of loss loans to total loans, however, fell slightly, mainly due to the write-off of CZK 17.7 billion of loss loans to the off-balance sheet and the transfer of CZK 11.1 billion of loss loans to Konsolidační banka in August 1999. The volume of receivables written off to the off-balance sheet with the possibility of their future recovery amounted to CZK 31.2 billion as at 31 December 1999.

#### Structure of the loan portfolio according to classification

(in nominal value)	As at 31 December 1998		(in CZK million) As at 31 December 1999	
	Amount	Provisions	Amount	Provisions
Standard	141,795	–	103,859	–
Watch	32,144	180	36,721	200
Sub-standard	10,501	378	14,103	622
Doubtful	6,507	999	9,358	1,102
Loss	52,831	24,197	45,186	23,659
<b>Total</b>	<b>243,778</b>	<b>25,754</b>	<b>209,227</b>	<b>25,583</b>
General provisions		4,006		1,890
<b>Total provisions</b>		<b>29,760</b>		<b>27,473</b>

Following the Czech government resolution of 16 February 2000 the Bank transferred doubtful and loss loans from the balance sheet in the nominal value of CZK 47.9 billion, loans already written off to the off-balance sheet in the nominal value of CZK 10.0 billion and securities amounting to CZK 2.1 billion to Konsolidační banka as at 25 March 2000. The Bank's assets were sold at 60% of their nominal value, i. e. for CZK 36 billion. This transaction will have a major impact on the quality of the loan portfolio in the accounts for the year 2000. A simulation conducted on the state of the loan portfolio as at 31 December 1999 showed that the proportion of loss loans to total client loans following the transfer would approximate 3%, while the proportion of doubtful loans would amount to roughly 2%. Standard and watch loans would then constitute around 86% of loans to clients.

The Bank's cautious credit policy and its determination to improve the quality of the loan portfolio were evident in the reduction of CZK 15.5 billion in the volume of newly granted loans. In 1999 the Bank granted loans totalling CZK 79.2 billion.

#### Structure of loans granted in 1999 according to classification

Amount of loans (in nominal value)	CZK 79,243 million
Standard	70.3%
Watch	19.0%
Sub-standard	6.3%
Doubtful	2.6%
Loss	1.8%
	100.0%

Note: Data from the internal records of the Bank

Within an unhelpful legislative environment Komerční banka managed to gain net income of CZK 197 million from the sale of collateral at a discounted value of CZK 722 million. The return from the realised collateral was negatively affected *inter alia* by the unfavourable situation in the property market.

In the collateral structure for receivables the Bank continues to reduce the proportion real estate collateral. This fell by 4.4 percentage points from the beginning of the year to 58.1%. The Bank has been successful in increasing the proportion of higher-quality collateral, in particular bank guarantees and third-party guarantees.

## Structure of collateral for the whole client loan portfolio

(in discounted value)	As at 31 December 1998		(in CZK million) As at 31 December 1999	
	amount	share	amount	share
Guarantees	11,405	7.5%	11,714	8.5%
Collateralised deposits	1,541	1.0%	1,319	1.0%
Securities	4,816	3.2%	3,268	2.4%
Real estate	94,887	62.5%	79,589	58.1%
Other	39,137	25.8%	41,158	30.0%
Total	151,786	100.0%	137,048	100.0%

Note: Data from the internal records of the Bank

The Bank's exposure in securities has been reduced still further in accordance with its long-term strategy. The volume of bonds fell by 33.1% and shares by 17.0%. The total volume of the *securities trading portfolio* amounted to CZK 11.7 billion (in market prices) as at 31 December 1999. The proportion of bonds in the trading portfolio exceeds 90%.

(in CZK million)	Shares and other variable yield securities	Bonds	Total
Trading portfolio	1,017	10,684	11,701
Investment portfolio	2,605	8,075	10,680

As at 31 December 1999 the total volume of the *securities investment portfolio* stood at CZK 10.7 billion, of which the proportion of bonds exceeds 75%.

The volume of *fixed asset investments* rose by 5.5% to CZK 4.2 billion. The main reason for the rise was the increase in capital invested in subsidiaries, specifically in Komerční pojišťovna, a. s., and A-Trade, s. r. o.

### Liabilities

As at 31 December 1999 *amounts owed to financial institutions* came to CZK 58.4 billion, which represents a fall of 18.6% compared to the end of 1998. This volume constitutes 15.0% of the Bank's total funds.

A reduction was also recorded in *amounts owed to clients* of 5.3% to CZK 259.2 billion. The fall can be explained through clients seeking other forms of saving than traditional bank deposits. Savers have generally chosen collective forms of investment such as unit trusts. This trend is testified to *inter alia* by the increase in deposits in the funds managed by Investiční kapitálová společnost KB. During 1999 such funds registered an increase of CZK 6.0 billion. The total volume of assets managed by this company amounted to CZK 17 billion as at 31 December 1999.

The total volume of *certificated debt* amounted to CZK 27.7 billion and thus represents a fall in comparison with 1998 of 12.3%. The figure is mainly comprised of bonds with maturity of more than 4 years.

*Total shareholders' equity* stood at CZK 17.8 billion, which represents a fall of 13.1% in comparison with the end of 1998. The item includes both the aforementioned increase in share capital of CZK 7.1 billion subscribed by the end of 1999 and the reduction in reserves and funds caused by the inclusion of the accounting loss. Taking into account the increase in share capital the Bank had subscribed share capital of CZK 16.6 billion as at 31 December 1999. The proportion of own funds to total assets came to 4.6% as at 31 December 1999.

Capital adequacy according to BIS came to 10.3%, increase of 0.7 of a percentage point against the end of 1998. The result is a reflection both of the transfer of loss receivables amounting to CZK 23.1 billion to Konsolidační banka and the increase in share capital of CZK 5.7 billion subscribed and paid up as at 31 December 1999.



## Unconsolidated Financial Statements (IAS)

### Independent Auditors' Report to the Shareholders of Komerční banka

We have audited the accompanying unconsolidated balance sheet of Komerční banka, a. s. (the Bank), as of December 31, 1999, and the related unconsolidated profit and loss statement, changes in 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.

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, 1999, the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion we draw attention to Note 2 to the unconsolidated financial statements. The Bank received financial assistance from the Government of the Czech Republic in 1999 in order to provide it with support in the period to privatisation. This assistance had a material impact on the results for the year. Furthermore we draw your attention to the fact that there are uncertainties concerning the future development of the Czech economy, the realisation of collateral securing the Bank's loan portfolio and the repayment of loans. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

24 March 2000



**Deloitte & Touche**

### Unconsolidated Profit and Loss Account for the Year 1999 (IAS)

	Notes	1999 CZKm	1998 CZKm
Interest income	4	33,032	49,342
Interest expense	4	(21,085)	(34,403)
<b>Net interest income</b>		<b>11,947</b>	<b>14,939</b>
Net fees and commissions	6	4,350	4,627
Dealing profits	7	2,406	2,017
Other income	8	1,687	1,714
<b>Operating income</b>		<b>20,390</b>	<b>23,297</b>
Administrative expenses	9	(10,291)	(10,424)
Depreciation and other provisions	10	(2,479)	(1,446)
<b>Profit before provision for loan losses and income taxes</b>		<b>7,620</b>	<b>11,427</b>
Provision for loan losses	11	(17,378)	(20,963)
<b>Loss before income taxes</b>		<b>(9,758)</b>	<b>(9,536)</b>
Income taxes	12	(24)	(10)
<b>Net loss for the year</b>	<b>13</b>	<b>(9,782)</b>	<b>(9,546)</b>
Loss per share (in CZK)	14	(515)	(502)

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

### Unconsolidated Balance Sheet as at 31 December 1999 (IAS)

	Notes	1999 CZKm	1998 CZKm
<b>Assets</b>			
Cash and balances with the central bank	15	21,948	31,827
Due from financial institutions	16	131,778	115,077
Treasury bills and other bills eligible for refinancing	17	4,397	1,833
Loans and advances to customers (net)	18	181,754	214,018
Dealing securities	19	11,701	14,636
Prepayments, accrued income and other assets	20	9,381	9,399
Investment securities	21	10,680	16,056
Investments in subsidiaries and associates	22	4,176	3,960
Tangible and intangible fixed assets (net)	23	14,307	15,278
<b>Total assets</b>		<b>390,122</b>	<b>422,084</b>
<b>Liabilities</b>			
Amounts owed to financial institutions	24	58,394	71,769
Amounts owed to customers	25	259,191	273,698
Certificated debts	26	27,742	31,646
Accruals, provisions and other liabilities	27	19,823	18,542
Subordinated debt	26	7,196	5,971
<b>Total liabilities</b>		<b>372,346</b>	<b>401,626</b>
<b>Shareholders' equity</b>			
Share capital	30	16,604	9,502
Share premium and reserves		1,172	10,956
<b>Total shareholders' equity</b>		<b>17,776</b>	<b>20,458</b>
<b>Total liabilities and shareholders' equity</b>		<b>390,122</b>	<b>422,084</b>

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

### Unconsolidated Statement of Changes in Shareholders' Equity as at 31 December 1999 (IAS)

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Distributable profit and loss reserve/deficit	Non- distributable reserve	Total
	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm	CZKm
Closing balance as at 31 December 1997	9,502	6,008	0	2,164	11,807	524	30,005
Transfers and other	0	0	0	244	(245)	0	(1)
Net loss for the year	0	0	0	0	(9,546)	0	(9,546)
Closing balance as at 31 December 1998	9,502	6,008	0	2,408	2,016	524	20,458
Share capital increase (see Note 30)	7,102	0	0	0	0	0	7,102
Transfers and other	0	0	0	13	40	(55)	(2)
Net loss for the year	0	0	0	0	(9,782)	0	(9,782)
Closing balance as at 31 December 1999	16,604	6,008	0	2,421	(7,726)	469	17,776

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

### Unconsolidated Cash Flow Statement for the Year 1999 (IAS)

	1999 CZKm	1999 CZKm	1998 CZKm	1998 CZKm
<b>Cash flows from operating activities</b>				
Interest and commission receipts	40,140		58,790	
Interest and commission payments	(24,052)		(35,615)	
Other income receipts	5,201		10,640	
Cash payments to employees and suppliers	(9,629)		(14,371)	
Operating cash flow before changes in operating assets and operating liabilities	11,660		19,444	
Due from financial institutions	(16,700)		(7,509)	
Loans and advances to customers	18,804		15,008	
Treasury bills and other bills eligible for discounting	(2,564)		3,508	
Shares and other variable yield securities	3,304		319	
Other assets	(2,882)		2,260	
<i>(Increase)/Decrease in operating assets</i>	<i>(38)</i>		<i>13,586</i>	
Amounts owed to financial institutions	(13,550)		(11,295)	
Amounts owed to customers	(14,506)		(23,184)	
Other liabilities	109		(324)	
<i>Increase/(Decrease) in operating liabilities</i>	<i>(27,947)</i>		<i>(34,803)</i>	
Net cash flow from operating activities before taxes	(16,325)		(1,773)	
Income taxes paid	0		0	
<i>Net cash from operating activities</i>		<i>(16,325)</i>		<i>(1,773)</i>
<b>Cash flows from investing activities</b>				
Dividends received	23		71	
Net sale of fixed income investment securities	4,775		564	
Net purchase of tangible and intangible fixed assets	(1,509)		(1,919)	
Purchase of shares in fixed asset investments	(216)		(664)	
<i>Net cash from investing activities</i>		<i>3,073</i>		<i>(1,948)</i>
<b>Cash flows from financing activities</b>				
Share capital	7,102		0	
Certificated debts	(3,904)		(5,400)	
<i>Net cash from financing activities</i>		<i>3,198</i>		<i>(5,400)</i>
Net decrease in cash and cash equivalents	(10,054)		(9,121)	
Cash and cash equivalents at beginning of year	30,632		39,753	
Cash and cash equivalents at end of year (see Note 31)		20,578		30,632

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

## **Notes to the Unconsolidated Financial Statements as at 31 December 1999 (IAS)**

### **1) Principal Activities**

The Bank is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follows:

- I. providing loans, advances and guarantees in Czech Crowns and foreign currencies;
- II. acceptance and placement of deposits in Czech Crowns and foreign currencies;
- III. providing current and term deposit accounts in Czech Crowns and foreign currencies;
- IV. providing 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. The Bank has 96 branches and 257 sub-agencies in the Czech Republic and has 13,487 employees as at the year-end date. It has operations in 6 countries including Slovakia, of which the Bank has 5 foreign representation offices and one subsidiary undertaking in Slovakia.

The Bank's ordinary shares are listed on the Prague Stock Exchange.

### **2) Financial Position of the Bank**

The Bank incurred a net loss of CZK 9,782 million in 1999 (CZK 9,546 million in 1998) primarily as a result of loan and credit losses. The economic recession in the Czech Republic during 1998 and 1999 resulted in a deterioration in the financial condition of many of the Bank's clients impairing their ability to repay their debts. The recession also negatively impacted the value of loan collateral (primarily real estate). The legal framework relating to creditors rights severely restrict the ability of the Bank to realise collateral values on non performing loans. In addition, many of the Bank's largest clients are undergoing financial restructuring. Further, during 1999 the Bank incurred large, unexpected and unusual losses relating to its trade finance activities. See Note 18 to the financial statements for further information.

During 1999 the Government of the Czech Republic provided financial support to the Bank to ensure its financial stability in preparation for the planned privatisation of the state's ownership interest in the Bank. The Government sponsored transfers of non-performing loans totaling approximately CZK 83,100 million nominal value to Konsolidacni Banka. When completed, these transfers will result in the net recovery of losses previously recorded totaling approximately CZK 16,543 million, including recoveries of CZK 9,516 million for loan transfers totaling CZK 23,100 million nominal value completed during 1999. The terms of the remaining transfers have been contractually agreed and are expected to be concluded in the near future. These recoveries have been fully taken into account in determining the value of the Bank's assets and level of required provisions for losses reported for 1999 resulting in a favorable impact to the profit and loss account of CZK 16,543 million for 1999. Also, the Fund of National Property of the Czech Republic (the largest shareholder of the Bank) recently participated in a CZK 9,502 million capital increase of the Bank together with other shareholders. The portion of the capital increase subscribed and included in the Bank's capital account as at 31 December 1999 totalled CZK 7,102 million. The remainder of the capital increase was completed in January 2000. See Notes 18 and 30 to the financial statements for further information.

The management of the Bank has made its best efforts to analyse the Bank's credit risk and to record provisions for estimated losses on a prudent basis. As a result of the uncertainties related to the future development of the Czech economy, of the financial condition of the Bank's clients and of the realisation of collateral values, the ultimate losses may be different than presently estimated and provisioned.

### 3) Principal Accounting Policies

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

#### (a) Basis of accounting

The unconsolidated financial statements are prepared in accordance with and comply with International Accounting Standards ("IAS"). The unconsolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of certain trading assets and liabilities to fair 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 IAS. 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 in Note 35 to the financial statements.

The presentation of financial statements in conformity with IAS 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 has interests in subsidiary undertakings. These financial statements do not reflect the impact of the consolidation of these subsidiary undertakings.

The Bank is preparing consolidated financial statements which will be available at the Bank's registered address and which will form part of its Annual Report. A listing of the Bank's subsidiaries together with relevant financial information is set out at Note 22.

#### (b) Investments in subsidiaries and associates

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

#### (c) Foreign currencies

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 account in "Other income" in the period in which they arise.

#### (d) Loans and advances and provision for impairment

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.

A general provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such. This provision is based on an analysis of internal credit gradings allocated to borrowers, refined to reflect the economic climate in the market in which the Bank operates.

The Bank writes off 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. The loan is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement if previously written off.

**(e) Dealing securities**

Equity and fixed income dealing securities purchased for trading purposes are accounted for on the settlement date basis and are stated at fair 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. All gains and losses realised and unrealised arising from trading in dealing securities are reported in net trading income. Interest earned whilst holding dealing securities is reported as interest income. Dividends received are included separately in dividend income.

**(f) Investment securities**

Investment securities include debt and equity securities which management intend to hold until maturity. Debt securities are stated at cost adjusted for the amortisation of premiums or discounts on purchases over the period to maturity. Equity securities are stated at cost net of provision for permanent diminution in value. Interest earned on investment securities is reported as interest income. Dividends received are included separately in dividend income. A reduction in cost is not taken into account unless it is considered to be permanent.

**(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 calculated on a straight line basis to write off the cost of each asset to their residual values over the estimated useful economic life. Assets under construction are not depreciated. The cost of assets acquired on the establishment of the Bank on 1 January 1990 was determined as the net book value attributed to the assets transferred from the former State Bank of Czechoslovakia. The depreciation rates used are as follows:

Land	0%
Buildings	3.3%
Office equipment	25%
Fixtures and fittings	16.5%

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are recognised in the profit and loss account in the year of disposal. Repairs costing less than CZK 40,000 and renewals are charged to the income statement when the expenditure is incurred. Each repair costing greater than CZK 40,000 increases the acquisition cost of the tangible fixed asset.

**Computer software development costs**

Generally, costs associated with developing computer software programmes are recognised as an expense as incurred. Costs associated with the maintenance of existing computer software programmes and for modifications for the Year 2000 are expensed as incurred.

**(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.

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

**(j) Provisions for credit related commitments**

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) Interest income and expense**

Interest income and expense are recognised in the income statement on an accruals basis. Default interest is included in interest income when received. The Bank does not accrue interest income on a portion of loss loans (see Note 18). Interest income includes coupons earned on fixed income investment securities and accrued discount in treasury bills. Fees and commissions are recognised on the accrual basis.

**(m) Taxation**

Taxation is calculated in accordance with provisions of the relevant legislation of the Czech Republic based on the profit or loss recognised in the income statement prepared pursuant to Czech accounting standards. Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on property, plant and equipment, and specific provisions for loans and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

**(n) Sale and repurchase agreements**

Securities sold under sale and repurchase agreements ("repos") are retained in the financial statements and the counterparty liability is included in deposits from banks or customers as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement.

**(o) 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) in the profit and loss account. The Bank also acts as an intermediate provider of these instruments to certain clients.

Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate.

The Bank's criteria for a derivative instrument to be classified as a hedge include:

(a) the transaction must be reasonably expected to match or eliminate a significant portion of the risk inherent in the position being hedged; and

(b) there is adequate evidence of the intent to hedge at the outset of the transaction.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**(p) 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.

**(q) Reclassification**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year (refer also to Note 19 and 20).

**4) Net Interest Income**

Net interest income comprises:

	1999 CZKm	1998 CZKm
<b>Interest income</b>		
- loans and advances to financial institutions	9,887	14,463
- loans and advances to customers	20,970	31,961
- treasury bills	70	152
- bonds and other fixed income securities	2,105	2,766
<b>Total interest income</b>	<b>33,032</b>	<b>49,342</b>
<b>Interest expense</b>		
- amounts owed to financial institutions	(6,002)	(9,580)
- amounts owed to customers	(12,224)	(19,753)
- certificated debts	(2,859)	(5,070)
<b>Total interest expense</b>	<b>(21,085)</b>	<b>(34,403)</b>
<b>Net interest income</b>	<b>11,947</b>	<b>14,939</b>

**5) Sources of Profits and Losses**

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



## 6) Net Fees and Commissions

Net fees and commissions comprise:

	1999	1998
	CZKm	CZKm
Fee and commission income	5,043	5,001
Fee and commission expense	(693)	(374)
<b>Net fees and commissions</b>	<b>4,350</b>	<b>4,627</b>

## 7) Dealing Profits

Dealing profits/(losses) comprise:

	1999	1998
	CZKm	CZKm
Realised and unrealised gains/(losses) on securities and bonds	(75)	(703)
Realised and unrealised gains/(losses) on interest rate swaps	(65)	(19)
Realised and unrealised gains/(losses) on foreign exchange trading	2,533	2,728
Dividend income on marketable securities	13	11
<b>Total dealing profits</b>	<b>2,406</b>	<b>2,017</b>

## 8) Other Income

Other income comprises:

	1999	1998
	CZKm	CZKm
Net gain from foreign currency translation	1,358	1,458
Other income	329	256
<b>Total other income</b>	<b>1,687</b>	<b>1,714</b>

## 9) Administrative Expenses

Administrative expenses comprise:

	1999	1998
	CZKm	CZKm
Wages and salaries	3,778	3,711
Social security costs	1,408	1,440
	<b>5,186</b>	<b>5,151</b>
Other administrative expenses	5,105	5,273
<b>Total administrative expenses</b>	<b>10,291</b>	<b>10,424</b>
<b>Average number of employees during the year</b>	<b>13,487</b>	<b>14,025</b>

## 10) Depreciation and Other Provisions

Depreciation and other provisions comprise:

	1999	1998
	CZKm	CZKm
Depreciation of fixed assets	2,430	1,476
Other net provisions	49	(30)
<b>Total depreciation and other provisions</b>	<b>2,479</b>	<b>1,446</b>

The increase in depreciation in 1999 when compared to 1998 is attributable to the correction of an error. The Bank has reflected the correction of the error in the amount of CZK 361 million in the depreciation charge for the year ended 31 December 1999. Taking into account the effect of the correction of the error, the increase in depreciation expense for the year is CZK 232 million.

## 11) Provision for Loan Losses

The movement in the provision was as follows:

	1999	1998
	CZKm	CZKm
1 January balance	30,419	30,180
Write-off of loans	(34,942)	(24,305)
Recoveries on loans previously written off	18,739	3,581
Charged in the year	17,378	20,963
31 December balance	31,594	30,419

The balance at 31 December comprises balances of:

	1999	1998
	CZKm	CZKm
Provisions for loans to clients (see Note 18)	27,473	29,760
Provisions for loans to financial institutions (see Note 16)	100	556
Provisions for guarantees and financial instruments (see Note 27)	4,021	103
31 December balance	31,594	30,419

## 12) Income Taxes

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

	1999	1998
	CZKm	CZKm
Tax paid	1	(21)
Deferred tax	(25)	11
Total tax expense	(24)	(10)

The corporate tax rate for the year was 35 % (1998 - 35 %). The effective tax rate for the year, comprising all elements of the tax provision, was 0 % (1998 - 0 %).

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of the Bank as follows:

	1999	1998
	CZKm	CZKm
Loss before tax	(9,782)	(9,546)
Theoretical tax credit calculated at a tax rate of 35% (1998 - 35%)	(3,424)	(3,341)
Income not taxable, principally interest	(1,799)	(1,851)
Expenses not deductible for tax purposes		
- Provisions for loan losses	3,894	3,889
- Other non-deductible costs	1,632	1,588
Utilisation of tax losses carried forward	(497)	(133)
Other	145	(151)
Movement on deferred tax	25	(11)
Income tax expense	(24)	(10)

Further information about deferred tax is presented in Note 28.

### 13) Settlement of Loss

The Bank incurred a loss of CZK (9,782) million in the accounting period to 31 December 1999. Management will recommend that the loss will be covered from capital funds and other funds created from profit, in accordance with a decision taken at the General Meeting. At the financial statements date, the settlement of loss incurred in the period to 31 December 1999 has not yet been approved.

### 14) Loss per Share

Loss per share is calculated by dividing the net loss of CZK (9,782) million (1998 CZK (9,546) million) attributable to shareholders by the weighted average of ordinary shares in issue as at 31 December 1999, i. e. 19,004,926 (1998 - 19,004,926).

### 15) Cash and Balances with the Central Bank

Cash and balances with the central bank comprises:

	1999	1998
	CZKm	CZKm
Cash in hand	8,656	6,389
Cash with the Czech National Bank	11,909	24,106
Current accounts with other banks	1,383	1,332
<b>Total cash and balances with the central bank</b>	<b>21,948</b>	<b>31,827</b>

Deposits with the Czech National Bank include the obligatory minimum reserve maintained under Czech National Bank regulations. At 31 December 1999 balances maintained at the Czech National Bank totalled CZK 11,909 million (1998 - CZK 24,106 million), of which CZK 5,203 million (1999 - CZK 19,688 million) represented the obligatory minimum reserve.

### 16) Due from Financial Institutions

Due from financial institutions comprises:

	1999	1998
	CZKm	CZKm
Amounts owed by financial institutions	131,878	115,633
Less provisions	(100)	(556)
<b>Total due from financial institutions</b>	<b>131,778</b>	<b>115,077</b>

### 17) Treasury Bills

Treasury bills comprise:

	1999	1998
	CZKm	CZKm
Treasury bills and other bills eligible for refinancing	4,397	1,833
<b>Total treasury bills and other bills eligible for refinancing</b>	<b>4,397</b>	<b>1,833</b>

Treasury bills are stated at cost plus amortised discounts of CZK 1 million (1998 - CZK 2 million). All treasury bills held at 31 December 1999 and 1998 had a remaining maturity of less than one year.

## 18) Loans and Advances to Customers

Loans and advances to customers comprise:

	1999	1998
	CZKm	CZKm
Loans and advances to customers	201,712	232,344
Bills of exchange	2,069	3,698
Forfaits	5,446	7,736
<b>Total gross receivables</b>	<b>209,227</b>	<b>243,778</b>
Less provisions for loan losses	(27,473)	(29,760)
<b>Total loans and advances to customers (net)</b>	<b>181,754</b>	<b>214,018</b>

Of the forfeits of CZK 5,446 million (1998 - 7,736 million), forfeits issued by foreign debtors amount to CZK 177 million (1998 - CZK 266 million).

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 at 31 December 1999 of the Bank comprises the following breakdown by classification:

Classification	Gross receivable	Collateral applied	Net exposure	Provision
	CZKm	CZKm	CZKm	CZKm
Standard	103,859	(64,660)	39,199	–
Watch	36,721	(32,713)	4,008	(200)
Substandard	14,103	(10,994)	3,109	(622)
Doubtful	9,358	(7,154)	2,204	(1,102)
Loss	45,186	(21,527)	23,659	(23,659)
<b>Total</b>	<b>209,227</b>	<b>(137,048)</b>	<b>72,179</b>	<b>(25,583)</b>
General provisions				(1,890)
<b>Total provisions</b>				<b>(27,473)</b>

Loans classified as loss in the above table include amounts of CZK 32,515 million (1998 - CZK 37,232 million), on which interest is not being accrued.

The main types of collateral underlying pass, watch and sub-standard loans comprise real estate collateral and third party guarantees. Of the aggregate collateral level underlying each classification category, pass loans are collateralized by real estate to the value of CZK 41,397 million (i. e. 64%) and by guarantees to the value of CZK 14,195 million (that is, 22%), watch loans are collateralized by real estate to the value of CZK 16,263 million (that is, 50%) and by guarantees to the value of CZK 6,467 million (that is, 20%) and sub-standard loans are collateralized by real estate to the value of CZK 6,479 million (that is, 59%) and by guarantees to the value of CZK 4,092 million (that is, 37%).

### Trade finance losses

During 1999, the Bank incurred unexpected losses relating to loans, letters of credit and guarantees provided to clients of the Bank's trade finance division. The losses recorded in the profit and loss account in 1999 relating to these risks include CZK 5,304 million receivables written off and CZK 5,889 million of provisions for expected losses. These losses include CZK 8,393 million relating to guarantees, letters of credit and foreign currency trading of one foreign client of the Bank. CZK 3,582 million of this amount is shown as a liability under Note 27 Accruals, provisions and other liabilities. Investigations of suspected fraud and evaluation of possible actions are continuing with the objective of mitigating losses and limiting future exposure to similar risk.

### Transfers of loans to Konsolidační banka

On 31 August 1999, in accordance with the resolution of Government of the Czech Republic referred to above, the Bank transferred selected loss and written off receivables with a nominal value of CZK 23.1 billion to Konsolidační banka Praha, s. p. ú. ("Konsolidační banka"). The receivables were transferred for a contractual price of CZK 13.6 billion representing approximately 60% of their nominal value. The net positive effect of this transaction on the Bank's result for the year was CZK 9.5 billion.

On 16 February 2000, the Government of the Czech Republic adopted a resolution that approved the further restructuring of the assets of the Bank in the period prior to its privatisation. The Bank agreed to transfer selected doubtful and loss receivables with a nominal value of CZK 60 billion to Konsolidační banka for a consideration equivalent to 60% of their nominal value. The receivables to be transferred include loans to customers classified as loss and doubtful of approximately CZK 46 billion, loans that have been fully provisioned and written off of approximately CZK 10 billion and securities of approximately CZK 4 billion. On 29 February 2000 the Bank entered into a framework contract with Konsolidační banka, which provided for the execution of the further agreements specifying the actual transfer of these assets. On 17 March 2000, the Bank signed further agreements underlying the execution of the framework contract. Management anticipates that the final transfer of the receivables will be completed in the near future. In accordance with the resolution of the Government of the Czech Republic, the Bank will sell these assets for an amount greater than their net book value. Management estimate that the net positive impact of this transaction is CZK 7 billion. Management has taken this net positive impact into account when assessing the valuation of the credit portfolio and the amount of required loan loss provision as at 31 December 1999.

The table below sets out a pro-forma analysis of the portfolio of the Bank as if the second transfer of loans to Konsolidační banka had taken place as at 31 December 1999 (in CZK million).

Loan analysis according to classification as at 31 December 1999	Remaining portfolio after transfer 31 December 1999		Transfer of loans to Konsolidační banka 31 December 1999		Loan portfolio as at 31 December 1999	
	Gross receivable	Provisions	Gross receivable	Provisions	Gross receivable	Provisions
Standard	103,859	0	0	0	103,859	0
Watch	36,721	200	0	0	36,721	200
<b>Total standard and watch</b>	<b>140,580</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>140,580</b>	<b>200</b>
Sub-standard	14,103	622	0	0	14,103	622
Doubtful	3,081	828	6,277	274	9,358	1,102
Loss	5,012	4,262	40,174	19,397	45,186	23,659
Loans under special review	22,196	5,712	46,451	19,671	68,647	25,383
<b>Total loans to clients</b>	<b>162,776</b>	<b>5,912</b>	<b>46,451</b>	<b>19,671</b>	<b>209,227</b>	<b>25,583</b>
Impact of the transfer after the 1999 year end		7,027				
General provision recorded		1,890				1,890
<b>Total reserves and provisions</b>		<b>14,829</b>				<b>27,473</b>

### Collateral realisation and other matters

The remaining portfolio of the Bank continues to be collateralised primarily by real estate. With regard to loans under special review 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 legal framework relating to creditors rights severely restrict the Bank's ability to realise collateral values on non-performing loans. Recent (or pending) modifications in legislation aimed at strengthening the position of creditors may improve future realisations.

The Bank's management has recorded provisions and reserves for all known and estimated risks as at the balance sheet date. The Bank's portfolio contains a number of debtors 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 Bank's loan portfolio contains a number of clients which are State owned or are regulated or funded by the State. In determining the level of provisioning required against such exposures the Bank has taken into account expected continuing support of the State.

The Bank's portfolio consists of loans provided to debtors from all major industries. The economic recession in the Czech Republic in 1998 and 1999 negatively impacted the overall quality of the loan portfolio.

There remain significant uncertainties concerning the actual future recoverability of loans. 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 an agreement with an internationally recognised investment bank that under regulatory guidelines qualified as a guarantee of a portfolio of loans classified as loss. The guarantee replaced real estate collateral that would otherwise require additional provisioning for statutory accounting purposes. The Bank paid a refundable deposit of USD 9 million in 1998 and is obligated to make 40 fixed payments of USD 7 million semi-annually. In 1999, the Bank paid the first guarantee fee of CZK 291 million. The agreement may be terminated by the Bank before final maturity with a payment of penalty charges. Under the terms of the agreement, the Bank received the first funding in 1999 of CZK 201.2 million (USD 6.7 million) of defaulted loans. The Bank retains all ownership and rights to the defaulted loans. The agreements 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 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 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's management has decided to terminate early the agreement because a substantial portion of the loans collateralised by the agreement will be transferred within the transaction described above in "Transfer of loans to Konsolidační banka". Management has estimated that the impact of termination on the profit and loss account will not be material.

## 19) Dealing Securities

Dealing securities comprise:

	1999 Market value CZKm	1999 Cost CZKm	1998 Market value CZKm	1998 Cost CZKm
Shares and other variable yield securities				
Shares	568	547	496	474
Other variable yield securities	449	449	2,101	2,101
	<b>1,017</b>	<b>996</b>	<b>2,597</b>	<b>2,575</b>
Fixed income securities	10,684	10,681	12,039	12,035
<b>Total dealing securities</b>	<b>11,701</b>	<b>11,677</b>	<b>14,636</b>	<b>14,610</b>

Included in dealing securities are treasury shares for CZK 10 million (1998 - CZK 4 million) and variable yield bonds issued by Komerční banka, a. s., for CZK 449 million (1998 - CZK 2,101 million), which have been re-acquired by the Bank for trading purposes and which are stated at market value.

Of the total dealing securities CZK 11,561 million (1998 - CZK 12,092 million) are listed and CZK 140 million (1998 - CZK 2,544 million) are unlisted.

Shares and other variable yield securities at market value comprise:

	1999 CZKm	1998 CZKm
<b>Shares</b>		
- Czech crowns	555	491
- other currencies	13	5
<b>Total shares</b>	<b>568</b>	<b>496</b>
<b>Other variable yield securities</b>		
- Czech crowns	349	1,363
- other currencies	100	738
<b>Total other variable securities</b>	<b>449</b>	<b>2,101</b>

Fixed income securities included within dealing securities at market value comprise:

	1999 CZKm	1998 CZKm
Trading portfolio bonds issued by:		
- public bodies	5,109	4,004
- other entities	5,575	8,035
<b>Total fixed income securities</b>	<b>10,684</b>	<b>12,039</b>

At 31 December 1999 the Bank held CZK 503 million of bonds of Komerční Finance, B. V., (1998 - CZK 522 million). 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 324 million (1998 - CZK 1,143 million), which have been re-acquired by the Bank for trading purposes and which are stated at market value.

In 1999 the accrued interest related to bonds held for trading purposes is recorded in "Prepayments, accrued income and other assets". Therefore, the 1998 comparative figures have been adjusted by CZK 1,713 million.

## 20) Prepayments, Accrued Income and Other Assets

Prepayments, accrued income and other assets comprise:

	1999	1998
	CZKm	CZKm
Prepayments and accrued income	5,928	6,219
Net receivables on derivative transactions	0	35
Settlement balances	2,073	1,982
Other trading receivables	72	21
Other assets	1,308	1,142
<b>Total prepayments, accrued income and other assets</b>	<b>9,381</b>	<b>9,399</b>

In 1999 the accrued interest of CZK 1,348 million related to bonds held for trading purposes is recorded in "Prepayments, accrued income and other assets". Therefore, the 1998 comparative figures have been adjusted by CZK 1,713 million.

## 21) Investment Securities

Investment securities comprise:

	1999	1999	1998	1998
	Net	Cost	Net	Cost
	value		value	
	CZK	CZK	CZK	CZK
Investment portfolio bonds issued by:				
- public bodies	5,553	5,526	10,708	10,793
- other bodies	2,522	2,519	3,581	3,581
	8,075	8,045	14,289	14,374
Variable yield bonds	968	1,308	1,308	1,308
Shares	1,637	1,637	459	459
<b>Total investment securities</b>	<b>10,680</b>	<b>10,990</b>	<b>16,056</b>	<b>16,141</b>

The net carrying value is stated at the lower of cost or market value determined on a portfolio basis. The acquisition cost of investment securities is shown net of any adjustments for diminution in value that are other than temporary. The market value of securities approximates their cost.

Of the total investment securities CZK 10,215 million (1998 - CZK 16,056 million) are listed and CZK 465 million (1998 - CZK 0 million) are unlisted.

The Bank holds shares in IPF in its investment portfolio and will retain them in this portfolio until the opening of this fund. Further decisions regarding these shares will be taken by the Board of the Bank after the opening of the fund.

## 22) Investments in Subsidiaries and Associates

Fixed asset investments comprise:

	1999	1998
	CZKm	CZKm
Shares in subsidiary undertakings	1,413	1,196
Shares in associated undertakings	2,763	2,764
<b>Total investments in subsidiaries and associates</b>	<b>4,176</b>	<b>3,960</b>



**Subsidiary undertakings**

The following companies are subsidiary undertakings of the Bank at 31 December 1999:

Company name	Direct	Principal activity	Registered	Investment CZKm
	Holding %		Office	
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	468
Bankovní ochranná služba, a. s.	100	Security services	Praha	64
Penzijní fond Komerční banky, a. s.	100	Pension fund	Praha	230
Komerční pojišťovna, a. s.	100	Insurance activities	Praha	300
Komerční Finance, B. V.	100	Finance	Amsterdam	1
Factoring KB, a. s.	100	Factoring	Praha	46
A-Trade, s. r. o.	75	Agency services in trades and investments	Praha	129
<b>Total</b>				<b>1,413</b>

**Associated undertakings**

The following companies are defined as associated undertakings at 31 December 1999:

Company name	Direct	Group	Principal activity	Registered Office	Investment CZKm
	Holding %	Holding %			
CAC Leasing, a. s.	50	50	Leasing	Praha	111
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.	35.4	35.4	Investment fund	Praha	2,269
Other associated companies (with holdings less than 20%)					102
<b>Total</b>					<b>2,763</b>

**23) Tangible and Intangible Fixed Assets (Net)**

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>				
31 December 1998	12,250	8,559	721	21,530
Additions net of disposals	222	1,561	(275)	1,508
<b>31 December 1999</b>	<b>12,472</b>	<b>10,120</b>	<b>446</b>	<b>23,038</b>
<b>Accumulated depreciation</b>				
31 December 1998	1,653	4,599	0	6,252
Net charge for the year	435	2,044	0	2,479
<b>31 December 1999</b>	<b>2,088</b>	<b>6,643</b>	<b>0</b>	<b>8,731</b>
<b>Net Book Value</b>				
31 December 1998	10,597	3,960	721	15,278
<b>31 December 1999</b>	<b>10,384</b>	<b>3,477</b>	<b>446</b>	<b>14,307</b>

Included in fixtures, fittings and equipment at 31 December 1999 is CZK 3,420 million (1998 - CZK 3,141 million) of assets held under finance lease agreements. The related accumulated depreciation is CZK 3,006 million (1998 - CZK 2,669 million). The Bank leases fixtures, fittings and equipment from an associated undertaking (see Note 34).

Included in fixtures, fittings and equipment at 31 December 1999 are intangible fixed assets relating to software products with a net book value of CZK 745 million (1998 - CZK 404 million).

The increase in depreciation in 1999 when compared to 1998 is attributable to the correction of an error (see Note 10).

## 24) Amounts Owed to Financial Institutions

Amounts owed to financial institutions comprise:

	1999	1998
	CZKm	CZKm
Amounts owed to banks - current accounts	1,370	1,195
Other amounts owed to financial institutions	57,024	70,574
<b>Total amounts owed to financial institutions</b>	<b>58,394</b>	<b>71,769</b>

Of "Amounts owed to other financial institutions", CZK 11,000 million (1998 - CZK 14,000 million) relates to amounts deposited with the Bank by one of the major Czech banks, of which CZK 6,500 million (1998 - CZK 5,500 million) is due within one year.

## 25) Amounts Owed to Customers

Amounts owed to customers, according to type of customers, comprise:

	1999	1998
	CZKm	CZKm
Private companies	84,661	89,664
Other financial institutions	1,317	2,420
Insurance companies	2,289	3,990
Public administration	16,388	13,002
Individuals	113,068	127,315
Non-residents	9,904	15,384
Other	31,564	21,923
<b>Total amounts owed to customers</b>	<b>259,191</b>	<b>273,698</b>

Amounts due to a subsidiary undertaking Komerční Finance, B. V., are presented in Note 34.

## 26) Certificated Debt

Certificated debts comprise:

	1999	1998
	CZKm	CZKm
Bonds	27,742	31,645
Certificates of deposit	0	1
<b>Total</b>	<b>27,742</b>	<b>31,646</b>

Certificated debts are repayable, according to remaining maturity, as follows:

	1999	1998
	CZKm	CZKm
In less than one year	2,000	12,001
In one to two years	0	2,000
In two to three years	10,000	3,000
In three to four years	0	10,000
Thereafter	15,742	4,645
<b>Total certificated debts</b>	<b>27,742</b>	<b>31,646</b>

Included in the above are bonds issued by the Bank, which comprise:

Interest Rate	Issue Date	Maturity Date	1999 CZKm	1998 CZKm
11.4%	28 September 1994	28 September 1999	0	3,000
6M PRIBOR + 0.5 p.p.	12 December 1994	12 December 1999	0	4,000
6M PRIBOR + 0.5 p.p.	9 March 1995	9 March 2000	2,000	2,000
6M PRIBOR + 0.3 p.p.	23 October 1995	23 April 1999	0	3,000
6M PRIBOR + 0.1 p.p.	20 May 1996	20 May 1999	0	5,000
6M PRIBOR + 0.15 p.p.	10 February 1997	10 February 2002	6,000	6,000
Zero Coupon (issued with discount for CZK 3,805 million)	8 August 1997	8 August 2004	5,242	4,645
6M PRIBOR + 0.1 p.p.	29 September 1997	29 September 2002	4,000	4,000
8.125%	13 May 1999	13 May 2004	4,000	0
8.0% HZL 1	15 June 1999	15 June 2004	1,500	0
8.0%	10 September 1999	10 September 2004	5,000	0
<b>Total</b>			<b>27,742</b>	<b>31,645</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.

Six month PRIBOR at 31 December 1999 was 5.55 % (1998 - 9.09 %).

## 27) Accruals, Provisions, Deferred Tax and Other Liabilities

Accruals, provisions and other liabilities:

	1999 CZKm	1998 CZKm
Net payables on derivatives transactions	768	1,542
Settlement balances	789	1,217
Payments in clearing	5,754	3,857
Other trading payables	517	185
Other liabilities	2,395	2,810
Provisions, accruals and deferred income	5,579	8,828
Provision for financial instruments with off-balance sheet risk	4,021	103
<b>Total accruals, provisions and other liabilities</b>	<b>19,823</b>	<b>18,542</b>

## 28) Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 31% (1998 - 35%).

The movement on the deferred income tax account is as follows:

	1999 CZKm	1998 CZKm
At beginning of year	(48)	(59)
Income statement (charge)/credit	(25)	11
<b>At end of year</b>	<b>(73)</b>	<b>(48)</b>

The movement on the deferred income tax account comprises the movement on accelerated tax depreciation.

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

	1999 CZKm	1998 CZKm
<b>Deferred income tax liabilities</b>		
Accelerated tax depreciation	(73)	(48)
Other temporary differences	(119)	(203)
	(192)	(251)
<b>Deferred income tax assets</b>		
Loan loss provisions	1,706	4,162
Tax loss carry forwards	312	822
Unrealized losses on securities	668	99
Other temporary differences	331	1,055
	3,017	6,138
<b>Net deferred income tax asset before adjustment</b>	<b>2,825</b>	<b>5,887</b>
<b>Adjustment for uncertain realisation of tax asset</b>	<b>(2,898)</b>	<b>(5,935)</b>
<b>Net deferred income tax liability</b>	<b>(73)</b>	<b>(48)</b>

## 29) 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 p. p. 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 nominal value of the subordinated debt is USD 200 million.

## 30) Share Capital

The General Meeting held on 31 May 1999 resolved to increase the share capital of Komerční banka, a. s., by the issue of new shares. The resolution adopted by the General Meeting stated that the Bank's share capital could increase by CZK 7,500 million and up to an amount of CZK 9,502 million. The first subscription round was conducted in the period from 20 December 1999 to 3 January 2000 and shares with a nominal value of CZK 7,361 million were subscribed. In the second round, the party determined by the General Meeting, that is, the National Property Fund of the Czech Republic, subscribed CZK 2,141 million and completed the capital increase of the Bank. The capital increase process was recorded in the Commercial Register on 11 February 2000. The shareholding of the National Property Fund was equal to 60% as at 11 February 2000 and holdings of other shareholders decreased.

The subscribed share capital of the Bank at 31 December 1999 amounted to CZK 16,604 million. As at 11 February 2000 the Bank's paid share capital recorded in the Commercial Register was CZK 19,005 million.

## 31) Analysis of the Balances of Cash and Cash Equivalents as Shown in the Balance Sheet

	1999 CZKm	1998 CZKm	Change in the year CZKm
Cash and balances with the central bank	20,565	30,495	(9,930)
Current accounts with other banks	1,383	1,332	51
Amounts owed to banks	(1,370)	(1,195)	(175)
<b>Total cash and cash equivalents</b>	<b>20,578</b>	<b>30,632</b>	<b>(10,054)</b>

## 32) Commitments and Contingent Liabilities

### Legal disputes

At the balance sheet date the Bank was involved in legal proceedings with claims corresponding to the level of claims subjected to the court in the past years. The development of passive legal proceedings does not indicate a risk of material losses and therefore, the Bank has recorded no provisions for the exposures associated with legal disputes.

### Capital commitments

At 31 December 1999 the Bank had capital commitments of CZK 81 million (1998: CZK 333 million) in respect of buildings and equipment purchases. The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.

### Commitments from guarantees

Commitments from guarantees include issued guarantees, avals and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. These assurances carry the same credit risk as loans and therefore the Bank makes provisions against these instruments according to the same methods as applicable to loans.

### Commitments from letters of credit

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

### Commitments to extend credit

The primary purpose of commitments to extend credit is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credits in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees and also unused loans. Commitments to extend credit or guarantees issued by the Bank are contingent upon customers maintaining specific credit standards and accordingly these are not irrevocable commitments. By contrast, unused portions of authorised loans represent irrevocable commitments of the Bank since they result from the contractual terms and conditions in the loan agreement.

Financial commitments and contingencies comprise:

	1999	1998
	CZKm	CZKm
Guarantees and standby letters of credit	22,201	26,090
Documentary and commercial letters of credit	6,904	9,633
Commitments to extend credit	15,670	21,103
<b>Total financial commitments and contingencies</b>	<b>44,775</b>	<b>56,826</b>

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to clients taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. The Bank created provisions for these risks amounting to CZK 4,021 million (1998 - CZK 103 million) - see Note 27.

Guarantees include guarantees provided to Komerční Finance, B. V., in the amount of CZK 16,191 million (1998 - CZK 18,793 million).

### Operating lease commitments

The Bank has entered into operating leases in respect of office equipment, the payments for which extend over a three-year period. The future commitments amounting to CZK 611 million (1998 - CZK 427 million) are included in the unconsolidated balance sheet in other liabilities.

### Taxation

Czech tax legislation and practice has changed significantly in recent years and therefore many parts of the legislation remain untested. Tax positions taken by the Bank are subject to examination and challenge by tax authorities. As a result there may be uncertainty about the potential impacts should the interpretation of fiscal authorities differ from that applied by the Bank. The management of the Bank consider that the Bank is not exposed to any material tax risks and therefore no provision has been made for any ultimate liability that could result from resolution of these uncertainties.

## 33) 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.

Financial derivative instruments in the trading portfolio at market values:

	Nominal value		Realisable value	
	1998	1999	1999	1999
	CZKm	CZKm	Positive CZKm	Negative CZKm
<b>Interest rate instruments</b>				
Swaps	52,478	64,604	2,200	(2,005)
Forwards/FRA	28,510	25,082	33	(42)
Options	439	0	0	0
<b>Total</b>	<b>81,427</b>	<b>89,686</b>	<b>2,233</b>	<b>(2,047)</b>
<b>Foreign currency instruments</b>				
Swaps	81,372	59,403	677	(948)
Forwards	4,678	5,920	38	(115)
Call options	18,318	27,506	158	(79)
Put options	0	0	0	0
Spots	2,788	470	0	0
<b>Total</b>	<b>107,156</b>	<b>93,299</b>	<b>873</b>	<b>(1,142)</b>
<b>Total</b>	<b>188,583</b>	<b>182,985</b>	<b>3,106</b>	<b>(3,189)</b>

Financial derivative instruments in the trading portfolio at nominal values per remaining maturity:

	Up to 1 year	1 to 5 years	Over 5 years	Total
	CZKm	CZKm	CZKm	CZKm
<b>Interest rate instruments</b>				
Swaps	15,650	39,746	9,207	64,603
Forwards	25,082	0	0	25,082
Options	0	0	0	0
<b>Total</b>	<b>40,732</b>	<b>39,746</b>	<b>9,207</b>	<b>89,685</b>
<b>Foreign currency instruments</b>				
Swaps	59,403	0	0	59,403
Forwards	5,920	0	0	5,920
Call options	27,506	0	0	27,506
Put options	0	0	0	0
Spots	470	0	0	470
<b>Total</b>	<b>93,299</b>	<b>0</b>	<b>0</b>	<b>93,299</b>
<b>Total</b>	<b>134,031</b>	<b>39,746</b>	<b>9,207</b>	<b>182,984</b>

Financial instruments for hedging currency and interest rate risk:

	1999		1998	
	Notional Assets CZKm	Notional Liabilities CZKm	Notional Assets CZKm	Notional Liabilities CZKm
	<b>Foreign currency instruments</b>			
Spot	578	577	908	909
Foreign currency swaps	5,523	5,495	19,012	19,539
<b>Total foreign currency instruments</b>	<b>6,101</b>	<b>6,072</b>	<b>19,920</b>	<b>20,448</b>
<b>Interest rate instruments</b>				
Options	4,631	4,631	3,842	3,842
Interest rate swaps	32,692	32,692	21,773	21,773
Forwards	4,631	4,631	3,843	3,843
<b>Total interest rate instruments</b>	<b>41,954</b>	<b>41,954</b>	<b>29,458</b>	<b>29,458</b>

Remaining maturity of interest rate instruments:

	Up to 1 year	1 to 5 years	Over 5 years	Total
	CZKm	CZKm	CZKm	CZKm
Interest rate swaps	9,266	23,426	0	32,692

Other derivative instruments, i. e. forwards, spot transactions and swaps have maturities of less than one year, the only exception being the interest rate option and interest rate swap of CZK 4,631 million where the forward expires in 2002 and the option in 2019 with the premise that the option may be exercised already in 2002.

### Credit risk of financial instruments

Credit exposure or replacement cost on derivative instruments represents the cost to replace contracts with a positive value and is usually a small fraction of the notional amounts of the contracts. The credit equivalent of each contract is calculated pursuant to generally applicable methodology using the current exposure method and involves the fair market value of the contract (only if positive) and a portion of nominal value, which indicates the potential change of fair market value over the term of the contract. The Bank assesses credit risks of financial instruments on a daily basis.

Credit exposure, however, relates solely to accounting losses to be incurred by the Bank in the event that counterparties fail to perform their obligations. At 31 December 1999 the Bank has a possible exposure of CZK 7,048 million (1997 - CZK 5,600 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 1999 of all outstanding agreements in the event of all counterparties defaulting and does not allow for the effect of netting arrangements. The Bank is selective in its choice of counterparties and considers that non-performance is unlikely.

## 34) Related Parties

At 31 December 1999 the Bank had loans outstanding of CZK 3,671 million (1998 - CZK 4,344 million) to subsidiary and associated undertakings. At 31 December 1999 the Bank had amounts due to Komerční Finance, B. V., of CZK 16,114 million (1998 - CZK 18,712 million), of which CZK 7,196 million (1998 - 5,971 million) relates to the subordinated debt and CZK 8,918 million (1998 - 12,741 million) is in the form of a loan taken. This loan is included in Note 25 in the line "Other" 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 611 million (1998 - CZK 427 million), incl. interest, outstanding under these finance lease agreements. The Bank paid CZK 413 million (1998 - CZK 560 million) to the associated undertaking during 1999 in relation to finance leases.

## Amounts due from Bank's related parties:

Description	Average contractual maturity	Interest rate margin	1998 CZKm	1999 CZKm
Member of the Supervisory Board	–	–	0	0
Members of statutory bodies	1.5 years	7% p. a.	0.2	–
Management of the Bank*)	6.8 years	4-19% p. a.	9	48
Principal shareholders (interest greater than 1%)	–	–	1,480	1,942
<b>Total</b>	–	–	<b>1,489</b>	<b>1,990</b>

\*) these are persons appointed by the KB Board of Directors at the top management level pursuant to the applicable Organization Rules.

## Amounts due from Bank's related parties:

	CZKm
Balance at 1 January 1999	1,990
Repayments	(504)
Loans granted	3
<b>Balance at 31 December 1999</b>	<b>1,489</b>

None of the Bank's related parties provided guarantees on its own account. The Bank issued a guarantee of CZK 16,190 million to its subsidiary company, Komerční Finance, B. V., to collateralize received loans.

**35) Reconciliation of Reserves and Profit under Czech Accounting Principles to IAS**

	1999 CZKm	1998 CZKm
Reserves at 31 December under Czech accounting principles (net of the social fund reserve)	1,095	10,392
Add/(deduct):		
Cumulative unrealised gains on trading securities	(246)	(60)
Cumulative depreciation adjustments	0	362
Cumulative leasing adjustments	266	213
Revaluation of option positions	4	4
Transfers of social fund to other provisions	53	45
<b>Reserves at 31 December under IAS</b>	<b>1,172</b>	<b>10,956</b>
	1999 CZKm	1998 CZKm
Loss for the year ended 31 December under Czech accounting principles	(9,242)	(9,805)
Add/(deduct):		
Unrealised losses on trading securities	(186)	(82)
Depreciation adjustment	(361)	320
Leasing adjustment	53	109
Social fund	(46)	(88)
<b>Loss for the year ended 31 December under IAS</b>	<b>(9,782)</b>	<b>(9,546)</b>



### 36) 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.

### 37) Foreign Exchange Risk

The table below provides an analysis of the Bank's main currency exposures at 31 December 1999.

	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	17,566	1,077	1,640	460	187	1,018	21,948
Loans and advances to financial institutions	95,066	705	29,931	28	770	5,278	131,778
Treasury bills	4,397	0	0	0	0	0	4,397
Loans and advances to customers	147,585	18,399	10,208	130	1,630	3,802	181,754
Dealing securities	10,912	264	525	0	0	0	11,701
Prepayments, accrued income and other assets	7,465	47	826	2	18	1,023	9,381
Investment securities	10,671	0	0	0	0	9	10,680
Fixed asset investments	3,703	0	0	0	0	473	4,176
Tangible and intangible fixed assets	14,307	0	0	0	0	0	14,307
<b>Total assets</b>	<b>311,672</b>	<b>20,492</b>	<b>43,130</b>	<b>620</b>	<b>2,605</b>	<b>11,603</b>	<b>390,122</b>
<b>Liabilities</b>							
Amounts owed to financial institutions	38,818	3,679	9,660	4	121	6,112	58,394
Amounts owed to customers	219,801	14,627	19,024	869	458	4,412	259,191
Certificated debts	27,742	0	0	0	0	0	27,742
Provisions, accruals and other liabilities	17,024	198	1,932	5	19	645	19,823
Subordinated debt	0	0	7,196	0	0	0	7,196
Shareholders' funds	17,776	0	0	0	0	0	17,776
<b>Total liabilities and shareholders' funds</b>	<b>321,161</b>	<b>18,504</b>	<b>37,812</b>	<b>878</b>	<b>598</b>	<b>11,169</b>	<b>390,122</b>
<b>Net currency position at 31 December 1999</b>	<b>(9,489)</b>	<b>1,988</b>	<b>5,318</b>	<b>(258)</b>	<b>2,007</b>	<b>434</b>	<b>0</b>
Total assets at 31 December 1998	334,447	41,968	34,927	1,318	3,834	5,590	422,084
Total liabilities at 31 December 1998	338,697	36,247	41,777	1,336	958	3,069	422,084
<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>

### 38) 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. 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	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
<b>Asset</b>						
Cash in hand, central banks	0	0	0	0	21,948	21,948
Loans and advances to financial institutions	115,319	15,222	1,237	0	0	131,778
Treasury bills	599	3,798	0	0	0	4,397
Loans and advances to customers	97,284	36,717	25,814	5,746	16,193	181,754
Dealing securities	1,480	1,251	6,854	1,544	572	11,701
Prepayments, accrued income and other assets	577	0	1,348	0	7,456	9,381
Investment securities	2,343	4,191	2,820	0	1,326	10,680
Fixed asset investments	0	0	0	0	4,176	4,176
Tangible and intangible fixed assets	0	0	0	0	14,307	14,307
<b>Total assets</b>	<b>217,602</b>	<b>61,179</b>	<b>38,073</b>	<b>7,290</b>	<b>65,978</b>	<b>390,122</b>
<b>Liabilities</b>						
Amounts owed to financial institutions	28,482	29,149	763	0	0	58,394
Amounts owed to customers	134,786	11,532	2,297	0	110,576	259,191
Certificated debts	12,000	0	15,742	0	0	27,742
Provisions, accruals and other liabilities	0	0	0	0	19,823	19,823
Subordinated debt	0	0	7,196	0	0	7,196
<b>Total liabilities</b>	<b>175,268</b>	<b>40,681</b>	<b>25,998</b>	<b>0</b>	<b>130,399</b>	<b>372,346</b>
<b>Net interest rate positions</b>						
of off-balance sheet items	42,334	20,498	12,075	7,290	(64,421)	17,776
<b>Cumulative interest rate position</b>	<b>42,334</b>	<b>62,832</b>	<b>74,907</b>	<b>82,197</b>	<b>17,776</b>	<b>-</b>
Total assets at 31 December 1998	224,254	61,198	43,873	8,209	84,550	422,084
Total liabilities at 31 December 1998	198,509	37,667	25,652	4,646	135,152	401,626
<b>Net interest rate positions of off-balance sheet items at 31 December 1998</b>						
	25,745	23,531	18,221	3,563	(50,602)	20,458
<b>Cumulative interest rate position at 31 December 1998</b>						
	25,745	49,276	67,497	71,060	20,458	-

### 39) Average Interest Rates in December 1999

ASSETS	Average Rate	LIABILITIES	Average Rate
Cash and balances with CNB	0.00%	Loans from the CNB	8.23%
Treasury bills and other bills eligible for refinancing	3.76%	Amounts owed to financial institutions	5.53%
Due from financial institutions	5.40%	Amounts owed to customers	3.22%
Loans and advances to customers	9.54%	Certificated debts	8.37%
Interest bearing securities	9.08%	Subordinated debt	9.13%
<b>Total assets</b>	<b>6.87%</b>	<b>Total liabilities</b>	<b>3.62%</b>
<b>Total interest bearing assets</b>	<b>7.84%</b>	<b>Total interest bearing liabilities</b>	<b>4.12%</b>

#### 40) 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 regulations 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	Up to 3	3 months	1 year	Over 5	Overdue	Maturity	Total
	CZK	months	to 1 year	to 5 years	years	CZK	undefined	CZK
	CZK	CZK	CZK	CZK	CZK	CZK	CZK	CZK
<b>Assets</b>								
Cash in hand, central banks	16,561	0	0	0	0	0	5,387	21,948
Loans and advances to financial institutions	0	102,243	11,114	14,721	0	0	3,700	131,778
Treasury bills	0	599	3,797	0	0	0	1	4,397
Loans and advances to customers	8,495	9,774	33,107	36,163	15,980	78,235	0	181,754
Dealing securities	0	70	1,858	7,657	1,544	0	572	11,701
Prepayments, accrued income and other assets	1,390	577	0	1,348	0	0	6,066	9,381
Investment securities	0	1,955	3,298	4,101	0	0	1,326	10,680
Fixed asset investments	0	0	0	0	0	0	4,176	4,176
Tangible and intangible fixed assets	0	0	0	0	0	0	14,307	14,307
<b>Total assets</b>	<b>26,446</b>	<b>115,218</b>	<b>53,174</b>	<b>63,990</b>	<b>17,524</b>	<b>78,235</b>	<b>35,535</b>	<b>390,122</b>
<b>Liabilities</b>								
Amounts owed to financial institutions	6,866	15,190	19,349	4,756	12,233	0	0	58,394
Amounts owed to customers	158,885	55,223	27,859	17,205	19	0	0	259,191
Certificated debts	0	0	2,000	25,742	0	0	0	27,742
Provisions, accruals and other liabilities	0	0	0	0	0	0	19,823	19,823
Subordinated debt	0	0	0	0	7,196	0	0	7,196
Shareholders' funds	0	0	0	0	0	0	17,776	17,776
<b>Total liabilities and shareholders' funds</b>	<b>165,751</b>	<b>70,413</b>	<b>49,208</b>	<b>47,703</b>	<b>19,448</b>	<b>0</b>	<b>37,599</b>	<b>390,122</b>
Net liquidity risk position	(139,305)	44,805	3,966	16,287	(1,924)	78,235	(2,064)	0
Cumulative liquidity risk	(139,305)	(94,500)	(90,534)	(74,247)	(76,171)	2,064	0	0
Total assets at 31 December 1998	13,424	127,958	114,666	43,434	38,742	48,914	34,946	422,084
Total liabilities at 31 December 1998	138,240	94,828	99,444	38,438	6,163	0	44,971	422,084
Net liquidity risk position at 31 December 1998	(124,816)	33,130	15,222	4,996	32,579	48,914	(10,025)	0
Cumulative liquidity risk at 31 December 1998	(124,816)	(91,686)	(76,464)	(71,468)	(38,889)	10,025	0	0

**41) Segment Information at 31 December 1999**

The Bank conducts business primarily in the area of financial services and operates principally in the territory of the Czech Republic. In 1999 and for internal management and reporting purposes the Bank differentiated three business segments as follows: financial markets, corporate banking and, retail and small business. The majority of operating income was generated by the corporate banking segment.

**42) Post Balance Sheet Events - Changes in Management**

On 16 February 2000, Mr. Jan Kollert resigned from his position as Chairman of the Board of Directors. As of that date Mr. Peter Palečka was appointed as Acting Chairman of the Board. On 1 March 2000 Mr. Tomáš Doležal resigned from the Board and Mr. Ladislav Vinický was recalled. As of that date, Mr. Radomír Lašák was elected as a member of the Board.

## Consolidated Financial Statements (IAS)

### Auditors' Report to the Shareholders of Komerční banka

We have audited the consolidated financial statements of Komerční banka, a. s., for the year ended 31 December 1999, from which the summarised financial statements were derived, in accordance with International Standards on Auditing. In our report dated 20 April 2000, we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

Without qualifying our opinion we drew attention to explanatory notes included in the financial statements related to the financial assistance received by the Group from the Government of the Czech Republic in 1999 in order to provide it with support in the period prior to privatisation. This assistance had a material impact on the results for the year. Furthermore we drew attention to the fact that there are uncertainties concerning the future development of the Czech economy, the realisation of collateral securing the Group's loan portfolio and the repayment of loans. Although the ultimate outcome of these matters cannot presently be determined, these factors could result in additional provisions for loan portfolio losses. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In our opinion, the accompanying summarised financial statements, prepared in accordance with International Accounting Standards are consistent, in all material aspects, with the financial statements from which they were derived.

For a better understanding of the Group's financial position and the result of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit report thereon.

Prague, 4 May 2000



**Deloitte & Touche**

### Consolidated Profit and Loss Statement for the Year 1999 (IAS)

	1999	1998
	CZKm	CZKm
Interest income	33,207	49,385
Interest expense	(21,324)	(34,454)
<b>Net interest income</b>	<b>11,883</b>	<b>14,931</b>
Net fees and commissions	4,431	4,699
Net dealing profits	2,407	2,069
Other income	3,374	3,380
<b>Operating profit</b>	<b>22,095</b>	<b>25,079</b>
Administrative expenses	(11,788)	(11,901)
Depreciation and other provisions	(2,757)	(2,232)
Income from interests in associated undertakings	116	12
<b>Profit before provision for loan losses and income taxes</b>	<b>7,666</b>	<b>10,958</b>
Provision for loan losses	(16,877)	(20,867)
<b>Loss before income taxes</b>	<b>(9,211)</b>	<b>(9,909)</b>
Income taxes	(78)	(67)
<b>Net loss for the year before minority interest</b>	<b>(9,289)</b>	<b>(9,976)</b>
Net loss attributable to minority interest	0	(10)
<b>Net loss for the year</b>	<b>(9,289)</b>	<b>(9,986)</b>
Loss per share (in CZK)	(489)	(525)

### Consolidated Balance Sheet as at 31 December 1999 (IAS)

	1999	1998
	CZKm	CZKm
<b>Assets</b>		
Cash and balances with the central bank	22,302	33,631
Due from financial institutions	132,127	113,851
Treasury bills and other bills eligible for refinancing	4,754	1,833
Loans and advances to customers, net	181,299	213,041
Dealing securities	13,025	15,194
Prepayments, accrued income and other assets	12,543	12,136
Investment securities	10,990	16,731
Investments in associated undertakings and unconsolidated subsidiaries	3,917	3,801
Tangible and intangible fixed assets, net	15,262	16,402
<b>Total assets</b>	<b>396,219</b>	<b>426,620</b>
<b>Liabilities</b>		
Amounts owed to financial institutions	60,328	73,240
Amounts owed to customers	251,260	261,820
Certificated debts issued	36,017	44,476
Accruals, provisions and other liabilities	22,484	19,998
Subordinated debt	7,196	5,971
<b>Total liabilities</b>	<b>377,285</b>	<b>405,505</b>
<b>Shareholders' equity</b>		
Share capital	16,604	9,502
Share premium and reserves	2,330	11,613
<b>Total shareholders' equity</b>	<b>18,934</b>	<b>21,115</b>
<b>Total liabilities and shareholders' equity</b>	<b>396,219</b>	<b>426,620</b>

### Consolidated Statement of Shareholders' Equity as at 31 December 1999 (IAS)

	Share capital CZKm	Share premium CZKm	Statutory reserve fund CZKm	Other capital and reserve funds CZKm	Total CZKm
<b>31 December 1997</b>	<b>9,502</b>	<b>6,008</b>	<b>2,164</b>	<b>13,500</b>	<b>31,174</b>
FX gains from foreign investments	–	–	–	(73)	(73)
Other transfers	–	–	220	(220)	0
Net loss for the year	–	–	–	(9,986)	(9,986)
<b>31 December 1998</b>	<b>9,502</b>	<b>6,008</b>	<b>2,384</b>	<b>3,221</b>	<b>21,115</b>
Share capital increase	7,102	–	–	–	7,102
FX gains from foreign investments	–	–	–	6	6
Other transfers	–	–	(20)	20	0
Net loss	–	–	–	(9,289)	(9,289)
<b>31 December 1999</b>	<b>16,604</b>	<b>6,008</b>	<b>2,364</b>	<b>(6,042)</b>	<b>18,934</b>

### Consolidated Cash Flow Statement for the Year 1999 (IAS)

	1999 CZKm	1999 CZKm	1998 CZKm Restated	1998 CZKm Restated
<b>Cash flows from operating activities</b>				
Interest and commission receipts	40,445		58,924	
Interest and commission payments	(24,325)		(35,684)	
Other income receipts	5,978		6,372	
Cash payments to employees and suppliers	(10,839)		(15,848)	
Operating cash flow before changes in operating assets and operating liabilities	11,259		13,764	
Due from financial institutions	(14,893)		(6,203)	
Loans and advances to customers	18,282		16,295	
Treasury bills and other bills eligible for discounting	(2,921)		3,508	
Shares and other variable yield securities	2,170		324	
Other assets	(1,744)		844	
<i>(Increase)/decrease in operating assets</i>	<i>894</i>		<i>14,768</i>	
Amounts owed to financial institutions	(16,106)		(12,030)	
Amounts owed to customers	(11,512)		(22,421)	
Other liabilities	(755)		653	
<i>Total increase/(decrease) in operating liabilities</i>	<i>(28,373)</i>		<i>(33,798)</i>	
Net cash from operating activities before taxes	(16,220)		(5,266)	
Income taxes paid	0		0	
<b>Net cash from operating activities</b>		<b>(16,220)</b>		<b>(5,266)</b>
<b>Cash flows from investing activities</b>				
Dividends received	13		71	
Net sale of fixed income investment securities	5,741		251	
Net purchase of tangible and intangible fixed assets	(1,388)		(2,913)	
Purchase of shares in fixed asset investments	(117)		(454)	
<b>Net cash from investing activities</b>		<b>4,249</b>		<b>(3,045)</b>
<b>Cash flows from financing activities</b>				
Share capital increase	7,102		0	
Issue of bonds and medium term notes	(8,459)		(1,036)	
<b>Net cash from financing activities</b>		<b>(1,357)</b>		<b>(1,036)</b>
Net decrease in cash and cash equivalents	(13,328)		(9,347)	
Cash and cash equivalents at beginning of year	32,436		41,783	
<b>Cash and cash equivalents at end of year</b>		<b>19,108</b>		<b>32,436</b>

## Summary of Differences between Czech (CAS) and International (IAS) Accounting Standards

### Summary of Differences between Czech (CAS) and International (IAS) Accounting Standards

The significant differences in accounting principles between Czech accounting standards ("CAS") and International accounting standards ("IAS") are summarized below:

#### Cash and Balances with the Central Bank

##### International Accounting Standards

Current accounts at banks other than the central bank are contained in Cash and balances with the central bank in the financial statements as they represent nostro accounts held at other banks which are repayable on demand.

##### Czech Accounting Standards

These balances are included in Due from banks in the CAS financial statements.

#### Securities

##### International Accounting Standards

Securities, which the Bank intends to hold to maturity, are classified as investment securities and stated at the lower of cost or market value determined on an individual basis. Securities classified as trading are recorded at market value and unrealized gains and losses resulting from the valuation of these securities are recorded in the profit and loss statement.

##### Czech Accounting Standards

Provisions for investment securities are created in an amount equal to the excess of acquisition cost over the market value calculated on a portfolio basis. Provisions for trading securities are created in an amount equal to the excess of acquisition cost over the market value calculated on an individual basis.

#### Certificated Debt

##### International Accounting Standards

Accrued interest on certificated debts is shown separately in Accruals, provisions and other liabilities.

##### Czech Accounting Standards

Accrued interest on certificated debts is shown within the balance Certificated debts.

#### Repurchase/Reverse Repurchase Transactions

##### International Accounting Standards

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.

##### Czech Accounting Standards

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.



## **Provisions for Loan Losses and Off-balance Sheet Credit Risk**

### **International Accounting Standards**

Potential losses related to the loan portfolio are recorded as expenses in the profit and loss statement and shown in the balance sheet as provisions for loan losses, which are netted against loans receivable.

### **Czech Accounting Standards**

Expected losses related to identified receivables are covered by specific provisions that are shown in the balance sheet netted against loans receivable. Potential losses related to the loan portfolio and off-balance sheet lending commitments are covered by general provisions and are shown in the balance sheet on the liability side as reserves. The creation of specific and general reserves/provisions is recorded as an expense in the profit and loss statement.

## **Social Fund and Board Bonuses**

### **International Accounting Standards**

Such expenses are accrued as they are incurred and recorded as costs in the profit and loss statement in the periods to which they relate.

### **Czech Accounting Standards**

Social Fund and Board bonuses are paid from after-tax profits and must be approved by the Annual General Meeting. They are accounted for as appropriations of profit.

## **Extraordinary Items**

### **International Accounting Standards**

Virtually all income items included in the determination of net profit or loss for the period arise in the course of the ordinary activities of the enterprise and therefore are included in ordinary income or expense.

### **Czech Accounting Standards**

Any item relating to a previous year is recorded in the year in which it is identified as extraordinary income or expense.

## **Derivatives**

### **International Accounting Standards**

Trading derivatives are accounted for on a mark-to-market basis and unrealized gains and losses are included in income.

### **Czech Accounting Standards**

Trading derivatives, except for forward and foreign exchange swap contracts, are accounted for on a mark-to-market basis, but only net unrealized losses are recognized, on a product-by-product basis. Unrealized losses as well as gains are recognized for forward and foreign exchange swap contracts.

## Summary of Differences between Czech (CAS) and International (IAS) Accounting Standards

### Deferred Tax

#### International Accounting Standards

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from depreciation on property, plant and equipment, and specific provisions for loans and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

#### Czech Accounting Standards

The deferred tax liability arises only on the difference between the tax written down value of fixed assets and the accounting net book value of fixed assets at the applicable tax rate.

### Finance Leasing

#### International Accounting Standards

The Bank records an asset and a liability at the lower of fair value of the asset or the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the enterprise's incremental borrowing rate). The Bank apportions rental payments between finance charges and a reduction of the outstanding liability. The finance charge is allocated at a constant rate against the remaining balance of the liability.

#### Czech Accounting Standards

All leases are treated as operating leases. The Bank recognizes the rental expense on the accruals basis. Leased assets are not included in the assets of the Bank, and no liability is recognized.

## Foreign Subsidiaries and Representative Offices of Komerční banka as at 31 December 1999

### Foreign Subsidiaries

#### Bratislava - Slovak Republic

Komerční banka Bratislava, a. s.  
Medená 6  
811 02 Bratislava  
Slovak Republic  
Tel.: (00421 7) 5293 2153  
Fax: (00421 7) 5296 4801

#### Amsterdam - The Netherlands

Komercni Finance, B. V.  
Drentestaete  
Drentestraat 24  
1083 HK Amsterdam  
The Netherlands  
Tel.: (003120) 540 5800  
Fax: (003120) 644 7011

### Foreign Representative Offices

#### London - United Kingdom

35, Moorgate  
London EC2R 6BT  
United Kingdom  
Tel.: (0044 171) 588 7125  
(0044 171) 588 7126  
Fax: (0044 171) 588 7120  
Otakar Bobko  
Chief Representative  
E-mail: komercni-banka@cygnet.co.uk

#### Moscow - Russian Federation

Ul. 4-aja Tverskaja-Jamskaja 33/10  
125047 Moskva  
Russian Federation  
Tel.: (007 095) 234 3392  
Fax: (007 095) 978 7638  
Petr Votoupal  
Chief Representative  
E-mail: kb-moskva@col.ru

**Frankfurt am Main - Germany**

Westendstraße 21  
60 325 Frankfurt am Main  
Germany  
Tel.: (0049 69) 740 970  
Fax: (0049 69) 740 990  
Pavel Bittner  
Chief Representative  
E-mail: kb-repoffice.de@t-online.de

**Budapest - Hungary**

Horvát utca 14-24  
H - 1027 Budapest  
Hungary  
Tel.: (0036 1) 214 0780  
Fax: (0036 1) 214 0781  
István Nagy  
Chief Representative  
E-mail: kb-repoffice@mail.mata.vu

**Warsaw - Poland**

Ul. Jana Pawła II. 15  
00-828 Warszawa  
Poland  
Tel.: (0048 22) 697 7626  
Fax: (0048 22) 697 7628  
Marcela Mayerová  
Chief Representative  
E-mail: repkb@warszawa.mtl.pl

**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)



# Organisational Chart of Komerční banka as at 31 December 1999



Share Capital in CZK mil.      Participation in %

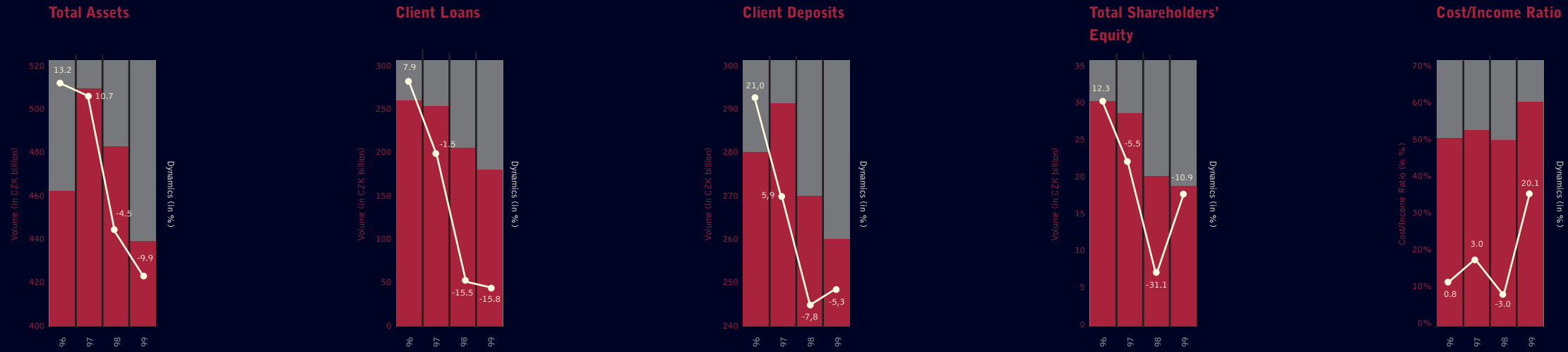
## Organisational Structure of Komerční banka as at 31 December 1999

<b>General Meeting</b>												
<b>Supervisory Board</b>												
<b>Board of Directors</b>												
<b>Section Office</b>												
<b>Legal</b>												
<b>Internal Audit and Control</b>												
<b>Financial Group Administration Privatisation Coordination</b>												
<b>Organization</b>												
<b>Human Resources</b>												
<b>Bank Risks</b>												
2303 Martina Trávníčková *												
2330 Zdeněk Šimek												
2340 Karel Kafka												
2380 Ladislav Petrásek												
2380 Petr Skok												
2390 Petr Janout												
4410 Ivan Duda												
<b>Group Strategy Division</b>												
<b>Corporate Banking Division</b>												
<b>Retail Banking Division</b>												
<b>Financial Market Division</b>												
<b>Client Risk Management Division</b>												
<b>Treasury Division</b>												
<b>Debt Recovery Division</b>												
<b>Support Service Division</b>												
<b>Information Services Division</b>												
<b>Payment Services Division</b>												
2800 Vladimír Kroutlík												
3000 Pavel Kalvoda												
3200 Jiří Eigel **												
3400 Radomír Lašák												
4000 Josef Snopek												
4200 Libor Löfler												
4600 Milan Dolansky Deputy Division Manager												
5200 Miloslav Šum												
5400 Pavel Vesely												
5600 Otakar Schlossberger												
Miroslav Šulaj Deputy Division Manager												
Michal Ventruba Deputy Division Manager												
Jiří Eigel, Miroslav Čermák Deputy Division Managers												
Deputy Division Manager												
<b>Strategic Planning</b>												
<b>Syndicated Loans</b>												
<b>Data Support</b>												
<b>Financial Institutions</b>												
<b>Corporate Revitalisation</b>												
<b>V. I. P. Private Banking</b>												
<b>Loan Portfolio Administration</b>												
<b>Assets and Liabilities Management</b>												
<b>Legal Support</b>												
<b>Premises and Construction</b>												
<b>Information Services Administration</b>												
<b>Cash Operations</b>												
<b>Marketing and Communications</b>												
2810 Miroslav Šulaj **												
3002 Ivana Jankovičová												
3202 Zuzana Baraňáková *												
3410 Jiří Hurych												
3610 Roman Čulík												
2370 Ivana Palovská												
4010 Eva Molhancová												
4210 Jiří Šperl												
4602 Josef Richter *												
5210 Antonín Kaláb												
5410 Jaroslav Kunzl												
5610 Karel Vítkovský												
5810 Miloš Růžička												
<b>Analyses</b>												
<b>Bank Guarantees</b>												
<b>Business Support and controlling</b>												
<b>Corporate Finance</b>												
<b>Current Services for V. I. P. Clients</b>												
<b>Business Risk Management</b>												
<b>Accounting</b>												
<b>Collaterals and Debt</b>												
<b>Communication and Records</b>												
<b>IT User Support Services</b>												
<b>Payment Operations</b>												
<b>External Relations</b>												
2820 Václav Rejthar												
3003 Jana Honsová												
3203												
3420 Radomír Lašák **												
2372 Jitka Zílková												
4020 Olga Heřmanová												
4220 Petr Smejkal												
4603 Miroslav Hes *												
5220 Petr Štegl												
5420 Ilija Vrba												
5620 Dagmar Eisenreichová												
5812 Ivo Polišenský												
<b>Business Suport</b>												
<b>Sector Development</b>												
<b>Trading</b>												
<b>Domestic Investment Consultancy</b>												
<b>Client Credit Limits</b>												
<b>Internal Economy</b>												
<b>Administration of Risk Debts</b>												
<b>Internal Support Service</b>												
<b>Application Analysis and Projection</b>												
<b>Payment Cards</b>												
<b>Advertising and Sales Promotion</b>												
3004 Alena Kohlová *												
3220 Eduard Šatra **												
3440 David Pírner **												
2373 Petr Kotík												
4030 Marek Macháček												
4230 František Vaněk **												
4604 Renata Adámková *												
5230 Ladislav Koucký												
5430 Josef Černý												
5630 Ladislav Hozák												
5813 Vladimír Bystrov												
<b>Business Policy and Planning</b>												
<b>Loans to Small Business</b>												
<b>Custody and Settlement</b>												
<b>Foreign Representative Offices</b>												
<b>Project Analysis</b>												
<b>Debt Recovery Prague</b>												
<b>Security</b>												
<b>Application Implementation Services</b>												
<b>Marketing Strategy</b>												
3005 Karel Koldinský *												
3230 Luboš Louda												
3450 David Bužga												
2374 Libuše Blajerová												
4040 Petr Kohout												
4240												
4630 Ing. Roman Schramm												
5240 Petr Vencel												
5440 Roman Žaloudek												
5814 Roman Šmíd *												
<b>Client Relations</b>												
<b>Points of Sale Management</b>												
<b>Assets Administration</b>												
<b>Collateral Valuation</b>												
<b>Debt Recovery Bohemia</b>												
<b>Training</b>												
<b>Technical Support</b>												
<b>Market Development</b>												
3006 Bohumil Paukner *												
3240 Jaroslav Martinec												
3460 Jaroslav Trnka **												
4050 Michal Krebs												
4630 Miroslav Šlouf												
5260 Vlasta Strážová												
5450 Václav Grepl												
5815 Jana Patavová *												
<b>Operations Settlement</b>												
<b>Product Development and Support</b>												
<b>Foreign Representative Office</b>												
<b>Debt Recovery Moravia</b>												
<b>Training Facility Libohošť</b>												
<b>Internal Communication</b>												
3010 Petr Janda												
3250 Martin Jungmann												
Total 5												
4640 Blanka Řeháková **												
5816 Aleš Hradečný *												
<b>Control Credits</b>												
<b>Private Client Loans</b>												
<b>Debt Recovery Pardubice</b>												
<b>Debt Recovery Kroměříž</b>												
<b>Debt Recovery Praha-East</b>												
<b>Debt Recovery Praha-West</b>												
<b>Debt Recovery Brno</b>												
<b>Debt Recovery Opava</b>												
<b>Debt Recovery Plzeň</b>												
<b>Debt Recovery Ústí nad Labem</b>												
3020 Jan Sadíl **												
3260 Jan Sadíl **												
4710 Josef Kolář												
4720 Miroslav Grunt												
4730 Petr Zacha												
4740 Michal Petr												
4750 Zdeňka Mahovská												
4760 Jiří Jurán												
4770 Antonín Šimek **												
4780 Pavel Klug												
<b>Trade Finance</b>												
<b>Electronic Sale</b>												
<b>Business Policy</b>												
<b>Telephone Centre Liberec</b>												
<b>Division Branches</b>												
<b>Branches</b>												
3050 Hana Mitkovová												
3270 Tomáš Vaníček												
3280 Blanka Kavanová												
Total 14												
Total 81												

\* non-managerial position  
\*\* acting manager



## Basic Characteristics of Komerční banka from 1994 to 1999 (CAS)



## Basic Characteristics of Komerční banka from 1994 to 1999 (CAS)

Item	1999		1998		1997		1996		1995		1994	index 99/94	
	state	index in %	state	index in %	state	index in %	state	index in %	state	index in %	state	in %	
a	b	1	2	3	4	5	6	7	8	9	10	11	12
1.	Return on Average Equity - ROAE (in %)	x	x	x	x	0.85	4.7	17.97	91.0	19.74	201.0	9.82	x
2.	Return on Average Assets - ROAA (in %)	x	x	x	x	0.05	4.0	1.24	89.2	1.39	252.7	0.55	x
3.	Net Interest Margin (in %)	2.93	83.5	3.51	91.2	3.85	98.5	3.91	94.4	4.14	78.6	5.27	55.6
4.	Cost/Income Ratio (in %)	61.39	120.1	51.12	97.0	52.69	103.0	51.17	100.8	50.74	113.1	44.87	136.8
5.	Total Provisions and Reserves (in CZK million)	34,881	102.7	33,974	107.0	31,763	118.2	26,868	92.9	28,920	98.7	29,297	119.1
6.	Total Shareholders' Equity (in CZK million)	17,826	89.1	20,015	66.9	29,908	94.5	31,648	112.3	28,173	115.4	24,422	73.0
7.	Number of Employees	13,356	95.1	14,043	95.1	14,759	93.2	15,840	96.8	16,368	96.4	16,979	78.7
8.	Number of Outlets	349	98.6	354	97.3	364	98.4	370	98.7	375	97.2	386	90.4
9.	Net Interest Income (in CZK million)	11,914.7	78.9	15,099.1	95.7	15,772.6	109.5	14,406.2	105.1	13,194.2	93.6	14,090.0	84.6
10.	Net Fees and Commissions (in CZK million)	4,350.3	94.0	4,627.0	106.2	4,357.8	105.4	4,135.7	109.8	3,767.2	122.7	3,069.6	141.7
11.	Total Net Income (in CZK million)	20,190.0	81.7	24,723.3	109.4	22,604.9	96.5	23,424.8	122.7	19,091.1	103.3	18,488.6	109.2
12.	General Operating Costs incl. Depreciation of Tangible and Intangible Assets (in CZK million)	11,038.6	97.6	11,315.2	102.4	11,048.2	106.3	10,389.2	122.0	8,516.8	117.6	7,243.3	152.4
13.	Profit/(Loss) for the Period (in CZK million)	(9,242.0)	x	(9,805.0)	x	261.2	4.9	5,360.6	103.8	5,162.4	301.2	1,714.1	x
14.	Total Assets (in CZK million)	439,110.3	90.1	487,318.7	95.5	510,224.7	110.7	460,881.3	113.2	407,174.3	122.3	333,033.2	131.9
15.	Client Loans (in CZK million)	183,643.9	84.2	218,025.1	84.5	257,979.6	98.5	262,021.0	107.9	245,609.0	109.1	225,079.2	81.6
16.	Client Deposits (in CZK million)	259,191.3	94.7	273,697.7	92.2	296,881.9	105.9	280,456.7	121.0	237,699.1	112.7	210,828.1	122.9

