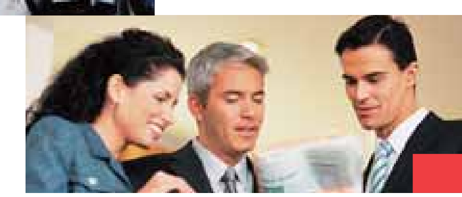
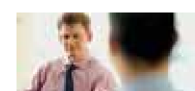
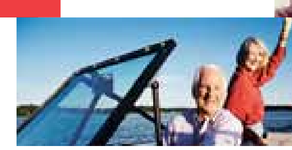
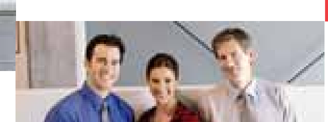





Komerční banka, a.s.

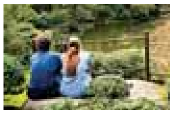
Annual Report 2004

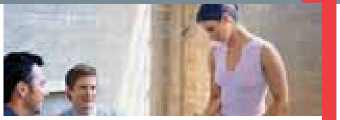
# My World.
# My Bank.

Komerční banka belongs among the largest and most important banking institutions in central and eastern Europe. It is a part of the Société Générale Group, the fifth largest bank in the Euro zone. In retail banking, Société Générale Group serves 16 million customers worldwide.

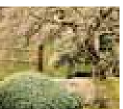



Professionalism, innovation and team spirit are the three main corporate values of Komerční banka.





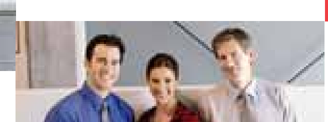
Our goal is for every Komerční banka's client to obtain all the financial services he or she needs at the branch or through a direct banking channel.




Komerční banka's 7,600 employees serve more than 1.4 million clients, who have access to 335 points of sale across the entire Czech Republic. KB operates 555 ATMs, and nearly 700,000 clients use one of the direct banking channels.

Komerční banka is the first in the Czech banking market to offer clients a guaranteed level of services. That is based on four basic principles: trust, speed, safety and satisfaction.

Komerční banka belongs among the largest and most important banking institutions in central and eastern Europe. It is a part of the Société Générale Group, the fifth largest bank in the Euro zone. In retail banking, Société Générale Group serves 16 million customers worldwide.

Professionalism, innovation and team spirit are the three main corporate values of Komerční banka.

The extensive transformation programme, focused on improving the services Komerční banka provides and increasing efficiency of all its activities, was completed in 2003.

Komerční banka continues in its efforts to improve the quality of services to its customers and to increase their satisfaction.

# Bank of the Year 2004

Komerční banka was awarded the main prize "Bank of the Year 2004" in the third year of the prestigious MasterCard Bank of the Year competition.

# Our clients know that we really stand behind them.

Komerční banka launched a new communication campaign. The slogan "My World. My Bank." clearly expresses the Bank's position and mission:

Komerční banka is here to help customers to realise their projects or to satisfy their needs in their various personal and professional lives and situations.

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# Company Profile

**Komerční banka is one of the largest and most important banking institutions in central and eastern Europe, and it has been a part of the Société Générale international group since October 2001.**

The Komerční banka Financial Group offers to its clients comprehensive services in retail, corporate and investment banking. The Bank's employees serve more than 1.4 million clients, who have access to an extensive network of 335 points of sale across the entire Czech Republic. KB operates 555 ATMs and more than half of its clients use telephone, internet or PC banking services.

Offering a comprehensive range of financial services to a diverse group of individual clients, Komerční banka aspires to be a one-stop shop for clients, providing services that include mortgages, consumer loans, life and non-life insurance products, supplementary pension products, building society savings, investments into unit trusts and guaranteed funds, as well as leasing services.

Already a market leader in serving small and medium enterprises, the Bank is growing continually stronger in this segment. Komerční banka provides such organisations with loan products having an expedited approval process, special services packages tailored to the needs of specific professional groups, and a possibility to draw advantageous loans in co-operation with the European Bank for Reconstruction and Development.

In retail banking, SG Group serves 16.4 million clients in France and worldwide.

Komerční banka is a long-time leading bank for corporate clients in the Czech Republic. It provides a comprehensive range of services on an individualised basis, and these include the global products of the SG Group.

Komerční banka is the first banking institution in the Czech market to offer its clients a guaranteed level of services and the first bank in the country enabling its clients to use the services of an independent ombudsman.

Although an extensive transformation that aimed to boost service quality and the effectiveness of all the Bank's activities was completed in 2003, Komerční banka never ceases in its efforts to improve its services to customers and their satisfaction. In autumn 2004, by the choice of a professional jury, the Bank was awarded the main prize "Bank of the Year 2004" in the prestigious MasterCard Bank of the Year competition.

## Société Générale Group

Komerční banka became part of the Société Générale Group (SG Group) in October 2001. SG Group comprises 683 companies and operates in the areas of retail banking, specialised financial services, global asset management, private banking and securities services, corporate and investment banking. It employs 92,000 people in 75 countries.
In retail banking, SG Group serves 16.4 million clients in France and worldwide. KB is part of the Retail Banking Outside France arm that is present in 26 countries and represents a very significant part of SG's retail business outside of France.

# Financial Highlights

| Unconsolidated data<br>CZK million | 2004 | IFRS<br>2003 | 2002 |
|---|---|---|---|
| **Financial Results** | | | |
| Total Operating Income | 22,717 | 21,844 | 22,597 |
| of which Net Interest Income | 12,763 | 11,937 | 12,447 |
| of which Net Fees and Commissions | 8,886 | 8,711 | 8,320 |
| Total Operating Costs* | (11,792) | (11,750) | (12,760) |
| Net Profit | 9,302 | 9,262 | 8,763 |
| **Balance Sheet** | | | |
| Total Assets | 448,298 | 447,565 | 439,753 |
| Loans to Customers, net | 153,818 | 131,042 | 121,154 |
| Amounts Due to Customers | 361,998 | 349,505 | 341,114 |
| Total Shareholders' Equity | 43,707 | 40,399 | 33,758 |

* Including restructuring costs.
IFRS – International Financial Reporting Standards.

| Unconsolidated data | | IFRS | |
|---|---|---|---|
| % | 2004 | 2003 | 2002 |
| **Ratios** | | | |
| Return on Average Equity, ROAE | 22.1 | 25.0 | 30.6 |
| Return on Average Assets, ROAA | 2.1 | 2.1 | 2.0 |
| Capital Adequacy – ČNB | 12.8 | 15.4 | 13.4 |
| Net Interest Margin | 3.1 | 3.0 | 3.3 |
| Cost/Income Ratio | 51.9 | 53.8 | 56.5 |

IFRS – International Financial Reporting Standards.

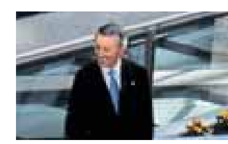
| Unconsolidated data | 2004 | 2003 | 2002 |
|---|---|---|---|
| **Other Data** | | | |
| Number of Employees, Average | 7,855 | 8,683 | 8,935 |
| Number of Points of Sale | 335 | 335 | 331 |
| Number of ATMs | 555 | 519 | 440 |
| Number of EFT-POS | 12,717 | 10,104 | 8,480 |

| Rating agency | Short-term | Long-term |
|---|---|---|
| Fitch | F1 | A+ |
| Moody’s | Prime-1 | A1 |
| Standard & Poor’s | A-2 | BBB+ |

# Interview with the Chairman

Alexis Juan

Interview with the Chairman of the Board and Chief Executive Officer



**Bank of the Year 2004 – this is also a way of summarising the past year in Komerční banka's life. What does this recognition mean for you?**

An expert jury awarded this title to the Bank in the third year of the prestigious MasterCard Bank of the Year competition, and I greatly appreciate this decision of the jurors. Behind this title we should see the hard work of all of the more than 7,000 KB employees, who have not only grasped but also share the values of the whole Société Générale Group: innovation, professionalism and team spirit. I am also aware that we would never have attained this title without our clients' trust. In 2004, the number of KB's clients rose by 90,000, and this certainly did not happen by chance. I would therefore like to express my deep thanks to all clients, both our current and future clients, for their trust in us. This title represents an immense commitment for us. It certainly does not mean that we no longer have to try hard or that we do not need to strive for further improvements. On the contrary, KB's objective is to be the "Bank of the Year" for our clients every day, whenever they need our services.

**This is only feasible, of course, with high-quality products and services. Of the many new products and services that KB launched last year, which would you highlight?**

I regard the development of lending products for all customer segments as extremely important. At the very beginning of 2004, we were the first on the Czech market to present a comprehensive offer of funding projects related to the opportunities to draw on the subsidies granted from the EU Structural Funds: the Ponte Programme. In 2004, KB and the European Bank for Reconstruction and Development signed an agreement on a credit facility worth EUR 20 million to assist small and medium-sized enterprises. Thanks to this credit facility, KB can launch another simplified and accelerated loan, the EU Profi loan. This expansion of KB's offer certainly helps to improve the competitiveness of Czech businesses on the European market. Taking loans to individuals as another example, KB was one of the few mortgage banks to offer the option of using a "conventional" mortgage loan to finance the transfer of membership rights and obligations associated with the use of co-operative flats. But we are not focused only on lending, of course. Last year we also launched Max I, a new global guaranteed fund, which became so popular with clients that we offered – still last year – another opportunity for investing in the Max II fund. This trend will continue also in 2005. In 2004, we also entered into a partnership with Allianz insurance company, thanks to which KB clients can obtain, directly at KB branches, the standard products of household and property insurance as well as motorist's liability insurance. For both companies, this co-operation represents the largest scheme to date of using alternative distribution channels and offering new products.

**But Komerční banka did not focus only on developing its product offer. It was the first privately-held bank in the Czech Republic to establish the position of a truly independent ombudsman. Why did you decide to do that, and in what way is the independence guaranteed?**

Setting up the position of an ombudsman fits well into the strategy to improve the quality of services to our clients. KB prefers amicable solutions to disputes and for clients to feel that they always will be treated fairly. At the same time, this exemplifies our building on the know-how of Société Générale, which has several years of experience with the position of an ombudsman. The KB ombudsman is selected by the Board of Directors, but he is not the Bank's employee. Therefore, he is truly independent of the Bank's management. Moreover, KB has pledged to respect the ombudsman's decisions, even though they are not legally binding on any of the parties. Professor Vojtěch Cepl, a widely recognised legal and moral authority with deep experience, was appointed the first ever KB ombudsman. He fully meets the main criteria KB follows in selecting the person of the ombudsman: independence, neutrality, and expertise.

**KB is also the first bank to offer clients a guaranteed service level. Although this became effective at the beginning of 2005, the preparations took place in 2004. On what principles is the guaranteed service level based?**

The guaranteed service level means that the Bank undertakes to observe clearly defined principles concerning its products, services, and approach to clients. The specific commitments that are a part of the guaranteed service level rely on four basic principles: trust, speed, safety, and satisfaction. Last year, KB also adopted a new slogan: "My World, My Bank." We want to help our clients to feel good in this world. Whenever they communicate with us – whether it is in a branch or using a direct banking channel – we want the Bank's clients to feel they are in an environment that is open and friendly.

**Your shareholders are certainly interested to learn more about the financial and business results. Can you outline the main points?**

KB is reporting a net profit of CZK 9.3 billion for 2004, thereby maintaining its level of profitability from the previous year. This result can be attributed, in particular, to very good business results and also to effective cost-control policy. The Bank completed the reorganisation of its back offices, and, as a result, the average number of employees declined by 16%. The cost to income ratio of 52% ranks Komerční banka among the most efficient banks in the European Union. This result documents the success of the extensive transformation that the Bank has undergone since 2001. It is reflected also in the development of KB's share price, which increased by 35% in 2004. If we take into account also the extraordinary dividend of CZK 200 per share, which Komerční banka paid out to all shareholders in August last year, then I believe that all our shareholders can be satisfied with the Bank's financial performance.

**Support for projects benefiting the general public has been an integral part of KB's activities. KB has sponsored culture, education, and non-professional sport. Is the Bank continuing in this strategy?**

Definitely. We are speaking here about the main pillars of our sponsorship strategy. Komerční banka continues its partnerships with the National Theatre and the Czech Rugby Union. I would mention, too, our co-operation with the Prague Symphonic Orchestra FOK and the French Film Festival. KB also supports the Czech Association of Disabled Athletes. With respect to education, our activities are oriented towards universities and student organisations. In co-operation with a French institute for research in social studies, we also grant scholarships to selected students every year. Students themselves have expressed their appreciation for our work when they for the second time voted KB the most sought after employer for university graduates. I certainly should not omit the KB Jistota foundation, which is actively involved in, for example, efforts to improve the environment in hospitals. KB is one of the pillars of the Czech economy, and we in the Bank realise very well that to be in such a position carries with it also obligations to the society at large. We honour those responsibilities through our activities as a sponsor and donor.

**Can you briefly outline KB's strategy going forward?**

The Bank's strategy was set in early 2002, and the results achieved so far validate this strategy. KB is now very active in serving both individuals and enterprises. The development of lending remains a priority going forward. The Bank's revenues should grow faster, and they should increase primarily thanks to growth in the volumes both of loans granted and of our clients' transactions. Cross-selling, too, will add to the Bank's revenues. Our objective is to see that each of Komerční banka's clients receives all the financial services that he or she needs at the branch or through the direct channels. We want to maintain our leading position in serving corporate clients on the Czech market, and we will continue to promote our offer to finance small and medium-sized businesses, as well as large corporations and municipalities, including the full range of services related to obtaining contributions from the EU Structural Funds.

# Major Events in 2004

## New and innovated products

Komerční banka launched products such as Merlin insurance against payment cards abuse, MAX guaranteed mutual funds and Gaudeamus[2] an innovated package for youngsters. Thanks to new co-operation with Allianz, Komerční banka now offers at all its branches selected non-life insurance products. KB successfully launched the Ponte Programme, which offers municipalities and corporate clients project financing related to obtaining support from the EU Structural Funds. An agreement signed in November 2004 with the European Bank for Reconstruction and Development (EBRD) provides KB with a EUR 20 million credit line for lending on to small and medium enterprises.

## Development of the Komerční banka, a.s. distribution network

From January to December 2004, Komerční banka opened five new points of sale and put 36 new ATMs into operation. As at 2004's end, 335 branches and 555 ATMs were at clients' disposal.

## Development of direct banking channels

As a result of technical innovations and an expanded service offer, every second client of KB now uses one or more direct banking products.

## Komerční banka Ombudsman

Komerční banka is the first private bank enabling its clients to call upon an independent third party to resolve potential disputes they might have with the Bank.

## Guaranteed service level

In January 2005, Komerční banka became the first bank on the Czech market to commit itself to maintaining a guaranteed level of services to clients by adhering to clearly defined principles concerning its products, services and approach to clients.

## Optimisation of procedures

Although KB's transformation programme was completed in 2003, rationalisation has continued. During 2004 the Bank finalised rationalisation of its back office operations.

The Bank carried on during 2004 in developing its business model founded upon an individualised approach to clients that uses banking advisors, couples banking and other financial services, takes advantage of synergies available within the KB and SG Groups, and actively seeks to enhance the quality of services provided.

## State Guarantee

After expiration of the three-year State Guarantee in December 2003 and based upon the conditions of the agreement between Česká konsolidační agentura (CKA) and Komerční banka the Guarantee was settled on 18 June 2004.

## Restructuring of the KB Financial Group

In February 2004, KB sold its 52.6% ownership share in MUZO, a.s., to PGT Capital s. r. o., an affiliate of Global Payments Inc.

The recently established joint-venture between a Société Générale subsidiary and KB, Franfinance Consumer Credit, merged with ESSOX, a company focused on consumer finance and leasing.

## Annual General Meeting

At the Annual General Meeting, held on 17 June 2004, the shareholders approved the unconsolidated and consolidated financial statements for 2003 and decided on the distribution of profit. The General Meeting approved the dividend payment of CZK 200 per share.

## Rating improvement

In April, Fitch Ratings raised its long-term rating from A- to A and short-term rating from F2 to F1. It then proceeded in August to boost the long-term rating to A+. Moody's increased its financial strength rating from D to C- in April, while Standard & Poor's upgraded its long-term rating in August from BBB to BBB+.

## Awards for Komerční banka

Komerční banka was awarded the main prize "Bank of the Year 2004" in the third year of the prestigious MasterCard Bank of the Year competition. KB Group won five prizes in the total of nine categories.

# Komerční banka Share Price

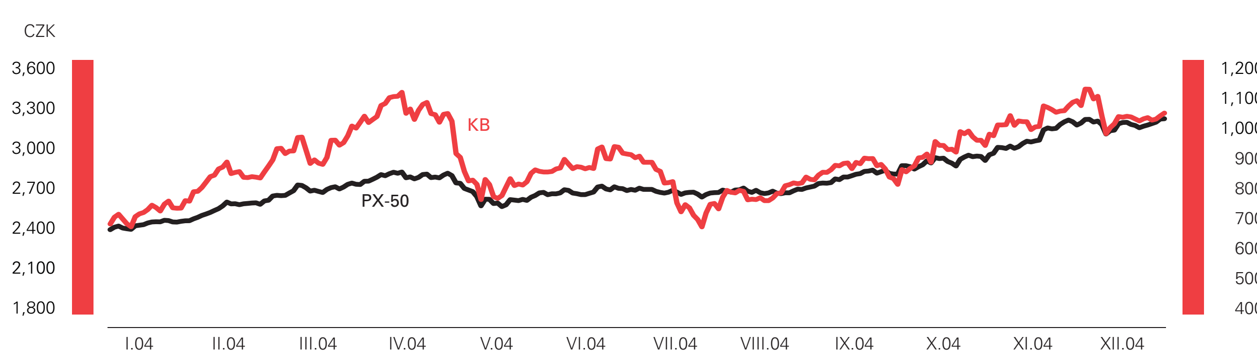
## Trading in Komerční banka Shares

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

## Share Price Development

Komerční banka shares saw another successful year in 2004, as they appreciated by 35.3%. The share price reached nearly CZK 3,300 at the end of the year, compared to CZK 2,400 at the close of 2003. In spite of this strong growth, however, the KB share price lagged the growth rate of the main stock exchange index, the PX-50, which gained 56.6% in 2004. Komerční banka, a.s. remained the PSE's most actively traded issue, with average daily trading volume of CZK 600 million. More than 30% of the total trading volume in equities on the PSE represented trading in KB shares.

**Development of KB share price vs. PX-50 Index in 2004**



Komerční banka shares saw another successful year in 2004, as they appreciated by 35.3%.


| CZK million | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Number of outstanding shares[1] | 38,009,852 | 38,009,852 | 38,009,852 | 38,009,852 | 38,009,852 |
| Market capitalisation [CZK billion] | 124.4 | 91.9 | 79.0 | 39.4 | 34.7 |
| EPS [CZK][2] | 244.7 | 243.7 | 230.5 | 66.6 | (0.5) |
| Share price [CZK] | | | | | |
| maximum | 3,452 | 2,655 | 2,161 | 1,184 | 1,152 |
| minimum | 2,418 | 1,837 | 1,016 | 807 | 613 |
| closing price at the end of period | 3,272 | 2,418 | 2,078 | 1,036 | 912 |

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

## Dividend Payment

In June 2004, the Komerční banka Annual General Meeting (AGM) approved an extraordinary dividend payment for 2003 of CZK 200 per share before tax, which amounted to 82% of net profit. Shareholders holding KB shares on the thirtieth calendar day following the date of the AGM are entitled to receive the dividends.

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Dividend [CZK][1] | 200.0 | 40.0 | 11.5 | 0 | 0 |
| Payout ratio [%][2] | 82.1 | 17.3 | 17.3 | 0 | 0 |

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

# Macroeconomic Development

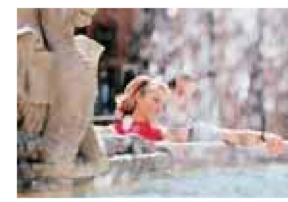
## Czech Economy in 2004

The Czech economy continued in its solid expansion during 2004, as GDP grew by 3.6% year on year. The main force driving growth could be observed in the visible shift from households consumption to fixed capital investments and exports of goods. The 9.1% rise in fixed capital formation was supported by investment activities in manufacturing and strong investment activity in construction, in particular ahead of the May 2004 changes in VAT structure. Growth in household consumption slowed to 2.6%, influenced by a moderation in real incomes growth. Foreign trade continued to affect GDP growth adversely, although its negative impact has been steadily diminishing.

Czech industry witnessed steady growth through the entire year, and the recorded 9.9% rise in industrial output was the best such result since 2001. This growth was driven in particular by a troika of manufacturing industries: the metal, electrical and optical, and automotive sectors. Export oriented companies under foreign control have been the major drivers of Czech industrial growth, as both their total sales and direct export sales have been outperforming those of domestic companies. Moreover, 2004 may be described as the year that the situation in foreign trade took a significant turn for the better. The trade deficit fell sharply to CZK 20.6 billion from 69.8 billion in 2003. The EU entry was the main reason for this important improvement.

Full-year growth in construction of 9.7% was the highest since 1993. That growth, however, was concentrated in the first four months of the year, when extremely strong activity was observed before the May change in the VAT structure negatively influenced the building sector. Thereafter, the development in construction got back onto the track that is its average growth path of around 5 – 6%. That also can be considered the sector's mid-term potential.

The Czech currency began to appreciate continuously during 2004's second half. The full-year average exchange rate of 31.9 CZK/EUR was at practically the same level as at the end of 2003. In the course of 2004, the Czech crown followed the euro in appreciating with respect to the US dollar. The average exchange rate of 25.7 CZK/USD represented a 9% appreciation of the Czech currency.



The balance of payments in 2004 ended in a surplus. While the financial account carried a CZK 181 billion surplus, the current account deficit amounted to CZK 143 billion. The main source of the current deficit was the negative income balance of CZK 140 billion, which was influenced especially by the reinvestments of profits and payments of dividends connected with foreign direct investments.

Developments in consumer prices during 2004 were affected mainly by two waves of tax changes, in January and May, and by growth in food and fuel prices. Although these changes brought CPI to its 3.5% peak in October 2004, fundamental inflationary pressures remain low in the Czech economy. Competitive pressures are even stronger after the EU accession, and fears of a possible jump in the general price level due to the accession proved unwarranted. Both year-end inflation and the average rate of inflation were just 2.8%. Producer prices, however, rose faster than did consumer prices due to the record high world prices of oil and metals. The increase in PPI reach its peak for the year (of 8.6%) in October. World metal and oil prices later eased somewhat, pushing the PPI down to 7.7% at the end of the year. The full-year average stood at 5.7%.

Market interest rates rose slightly during 2004. The CNB twice increased its two-week repo rate, boosting it by 25bp in June from 2.00% to 2.25% and again in August to 2.50%. In January 2005, however, the repo rate was cut again to 2.25%. Although the three-month PRIBOR rate increased from 2.09% to 2.56% during 2004, by the end of February 2005 it had fallen back to 2.21%.

Unemployment – and especially long-term joblessness – remains one of the Czech Republic's main macroeconomic bottlenecks. At the end of 2004, the rate of unemployment stood at 9.5%, which was exactly the same level at which it had ended 2003. An unemployment rate that is stubbornly stuck at 9 – 10%, even in the face of solid GDP growth close to 4%, demonstrates the fundamentally structural character of Czech joblessness.

# Report of the Board of Directors

## Strategy

Komerční banka's long-term ambition is to:

- become a leading retail financial institution that is a "one-stop shop" providing its customers with a comprehensive range of financial products,
- strengthen further its leading position in the small and medium enterprises market, and
- maintain its position as the leading local provider of investment banking services to corporates in the Czech Republic.

The Bank will achieve its strategy especially by means of:

**An innovative range of products tailored to the needs of all client groups**

- In order to offer a comprehensive product range under the KB brand the Bank aims to enhance the co-operation within KB Group and also with SG sister companies and other firms.
- On the basis of detailed client segmentation, KB can offer products tailored to all client groups in all stages of their lives.

**A modern multi-channel distribution model**

- KB has been optimising its distribution network by opening new branches in big cities and urban areas. Five new branches were opened during 2004, and more than 20 new points of sale are planned for 2005.
- In order to be really accessible anytime and anywhere, the Bank has continued installing new ATMs while widening the scope of services provided through its telephone, internet and PC banking services. The direct banking channels are now integral to the Bank's multi-channel business model.

Professionalism, innovation and team spirit are Komerční banka's three main corporate values.

## An individual approach to clients focused on long-term relationships

– Each client has his or her own relationship manager who is there to serve the client and to meet all of that client's expectations. This individual approach enhances KB customers' trust and, by providing them a deeper knowledge of their clients, it enables relationship managers to offer higher standards of services quality.

## Strong emphasis on the quality of services and on customer care

– To provide its clients a possibility to resolve potential disputes through an independent third party, Komerční banka, a.s. appointed an ombudsman in October 2004. Since that time, any individual client has been able to approach the KB ombudsman in writing in any case where, from his or her perspective, a dispute has not been resolved satisfactorily. This step is an integral part of KB's strategy to enhance the quality of services while building upon the know-how and experience of Société Générale.
– In January 2005, Komerční banka, a.s. became the first financial institution on the Czech market to commit itself to maintaining a guaranteed level of services to clients. This means that the bank undertakes to observe clearly defined principles with regard to its products, services and approach to clients. These commitments are built on four main pillars: trust, speed, security and satisfaction.

## A three-year strategic programme, known as Renaissance

– The programme targets further improvements in the Bank's multi-channel distribution model, including to redesign selling and after-sales processes and systems.
– Collection, processing and use of client-related information will be improved and used for client services improvements.

## A human resources policy concentrated on the quality of KB staff

– Professionalism, innovation and team spirit are Komerční banka's three main corporate values.
– Well motivated, satisfied and loyal employees are of key importance for the Bank.
– Komerční banka, a.s. constantly enhances training of its employees and development of their careers. Particular emphasis is given to sales and communication skills along with knowledge of banking products and applications.
– The Bank runs a one-year programme directed to young university graduates. It helps them launch their professional careers and gives them an opportunity to work in the international financial group.

## To achieve strong financial performance and build shareholder value, Komerční banka strives for:

**Generating revenues and growing market shares mainly through:**

– lending activities, especially in the areas of mortgages, credit cards and consumer loans, as well as loans to small and medium enterprises,
– new, attractive and value-added financial products,
– increasing the number and volumes of client transactions, and
– fully using the cross-selling potential of the KB and SG groups.

**Boosting the Bank's efficiency through:**

– successful cost management,
– centralising or outsourcing internal processes for substantial cost savings through reduced headcount,
– optimising the distribution network, and
– using modern IT tools.

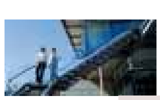
**Managing risk in order to:**

– maintain a high quality loan portfolio while retaining healthy loan growth.

## Expected developments in the financial situation

The Bank's financial results in previous years have been influenced by several one-off gains which are not likely to be repeated to such an extent in the coming years. However the Bank's management expects that the business strategy, focusing on revenue generation, client service quality and tight cost management, will:

– have a positive impact on the Bank's level of recurring profitability,
– keep the cost/income ratio in the low fifties,
– keep the cost of risk at a level adequate to the Bank's risk profile,
– although the Management expects fast growth of the loan book, the liquidity of the Bank will continue to be at a very high level,
– KB will keep a strong capital base, with a dividend policy comparable to its peer group in the EU.



As the Bank's products, services and relations with customers continually improved, the number of clients grew year on year by 90,000, i.e. by 7%.

# Serving the Clients

As of the end of 2004, Komerční banka was serving some 1.42 million clients, of which about 1.13 million were individuals and 291,000 were entrepreneurs and companies. As the Bank's products, services and relations with customers continually improved, the number of clients grew year on year by 90,000, i.e. by 7%, mainly due to the increased number of private customers. Aiming to customise its services, KB uses a detailed segmentation of clients and then reflects these details in its product offers. The broad segments include:

– some 1.40 million individual clients, small businesses and entrepreneurs, who are further subdivided into groups receiving dedicated products and services,
– more than 16,000 medium enterprises and municipalities, and
– over 2,000 large corporations.

The Bank has made a number of changes in how it serves and communicates with its clients in order to enhance the quality of the services that it delivers to them.

## Quality of services

### Independent Ombudsman

As a part of its efforts to enhance the quality of services, Komerční banka became the first private bank in the Czech Republic to appoint an independent ombudsman to resolve clients' disputes. Prof. Vojtěch Cepl was named as KB's first ombudsman. Individual clients may approach the KB ombudsman in cases where they feel that a dispute has not been resolved satisfactorily. The ombudsman will deliver his decision within two months from the time that a complaint is lodged. As Komerční banka prefers amicable solutions, it undertakes to provide the ombudsman all the information as may be necessary for his independent actions. The Bank has committed itself to respect his decisions, even though these are not legally binding.

### New Quality Commitments

In January 2005, Komerční banka introduced another innovation when it became the first bank in the Czech market committing itself to maintain a guaranteed level of services to clients by adhering to clearly defined principles concerning its products, services and approach to clients. These commitments are based on four main pillars: trust, speed, security and satisfaction.

To enhance quality within the Bank, each KB arm has people responsible to develop projects for improving quality and to promote quality of service throughout the bank.

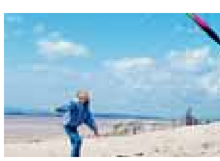
### Communication with clients

In order to develop communication with customers that is as efficient and easy as possible, the Bank introduced a new internet site with an easier and more client-friendly navigation system, clear presentation of KB's commercial offer and an attractive design.

In November 2004, KB launched a new communication campaign. The slogan "My world. My bank" clearly expresses the Bank's position and mission: KB is here to help customers to realise their projects or to satisfy their needs in their various personal and professional lives and situations.

In 2004, the Bank devoted special attention to communicating directly with clients, including students and small entrepreneurs. For its existing and potential clients the Bank organised a total of 38 meetings that were combined business and social events. Billed as a "Meeting Day with KB", the meeting days are held in all regions of the country and are organised as lectures, presentations and discussions between clients and KB specialists responsible for specific products and subsidiary companies. While aiming to increase awareness and knowledge of the Bank's products, these events also are to support the sale of those products.

Similar events are held also for clients in the Medium Enterprises and Municipalities segment. Six meetings of that kind were held during 2004. Five of these focused on financing for enterprises from European Union funds, and another was a special seminar devoted to franchising.



In comparison with 2003, the total number of direct banking product activations increased by 37%, to 886,000.

The KB Express Line is the most used direct banking service.

## Sales Network

### Business Network

Komerční banka further optimised its branch network throughout the Czech Republic during 2004. Although the total number of points of sale was unchanged – at 335 – at the end of 2004 compared to the previous year, five new branches were established in areas characterised by high human traffic. Two of these were in Prague and the others were in Brno, Ostrava and Frýdek-Místek. The same number of less-frequented and uneconomical branches were closed. Altogether eight branches were moved to more appropriate premises closer to their clients. During 2005, the Bank plans to open more than 20 new branches in large city centres, and particularly in Prague.

With an eye to enhancing service quality and making operations more productive, a project was implemented during 2004 to increase the number of open cash-desk workplaces. These are workplaces where, in addition to receiving standard cash-desk services, a customer is offered such other services as issuing of payment cards and account statements, balance verification and others. In the course of the year, 52 such new workplaces were established in 50 branches throughout the Czech Republic.

KB further extended its ATM network. The number of ATMs increased by 36 year on year, and the Bank ended 2004 with 555 machines. Last year was also the year for modernising outdated ATMs, as 70 machines were replaced. Even as the number of ATMs grew, so did their usage. Total withdrawals increased from 16.6 million transactions in 2003 to 19.2 million in 2004. Some 83% of the Bank's clients have used an ATM to withdraw money.

## Direct Banking

Many technical improvements were made during 2004 with regard to Komerční Banka's direct banking services. Services were extended, as well, and new functionalities were implemented. All of this led to further growth in usage – to the point where now every second KB client uses one or more direct banking products.

In comparison with 2003, the total number of direct banking product activations increased by 37%, to 886,000. The number of clients using these services rose by 31%, to 698,000. The KB Express Line is the most used direct banking service. It has been activated for some 598,000 customers, reflecting a 32% increase since the end of 2003. The number of mojebanka internet banking users climbed by 52% during the year, to 223,000. Some 22,000 clients (mostly corporate) use the profibanka PC banking product. With the growing number of clients subscribing to these services, their total use also is rising. Some 71% of all payments and 76% of foreign payments are ordered by telephone or computer.

The KB Express Line, operated by the KB Call Centre in Liberec, received more than 12 million calls during 2004. Telephone sales specialists placed about 800,000 outgoing calls, and they were especially successful in selling credit cards. Telephone bankers now commonly hand over information with regard to clients' needs and possibilities to their personal bank advisors, who then continue in servicing or selling the products. This servicing method not only significantly increases sales of individual products but also raises the quality of services provided. The latter is illustrated, for example, by the reduced time the client waits to be put through to a telephone banker.

The Call Centre not only communicates with its clients by voice, but also through sending email messages. Gaining in popularity is the "Call Me" internet service, through which a client orders a telephone call from a KB telephone banker by means of a form located on the KB web site.

Komerční banka introduced several innovations to the direct banking market during 2004. Mojebanka internet banking users are able to invest on-line in the unit trusts of Investiční kapitálová společnost KB. Clients may enter into a general contract, buy or sell unit certificates of the IKS Funds and make transfers between the funds. They have at their disposal detailed information about their investments, as well as information regarding the individual funds, and the funds' current prices.

KB introduced a new electronic system for its monitoring of accounts receivable due from corporate clients. This will greatly simplify administration of these processes. Moreover, the functionality of sending and processing of batch payment orders was enhanced while the need to use documents in paper form was reduced.

## Payment Cards

KB clients had some 1.22 million payment cards active at the close of 2004. Among these were some 66,000 credit cards. To better realise the potential in the credit card business, KB launched a new VISA Electron credit card for individual clients.

The first in the Czech banking market to do so, KB successfully completed migration its payment cards VISA, VISA Electron, MasterCard and Maestro to EMV technology, and it now issues only EMV chip cards in the VISA and MasterCard systems. Almost 60% of total active payment cards are EMV cards. One of the substantial advantages of this technology is its possibility for use in implementing various loyalty programmes. The Bank has already launched for merchants a pilot programme for a new loyalty system.

Komerční banka, a.s. continues to be in a unique position in that it accepts the payment cards of fully five card associations: VISA, MasterCard, American Express, JCB and Diners Club. In 2004, KB reinforced its leading market position as an acquiring bank for processing merchants' payment cards transactions. The Bank's market share was reinforced by establishing new relationships with retailers, such as the Electro World retail chain. KB's total market share now stands at 45%, and total turnover from payment cards transactions at the merchants came to nearly CZK 42 billion.

## IT and Support Services

Not only do modern information technologies and quality support services increase the quality of services and comfort for clients, these also improve and accelerate the Bank's internal processes. It is no wonder, then, that Komerční banka, a.s. pays close attention to this area. In 2003, the Bank initiated a three-year strategic programme, known as Renaissance, which, among other things, focuses on reorganising internal processes and modernising KB's information technologies.

With an eye to optimising operating costs, significant changes were made in the telecommunication infrastructure with regard to call services, KB's internal data network and the Bank's ATM network. The changes made during 2004 will bring considerable savings in overall operating costs for telecommunication. The Bank also transferred a significant part of staff for its regional services operations to the external company Altys, a.s., and it was able to launch implementation of a project to optimise the Bank's real estate portfolio with regard to both the branch network and the headquarters buildings.

In July 2004, processing and printing of client statements were outsourced to the company IBM. This allowed for staff reductions and brought significant cost savings.

In the latter half of 2004, the project for centralising domestic payments processing was completed. Processing for all customer domestic payment orders is now concentrated into two new centres located in Prague and Pilsen. Payments are processed in a newly developed application called Central Teller System. The project's main objectives, which were to increase both the efficiency and quality of domestic payments processing, were achieved. Moreover, foreign payments processing for the Slovak subsidiary, Komerční banka, a.s. Bratislava, was centralised into KB's Prague processing centre during 2004.

In November 2004, IT support for such end-users as administrators and help-desk operators was outsourced to Hewlett-Packard. As a result, 77 employees moved from the Bank to the outsource company, bringing KB considerable savings in personnel and administrative costs.

In June, Komercni banka became an indirect member (through Société Générale) in the pan-European clearing system known as STEP2. This membership allows the Bank to send and receive cross-border Euro payments in compliance with European Commission Regulation 2560/2001 with regard to EU-regulated payments. Through the end of 2004, KB had sent some 63,000 payment orders and received 108,000 payment orders by means of STEP2.

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Through its relationship managers and direct banking facilities, Komerční banka provides payment services, trade finance, leasing, factoring, loans, asset management, capital market services, financial consulting and other services based on clients' specific needs.

## Retail Banking

### Individuals

The Bank carried on during 2004 in developing its business model founded upon an individualised approach to clients that uses banking advisors, couples banking and other financial services, takes advantage of synergies available within the KB and SG Groups, and actively seeks to enhance the quality of services provided.

Komerční banka continued to enrich its product range for 1.13 million individual clients. An expanded and enhanced offer for young people and students was one of the most significant changes. Thanks to the new Gaudeamus[2] package, bought by nearly 19,000 students during the latter half of 2004, the proportion of students in the total number of individual clients increased to 10%.

The past year again brought increased interest in loan products among KB's clients. During 2004, the total volume of mortgage loans to individual clients increased by 40%, to CZK 31 billion, and the volume of sold loans grew by 22%. The interest was especially for mortgages to purchase real estate, and the average amount for an individual loan was CZK 1.3 million. The Bank made several important changes in its lending parameters during the year, and it simplified processes for providing mortgage loans. KB still ranks among the three largest providers of mortgage loans in the Czech Republic.

The Bank also continued to develop its consumer lending and financing through payment cards, the total volume of which increased by 17% to CZK 10.6 billion. Although the proportion of receivables from credit cards has so far amounted to just 8% of this sum, their dynamic development, together with rapid growth in the number of active credit cards held by KB clients, confirms the high potential for this product. In addition, at the end of the year Komerční banka, a.s. began providing the VISA Electron international credit card, which offers a simple solution for financing any client's personal needs.

| Individuals | 2004 | 2003 | Change |
|---|---|---|---|
| Total number of mortgage loans | 30,414 | 22,574 | +35% |
| Total volume of mortgage loans (CZK billion) | 31.0 | 22.2 | +40% |
| Total number of consumer loans | 118,515 | 92,089 | +29% |
| Total volume of consumer loans and overdrafts (CZK billion) | 9.7 | 8.5 | +14% |
| Total volume of loans from credit cards (CZK billion) | 0.9 | 0.6 | +50% |
| Number of active credit cards | 61,400 | 35,100 | +75% |
| Number of active packages | 716,244 | 510,461 | +40% |
| Number of child accounts | 94,800 | 39,000 | +143% |

In the latter half of 2004, the Bank introduced to the market the new investment products Max I and Max II. These are global guaranteed funds, and KB clients invested nearly CZK 1.4 billion into these. The funds offer clients an opportunity to safely invest their available funds into world stock markets and to do so in co-operation with affiliated companies of the SG Group. Sales of the third product in the Max series were launched in February 2005.

The year just passed also brought further development in insurance services. In the life insurance category, KB brought to the market its new Vital Grant product, which insures the client and his family for cases of unexpected tragedies. Komerční banka, a.s. continued to expand the portfolio of general insurance products. In April, KB brought to the market a new insurance product, Merlin, that protects clients from the consequences of loss or theft, and possible misuse, of payment cards issued by KB and in case cash will be drawn using the payment card. It also provides compensation for personal documents and keys stolen together with the card. The clients' interest in this product was enormous, and at the end of the year more than 85,000 clients were protected. In October, co-operation with Allianz Insurance Company was initiated, on the basis of which Komerční banka offers additional non-life insurance products at all of its branches, including household and homeowners policies as well as liability insurance. In the last quarter of 2004, KB sold more than 2,000 liability policies and nearly 1,200 property insurance policies.

## Small Businesses

KB has consolidated its leading position in the Czech market's small businesses segment. It serves some 270,000 such clients from its 335 branches across the entire country.

The Bank provides day-to-day banking services and also meets the financing needs of its customers. Loan products have been improved. For example, the maximum amount of the Profi loan, a flagship product for the Small Business segment, has been doubled to CZK 8 million. Authorised overdraft facilities have been extended up to CZK 3 million and newly offered as a part of any business current account or package of financial products. As a result, total outstanding loans to small businesses grew by 46% to CZK 7.0 billion, and the penetration of loans and overdrafts exceeded 20% by the end of the year.

The sub-segmented offer of everyday banking services has been enlarged by a package for pharmacies, which includes favourable conditions for business loans, and, in response to new legislative requirements, by an offer for insurance agents KB also introduced during 2004 the Profi payment terminal, which is an easy solution for merchants wishing to accept payment cards.

By the end of the year, 43% of clients in this segment were taking advantage of a financial package. Crossing of the 100,000-package mark had been celebrated in September 2004, less than two years after the launch of financial packages for this segment.

| Small Businesses* | End of 2004 | End of 2003 | Change |
|---|---|---|---|
| Number of business loans | 11,048 | 5,869 | +88% |
| Number of authorised overdrafts | 54,867 | 36,910 | +49% |
| Volume of business loans and overdrafts (CZK billion) | 7.0 | 4.8 | +46% |
| Number of packages | 114,497 | 45,457 | +152% |

* 2003 figures recalculated to be in line with the methodology applied in 2004.

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The Bank provides day-to-day banking services and also meets the financing needs of its customers.

## Medium Enterprises and Municipalities

KB continued to expand the range of products it offers to the approximately 15,000 clients in the Medium Enterprises and Municipalities segment (MEM) and served from its 37 MEM Business Centres across the Czech Republic.

During 2004, the Bank added several innovations. In January, the KB Komplet package was introduced. This includes everyday banking products together with electronic banking services, payment cards and pre-ordered volumes of domestic and foreign payment transactions. The Bank also launched KB FlexiRámec, a frame agreement for multiple loans and trade finance deals up to pre-approved limits.

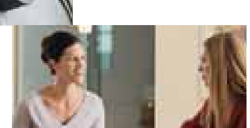
Following the EU accession in May 2004, KB redesigned its payments pricing to reflect gradual Czech market adjustment to the EU environment. KB prepared the fixed-price KB EuroPayment for transfers of up to EUR 12,500 to and from the Euro zone countries (starting from January 2005).

Growth in lending to the MEM segment continued, and total outstanding loans to the segment increased by 22.3% to CZK 38.9 billion. This development was supported by the fact that ProfiLoan, the successful loan product for small businesses, was adapted to meet MEM segment needs.

Accession of the Czech Republic to the European Union brought the possibility to draw funds from newly available Structural Funds and the Cohesion Fund. At the beginning of 2004, the Ponte Programme was created with a special offer for financing and pre-financing of European projects. At the same time, a special Municipality and Specialised Financing section was established in the Bank to support KB's distribution network for EU projects. Komerční banka's emphasis on this area was positively reflected in sales of the Ponte Programme during the year.

KB signed a loan facility agreement with the European Bank for Reconstruction and Development (EBRD) in November 2004. Under terms of the agreement, EBRD will grant KB a EUR 20 million credit line for lending on to this segment, as well as EU technical assistance designed to increase KB lending capabilities to small and medium enterprises. The credit line will be offered in the form of a new product, the EU ProfiLoan, launched in February 2005.

The growing export potential of Czech companies has been proven by significantly increasing demand for export customer loans. Also increasing was the use of such trade finance products as security and payment instruments. Bank guarantees showed especially strong growth, their number increasing by 39% relative to 2003. To increase awareness of its capabilities in trade finance, KB signed a co-operation agreement with CzechTrade's Exportní klub in February 2004. The partnership aims to promote Czech exports and to increase the know-how about trade finance among Czech companies.

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# Corporate and Investment Banking

## Corporates

KB remains the long-term leading bank for large corporate clients in the Czech Republic. Eight business centres located in the various regions of the Czech Republic and in Prague ensure an individual and expert approach to major Czech and multinational companies, as well as to the main financial and public institutions. By offering tailor-made, high quality services, KB strengthens its current business relations and works to acquire new clients from the most important companies operating on the Czech market.

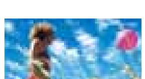
A focus in 2004 was to work toward consolidating and diversifying over the long term the Bank's relationship with its clients on the basis of a global multi-product offer. This is primarily the responsibility of experienced relationship managers, who can count on support of specialists from the Bank's other business lines, from the Komerční banka Financial Group in the Czech Republic, and from Société Générale worldwide.

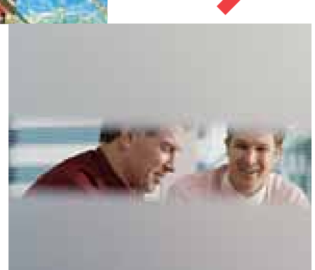
KB is a traditional and well recognised provider of complex cash management, including very effective electronic banking, especially for clients with significant volumes of payments. In this field, the Bank won several significant tenders during 2004 to work with top companies from sectors such as utilities and industry.

Komerční banka managed to grow its loan portfolio in this segment by 3%, to CZK 67.6 billion. Equipment leasing also continued to expand, especially in regions outside Prague where rapidly expanding Czech industrial and high tech exporters and a dynamic flow of foreign investments into such key sectors as automotive suppliers was observed. Leasing for corporate car fleets developed rapidly, especially in the form of operational leases that include fleet management for top Czech corporates and multinationals. In co-operation with its affiliated company ALD Automotive, KB concluded one of the Czech Republic's biggest contracts – for a fleet exceeding 500 cars – in the area of full-service leasing.

In 2004, KB also provided a number of its corporate clients with retail banking services for their employees, including pension insurance and life insurance plans. These special products offer a value-adding and convenient solution for both the corporate client and its employees.

Just across the border, synergies have been achieved by co-operating closely with Komerční banka Bratislava. This relationship is appreciated especially by KB clients having intensive business relations with their Slovak partners.



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## Investment Banking

Komerční banka, a.s. further strengthened its position during 2004 as a leading bank in the Czech financial markets, offering its clients a full range of competitive and innovative investment banking products and services: foreign exchange and derivatives, liquidity management, capital market financing, mergers & acquisitions, advisory and asset management. The Bank has been a consistently strong counterparty to market participants in the Czech Republic and abroad, providing liquidity in numerous market segments and transacting growing volumes in both cash and derivatives with its corporate and institutional clients.

### Derivatives

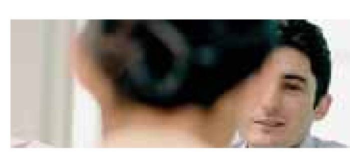
During 2004, fast moving markets highlighted the need for more systematic hedging of foreign exchange, interest rate or commodity exposures. Therefore, a growing number of clients adopted advanced hedging strategies that use individual options or a combination of these. Building on Société Générale's global recognition for its product expertise and market position in derivatives, Komerční banka, a.s. has become for many clients the leading bank for hedging products.

The Bank has pursued its marketing to institutional clients. In addition to plain vanilla government and corporate bonds, for which the Bank is one of the most active market makers, KB offers its clients a range of interest rate and equity linked products designed to enhance the yield of clients' investments. Due to historically low interest rates, on the one hand, and continuously growing assets under management, on the other, the demand for these types of products has been strong and is expected to develop further in the future.

### Debt Origination and Corporate Finance

The Bank provides a complete range of services beginning with an analysis of each client's needs, leading to the creation of a financing structure and to securing the financing. In 2004, Komerční banka, a.s. was one of the leaders in the domestic syndicated loan and bond markets. It successfully participated in the majority of capital market transactions in the Czech market. In the area of syndications, KB arranged several transactions ranging from financing such corporations as Chemopetrol, Ferona and ECK to providing long-term funding to such municipalities as the City of Kolín and the Vsetínsko microregion. In the bond market, Komerční banka, a.s. was sole lead manager of a CZK 5 billion domestic bond issue for CKA, the mandate for which had been awarded in a public tender.

Komerční banka also provides high quality M&A advisory support to corporate clients. The services offered include business valuations, buy and sell side advisory, negotiation assistance and leveraged buyout/MBO advisory. In close co-operation with SG, the Bank works with a wide range of domestic and international clients to facilitate and arrange cross border transactions.



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# Risk Management

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group and the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies. In its procedures, the Bank takes into consideration developments regarding all types of risk, i.e. credit risk, market and liquidity risk, as well as regulatory, operational and environmental risks.

## Credit Risk Management

During 2004, the credit risk assessment and credit risk management units co-operated closely with the business units in order to support marketing and sales efforts by making the credit process more efficient while closely monitoring the quality of Komerční banka's risk portfolio.

### Loan origination and monitoring credit risk

With regard to credit decision-making processes and capacities, priority has been given to the following aspects:
- Implementation of a new client rating methodology in compliance with Basel II regulations and consistent with Société Générale principles. The Bank quantifies counterparty risk on the basis of ratings that depend upon the type and profile of the borrower and are derived from quantitative and qualitative criteria.
- Strong co-operation with business units by means of active methodological support, risk training and regularly updated scoring tools for retail client segments and products.
- Extended automation of credit approval processes, development of expertise by creating specialised and/or sectoral teams. As a result, Komerční banka's decision-making capacity has been further strengthened.
- Increased and more efficient reliance on external sources of information (e.g. inter-bank credit registers) with the objectives of developing early warning system indicators and detecting credit deterioration situations as early as possible.

The Bank also focused its efforts on strengthening its credit risk monitoring function and making it more effective:
- A dedicated credit risk control team was established with the mandate to monitor the quality of credit risk assessment and credit risk monitoring functions across the entire Bank. This initiative will usefully complement the scope of Komerční banka's Internal Audit team.
- Komerční banka, a.s. continued to closely monitor its potentially problematic credits. This category of assets is reviewed both on an ad hoc basis and on a quarterly basis by a dedicated committee.
- Considerable effort has been dedicated to developing advanced information systems designed for regular and added-value monitoring of client limits and exposures (at the levels both of individual legal entities and for groups of related companies).

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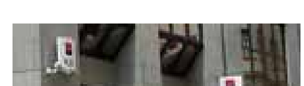


## Provisions and reserves

Komerční banka fulfils all requirements as defined by CNB regulations with regard to classifying loan receivables, taking into account both quantitative criteria (account history, payment discipline, financial statements) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring).

For most of Komerční banka's loan portfolio, classification, business and financial situation, collateral valuation and provisioning are evaluated individually on a quarterly basis via well structured provision committees. Provisions and reserves are established after comprehensive assessment of all available parameters.

Finally, Komerční banka paved the way for a new methodology with regard to creating specific provisions and reserves that combines compliance with both the CNB's Provision No. 6/2004 and new IFRS requirements. The effective implementation date was 1 January 2005.

## Recovery activities

After closing the portfolio sale to GE Capital Corporation and settling the State Guarantee, Komerční banka decided to further enhance its recovery processes. In accordance with its original plan, Komerční banka in 2004 effectively proceeded with closing down its Remedial Management unit. KB has a special unit for asset valuation and recovery that focuses on consulting support to business units, management of loan and asset recovery and collateral valuation.

Part of the related recovery activity is now outsourced to external collection firms with the objectives to increase both the proportion of recoveries and the efficiency of this activity.

KB also has a soft collection unit, set up in late 2003, which initiates pre-emptive actions according to precisely defined rules in close co-ordination with KB business units.

## Foreign exposure

Most of Komerční banka's foreign exposures are generated by transactions with international financial institutions on the inter-bank market. The Bank has developed a system and formalised appropriate procedures in order to monitor related counterparty and country risk exposures against pre-defined and approved limits.

## Counterparty risk on capital market activities

Counterparty risk management in the field of capital markets activities is based on the SG Group model. The basic rule of "pre-authorisation" (i.e. the authorisation must always be granted before a transaction is concluded with a counterparty) is systematically applied for all capital markets transactions. Daily monitoring of compliance with exposure limits also takes in the activities of Komerční banka Bratislava. Front office dealers are provided daily with information on a per counterparty basis about their current limits, exposures and available limits. Any breach of these limits is immediately reported to the relevant level of management within the Bank. The Board of Directors is informed of all breaches of limits on a monthly basis.

The daily calculation of counterparty risk arising from derivative products was based during 2004 on the Current Average Risk indicator (CAR), which allows an evaluation of the replacement costs of a derivative product in case of counterparty default. This indicator calculates the average of the estimated potential exposures that are likely to occur during the remaining life of the instrument. This indicator depends upon current market parameters, time to maturity of the instrument and the nominal amount of the transaction.

## Market Risk Management

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

Responsibility for market risk management at Komerční banka, a.s. lies with the Market Risk unit. In order to ensure the independence of risk management from business units, the unit reports directly to the member of the KB Board of Directors responsible for Risk Management and to the Head of Société Générale Group's Market Risk division. Market risks at Komerční banka, a.s. are managed in compliance with the following principles, which ultimately require the approval of the Board of Directors:

- All risks are systematically and regularly monitored and reported independently of business units.
- Methods for measuring risk and control procedures are defined and approved by the KB and SG management of the Market Risk unit and Société Générale Group's Market Risk division.
- Limit applications are processed based on requests from business units and within the global limits set by the Board of Directors.
- All regulatory requirements are fully respected.

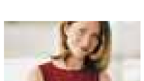
Prior to their launch, new capital market products are comprehensively analysed by all relevant units of the Bank, the objective being to identify all associated risks. Following this analysis phase, an approval is given by the New Product Committee in order to ensure that the Bank is in a position to propose the product to its clients in a fashion that is properly controlled and demonstrates clear understanding.

### Methods for measuring market risk and defining limits

During 2004, Komerční banka finalised implementation of methods and standards that are consistent with Société Générale Group rules. Currently, all market risks within Komerční banka and Komerční banka Bratislava are evaluated using the Value at Risk (VaR) method.

Komerční banka's market risk assessment is based on three main indicators that are used to define exposure limits:

- VaR historical simulation method, calculated to a 99% confidence level and one-day time horizon, which allows the Bank to consolidate its market risks into SG Financial Group's Value at Risk.
- Stress-test measurement, to take into account low probability events not covered by VaR. The Bank performs several types of stress tests for foreign exchange, interest rate and equity exposures. Shock scenarios consist of very significant movements in parameters determined either through historical studies or hypothetical analysis.
- Complementary limits such as sensitivity, FX position, credit spread risk and holding period. These limits monitor market risks that are only partially captured by VaR and stress tests.



During 2004, Komerční banka finalised implementation of methods and standards that are consistent with Société Générale Group rules.

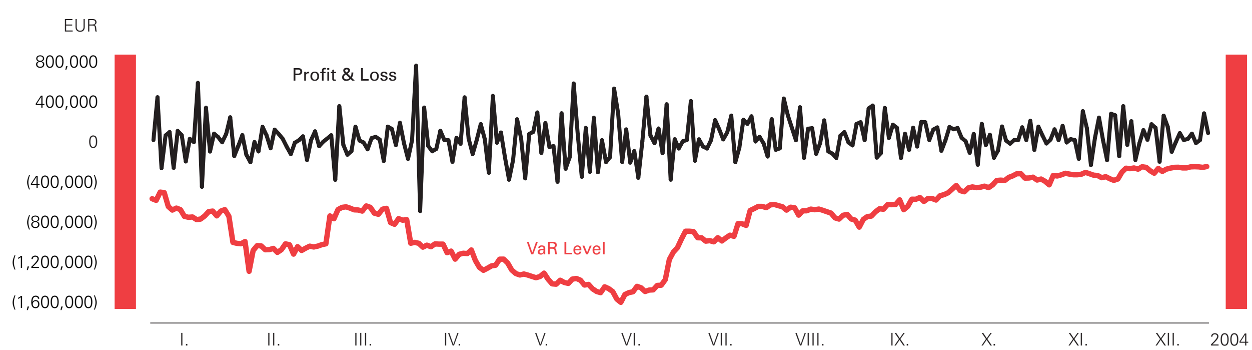
### Value at Risk method

The VaR method ("historical simulation") has been used at Komerční banka since 2002 for foreign exchange and interest rate risk and since 2003 for equity risk. It takes into account correlations between all markets, and the characteristics whereby the repeating of market parameters is not evenly distributed. Scenarios of one-day variations of market parameters over a period of the last 250 business days are used. The 99% VaR is the loss that would be incurred after eliminating the top 1% most unfavourable occurrences. With 250 scenarios this corresponds to the average of the second and third largest potential losses computed.

### Back testing

Komerční banka, a.s. regularly reviews the accuracy of the model by back testing. Trading results are compared with the modelled VaR to monitor the number of violations against the 99% confidence level. During 2004, no daily loss exceeded the 99% VaR level.

The Value at Risk and main exposures as at 31 December 2004 were as follows:




| Stress Test exposure (worst case) as at 31 December 2004 | EUR |
|---|---|
| Foreign Exchange relative shock | (618,893) |
| Interest rate pivot risk | (5,329,000) |

### Monitoring of the CDO and CLN portfolio

In 2004, Komerční banka fine-tuned its methods and processes used for evaluating CDO and CLN exposures. The underlying rationale used for measuring risk related to these exposures is based on a methodology that computes Monte Carlo simulations of future cash flows depending on estimated credit deterioration of the underlying assets and then estimates the net present value of these simulated cash flows. Active communication with collateral managers and rating agencies further enhanced this approach.

## Basel II

The objective of the Basel II accord is to implement more sophisticated rules for calculating the Capital Adequacy Ratio (CAR) from 1 January 2007. Basel II is based on three so-called “Pillars”.

– Pillar 1 focuses on methodology of risk measurement, integration of risk measurement into business processes, design and control. Basically, the bank must calculate a capital requirement for each type of risk. While rules for calculating capital requirements for market risks remain unchanged, the rules for capital requirements related to credit risk are significantly modified. Compared to Basel I, the capital requirement is much more dependent on the credit quality of the borrower and on the internal rating system. The concept also introduces new capital requirements for operational risk. The level of sophistication depends on the existence of internal statistical models.
– Pillar 2 focuses on supervisory review processes, such as key principles of supervisory review, supervisory transparency and accountability including stress testing, valuation of capital adequacy and the risk profile of the Bank.
– Pillar 3 focuses on market discipline, and more specifically on disclosure of rules for capital structure, risk profile, etc.

Komerční banka, a.s. aims to achieve an advanced risk management approach in close co-operation with Société Générale Group’s Basel II team. The Bank benefits here from the parent company’s existing strong culture for risk management and control.

Regarding credit risk, Komerční banka has based its approach for the retail and corporate segments on models already implemented in the late of 1990s (founded on rating and expected loss concepts). In 2004, KB performed a feasibility study on Basel II and launched a Basel II programme with the following main targets:

– completion of centralisation of credit and operational risk data,
– review and update of credit risk management models in co-ordination with Société Générale Group, and
– preparation of the calculations for the new credit capital requirement.

From 2007, Komerční banka, a.s. intends to provide reporting in line with Basel II regulation that will include both current and new capital ratios.

## Operational Risks

In October 2004, Komerční banka created an Operational Risks department in order to satisfy the requirements of Basel II, Société Générale and the Czech regulatory bodies. The main target is to qualify on the SG group level for the Advanced Measurement Approach (AMA) for calculating capital requirements. This approach consists of the following components being progressively implemented by the Bank:

– Since 2003, all operational risk events exceeding the Group threshold (EUR 10,000) have been collected and reported. From 2005, this collection will be partially automated.
– Risk Control Self-Assessment complements the data collection and is composed of a large set of questions concerning all banking areas. The data collected will allow the Bank to determine whether each particular area is less or more sensitive to operational risks.
– Scenario Analysis should enable the assessment of high impact risks having low probabilities, e.g. natural catastrophes. It is planned to launch this component during 2005.
– Within Key Risk Indicators, parameters indicating potential changes in level of exposure to operational risks will be collected. This component should be implemented in 2006.

The completion of all qualitative and quantitative components mentioned above will allow KB to manage operational risks and to take advantage of potential cost savings. Using these indicators, SG Group will be allowed to calculate its own capital requirements using an internal model according to AMA methods.

## Asset and liability management

Asset and liability management (ALM) is the responsibility of the ALM department. That management process takes in the core banking activities defined as the Structural Book and is driven by the need to address potential consequences of any mismatches in the characteristics of assets and liabilities under management (with regard to interest rates, maturities and currencies) and to prevent negative consequences. The rules used, changes to these rules, and proposed hedging transactions with respect to the interest rate and liquidity risk are approved by the Asset and Liability Committee. In all its activities, the Bank fully complies with all requirements of the Czech regulatory authorities, as well as with all applicable international regulations.

### Liquidity risk

Management of liquidity risk is primarily designed to ensure that the Bank can meet its funding requirements at all times. This includes the maintenance of adequate volumes of cash, balances on nostro accounts and on the account of minimum mandatory reserves while keeping the Bank's costs of liquidity low and not hindering business activities. Liquidity is maintained by consistent diversification of sources and cash flow management, as these reduce the occurrence of unforeseen requirements for additional funding during a given period. This primary objective is achieved by way of managed coverage of the Bank's cash-out with a very high confidence level (97.5%) over a sufficiently long future period (one year).
During 2004, a special intranet application was launched. In case of a liquidity crises, and using this application, the ALM department would be able to communicate effectively with the business units throughout KB to minimise the outflow of funds. A liquidity snapshot broken down by currency – CZK, USD, EUR and other currencies – is monitored on two levels of market behaviour: normal and stressed scenario. The management of short-term inter-day liquidity is carried out using a series of indicators on a daily basis. Sufficient liquidity is controlled using a system of limits. To achieve these, the Bank uses on-balance sheet instruments (e.g. bond issues, loans taken) and off-balance sheet instruments (cross currency swaps, foreign exchange swaps).
In 2004, Komerční banka, a.s. issued mortgage bonds in a total volume of CZK 4.83 billion within its Mortgage Bond Programme. Of this amount, CZK 2.40 billion represent completion of the first issue maturing in 2009 with fixed coupon of 5.5%, while CZK 2.43 billion belongs to the second issue maturing in 2008 with fixed coupon of 4.5%. Considering the Bank's high liquidity surplus, it should be noted that the mortgage bonds were not issued further to increase the liquidity, but rather to provide advantageous funding of mortgage loans.

### Structural interest rate and foreign exchange rate risk

Structural interest rate and foreign exchange rate risks are risks of potential loss arising from positions held in the Bank's Structural Book as a result of fluctuations in the market prices (interest rate and exchange rate changes).
Structural foreign exchange rate risk is measured and managed on a daily basis. The Bank's position is controlled by a system of limits (the Bank's internal limits as well as limits required by the CNB). Foreign exchange positions are hedged by such standard instruments as FX spot and FX forward operations.
The Bank manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of volatility of future interest income. The Bank has implemented Convergence, which is an asset and liability management system supplied by SUNGARD. The system is used by the ALM to apply methods for measuring interest rate risk while working to further reduce risks. The Bank uses standard market instruments for hedging against interest rate risk, such as interest rate swaps (IRS), forward rate agreements (FRA), and to a lesser degree investing in securities. All deals are immediately entered into the front office system to be recorded and priced. KB implemented the new front office system Kondor+ during 2004 in order to optimise transaction processing in financial markets.
Interest derivatives (derivatives for hedging risk in the Structural Book) are accounted for in accordance with IAS 39 and CAS to achieve the most accurate accounting valuation. KB has adopted a detailed strategy of interest risk management that includes descriptions of which derivatives are allowed, how these may be used and their accounting valuations.

### Price setting

The ALM is in charge of external price setting. It prepares the KB foreign exchange rate list, sets or proposes the external interest rates for deposit products, and determines the Bank's base lending rates, which are then used to set the rates on loans. The external interest rates for deposits are set by the Interest and Exchange Rate Management Committee, taking into account external developments.

The Bank during 2004 made adjustments in its internal loan-pricing policy to assist and better motivate the business units in their lending. A new intranet application helps KB relationship managers in pricing larger loans. It puts them in touch with experts in transaction pricing who apply a precise methodology using the most recent market interest rates.

## Management of Regulatory Risk

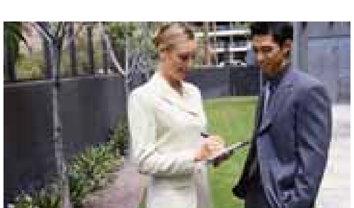
Regulatory risk derives from potential non-compliance with laws and other regulations and subsequent sanctions imposed by the regulator.

Komerční banka's activities are subject to CNB regulation. The Bank's activities as a securities trader and depository are supervised by the Czech Securities Commission and the relevant regulations are issued by the Ministry of Finance of the Czech Republic. With regard to anti-money laundering measures, Komerční banka, a.s. is supervised by a specialised department of the Ministry of Finance. Stock exchange operations are supervised by the Prague Stock Exchange, a self-regulating body.

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

Banking institutions in the Czech Republic are regulated by practically the same rules as are applied in other EU countries. The year 2004 brought extensive changes with regard to capital markets regulation. Existing laws were updated or replaced, for example in the Act on Capital Market Undertakings and the Act on Collective Investment. The Bank has successfully incorporated the resulting changes into its internal rules. Legislative changes also occurred during 2004 in the area of money laundering. With regard to these changes, the Bank has introduced a mandatory e-learning programme to educate its employees in preventing the legitimisation of proceeds from crime. The e-learning aspect contributes to the effectiveness of this self-study programme for all of the Bank's employees. KB has implemented the "know your customer" principles as part of its anti-money laundering effort. In the second half of 2004, standardisation was begun for the system of collecting clients' data, the purpose being to ensure satisfactory knowledge about the clients at the Bank's points of sale. Better information helps in detecting an undesirable potential client already at such time that he or she attempts to become a client, and it also aids in detecting suspicious transactions in the future.

Moreover, the Bank has continued in making the system of internal rules more useful while at the same time bringing these rules into correspondence with internationally recognised standards.



## Environmental Risk Management

Considering the businesses in which it operates, the Bank is not a substantial polluter of the environment. Nevertheless, Komerční banka, a.s. has in recent years implemented processes whose clear objectives are to improve the environment and health protection for its employees. Although it is fully in compliance with legal requirements relating to the environment, health protection and occupational safety, the Bank has launched projects and processes to address these areas. In 2004 these projects proceeded and were further developed, as exemplified in the REPO Project, which aims to optimise use of the Bank's premises and will thereby result in energy savings.

During 2004, Komerční banka conducted a comprehensive study directed to finding ways to economise in the consumption of energy, heat and gas. As one result, starting in 2005, it will implement automatic temperature regulating systems in all its premises.

The Bank also directs its efforts to reducing the amount of waste it creates and to using recycled materials. Waste management services are provided only by properly licensed companies. Standard office supplies include recycled paper and recycled printer cartridges.

An integral part of every contract is an appendix informing the Bank's partners that the parent company, Société Générale, has acceded to the UNEP FI Statement as of 27 November 2001. In addition to financial criteria, all tenders for equipment suppliers emphasise such technical parameters as consumption of primary resources. Contracts with suppliers/lessors of copy machines and printers stipulate conditions for environmentally friendly disposal of used cartridges.

KB is aware of the necessity to comply with ecological standards and of the possible impacts of breaching those standards. These issues, therefore, also are considered in its process of assessing credit risk. The Bank identifies sectors with higher sensitivity in the ecological area and monitors potentially problematic clients by means of special questionnaires or the clients' action plans.

At the same time, KB seeks to finance environmentally friendly projects as well as rehabilitation programmes for damages that occurred in the past. Such transactions are intended to support such things as, for example, electricity production from renewable resources and reclamation of mining sites.

## Internal Audit

The Internal Audit is one of the basic elements of the Internal Management and Control System. Its purpose is to monitor and evaluate the efficiency and effectiveness of the internal control system and to assist in correcting deficiencies.

KB's Internal Audit is performed independently of all executive activities of the Bank and reports directly to the Bank's Chief Executive Officer. Results of the internal audit missions are reported on a quarterly basis to the Board of Directors and to the Audit Committee within the Supervisory Board. As of 31 December 2004, the Internal Audit Arm included 83 employees.

The internal audit planning is based on a four-year strategic plan, which was created in 2003 and is updated annually. During 2004, a total of 44 planned missions were performed. In addition, 65 unplanned / ad hoc missions were accomplished.

During the 2004 missions 291 issues were raised and corresponding recommendations were made. Of these, 216 were resolved in 2004 and 75 remain to be resolved during 2005. Progress toward resolving those issues is monitored by means of the Internal Audit Corrective Action Tracking System. Moreover, all issues raised by such other reviews as those of the external auditor, central bank and Société Générale inspectors are monitored. The outstanding issues and their analysis are reported to the Board of Directors and the Audit Committee on a semi-annual basis.

At the end of 2004, the Bank launched the Internal Audit Quality Assurance Programme, in the first phase focusing on its compliance with the International Standards for the Professional Practice of Internal Auditing and the Provision of the Czech National Bank on the Internal Control System. Testing has shown and documented that the Bank has a high level of conformity with the requirements.

## Human Resources

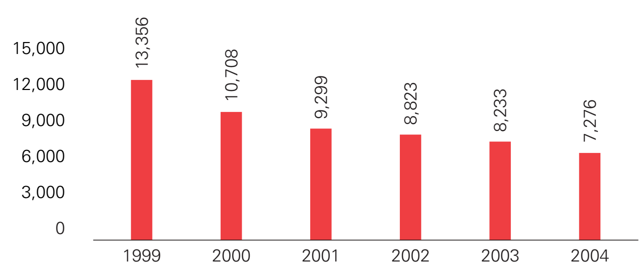
In 2004, Komerční banka completed implementation of technological and organisational changes and optimised the number of employees, especially in the distribution network. At the end 2004, the total headcount, including expatriates, was 7,276 of which 2,566 employees worked at headquarters and 4,710 in the distribution network.

Compared to the end of 2003, the number of employees was lower by 957, i.e. by 11.6%. The total headcount reduction as a consequence of organisational changes between 2001 and 2004 is 3,432 employees, i.e. 32.1%.

The organisational changes occurring during 2004 were accompanied by the Outplacement Programme. Dedicated to those employees dismissed for redundancy, that programme was developed in co-operation with an external advisory company. The Outplacement Programme has been provided in all regions and aims to assist dismissed employees to find new jobs. During 2004, a total of 200 employees took advantage of the programme.

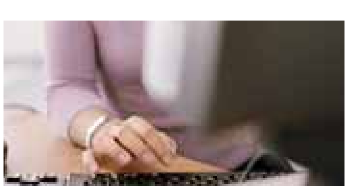
In addition to the Outplacement Programme, the Bank implemented an early-retirement programme to allow employees just before retirement to leave the Bank, on a voluntary basis and under special conditions. A total of 144 employees took advantage of this programme.

### Development of the Headcount




Komerční banka byla vybrána jako „Nejžádanější zaměstnavatel roku pro absolventy vysokých škol“, a to opakovaně v letech 2003 a 2004.

To ensure the Bank's continuing successful development requires constant employee career building and nurturing of the Bank's own professionals. Therefore, the recruitment and training of young and talented colleagues remains a main priority.
Demonstrating the effects of such efforts, Komerční banka was recognised by Czech university students as the Most Desired Employer for University Graduates' for both 2003 and 2004. This distinction results from a survey conducted by the international student association AIESEC.
The Bank also regularly accepts a certain number of students from abroad as part of its programme of internships exchange. Thirty-six university graduates were accepted during 2004 into the Young Graduate programme, the aim of which is to initiate professional development within the Bank. During the one-year programme, the participants undergo a two-month integration project designed to familiarise the graduates not only with all the activities, services and products of the Bank, but also with the strategy and the company culture. The second part of the programme includes further professional and specialised education targeted to the specific positions that the individual participants hold in the Bank. Each participant is assigned to a mentor from the top management, who becomes his or her expert consultant and facilitator in the work environment.
Komerční banka, a.s. puts great emphasis on its employees' education and development. Educational programmes are targeted to support the Bank's strategic development by strengthening competencies of the employees and by helping them to develop in accordance with principles of the Société Générale Group. Each year the Bank's employees participate in a wide range of educational modules corresponding to the needs of their respective positions, thereby allowing them to obtain or increase expertise in various areas, including language skills.
The main training activity in 2004 was an extensive programme focused on sales and communication skills for employees in the distribution network, as well as training with regard to banking products and applications.
– More than 90% of employees participated in training courses.
– On average, each employee spent 11 days in training courses during the year.
An innovative training technology known as e-learning has been introduced on a broad scale. It was implemented for teaching all staff about anti-money laundering and for language training. Some 1,000 employees are using blended-learning modules.
Komerční banka, a.s. joined the Société Générale Group global share plan in 2004, thus expanding the offer of employee benefits. An option to participate in increasing the share capital of Société Générale was exercised by 30.6% of employees. Komerční banka spends no small amount of money on social benefits, which constitute, together with remuneration and banking benefits, an important element in motivating and retaining employees. The scope of such benefits is broad and includes, among other things, contributions to so-called supplementary pensions (supplementary retirement benefits and whole-life insurance policies).
Wage developments have been, as in past years, the result of an agreement between the Bank, represented by the Human Resources department, and KB's labour organisations. The collective agreement is concluded for a defined time period and is amended each year especially to reflect developments in wages and social and employment benefits.



To ensure the Bank's continuing successful development requires constant employee career building and nurturing of the Bank's own professionals.

## Corporate Citizenship

Komerční banka is one of the pillars of the Czech banking sector and thus of the entire Czech economy. This status implies commitments not only to clients and shareholders, but also to society as a whole. KB gives consideration to this fact in developing its sponsorship and donation activities.

The Bank's strategy in the area of public service projects is founded on such essential values uniting all employees of the Société Générale Group as innovation, professionalism and team spirit. In its role as a sponsor and donor, Komerční banka, a.s. is oriented to three principal areas: culture, education and amateur sports.

Its most important cultural project consists in supporting the artistic activities of the National Theatre, a symbol of Czech national identity and cultural history. Komerční banka also sponsors important concerts of the Prague Symphonic Orchestra. With support from the Bank, gifted young musicians have an opportunity to attend the French-Czech Musical Academy in Telč, which offers young talents two-week stays in the company of prominent musical instructors from the Czech Republic and France. The French Film Festival is another sponsorship activity.

An example of the Bank's support of amateur sports is its continuing co-operation with the Czech Rugby Union. Komerční banka, a.s. supports rugby in general, meaning that money goes not just to the national team, but also to support all other teams active in the Czech Republic.

Each year, Komerční banka also sponsors the Czech Association of Disabled Athletes. In 2004, KB's contribution helped members of the Association participate in the Para-Olympic games, where Czech athletes placed 12th from 140 teams and the Association's representatives brought home 25 of the total 35 medals won by the Czech delegation.

Co-operation with a number of Czech universities is a Komerční banka tradition. Again in 2004, the Bank developed further its partnerships with the University of Economics, Prague, the University of Mining, Ostrava, and the Czech Technical University. This co-operation focuses especially upon sponsoring professional conferences and seminars, providing scholarships to selected students and contributing funds to finance internships for students to learn abroad. Selected students were able to gain practical experience in the subject areas of their studies by participating in professional internships or projects directly within Komerční banka. The Bank is a traditional and long-term partner in the Czech Republic for the international student-run organisations AIESEC and IASTE. It provides student organisations financial support for their job fairs in the Czech Republic, and it actively participates in these fairs.

Public service projects are supported not only by the Bank as an institution, but also by the Bank's employees through the Jistota Foundation. This Foundation is financed both from the Bank's contributions as well as those from individual employees.

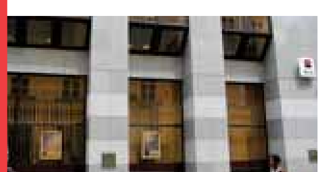
The Jistota Foundation contributed CZK 1.5 million to the Livie and Václav Klaus Foundation to support the "Head Start to Life" project. This contribution will help children from orphanages to get through the potentially difficult period of achieving independence.

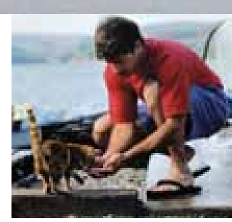
The Jistota Foundation has become a general partner in the project of the Archa Chantal Foundation called "The Puppet's World in a Theatre Cabinet" aiming to improve the environment of the outpatient phoniatrics clinic at Prague's General Hospital.

The Jistota Foundation also supports a number of other projects, for example in the field of healthcare. It has contributed financially to hospitals in Turnov, České Budějovice, Zlín, Uherské Hradiště, Karlovy Vary and Ostrava. These contributions are used to upgrade medical instruments in the hospitals and to improve the overall environment of the healthcare institutions.

In January 2005, the Foundation donated more than CZK 2.4 million to the Czech Red Cross as aid to the areas in South-East Asia impacted by the tsunami floods.

In its role as a sponsor and donor, Komerční banka, a.s. is oriented to three principal areas: culture, education and amateur sports.





Komerční banka is committed to operate in a manner consistent with the main principles of sustainable development, social responsibility and environmental protection, as well as to enhance its social and environmental reporting.

## Corporate Social Responsibility

Komerční banka puts great emphasis on its social responsibility, which includes especially to be transparent and to promote sustainable development in all its activities, to cultivate long-term and high-quality relations with all its stakeholders, and to give appropriate attention to environmental policy and sponsorship activities. As Société Générale became in 2001 a signatory to the United Nations Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development in 2001 and to the Global Compact (as a member of the National Council for Sustainable Development) in 2003, Komerční banka is also committed to operate in a manner consistent with the main principles of sustainable development, social responsibility and environmental protection, as well as to enhance its social and environmental reporting.

# Comments on the IFRS Unconsolidated Financial Results

In accordance with International Financial Reporting Standards (IFRS) Komerční banka reported an unconsolidated and audited net profit of CZK 9,302 million for 2004. KB managed to maintain its level of profitability from the previous year as the net result increased slightly by 0.4%. Very good business performance in both retail and corporate banking along with efficient cost control led to a growth in net operating income of 8.2%. Since 1 January 2004, the effects of revalutions to fair value of available-for-sale securities, which had been included in the profit and loss statement through the end 2003, began to be reported in the equity. On a comparable basis, therefore, the 2004 net result would increase by 1.5% and net operating income by 9.2%. The year-on-year development of the Bank's net result was also impacted by lower release of general provisions in 2004 and the more important one-off items in 2003. Significantly lower one-off gains in 2004 were more than offset by successful business performance and strict cost control.
The main drivers of the 2004 result and a year-on-year comparison are described below:

## Profit and Loss Statement

### Net interest income

The total level of net interest income recorded an upturn and increased to CZK 12,763 million, i.e. by 6.9% compared to 2003. Significant growth in volumes of client loans, and especially of retail and SME loans, led to a more favourable assets structure, and stable development of customer deposits offset continuously increasing competition in the market. The level of net interest income was positively influenced somewhat by growing market interest rates in 2004, as the CNB's two-week repo rate increased from 2.00% to 2.25% in June and to 2.50% in August 2004.

### Net fees and commissions

In 2004, net fees and commissions amounted to CZK 8,886 million, which is a year-on-year increase of 2.0%. Non-FX fees and commissions of CZK 7,125 million represent 80% of this item, and these are mainly comprised of fee income from payment transactions, direct banking services, account maintenance, loan administration and the payment cards business. This part of fee income grew by 5% year on year, driven by increasing volumes of granted loans and growing utilisation of payment cards and direct banking channels. FX fees and commissions represent 20% of the total fee income and continued in their downward trend from the previous period. They declined by 8.4% to CZK 1,761 million.

### Net profit from financial operations

Net profit from financial operations results from trading in securities along with FX and derivatives operations. It amounted to CZK 605 million, mainly due to profits from client FX operations. Starting in January 2004 the changes in the fair values of the available-for-sale (AFS) portfolio have become a part of the equity. Through the end of 2003, however, some CZK 93 million had been included in the profit and loss statement. On a like-to-like basis net profit from financial operations decreased by 14.4%.

### Other income

Other income increased by 16.9% compared to 2003 and totalled CZK 463 million. The main driver was higher dividends received from KB subsidiaries and associates. These rose by 41.0% year on year, especially thanks to an extraordinary dividend received from the company MUZO, which was sold in the first half of 2004.

### Net banking income

Net banking income increased by 4.0% to CZK 22,717 million.

## Operating costs

Operating costs amounted to CZK 11,792 million and were basically stable compared to 2003's CZK 11,750 million. As the year 2004 was negatively impacted by the increase in the value-added tax and by doubling of the contribution to the Deposit Insurance Fund, this stable development of costs confirms the Bank's successful cost management and increasing efficiency.
Personnel expenses decreased by 11.4% to CZK 4,799 million. The Bank finalised rationalisation of its back offices. A selected part of support activities was outsourced, domestic payments processing was centralised into two regional centres and the Bank's operations were further optimised. As a result the average number of employees declined year on year by 11% to 7,855 for 2004.
The level of general administrative expenses stood at CZK 5,284 million. The year-on-year increase of 9.9% was impacted by additional costs of CZK 311 million dedicated to the insurance of deposits. The Bank's expenses were also negatively influenced by the increase in the value-added tax in January and May 2004. However Komerční banka, a.s. succeeded in achieving further internal cost savings stemming mainly from the rationalisation of its operations.
The total charge for depreciation, impairment and disposal of fixed assets came to CZK 1,709 million, which is a growth of 12.1% compared to 2003.

## Net operating income

Very good business performance in both retail and corporate banking and efficient cost control led to a growth of net operating income of 8.2% to CZK 10,925 million.

## Cost of Risk

Cost of risk includes provisions for loan losses, for impairment of securities and provisions for other risk expenses. In 2004 it amounted to a net release of CZK 1,341 million compared to the net release of CZK 2,473 million in 2003.
The net release of provisions and reserves for loan losses of CZK 1,557 million was impacted mainly by the release of general tax-deductible provisions amounting to CZK 2,375 million in the fourth quarter of the year. In 2003, CZK 2,830 million of general tax-deductible provisions had been released.
Considered in the context of growth in the loan portfolio, the cost of credit risk, at 37 bp, remained unchanged compared to the end of 2003.
Provisions for impairment of securities amounted to a charge of CZK 85 million and were connected solely to development in the CDO portfolio. That compares to a charge of CZK 74 million in 2003. During the year the Bank sold a part of this portfolio. Beginning from January 2004, the changes in the fair values of the CDO portfolio have been written directly to equity. Only impairment of the CDO portfolio is booked to the profit and loss statement.
In the last quarter of 2004, a new line, provisions for other risk expenses, was created. This is dedicated to legal and certain operational risks. As at the end of the year, CZK 131 million was charged to this line. Previously these items had been included under the lines general administrative expenses and depreciation, and the total entered there for 2003 had been CZK 35 million.

## Profit on subsidiaries and associates

Profit on subsidiaries and associates stood at CZK 889 million driven by the sale of the Bank's stake in the company MUZO during the first half of the year.

## Tax charge

Income tax totalled CZK 3,853 million, i.e. a 4.2% decrease compared to 2003. This was favourably influenced by the decrease in the statutory corporate income tax from 31% to 28%.

## Net profit

Komerční banka's net profit for 2004 amounted to CZK 9,302 million. KB essentially maintained its level of profitability from the previous year, as the net result increased by just 0.4%. On a basis comparable to that of 2003, it would have increased by 1.5%.

## Balance Sheet

Total assets remained stable at CZK 448.3 billion.

### ASSETS

#### Cash and current accounts with banks

Cash and current accounts with banks, including obligatory minimum reserves deposited with the Czech National Bank (CNB), ended 2004 at CZK 10.1 billion, which was 17.8% lower than a year earlier. The obligatory minimum reserves earn interest equal to the CNB's two-week repurchase rate, which stood at 2.50% at the year's end.

#### Amounts due from banks

Amounts due from banks rose from CZK 201.6 billion at the end of 2003 to CZK 231.2 billion as at the end of 2004. Advances due from the CNB backed by securities issued by the CNB or Ministry of Finance of the Czech Republic (i.e. repo transactions) increased by 4.0% to CZK 173.1 billion. Amounts due from banks also include bonds issued by Société Générale that are not designated for trading in the amount of CZK 15.1 billion. Responding to market conditions, the issuer prepaid part of the bonds in the volume of CZK 4 billion during the year. This prepayment had no material impact on the Bank's financial results.

#### Trading securities

Trading securities in the KB portfolio amounted to CZK 9.6 billion at the end of 2004, representing a year-on-year decrease of 62.4% compared to the end of 2003. This change reflects an almost CZK 20 billion reduction of treasury bills in the portfolio.

#### Due from Česká konsolidační agentura

Loans to Česká konsolidační agentura (CKA) decreased year on year from CZK 24.3 billion to CZK 2.9 billion, of which CZK 2.1 billion represent a loan given in March 2000 for the purpose of re-financing transfer of the Bank's classified assets and which is to be due in March 2005.

#### Net loans and advances to customers

Net loans and advances to customers totalled CZK 153.8 billion and rose by 17.4% compared to year-end 2003. Gross loans to customers, including bills of exchange and forfaits, totalled CZK 157.8 billion. This item also includes debt securities acquired under initial offerings and not designated for trading of CZK 1.3 billion and other advances to customers.
The loan portfolio's quality increased despite dynamic loan growth in 2004. The share of standard loans in the total portfolio increased from 80.1% to 83.5%, while the share of loans under special review (categories substandard, doubtful and loss) decreased by 1.7 percentage points to 5.7%.
The balance of specific loan provisions stood at CZK 5.3 billion, which was 42.9% less than at the close of 2003. This item also included in 2003 the general reserve for risks and uncertainties connected with the loan portfolio. The balance of this reserve had been CZK 4.0 billion as at 31 December 2003. In the last quarter of 2004, a total of CZK 2.4 billion was released and the remainder was allocated to the Bank's on-going commitments. This reserve is included in the line for accruals, provisions and other liabilities.

#### Securities available for sale

The portfolio of securities available for sale declined from CZK 22.7 billion at year-end 2003 to CZK 12.4 billion, mainly due to a reduction in bonds held by the Bank. This decrease reflects the sale and repayment of Czech Government bonds and developments in the portfolio of asset backed securities (CDO). The CDO portfolio is regularly evaluated by a model that analyses the CDOs' underlying assets. The Bank sold part of this portfolio in the nominal volume of USD 29 million during the latter part of the year. The carrying value of this portfolio, reflecting the sale, revaluations and creation of provisions, was CZK 5.9 billion as at 31 December 2004.

### Investments held to maturity

As at 31 December 2004, the portfolio held to maturity comprised government bonds of countries within the European Monetary Union in the amount of CZK 985 million. The structure of the portfolios available for sale and held to maturity reflects the Bank's investment strategy, which is to maximise interest revenues within limits set in consideration of interest rate risks.

### Investments in subsidiaries and associates

The total value of KB's investments in subsidiaries and associates rose during 2004 from CZK 1.4 billion to CZK 1.8 billion. This increase reflects share capital increases in Franfinance Consumer Credit, s.r.o. (now ESSOX s.r.o.) of CZK 125 million and in Komerční pojišťovna of CZK 200 million (in order to meet the capital requirements arising from the Insurance Act). The equity increase was effected in March 2004. With the objective of reducing accumulated losses brought forward, the Bank decided in November 2004 to make another settlement of Komerční pojišťovna's losses through decreasing the share capital by CZK 205 million. That share capital decrease had not yet been entered into the Companies Register by the end of 2004.
In February 2004, the Bank sold its 52.6% share in MUZO for USD 34.7 million.

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Amounts due to banks

Amounts due to banks remained stable at the level of CZK 18.5 billion.

### Amounts due to clients

Amounts due to clients increased by 3.6% year on year to CZK 362.0 billion. This slight rise was driven mainly by growing volumes in current accounts (i.e. by 4.9% to CZK 212.3 billion) and an increased level of loans accepted from clients (by CZK 9.9 billion to CZK 43.6 billion). On the other hand, the volume of term and saving deposits decreased by 5.6% to CZK 100.6 billion.

### Certificated debt

Komerční banka's certificated debt decreased significantly compared to year-end 2003, falling from CZK 21.3 billion to CZK 9.3 billion. This decline was driven by repayment of bonds issued by KB in the amount of CZK 11.4 billion and of mortgage bonds totalling CZK 5.8 billion. During 2004, new mortgage bonds in the nominal value of CZK 4.8 billion were issued. This amount comprises completion of the first issue from 2003 in the nominal value of CZK 2.4 billion.

### Accruals, provisions and other liabilities

This item totalled CZK 8.7 billion as at the end of 2004, down 26.3% from 2003. The decrease was due mainly to settlement of the State Guarantee with Česká konsolidační agentura (CKA), in that there had been an advance payment of CZK 5.9 billion reported here at the end of 2003. As at the end of 2004 the reserve held for coverage of existing on-going commitments and for off-balance sheet liabilities was reallocated here. The level of this reserve amounted to CZK 1.6 billion.

### Shareholders' equity

Total shareholders' equity increased by 8.2% to CZK 43.7 billion. This includes the net profit of CZK 9.3 billion for 2004. During 2004, dividends totalling CZK 7.6 billion were paid to KB shareholders.
Changes in the fair values of hedging derivatives are reported as a part of shareholders' equity, specifically in the reserve for hedging instruments. The balance of this reserve as at 31 December 2004 was CZK 2.8 billion. The fair values of hedging derivatives depend on developments in market rates of interest, and these changes do not directly impact the Bank's financial result.
Since the beginning of 2004, changes in the fair values of securities available for sale also are reported in shareholders' equity. This change in accounting method brought a starting revaluation level of CZK 191 million as at 1 January 2004. As at the end of 2004, this reserve for revaluation of securities available for sale amounted to CZK 236 million.

## Komerční banka Financial Group

As at 31 December 2004 KB Financial Group (the Group) consisted of 12 companies controlled to some extent by the Bank. Ten of the companies within the Group were subsidiaries wherein KB held controlling interests, while two were affiliated companies within which it held influential ownership interests.

### Structure of the Group

The Group is structured in such a way as to provide customers access to a full range of products, including some which are not directly available from KB itself. As can be clearly observed from the diagram below, the scope of the offer is complete both for retail and for corporate clientele. The diagram also shows those Société Générale entities that are active on the Czech market, in which KB has no direct interest but does have extensive commercial co-operation.

**Société Générale**

- **Leasing**
  - 0% ALD Automotive, s.r.o.
  - 0% SG Equipment Finance Czech Republic, s.r.o.
- **Komerční banka, a.s.**
  - **Consumer Credit**
    - 51% ESSOX s.r.o.
  - **Insurance and Pension**
    - 100% Komerční pojišťovna, a.s.
    - 100% Penzijní fond Komerční banky, a.s.
  - **Asset Management**
    - 100% Investiční kapitálová společnost KB, a.s.
  - **Building Society**
    - 40% Modrá pyramida stavební spořitelna, a.s.*
  - **Corporate Services**
    - 100% Factoring KB, a.s.
    - 100% Komerční banka Bratislava, a.s.
  - **Others**
    - 100% Komerční finance B.V.
    - 100% ASIS, a.s. v likvidaci
    - 100% ALL IN, a.s. v likvidaci
    - 100% ALL IN REAL ESTATE LEASING a.s.
      - 100% AIREL IMMO, s.r.o. v konkurzu
    - 100% Czech Banking Credit Bureau, a.s.

* Change in the company name effective since 1 January 2005. Until 31 December 2004 the company's name was Všeobecná stavební spořitelna KB, a.s.

In addition to the Group companies, KB maintained several strategic positions of 20% ownership or less, including in Českomoravská zaruční a rozvojová banka, a.s. (13%) and Burza cenných papírů Praha, a.s. (the Prague Stock Exchange, 7.9%).

## Group restructuring

The restructuring process launched in 2002 with the aim of replicating the successful business model adopted by Société Générale in other regions continued successfully also in 2004 and is nearing its scheduled completion during 2005.

The first element of the restructuring process focuses on the close involvement of specialised Société Générale subsidiaries in the KB Group – in particular SGAM (asset management) and SOGECAP (life insurance). SGAM and SOGECAP are involved in the management of IKS KB and Komerční pojišťovna, respectively. As a result, customers have access to the global asset management products of Société Générale, and a brand new line of top quality and modern insurance products has been built by Komerční pojišťovna that reflects SOGECAP's international experience.

The second element of the restructuring process is further exploitation of potential synergies within the KB Group entities and closer co-operation with KB, especially in product development and distribution, marketing, assets and liabilities management, financial management, and risk management. KB's distribution network is gradually strengthening its role in distributing the Group products, including to integrate the products of Group companies into product packages offered by KB.

Beyond the scope of KB Group, close co-operation was promoted with other Société Générale entities active on the local market. These include Société Générale Equipment Finance and ALD Automotive, where the products of car fleet management and operational leasing are being sold by KB under the KB Leasing and KB FleetLease brands, respectively.

The KB Group is also present in the Slovak Republic. Komerční banka Bratislava primarily provides banking services to corporate clients, while leasing services are offered through SG Equipment Finance and ALD Automotive.

## New acquisitions to the Group in 2004

Franfinance Consumer Credit, s.r.o. took over ESSOX LEASING a.s. and the two companies were merged into ESSOX s.r.o. on 31 July 2004. The main focus of the management during 2004 was on replicating Franfinance's processes in order to make the most of Franfinance's know-how and the opportunity to co-operate with KB's referred clients. As a result, the new financing extended by ESSOX during 2004 was more than double that of 2003 and totalled nearly CZK 1 billion.

ESSOX renovated its entire range of products pertaining to both the consumer goods and car finance markets. In addition, innovative credit cards supported by a new IT system were successfully introduced in June 2004, and more than 25,000 cards had been activated as at year end. Cost control was achieved through concentrating operations in České Budějovice, while considerable improvements in risk management began to reflect Franfinance's broad experience and superior technology. These efforts will be extended further during 2005. ESSOX expects to consolidate its already significant positions in the automotive finance market and to acquire new partners in the consumer goods area. ESSOX's efforts to achieve client satisfaction were recognised in October 2004 in the form of an award from the Association of Czech Consumers.


## Departures from the Group in 2004

In December 2003, KB concluded a contract for the sale of its share in MUZO to a company belonging to the Global Payments Group, an important provider of services in the field of the electronic processing of payments for individuals, businesses, financial institutions and government agencies. The transaction was completed in February 2004. KB's objective was to find a long-term partner for MUZO who would provide it with the required expertise and would develop MUZO into a regional leader in the electronic processing market. KB is convinced that the Global Payments Group fulfils these requirements.

## Consolidation

The table below discloses the method of consolidation applied for each Group entity. Certain Group companies were not included in the consolidation. Reasons for non-inclusion in the consolidation are set out below.

### Penzijní fond Komerční banky

Although KB exercises full control over the company, Czech legislation regarding pension insurance allows only 10% of the reported annual profits to be distributed to shareholders. The remaining 90% of profits are distributable to the policyholders (85%) and to the reserve fund (5%). Therefore, the management does not consider it appropriate to consolidate this entity. ALL IN, ASIS, ALL IN REAL ESTATE LEASING and Czech Banking Credit Bureau were not consolidated on grounds of materiality.

Subsidiaries and associate companies in the KB Financial Group

| Company | Share capital CZK thousand | KB participation in the share capital – nominal CZK thousand | KB participation in the share capital – relative % | Net book value CZK thousand | Nominal value per share CZK thousand | Consolidation method |
|---|---|---|---|---|---|---|
| DOMESTIC PARTICIPATION | | | | | | |
| Komerční pojišťovna, a.s. | 808,000 | 808,000 | 100.0 | 589,540 | 100 and 50 | Full |
| Penzijní fond Komerční banky a.s. | 200,000 | 200,000 | 100.0 | 230,000 | 100 | None |
| Modrá pyramida stavební spořitelna, a.s.* | 500,000 | 200,000 | 40.0 | 220,000 | 100 | Equity |
| ESSOX s.r.o. | 245,221 | 124,898 | 50.9 | 124,898 | – | Full |
| Factoring KB, a.s. | 84,000 | 84,000 | 100.0 | 90,000 | 100 and 10 | Full |
| Investiční kapitálová společnost KB, a.s. | 50,000 | 50,000 | 100.0 | 75,000 | 100 | Full |
| ALL IN, a.s. v likvidaci | 44,517 | 44,517 | 100.0 | 44,517 | 213 | None |
| ALL IN REAL ESTATE LEASING a.s. | 2,000 | 2,000 | 100.0 | 4,170 | 100 | None |
| ASIS, a.s. v likvidaci | 1,000 | 1,000 | 100.0 | 1,000 | 100 | None |
| Czech Banking Credit Bureau, a.s. | 1,200 | 240 | 20.0 | 240 | 10 | None |
| Total | – | 1,514,655 | – | 1,379,365 | – | – |
| FOREIGN PARTICIPATION | | | | | | |
| Komerční banka Bratislava, a.s.** | 393,150 | 393,150 | 100.0 | 466,499 | 100 000 SKK | Full |
| Komercni Finance, B. V.*** | 553 | 553 | 100.0 | 653 | 453.8 EUR | Full |
| Total | – | 393,703 | – | 467,152 | – | – |
| Total | – | 1,908,358 | – | 1,846,517 | – | – |

* Change in the company name effective since 1 January 2005. Until 31 December 2004 the company's name was Všeobecná stavební spořitelna KB, a.s.
** CZK/SKK exchange rate 0.78630 as at 31 December 2004 (ČNB).
*** CZK/EUR exchange rate 30.465 as at 31 December 2004 (ČNB).

## Factoring KB, a.s.

| | |
|---|---|
| Shareholder Structure | Komerční banka, a.s. (100%) |
| Core Business | Factoring |
| Market position | Fourth place on the factoring market by size of the factoring portfolio |
| Main Products | Domestic factoring<br>Foreign factoring<br>Reverse factoring |

**Financial Summary**

| CAS, CZK thousand | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Total Assets | 3,572,783 | 2,882,118 |
| Factoring Portfolio | 3,490,348 | 2,796,832 |
| Shareholders' Equity | 144,614 | 126,995 |
| Share Capital | 84,000 | 84,000 |
| Net Factoring Income | 141,697 | 116,036 |
| Profit Before Tax | 28,901 | 13,436 |
| Profit After Tax | 17,973 | 8,618 |

Contact

**Factoring KB, a.s.**
Na Poříčí 36, P.O. Box 59, 110 02 Praha 1, IČ 25148290
Tel.: +420 222 825 111, Fax: +420 224 814 628
E-mail: info@factoringkb.cz, Internet: www.factoringkb.cz

## Investiční kapitálová společnost KB, a.s.

| | |
|---|---|
| **Shareholder Structure** | Komerční banka, a.s. (100%) |
| **Core Business** | Creation and management of mutual funds and management of pension fund assets |
| **Market position** | Third place on the market managing 14% of total assets under management on the Czech market. |
| **Rating** | Baa/czAa according to the CRA Rating agency |
| **Funds under Management** | IKS peněžní trh – money market fund, investment period up to 1 year<br>IKS dluhopisový – fixed income and money market fund, investment period 1+ years<br>IKS plus bondový – fixed income fund, investment period 2+ years<br>IKS globální – mixed fund, investment period 3+ years<br>IKS balancovaný – mixed fund, investment period 3+ years<br>IKS fond fondů – fund of funds, investment period 5+ years<br>IKS fond světových indexů – equity fund, investment period 5+ years<br>MAX I – world guaranteed fund, investment period 5 years, guarantee of minimal return on investment<br>MAX II – world guaranteed fund, investment period 5 years, guarantee of return of initial investment |

**Financial Summary**

| CAS, CZK thousand | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Total Assets | 327,364 | 376,606 |
| Shareholders' Equity | 228,621 | 319,232 |
| Share Capital | 50,000 | 50,000 |
| Assets under Management | 24,239,797 | 24,169,851 |
| Management Fee Income | 370,260 | 375,654 |
| Profit before Tax | 134,516 | 107,941 |
| Profit after Tax | 97,683 | 74,046 |

**Contact**

**Investiční kapitálová společnost KB, a.s.**
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Tel.: +420 224 008 888, Fax: +420 222 322 161
E-mail: info@iks-kb.cz, Internet: www.iks-kb.cz

## Komerční banka Bratislava, a.s.

| | |
|---|---|
| Shareholder Structure | Komerční banka, a.s. (100%) |
| Core Business | Complete banking services for corporate clients<br>Trade finance and settlement between the Czech Republic and the Slovak Republic |
| Market Position | Niche position on the Slovak market (almost 1% of the Slovak market), focus on medium and large corporate clients with activities both on the Czech and Slovak markets |
| Main Products | Short-term and investment loans, guarantees<br>International payments<br>Foreign exchange instruments (spot, forward)<br>Derivatives<br>Interest rate instruments (forward rate agreements, swaps)<br>Money market deposits and loans<br>Issuance of MasterCard payment cards<br>Capital market operations<br>Trade finance<br>E-banking<br>Leasing products – KB Leasing, KB Fleet Lease<br>Cash pooling |

### Financial Summary

| IFRS, CZK thousand | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Total Assets | 4,523,351 | 2,876,551 |
| Loans to Customers | 1,689,745 | 1,639,686 |
| Deposits from Customers and Financial Institutions | 3,869,530 | 1,869,313 |
| Shareholders' Equity | 589,087 | 552,099 |
| Share Capital | 393,150 | 393,550 |
| Net Interest Income | 99,045 | 112,649 |
| Profit after Tax | 28,202 | 56,072 |

Note: CZK/SKK exchange rate 0.78630 as at 31 December 2004 (CNB).

### Contact

**Komerční banka Bratislava, a.s.**
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Tel: +421 252 932 153 – 6, Fax: +421 252 961 959
E-mail: koba@koba.sk, Internet: www.koba.sk

## Komerční pojišťovna, a.s.

| | |
|---|---|
| **Shareholder Structure** | Komerční banka, a.s. (100%) |
| **Core Business** | Insurance |
| **Main Products** | Capital life insurance (Vital)<br>Capital life insurance for corporate clients (Vital Corporate)<br>Collective insurance for consumer loans<br>Accident life insurance for mortgage loans<br>Accident insurance covering the risk of death (Patron)<br>Credit card insurance (Merlin)<br>Travel insurance |

**Financial Summary**

| CAS, CZK thousand | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Total Assets | 7,710,346 | 5,790,688 |
| Technical Reserves | 6,809,304 | 5,141,503 |
| Shareholders' Equity | 704,177 | 325,600 |
| Share Capital | 808,000 | 752,000 |
| Gross Premiums Written | 2,977,221 | 3,232,526 |
| Investment Income | 244,514 | 154,778 |
| Net Profit/Loss | 2,297 | (109,722) |

**Contact**

**Komerční pojišťovna, a.s.**
Karolinská 1/650, 186 00 Praha 8, IČ 63998017
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E-mail: servis@komercpoj.cz, Internet: www.komercpoj.cz

## Penzijní fond Komerční banky a.s.

| | |
|---|---|
| **Shareholder Structure** | Komerční banka, a.s. (100%) |
| **Core Business** | Pension fund |
| **Market Position** | Third place on the pension fund market by assets under management<br>Sixth place on the pension fund market by number of clients |
| **Rating** | A-/CzAa- according to the CRA Rating agency (the highest rating among Czech pension funds) |
| **Main Products** | State-subsidised pension insurance |

**Financial Summary**

| CAS, CZK thousand | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Total Assets | 13,409,558 | 11,066,537 |
| Total Volume on Client Accounts | 12,242,098 | 10,290,396 |
| Shareholders' Equity | 1,099,795 | 743,099 |
| Share Capital | 200,000 | 200,000 |
| Net Financial Income | 635,500 | 546,459 |
| Profit before Tax | 447,615 | 361,637 |
| Profit after Tax | 439,735 | 365,097 |

**Contact**

**Penzijní fond Komerční banky a.s.**
Lucemburská 7/1170, 130 11 Praha 3, IČ 61860018
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E-mail: pf-kb@pf-kb.cz, Internet: www.pfkb.cz

## ESSOX s.r.o.

| | |
|---|---|
| **Shareholder Structure** | Komerční banka, a.s. (51%)<br>Franfinance S.A. (49%) |
| **Core Business** | Providing consumer financing, credit cards and car leasing |
| **Market Position** | 5% share on the market of non-banking consumer financing |
| **Main Products** | Consumer loan<br>Credit card<br>Car leasing |

**Financial Summary**

| CAS, CZK thousand | 31 December 2004 |
|---|---|
| Total Assets | 1,212,936 |
| Shareholders' Equity | 148,234 |
| Share Capital | 245,221 |
| Loans to Clients | 989,294 |
| Net Interest Income | 119,022 |
| Result before Taxes | (64,551) |

**Contact**

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E-mail: essox@essox.cz, Internet: www.essox.cz

## Modrá pyramida stavební spořitelna, a.s.*

| | |
|---|---|
| **Shareholder Structure** | BHW Holding AG (50%)<br>Komerční banka, a.s. (40%)<br>Česká pojišťovna a.s. (10%) |
| **Core Business** | Building society |
| **Market Position** | Significant position on the market of building saving |
| **Main Products** | State-subsidised building society savings<br>Bridging loans<br>Building society loans |

**Financial summary**

| CAS, CZK thousand | 31 December 2004 | 31 December 2003 |
|---|---|---|
| Total Assets | 51,492,090 | 43,449,276 |
| Total Loans | 15,404,216 | 13,165,654 |
| Shareholders' Equity | 1,339,944 | 1,521,741 |
| Share Capital | 500,000 | 500,000 |
| Interest Margin | 643,886 | 559,105 |
| Profit before Tax | 73,585 | 264,798 |
| Profit after Tax | 32,053 | 213,850 |

**Contact**

**Modrá pyramida stavební spořitelna, a.s.**
Bělehradská 128, č.p. 222, P.O.Box 40, 120 21 Praha 2, IČ 60192852
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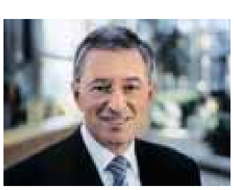
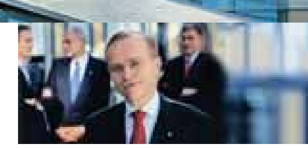
* Change in the company name effective since 1 January 2005. Until 31 December 2004 the company's name was Všeobecná stavební spořitelna KB, a.s.

# Statutory Bodies and Organisation Structure



Alexis Juan

Matúš Púll



Didier Colin

Philippe Rucheton

Peter Palečka

Laurent Goutard

## Board of Directors

| | |
|---|---|
| Alexis Juan | Chairman of the Board of Directors (since 5 October 2001) |
| Laurent Goutard | Vice-Chairman of the Board of Directors (since 1 September 2004) |
| Didier Colin | Member of the Board of Directors (since 9 October 2004) |
| Peter Palečka | Member of the Board of Directors (since 5 October 2001) |
| Matúš Púll | Member of the Board of Directors (since 5 October 2001) |
| Philippe Rucheton | Member of the Board of Directors (since 2 May 2002) |

### Alexis Juan

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

### Laurent Goutard

Graduate of a four-year economics programme at l'Université Paris – Dauphine and l'Institut d'Etudes Politiques de Paris, faculty of public services, with a major in economics. He joined Société Générale in 1986, working first in the General Inspection, then during 1993 – 1996 as Deputy Managing Director for large enterprises at the Paris Opéra Branch. During 1996 – 1998 he was the Director of the Large Corporations Division for France. From 1998 to June 2004 (until his election as a Member of the Board of Directors of Komerční banka, a.s.) he was a Member of the Management Board and General Director, later the Chairman of the Board of Société Générale Marocaine de Banques, a Société Générale subsidiary in Morocco.

## Didier Colin

Graduate of l'Université Paris-IX Dauphine and holder of a Master's in Business Administration from the City University of New York. He has been with the Société Générale Group since 1990. From his first position as financial analyst with SG in New York, he was transferred to the Head Office Inspection team in 1991. He then returned to New York in 1998 as CFO of the SG US Branch and Budget Director for the SG Americas region. In 2000, he moved to Canada as Deputy General Manager for SG's operations in Canada and became General Manager of Société Générale Canada in 2001 until he joined Komerční banka, a.s. as Head of Risk Management and member of the Board of Directors.

## Peter Palečka

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

## Matúš Púll

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

## Philippe Rucheton

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

### Personnel changes in the Board of Directors during 2004:

**Guy Poupet,** Vice-Chairman of the Board of Directors (until 31 May 2004)
**Olivier Flourens,** Member of the Board of Directors (until 8 October 2004)

## Directors Committee

The Directors Committee is a body negotiating the strategy and all relevant matters relating to everyday banking business.

The Directors Committee takes three different configurations:
– Enlarged Directors Committee
– Retail Directors Committee
– Corporate and Investment Directors Committee.

The Directors Committee was established by the Board of Directors; its members are appointed by the Chairman of the Board of Directors and Chief Executive Officer. As at 31 December 2004, the committee consisted of the following members:

| | |
|---|---|
| Alexis Juan | Chairman of the Board of Directors and Chief Executive Officer |
| Laurent Goutard | Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer |
| Didier Colin | Member of the Board of Directors and Executive Director, Risk Management |
| Peter Palečka | Member of the Board of Directors and Executive Director, Corporate Secretary |
| Matúš Púll | Member of the Board of Directors and Executive Director, Corporate Banking |
| Philippe Rucheton | Member of the Board of Directors and Executive Director, Strategy & Finance |
| Miloš Adámek | Executive Director, Communication |
| Martin Čejka | Executive Director, Internal Audit & Control |
| Jürgen Grieb | Executive Director, Capital Markets & Corporate Finance |
| Petr Kalina | Executive Director, Support Services |
| André Léger | Executive Director, Marketing |
| Jitka Pantůčková | Executive Director, Operations |
| Jan Pokorný | Executive Director, Distribution Channels |
| Christian Rouso | Executive Director, Information Technology |
| Karel Vašák | Executive Director, Human Resources |
| Pavel Čejka | Director, Strategy & Finance |
| Philippe Delacarte | Director, Distribution Channels |
| Jan Kubálek | Director, Rennaisance Programme Manager |
| Christian Vasseur | Director, Risk Management |

Personnel changes in the Directors Committee during 2004:

**Michel Fenot,** Executive Director, Distribution Channels (until 31March 2004)
**Otakar Smolík,** Executive Director, Support Services (until 31March 2004)
**Guy Poupet,** Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer (until 31 May 2004)
**Marek Stefanowicz,** Executive Director, Capital Markets & Corporate Finance (until 17 September 2004)
**Olivier Flourens,** Member of the Board of Directors and Executive Director, Risk Management (until 8 October 2004)
**Pascal Dupont,** Director, Risk Management (until 15 October 2004)

**Jan Pokorný,** Executive Director, Distribution Channels (since 1 April 2004)
**Petr Kalina,** Executive Director, Support Services (since 1 April 2004)
**Laurent Goutard,** Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer (since 1 September 2004)
**Jürgen Grieb,** Executive Director, Capital Markets & Corporate Finance (since 17 September 2004)
**Didier Colin,** Member of the Board of Directors and Executive Director, Risk Management (since 9 October 2004)
**Christian Vasseur,** Director, Risk Management (since 13 December 2004)

## Supervisory Board

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

* Elected by KB employees.

### Didier Alix

An economic sciences Graduate of l'Institut d'Etudes Politiques de Paris, he has been with Société Générale since 1971. During 1972 – 1979 he worked in the General Inspection and in 1980 he moved to General Directorate Services. In 1984 he was named Director of the Levallois Perret Group, and in 1987 as Director of the Paris Opera Group. From 1991 to 1993 he worked at the Special Financing Directorate and was appointed as Managing Director of Franfinance. During 1993 – 1995 he was Deputy Chief Executive of the French banking network. From 1995 to 1998, he was Chief Executive of the French banking network in the Retail Banking Division. In January 1998 he was named Chief Executive Officer of Retail Banking.

### Jean-Louis Mattei

Graduate in private law, as well as from l'Institute d'Etudes Politiques and the Centre d'Etudes Supérieures de Banque. He joined Société Générale in 1973, where he has held a number of positions. At SG's Bordeaux branch, he worked in the Technical Administration Directorate, where he headed the analysis of costs and profitability and later was responsible for auditing of management in the departments of organisation and of information technologies. In 1988, he became Administrator of the Directorate General for Société Générale in Ivory Coast. He went on to become Deputy Director and later Director for the areas Africa Abroad, Africa, and the Near and Middle East. Since 1998, he has been the Director for Retail Banking for French expatriates.

### Séverin Cabannes

Graduate of l'Ecole Polytechnique and of l'Ecole des Mines de Paris. During 1983 – 1986, he worked in Credit National. From 1986 to 1997 he was at Elf Atochem as an assistant in the financial department, and later as head of polyethylene production. In 1991 he joined the strategy department and in 1995 was appointed Director of Strategic Planning. During 1997 – 2001 he was at La Poste, where he was a member of the Executive Committee, serving as Director of Strategy and International Development and then as Assistant Director General. He joined Société Générale in 2001 as the Group Financial Director and member of the General Management Committee with responsibility for financial management, management control, assets and liabilities management and investor relations. Since 2002, he has been the Deputy Managing Director of the STERIA company.

### Jan Juchelka

Graduate of the Business School of the Silesian University in Karviná. During 1992 – 1993 he worked as the Branch Manager of MATTES AD, s.r.o. and from 1993 to 1995 as the assistant to the Managing Director of Korona, a.s. From 1995 he worked in the National Property Fund of the Czech Republic, initially in the securities department as a clerk, later as a department and section manager. From spring of 2000, he was Deputy Chairman of the Executive Committee of the National Property Fund. At present, he is Chairman of the National Property Fund's Executive Committee. He was a Member of the Supervisory Board of Komerční banka, a.s. from May 1999 to 8 October 2001, when he resigned from the Board. He was re-elected as a Board Member on 8 October 2001.

## Pavel Krejčí

Graduate of the Technical University in Brno, faculty of electrical engineering, and Palacký University in Olomouc, faculty of philosophy. From 1987 he worked in the Czechoslovak National Bank and joined Komerční banka, a.s. in 1990, where he was elected Chairman of the KB Trade Union Committee in 1992. Since 1997, he has been Deputy Chairman of the Trade Union Association of the Employees of Financial and Insurance Companies of the Czech Republic. At present, he works as the Chairman of the KB Trade Union Committee.

## Jan Kučera

Graduate of the Technical University in Prague, faculty of mechanical engineering. He worked in AERO Vodochody and the electrical engineering company ZSE MEZ Náchod. Since 1991 he has worked at KB's Náchod branch in the liquidation and client services departments, and at present he works in the branch as a financial analyst. He is the Chairman of the KB Trade Union Committee in Náchod.

## Petr Laube

Graduate of the University of Economics in Prague, with a major in foreign trade. During 1974 – 1991 he worked in Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992 he was at Deutsche Bank, A.G. in Nuremberg. During 1992 – 1993 he worked for Lafarge Coppée, Paris, and since 1993 he has been Managing Director and Chairman of the Board of Lafarge Cement, a.s., Prague.

## Christian Achille Frederic Poirier

Graduate of l'Ecole Nationale d'Administration and continued post-graduate studies in history. Between 1980 and 1987 he was engaged as Civil Administrator at Caisse des DépŘt et Consignations. He has been working in Société Générale since 1987. During 1987 – 1991 he headed the department for public and partially state-owned organisations. From 1991 to 1995 he was Director of the Japanese Corporate Department. During 1995 – 1997 he headed special subsidiaries for consumer credit, leasing and factoring. Between 1997 and 2001, he was Deputy Head of Strategy and the Marketing Division. Since February 2001, he has been Senior Executive Vice President of Strategy and the Marketing Division.

## Miroslava Šmídová

Graduate of the University of Economics in Prague, with a major in finance. From 1987, she worked in the Czechoslovak National Bank, Pilsen branch. In 1990 she joined Komerční banka, a.s., where she worked during 1992 – 1999 as Branch Manager at Pilsen's, Klatovská Street branch. Since March 1999 she has been working as an assistant, first to the Managing Director of the Pilsen Regional Branch and since 2000 to the Manager of the Commercial Division Pilsen. She is the Chairman of the KB Trade Union Committee in Pilsen.

## Supervisory Board Committees

The competencies of the Supervisory Board include two advisory committees, namely the Committee for Remuneration and Personnel Issues and the Audit Committee.

### Committee for Remuneration and Personnel Issues

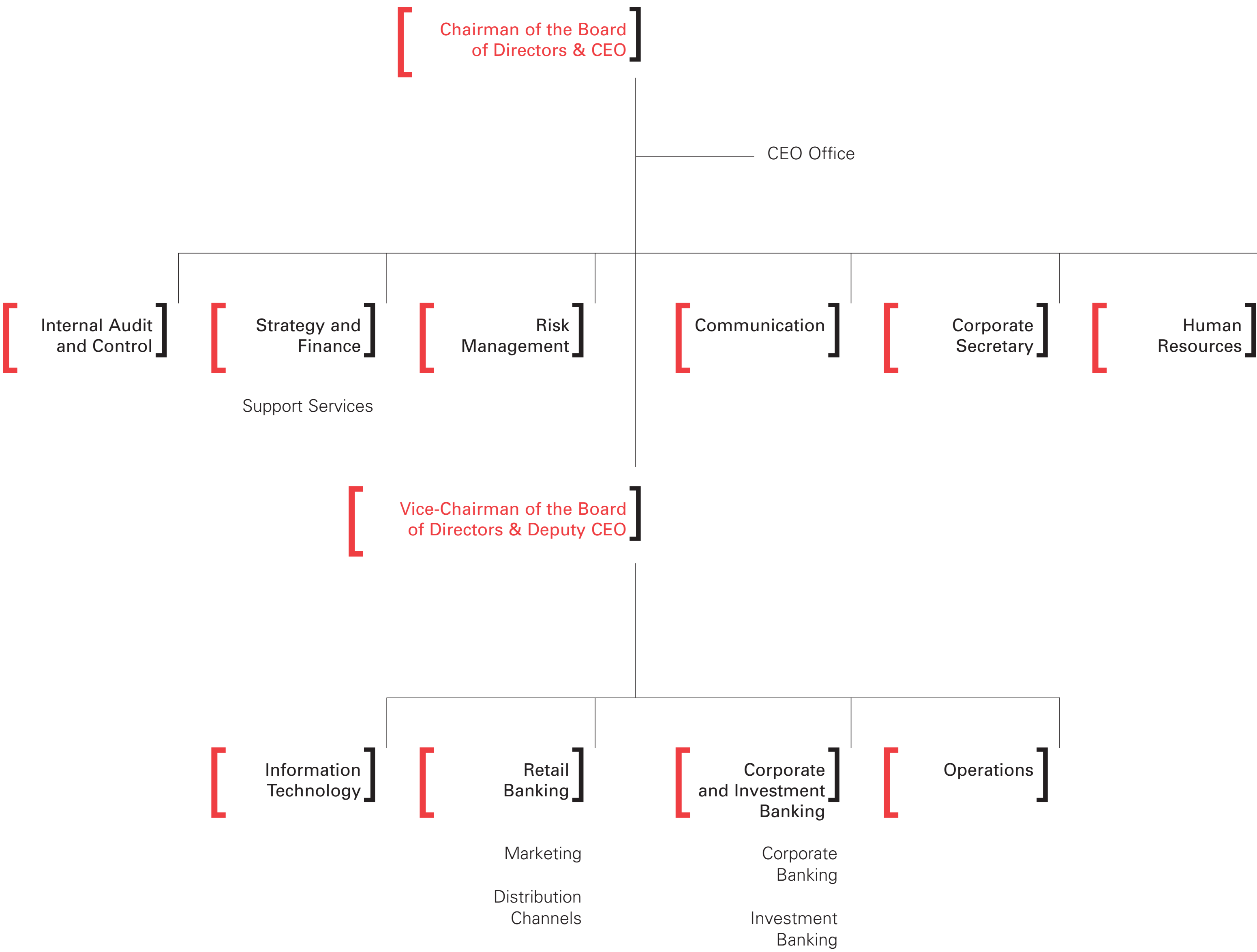
The committee members are Didier Alix (Chairman), Jean-Louis Mattei and Christian Poirier. The Committee for Remuneration and Personnel Issues provides recommendations to the Supervisory Board on election and removal of members of the Board of Directors and the composition of its committees. The Committee provides its opinions on contract proposals and performance with regard to members of the Board of Directors, evaluates the performance of contracts with members of the Board of Directors, and provides recommendations to the Supervisory Board.

### Audit Committee

The members of the Audit Committee are Severin Cabannes (Chairman), Jan Juchelka and Petr Laube. The Audit Committee controls especially the accounting documents and records, monitors for propriety the conduct of the Bank's accounting, and co-operates with the Internal Audit Department and the external auditor.

# Organisational Chart

as at 31 December 2004




All organisational units are based in the Czech Republic.

# Shareholders

## Shareholder Structure

Major shareholders of Komerční banka, a.s. with over 5% of the share capital as at 31 December 2004

| Shareholder | Proportion of share capital |
|---|---|
| Société Générale S. A. | 60.35% |
| The Bank of New York ADR Department | 5.66% |

Of the Bank's total share capital, i.e. CZK 19,004,926,000 (38,009,852 shares in a nominal value of CZK 500), Société Générale S. A. holds 60.35%.
The Bank of New York ADR Department is, with the permission of the Czech National Bank, the holder of those shares for which Global Depository Receipts (GDRs) were issued and which are in the possession of a significant number of foreign investors. The shares in the administration of The Bank of New York ADR Department make up 5.66% of the Bank's share capital.
At the end of 2004, the number of shareholders comprised 45,949 corporate entities and private individuals.

### Shareholder Structure of Komerční banka, a.s.

(According to the excerpt from the issuers' register taken from the Securities Register Prague as at 31 December 2004)

| | Number of shareholders | Proportion of number of shareholders (%) | Proportion of share capital (%) |
|---|---|---|---|
| **Number of shareholders** | **45,949** | **100.00** | **100.00** |
| of which: corporate entities | 248 | 0.54 | 90.82 |
| private individuals | 45,624 | 99.29 | 2.92 |
| unidentified shareholder accounts register | 77 | 0.17 | 6.26 |
| **Corporate entities** | **248** | **100.00** | **90.81** |
| of which: from the Czech Republic | 115 | 46.37 | 1.99 |
| from other countries | 133 | 53.63 | 88.82 |
| **Private individuals** | **45,624** | **100.00** | **2.92** |
| of which: from the Czech Republic | 40,978 | 89.82 | 2.80 |
| from other countries | 4 646 | 10.18 | 0.12 |

### Main Decisions of the General Meeting of Komerční Banka, a.s. held in 2004

The Annual General Meeting was held on 17 June 2004. The shareholders approved the financial statements of the Bank for 2003, decided upon the distribution of profit for 2003 in the amount of CZK 9.31 billion, and resolved to pay out pre-tax dividends in the amount of CZK 200 per share. The Annual General Meeting also approved:
– the report of the Board of Directors on the business activities of the Bank and the state of its assets for 2003,
– the consolidated financial statements for 2003,
– acquisition of its own ordinary shares,
– remuneration for members of the Bank's statutory bodies, and
– changes in the Bank's Articles of Association.

# Report of the Supervisory Board

Throughout 2004, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association of the company limited by shares. It performed its supervisory functions with regard to the Bank's activities and passed its opinions to the Board of Directors.

Having checked the Bank's financial statements for the period from 1 January 2004 to 31 December 2004, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping and with the Bank's own Articles of Association, and present a full and accurate picture of the Bank's financial situation.

Deloitte performed an audit of the Bank's financial statements:

– Under current Czech Financial Reporting Standards which declared that assets and liabilities and the financial result as of 31 December 2004 were fairly and correctly stated. The report was unqualified.
– Under International Financial Reporting Standards. The report was also unqualified.

The Supervisory Board recommends that the general meeting approve the financial statements for the year 2004 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on relations among related entities in 2004 drawn up under the Act No. 66a (9) of the Commercial Code and it states, on the basis of the presented documents, that during the accounting period from 1 January 2004 to 31 December 2004 Komerční banka, a.s., did not suffer any harm.

Prague, 21 March 2005

On behalf of the Supervisory Board of Komerční banka, a.s.:

**Didier Alix**
Chairman of the Supervisory Board

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Registered at the Municipal Court
in Prague, Section C, File 24349
IČ: 49620592
DIČ: CZ49620592

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

Having its registered office at: Prague 1, Na Příkopě 33/969, 114 07
Identification number: 453 17 054
Principal activities: Acceptance of deposits from the public, provision of loans, advances and guarantees, proprietary trading with securities

We have audited the financial statements of Komerční banka, a.s. for the year ended 31 December 2004 on which we issued our audit reports containing unqualified opinions as follows:

- Unconsolidated financial statements prepared in accordance with the Act on Accounting No. 563/1991 Coll., and applicable Czech regulations, which are included in this annual report on pages 66 to 114;
- Consolidated financial statements prepared in accordance with International Financial Reporting Standards which are included in this annual report on pages 119 to 168; and
- Unconsolidated financial statements prepared in accordance with International Financial Reporting Standards, from which the summarised financial statements included in this annual report on pages 115 to 118 were derived.

The summarised unconsolidated financial statements prepared in accordance with International Financial Reporting Standards included in this annual report were derived from the audited unconsolidated financial statements, on which we issued an unqualified audit opinion dated 16 March 2005. In our opinion, these summarised financial statements are consistent, in all material respects, with the audited financial statements.

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

We have reviewed the factual accuracy of information included in the Report on Transactions with Related Parties included in this annual report on pages 179 to 184. This report is the responsibility of the Company's Board of Directors. Based on our review nothing has come to our attention that indicates that there are material factual inaccuracies in the information contained in the report.

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

In Prague on 22 April 2005

**Audit firm:**
Deloitte s.r.o.
Certificate no. 79
Represented by:

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

Michal Petrman, statutory executive

# Sworn Statement

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

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

Prague, 22 April 2005

Signed on behalf of the Board of Directors:

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

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

# Financial Section


| | |
|---|---|
| Unconsolidated Financial Statements under CAS | 66 |
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| Survey of Financial Results 2000 – 2004 | 169 |

Deloitte.

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# Unconsolidated Financial Statements under CAS as of 31 December 2004

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

Having its registered office at: Prague 1, Na Příkopě 33/969, 114 07
Identification number: 453 17 054
Principal activities: Acceptance of deposits from the public, provision of loans, advances and guarantees, proprietary trading with securities

We have audited the accompanying financial statements of Komerční banka, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

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

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of Komerční banka, a.s. as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

Prague, 16 March 2005

**Audit firm:**
Deloitte s.r.o.
Certificate no. 79
Represented by:

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

Michal Petrman, statutory executive

# Unconsolidated Profit and Loss Statement for the year ended 31 December 2004

CZK million

| Item no. | Name of item | Note | 2004 | 2003 |
|---|---|---|---|---|
| 1. | Interest income and similar income | 4 | 20,053 | 20,085 |
| | of which: interest income from debt securities | | 1,435 | 1,732 |
| 2. | Interest expense and similar expense | 4 | (7,277) | (8,123) |
| | of which: interest expense from debt securities | | (1,363) | (1,735) |
| 3. | Income from shares and equity investments | | 426 | 288 |
| (a) | Income from equity investments in associates | | 85 | 212 |
| (b) | Income from equity investments from subsidiaries | | 272 | 41 |
| (c) | Income from other shares and equity investments | | 69 | 35 |
| 4. | Commission and fee income | 5 | 7,782 | 7,349 |
| 5. | Commission and fee expense | 5 | (657) | (1,569) |
| 6. | Net profit or loss on financial operations | 6 | 2,303 | 2,612 |
| 7. | Other operating income | 7 | 1,423 | 3,346 |
| 8. | Other operating expenses | 7 | (1,171) | (918) |
| 9. | Administrative expenses | 8 | (9,408) | (9,202) |
| (a) | Staff costs | | (4,745) | (4,784) |
| (aa) | Wages and salaries | | (3,339) | (3,470) |
| (ab) | Social security and health insurance | | (1,190) | (1,220) |
| (ac) | Other staff costs | | (216) | (94) |
| (b) | Other administrative costs | | (4,663) | (4,418) |
| 10. | Release of reserves and provisions for tangible and intangible fixed assets | 9 | 75 | 294 |
| 11. | Depreciation/amortisation, charge for and use of reserves and provisions for tangible and intangible fixed assets | 9 | (1,585) | (1,614) |
| 12. | Release of provisions and reserves for receivables and guarantees, recoveries of receivables previously written off | 9 | 5,651 | 6,229 |
| 13. | Write-offs, charge for and use of provisions and reserves for receivables and guarantees | 9 | (4,176) | (5,640) |
| 14. | Release of provisions for equity investments in subsidiaries and associates | 9 | 172 | 24 |
| 15. | Loss on the transfer of equity investments in subsidiaries and associates, charge for and use of provisions for equity investments in subsidiaries and associates | 9 | (87) | (92) |
| 16. | Release of other reserves | 9 | 132 | 1,150 |
| 17. | Charge for and use of other reserves | 9 | (333) | (903) |
| 18. | Share of profits/(losses) of subsidiaries and associates | 9 | 0 | 0 |
| 19. | Profit/(loss) for the period from ordinary activities before taxes | | 13,323 | 13,316 |
| 20. | Extraordinary income | 10 | 0 | 10 |
| 21. | Extraordinary expenses | 10 | (12) | 0 |
| 22. | Profit/(loss) for the period from extraordinary activities before taxes | | (12) | 10 |
| 23. | Income tax | 11 | (3,876) | (4,016) |
| 24. | Net profit/(loss) for the period | | 9,435 | 9,310 |

# Unconsolidated Balance Sheet as of 31 December 2004

## Assets

| CZK million | | | | 2004 | | 2003 |
|---|---|---|---|---|---|---|
| Item no. | Name of item | Note | Gross | Adjustment | Net | Net |
| 1. | Cash in hand, balances with central banks | 12 | 9,817 | 0 | 9,817 | 11,750 |
| 2. | State zero-coupon bonds and other securities eligible for refinancing with the CNB | | 7,073 | 0 | 7,073 | 32,701 |
| (a) | State securities | | 7,073 | 0 | 7,073 | 32,701 |
| (b) | Other | | 0 | 0 | 0 | 0 |
| 3. | Amounts due from banks and savings associations | 13 | 231,360 | 0 | 231,360 | 201,768 |
| (a) | Repayable on demand | | 5,848 | 0 | 5,848 | 2,293 |
| (b) | Other receivables | | 225,512 | 0 | 225,512 | 199,475 |
| 4. | Amounts due from customers and members of savings associations | 14 | 162,129 | 5,365 | 156,764 | 160,149 |
| (a) | Repayable on demand | | 2,648 | 0 | 2,648 | 2,248 |
| (b) | Other receivables | | 159,481 | 5,365 | 154,116 | 157,901 |
| 5. | Debt securities | 15 | 15,853 | 0 | 15,853 | 15,510 |
| (a) | Issued by state institutions | | 5,013 | 0 | 5,013 | 2,266 |
| (b) | Issued by other entities | | 10,840 | 0 | 10,840 | 13,244 |
| 6. | Shares, participation certificates and other holdings | 15 | 112 | 0 | 112 | 233 |
| 7. | Equity holdings in associates | 16 | 220 | 0 | 220 | 220 |
| | of which: in banks | | 220 | 0 | 220 | 220 |
| 8. | Equity holdings in subsidiaries | 16 | 2,781 | 1,155 | 1,626 | 1,204 |
| | of which: in banks | | 466 | 0 | 466 | 433 |
| 9. | Intangible fixed assets | 17 | 4,801 | 2,741 | 2,060 | 1,967 |
| | of which: incorporation costs | | 0 | 0 | 0 | 0 |
| | goodwill | | 0 | 0 | 0 | 0 |
| 10. | Tangible fixed assets | 17 | 19,979 | 10,660 | 9,319 | 9,692 |
| | of which: land and buildings for operating activities | | 11,741 | 4,578 | 7,163 | 7,486 |
| 11. | Other assets | 18 | 13,503 | 266 | 13,237 | 15,304 |
| 12. | Receivables from shareholders and partners | | 0 | 0 | 0 | 0 |
| 13. | Prepayments and accrued income | 18 | 768 | 0 | 768 | 899 |
| 14. | TOTAL ASSETS | | 468,396 | 20,187 | 448,209 | 451,397 |

## Liabilities

CZK million

| Item no. | Name of item | Note | 2004 | 2003 |
|---|---|---|---|---|
| 1. | **Amounts owed to banks, savings associations** | 19 | **15,939** | **18,652** |
| (a) | Repayable on demand | | 8,625 | 8,344 |
| (b) | Other payables | | 7,314 | 10,308 |
| 2. | **Amounts owed to customers, members of savings associations** | 20 | **323,281** | **315,808** |
| (a) | Repayable on demand | | 213,931 | 203,894 |
| (b) | Other payables | | 109,350 | 111,914 |
| 3. | **Payables from debt securities** | 21 | **50,634** | **55,406** |
| (a) | Issued debt securities | | 47,972 | 55,046 |
| (b) | Other payables from debt securities | | 2,662 | 360 |
| 4. | **Other liabilities** | 22 | **9,965** | **7,060** |
| 5. | **Deferred income and accrued expenses** | 22 | **21** | **5,884** |
| 6. | **Reserves** | 9 | **4,611** | **8,168** |
| (a) | For pensions and similar liabilities | | 0 | 0 |
| (b) | For taxes | | 366 | 1,452 |
| (c) | Other | | 4,245 | 6,716 |
| 7. | **Subordinated liabilities** | 23 | **0** | **0** |
| 8. | **Share capital** | 24 | **19,002** | **18,952** |
| | of which: share capital paid up | | 19,005 | 19,005 |
| | treasury shares | | (3) | (53) |
| 9. | **Share premium** | | **139** | **117** |
| 10. | **Reserve funds and other funds from profit** | | **2,114** | **1,652** |
| (a) | Mandatory reserve funds and risk funds | | 1,616 | 1,151 |
| (b) | Other reserve funds | | 388 | 387 |
| (c) | Other funds from profit | | 110 | 114 |
| 11. | **Revaluation reserve** | | **0** | **0** |
| 12. | **Capital funds** | | **0** | **0** |
| 13. | **Gains or losses from revaluation** | 26 | **2,803** | **1,294** |
| (a) | of assets and liabilities | | 0 | 0 |
| (b) | hedging derivatives | | 2,803 | 1,328 |
| (c) | re-translation of equity holdings | | 0 | (34) |
| 14. | **Retained earnings or accumulated losses brought forward** | 25 | **10,265** | **9,094** |
| 15. | **Profit/(loss) for the period** | | **9,435** | **9,310** |
| 16. | TOTAL LIABILITIES | | 448,209 | 451,397 |

# Unconsolidated Off Balance Sheet Accounts as of 31 December 2004

CZK million

| Item no. | Name of item | Note | 2004 | 2003 |
|---|---|---|---|---|
| 1. | Issued commitments and guarantees | 27 | 110,710 | 90,623 |
| 2. | Provided collateral | 27 | 1 | 0 |
| 3. | Amounts due from spot transactions | 27 | 2,401 | 5,394 |
| 4. | Amounts due from term transactions | 27 | 569,205 | 390,233 |
| 5. | Amounts due from option transactions | 27 | 13,233 | 8,531 |
| 6. | Receivables written off | 27 | 9,174 | 9,580 |
| 7. | Assets provided into custody, administration and safe-keeping | 27 | 31 | 61 |
| 8. | Assets provided for management | 27 | 0 | 0 |
| 9. | Accepted commitments and guarantees | 27 | 40,379 | 79,164 |
| 10. | Received collateral | 27 | 314,735 | 311,547 |
| 11. | Amounts owed from spot transactions | 27 | 2,402 | 5,393 |
| 12. | Amounts owed from term transactions | 27 | 567,279 | 387,750 |
| 13. | Amounts owed from option transactions | 27 | 13,233 | 8,531 |
| 14. | Assets received into custody, administration and safe-keeping | 27 | 78,105 | 36,478 |
| 15. | Assets received for management | 27 | 3,032 | 2,884 |

# Statement of Changes in Equity for the Year Ended 31 December 2004

| CZK million | Share capital | Treasury shares | Share premium | Reserve funds | Capital funds | Valuation gains or losses | Profit/ (loss) | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2003 | 19,005 | (23) | 124 | 1,193 | 0 | 2,344 | 11,161 | 33,804 |
| Change of accounting policies | | | | | | | | |
| Corrections of fundamental errors | | | | | | | | |
| FX gains and losses from revaluation not included in profit/(loss) | | | | | | (1,050) | | (1,050) |
| Net profit/(loss) for the period | | | | | | | 9,310 | 9,310 |
| Dividends | | | (2) | | | | (1,518) | (1,520) |
| Transfers to funds | | | | 549 | | | (549) | |
| Use of funds | | | | (90) | | | | (90) |
| Share issues | | | | | | | | |
| Share capital decrease | | | | | | | | |
| Acquisition of treasury shares | | (30) | (5) | | | | | (35) |
| Other changes | | | | | | | | |
| Balance at 31 December 2003 | 19,005 | (53) | 117 | 1,652 | 0 | 1,294 | 18,404 | 40,419 |
| Balance at 1 January 2004 | 19,005 | (53) | 117 | 1,652 | 0 | 1,294 | 18,404 | 40,419 |
| Change of accounting policies | | | | | | | | |
| Corrections of fundamental errors | | | | | | | | |
| FX gains and losses from revaluation not included in profit/(loss) | | | | | | 1,509 | | 1,509 |
| Net profit/(loss) for the period | | | | | | | 9,435 | 9,435 |
| Dividends | | | | | | | (7,602) | (7,602) |
| Transfers to funds | | | | 537 | | | (537) | |
| Use of funds | | | | (75) | | | | (75) |
| Share issues | | | | | | | | |
| Share capital decrease | | | | | | | | |
| Acquisition of treasury shares | | 50 | 22 | | | | | 72 |
| Other changes | | | | | | | | |
| Balance at 31 December 2004 | 19,005 | (3) | 139 | 2,114 | 0 | 2,803 | 19,700 | 43,758 |

These financial statements were approved by the Board of Directors on 16 March 2005.

Signed on behalf of the Board of Directors:

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

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

# Unconsolidated Financial Statements under CAS as of 31 December 2004

## 1. Principal activities

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

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

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its subsidiary Komerční banka Bratislava, a.s.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale is the Bank's majority shareholder, holding 60.35 percent (2003: 60.35 percent) of the Bank's issued share capital.

## 2. Events for the year ended 31 December 2004

### Dividends declared in respect of the year ended 31 December 2003

At the General Meeting held on 17 June 2004, the shareholders approved a dividend for the year ended 31 December 2003 of CZK 200 per share before tax. The dividend was declared in the aggregate amount of CZK 7,602 million in respect of the total net profit of CZK 9,310 million under Czech Accounting Standards for that year.

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

On 29 December 2000, pursuant to the Public Support Act 59/2000 Coll., the Bank entered into an agreement with Konsolidační banka Praha, s.p.ú. under which Konsolidační banka guaranteed a defined portfolio of classified on and off balance sheet exposures. The guarantee has applied to the net book values as of 31 December 2000. The period for determining the level of the pay-out under the guarantee matured as of 31 December 2003.

The aggregate declared losses incurred on the guaranteed portfolio amounted to CZK 5,247 million, of which five percent represents the Bank's participation, i.e. an amount of CZK 262 million. The final settlement in relation to Česká konsolidační agentura amounted to CZK 4,984 million (95 percent of the final loss) and was performed as of 18 June 2004.

The European Commission has assessed the state guarantee pursuant to EU rules on state aid. The European Commission has issued a decision that the state guarantee provided to the Bank is compliant with EU rules on state aid. This decision is effective even though the settlement of the state guarantee was made subsequently to the date of the Czech Republic's accession to the EU.

### Changes in the Bank's Financial Group

In September 2003, the Bank increased the share capital of Franfinance Consumer Credit, s.r.o. from CZK 120 million to CZK 245 million and became the majority shareholder of the entity owning 51 percent of its issued share capital. Given that the share capital increase was registered in the Register of Companies in March 2004, the Bank has reported the equity investment in Franfinance Consumer Credit, s.r.o. in its financial statements since 2004.
Pursuant to an agreement on the merger between Franfinance Consumer Credit, s.r.o., and ESSOX LEASING a.s., dated 22 June 2004, with the effective date of the merger being 1 January 2004, Franfinance Consumer Credit, s.r.o. has become the universal legal successor of these two entities. Franfinance Consumer Credit, s.r.o. was renamed to ESSOX s.r.o. in July 2004.
In December 2003, the Bank entered into an agreement to sell 52.6 percent of the shares of MUZO, a.s. for USD 34.7 million. This transaction was settled in February 2004 with an aggregate gain of CZK 803 million.
Reflecting the capital requirements arising from the Insurance Act, the Bank resolved in late 2003 to boost the equity of Komerční pojišťovna, a.s. by a total of CZK 200 million. The equity increase was effected in March 2004 and took the form of a share capital increase of CZK 56 million and a partial settlement of accumulated losses of CZK 144 million. With the objective of reducing accumulated losses brought forward, the Bank decided in November 2004 to make another settlement of Komerční pojišťovna's losses through the decrease of share capital of CZK 205 million. The share capital decrease was not registered in the Register of Companies at the balance sheet date.

## 3. Principal accounting policies

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

### (a) Basis of accounting

The financial statements for the year ended 31 December 2004 are based on the Bank's accounting records which are maintained in accordance with the Accounting Act 563/1991 Coll., the Notice of the Czech Finance Ministry no. 501/2002 Coll., which provides implementation guidance on certain provisions of the Accounting Act 563/1991 Coll., as amended, and Czech Accounting Standards for Financial Institutions, and in selected cases Czech Accounting Standards for Businesses issued by the Czech Finance Ministry. The Notice sets out the classification and identification of the components of financial statements and consolidated financial statements and defines the economic substance of financial statement components, guiding chart of accounts, accounting policies and their adoption, methods of consolidating financial statements and policies to be followed in including entities in consolidated accounts.
The financial statements are prepared on the accruals basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern basis. The financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities held for trading and all derivative contracts at the balance sheet date. Assets that are not remeasured to fair value and suffered an impairment are stated at net recoverable amount.
The financial statements are prepared in accordance with the Notice of the Czech Finance Ministry no. 501/2002, under which comparative figures for the previous financial reporting period are reported reflecting the conditions that exist in the period for which the financial statements are prepared.
The presentation of financial statements requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheet date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the financial statements and actual results could differ from those estimates.

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

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

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

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

The Bank's investments in subsidiary and associated undertakings are recognised at cost less any provisions. Investments, in which the Bank, directly or indirectly, has an equity interest less than 20 percent, are reported as "Shares, participation certificates and other holdings" and are carried on the same basis as securities available for sale.

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

The Bank regularly assesses equity investments for impairment. An equity investment is impaired if its carrying amount is greater than the present value of the expected future cash flows.

Equity investments denominated in foreign currencies are reported on the face of the balance sheet at the historical exchange rate.

### (c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are reported in the financial statements in CZK. At each balance sheet date:

(i) Cash items denominated in foreign currencies are translated into CZK at the CNB mid-rate;

(ii) Non-cash items denominated in foreign currencies, which are stated at historical cost, are translated into CZK at the CNB mid-rate ruling at the transaction date; and

(iii) Non-cash items denominated in foreign currencies, which are measured at fair value, are translated into CZK at the CNB mid-rate ruling at the date on which the fair value was determined.

Income and expenses denominated in foreign currencies are recorded in Czech Crowns in the underlying accounting system of the Bank and are therefore reported in the financial statements at the official exchange rate prevailing as of the date of the transaction.

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in *Net profit/(loss) on financial operations.*

### (d) Amounts due from banks and customers

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

Loans and advances to customers and financial institutions are stated net of provisions for loan losses. Further details about provisioning are set out in Note 27 to these financial statements.

The Bank charges penalty interest to borrowers when a portion of the loan falls overdue. Pursuant to the Bank's policies, penalty interest is not covered by the collateral set aside against the loan of the borrower. Penalty interest is accounted for on a cash basis in Interest income.

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

## (e) Securities

Securities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. The Bank has classified securities as "Trading securities", "Available for sale" and "Held to maturity". With effect from 2002, the Bank has also carried securities in the category "Acquired under initial offerings not designated for trading" which are reported together with receivables. The principal difference among the portfolios relates to the measurement approach to securities and the recognition of their fair values in the financial statements.

All securities held by the Bank are initially recognised using settlement date accounting and are measured at cost which includes direct transaction costs associated with the acquisition of securities.

All purchases and sales of securities that do not meet the 'regular way' settlement criterion are treated as financial derivatives and are recognised on the face of the balance sheet upon settlement at fair value. The cost of debt securities is gradually increased to reflect the accrued interest income using the effective interest rate method. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its cost and is reported in the profit and loss statement line "Interest income and similar income".

Dividend income arising from securities is recorded as the dividends are declared and is included as a receivable in the balance sheet line "Prepayments and accrued income" and in "Income from shares and equity investments" in the profit and loss statement. Upon receipt of the dividend, the receivable is offset against the collected cash.

Transactions with treasury shares (equity instrument) have a direct impact on the Bank's equity.

### Trading securities

Securities held for trading are financial assets (equity and debt securities, treasury bills, bills of exchange and participation certificates) acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. Subsequent to the initial recognition, these securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges or any other public securities markets as appropriate. Unrealised gains and losses arising from the fair value remeasurement of securities as well as realised gains and losses are recognised as income in the profit and loss statement line *Net profit or loss on financial operations.*

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised as spot transactions. Transactions that do not meet the "regular way" settlement criterion are treated as financial derivatives.

### Investments held to maturity

Investments held to maturity are financial assets with fixed maturities that the Bank has the positive intent and ability to hold to maturity. The Bank carries debt securities in the held-to-maturity portfolio. Held-to-maturity investments are carried at amortised cost using the effective yield method.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and its recoverable amount. When an impairment of assets is identified, the Bank recognises provisions through the profit and loss statement line *Net profit or loss on financial operations.*

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

Securities acquired under initial offerings not designated for trading are financial assets that have originated as a result of the provision of cash, goods or services directly to the borrower. Securities acquired under initial offerings are valued on the same basis as investments held to maturity. These securities are reported on the balance sheet together with amounts due from banks or customers, as appropriate.

### Securities available for sale

Available for sale securities are those financial assets that are not classified as financial assets held for trading, held-to-maturity investments or securities acquired under initial offerings not designated for trading. This portfolio comprises equity securities and debt securities, including asset backed securities, and participation certificates. Securities available for sale are measured on the same basis as securities held for trading.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

If equity securities cannot be measured using the methods referred to above or on any other valuation basis they are carried at cost.

Both realised and unrealised gains and losses arising from the fair value re-measurement of securities are recognised in the profit and loss statement line *Net profit or loss on financial operations*.

## (f) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses and increased by technical improvements. Fixed assets are depreciated indirectly through the accumulated depreciation charge. Depreciation is calculated on a straight line basis to write off the cost of tangible and intangible fixed assets over their estimated useful economic lives.

The Bank specifically does not depreciate land, works of art, tangible and intangible fixed assets in the course of construction and technical improvements, unless they are brought into a condition fit for use.

During the reporting period, the Bank used the following estimated useful economic lives in years:

| | |
|---|---|
| Machinery and equipment, computers, vehicles | 4 |
| Fixtures, fittings and equipment | 6 |
| Energy machinery and equipment | 12 |
| Technical improvements on historic buildings | 15 |
| Distribution equipment | 20 |
| Buildings and structures | 30 |
| Technical improvements on leasehold assets, except for historic buildings | According to the lease term |

Low value tangible and intangible assets costing less than CZK 40 thousand and CZK 60 thousand, respectively (including expenses having the nature of technical improvements) are charged to the profit and loss statement when the expenditure is incurred. Technical improvements costing greater than CZK 40 thousand in respect of tangible and intangible fixed assets increase the acquisition cost of the related fixed asset.

The Bank periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Bank's requirements, management of the Bank determines a provision for asset impairment. In respect of the assets owned by the Bank, the provision is assessed by reference to the net selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs. Leasehold assets are provisioned by reference to the residual value of technical improvements.

Repairs and renewals are charged directly to the profit and loss statement when the expenditure is incurred.

## (g) Leases

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

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

### (h) Provisions

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

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

The Bank additionally records a provision for estimated losses arising from credit related commitments retained off balance sheet which primarily include guarantees, letters of credit and undrawn loan commitments.

In addition, the Bank recognises specific provisions for legal disputes, losses on the premature termination of rental agreements, employment benefits and estimated income taxation.

### (i) Employment benefits

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

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

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

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions as incurred. Other short-term benefits are paid from the Social Fund.

### (j) Certificated debts

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

In the event of the repurchase of its own certificated debts, the Bank derecognises these debts so as to reflect the economic substance of the transaction as a repayment of the Bank's commitment and decreases its liabilities in the balance sheet line *Payables from debt securities*. The difference between the cost and accrued value of the issued certificate debts is included in *Net profit or loss on financial operations*.

### (k) Recognition of income and expense

Interest income and expense are recognised in the profit and loss statement for all interest bearing instruments on an accruals basis using the effective interest rate. Interest income includes amortisation of interest earned on debt financial instruments. Interest on non-performing loans is recognised on a case by case basis, interest on selected loans ceases to be accrued. The Bank records an appropriate specific provision for outstanding interest on distressed loans. Penalty interest is accounted for and included in interest income on a cash basis. Fees and commissions are recognised in the period to which they relate on an accruals basis.

### (l) Taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic based on the profit or loss recognised in the profit and loss statement prepared under Czech Accounting Standards.
Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. The principal temporary differences arise from depreciation on property, plant and equipment, specific provisions for loans, and tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.
The Bank additionally accounts for a deferred tax liability in respect of the changes of fair values of hedging financial derivatives which is recognised in the balance sheet line *Gains or losses from revaluation of hedging derivatives.*

### (m) Repurchase agreements

Securities sold under repurchase agreements ("repos") are recorded as assets in the balance sheet lines *Securities held for trading* or *Securities available for sale as appropriate* and the counterparty liability is included in A*mounts owed to banks* or *Amounts owed to customers* as appropriate.
Securities purchased under reverse repurchase agreements ("reverse repos") are recorded off balance sheet where they are remeasured to fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the balance sheet line Amounts due from banks or Amounts due from customers as appropriate.
The difference between the sale and repurchase price is treated as interest and accrued evenly to expenses/income over the life of the repo agreement using the effective interest rate.
In regard to the sale of a security acquired as collateral under a reverse repurchase transaction, the Bank recognises in the balance sheet an amount payable from a short sale which is remeasured to fair value.

### (n) Derivative financial instruments and hedging

In the normal course of business, the Bank enters into contracts for derivative financial instruments which represent a financial instrument that requires a very low initial investment relative to the nominal value of the contract.
The derivative financial instruments used include interest rate and currency forwards, swaps, securities based derivatives, and options. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. The Bank also acts as an intermediary provider of these instruments to certain clients.
Derivative financial instruments are initially recognised in the off balance sheet accounts at the value of the underlying instruments and subsequently are remeasured to their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.
Certain derivatives are embedded in other financial instruments, such as the conversion option in a convertible bond, and are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with fair value changes reported in the profit and loss statement. In such cases, the financial derivative is separated from the host contract and is accounted for separately.
Changes in the fair value of derivatives held for trading are directly included in the profit and loss statement line *Net profit/(loss) on financial operations.*
On the date a derivative contract is entered into, the Bank always designates derivatives as either trading or hedging. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

(a) The Bank has developed a risk management strategy,

(b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective,

(c) The hedge is effective, that is, if, at inception and throughout the period, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Hedging derivatives are accounted for according to the type of a hedging relationship which can be either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge); or (iii) a hedge of an investment in a foreign entity.

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

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

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

Certain derivative transactions, while providing economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains and losses reported in the profit and loss statement line *Net profit or loss on financial operations.*

### (o) Regulatory requirements

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

### (p) Extraordinary income and expenses

Extraordinary income and expenses represent income or expense arising from extraordinary non-recurring events that do not relate to the principal business of the enterprise. Extraordinary income and expenses do not include deficits and damage and compensation for deficits and damage.

### (q) Share capital and treasury stock

Where the Bank purchases its own share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs net of income taxes is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are recorded in equity.

### Changes in the year ending 31 December 2005

The Accounting Act 563/1991 Coll., sets out that reporting entities that are trade enterprises and issue securities listed on a regulated securities market in the European Union's Member States shall use International Accounting Standards governed by the European Community's law in keeping their accounting books and records and in preparing their financial statements.

In accordance with this legislative requirement, with effect from 2005 the Bank will maintain its accounting books and records and prepare its financial statements only under International Accounting Standards (International Financial Reporting Standards – IFRS). The financial statements under Czech Accounting Standard ("CAS") will no longer be presented.

Set out below are changes in retained earnings and other equity components which the Bank recognised as of 1 January 2005 in its books held until 31 December 2004 under CAS to bring them into compliance with IFRS. The Bank has undertaken a detailed analysis of changes in the revised standards. The notes to the IFRS financial statements provide a disclosure of all the impacts arising from these changes. These notes only provide a disclosure of the changes that impact retained earnings as of 1 January 2005 in the Bank's unconsolidated books.

### Accruals

With effect from 2005, the Bank has commenced recording accruals for certain items, specifically initial fees from loans, fees from guarantees and annual fees from payment cards, which results in a fairer presentation of information. In accordance with IAS 8, the Bank will apply the changes of accounting policies retrospectively. As of 1 January 2005, the net impact on retained earnings (decrease) is CZK 37 million, CZK 14 million and CZK 78 million in respect of initial fees from loans, fees from guarantees and fees from payment cards, respectively.

### Social fund

The Bank created a social fund under CAS through the allocation of retained earnings to cover the cost of certain employment benefits. Hence the creation of the social fund was accounted for as a re-allocation in equity between retained earnings and a separate component of equity. The use of the social fund was recognised as a direct decrease in equity. Given that this treatment does not comply with IFRS, the social fund balance as of 31 December 2004 has been re-allocated from equity to payables to employees. The fund will be used against a corresponding decrease in the payables to employees. The net impact on equity (decrease) as of 1 January 2005 is CZK 110 million.

### Accounting for finance leases

Under CAS assets held under finance leases are recorded only in the off balance sheet records. Amounts paid under finance leases are amortised and expensed over the lease term. Under IFRS assets held under finance leases are recognised as assets and these assets are depreciated over their useful lives. Lease payments are apportioned between interest reported in finance charges and reduction of the lease obligation.

The impact on the Bank's retained earnings (increase) following the recognition of all the changes arising from the above described change of the accounting policy is CZK 58 million as of 1 January 2005.

### Remeasurement of securities available for sale

In accordance with CAS, until 2004 the Bank recognised unrealised gains and losses on securities available for sale in the profit and loss statement. IFRS require that these gains and losses be recognised in equity, in the line "Reserve from revaluation". The implementation of this change as of 1 January 2005 in the Bank's books involves a re-allocation of unrealised gains and losses on securities available for sale generated subsequent to 1 January 2001 from "Retained earnings" to the "Reserve from revaluation". This re-allocation also includes the relevant income taxation and is reflected in the statement of changes in shareholders' equity. The impact of the change on total equity is zero as of 1 January 2005. However, a net re-allocation of CZK 236 million will be made between equity components from retained earnings to the reserve from revaluation as of this date.

## 4. Net interest income

Net interest income comprises:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Interest income** | | |
| – Loans and advances to financial institutions | 9,590 | 8,728 |
| – Loans and advances to customers | 9,028 | 9,625 |
| – Bonds, treasury bills | 1,435 | 1,732 |
| **Total interest income** | **20,053** | **20,085** |
| **Interest expense** | | |
| – Amounts owed to financial institutions | (2,226) | (1,854) |
| – Amounts owed to customers | (3,688) | (4,534) |
| – Certificated debts | (1,363) | (1,735) |
| **Total interest expense** | **(7,277)** | **(8,123)** |
| **Net interest income** | **12,776** | **11,962** |

Interest income also includes accrued interest income from hedging financial derivatives of CZK 4,225 million (2003: CZK 3,346 million) and interest expense from hedging financial derivatives of CZK 2,181 million (2003: CZK 1,615 million). Net interest income arising from these derivatives amounts to CZK 2,044 million (2003: CZK 1,731 million).

## 5. Net fees and commissions

Net fees and commissions comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Fees and commissions income | 7,782 | 7,349 |
| Fees and commissions expense | (657) | (1,569) |
| **Net fees and commissions income** | **7,125** | **5,780** |

Fees and commissions principally consist of fee and commission income from customers. In 2003, fee and commission expense included a fee for the close-out of credit default swap instruments.
Of which:

| CZK million | 2004 | 2003 |
|---|---|---|
| Fee and commission income from the procurement of acquisitions and sales of securities | 77 | 72 |
| Fee income from management, custody, administration and safe-keeping of assets | 86 | 94 |
| Fee and commission expense from the sale or any other disposal of securities | (50) | (49) |

## 6. Net profit or loss on financial operations

| CZK million | 2004 | 2003 |
|---|---|---|
| Net gains/(losses) on securities – realised | (111) | 24 |
| Net gains/(losses) on securities – unrealised | 62 | (15) |
| Net income from foreign exchange commissions from clean payments | 1,081 | 1,198 |
| Net income from foreign exchange commissions from other transactions | 680 | 725 |
| Net realised and unrealised gains/(losses) on foreign exchange trading and re-translation of foreign currency accounts | (187) | (532) |
| Net realised and unrealised gains/(losses) on currency derivatives | 758 | 1,154 |
| Net realised and unrealised gains/(losses) on interest rate and credit derivatives | (140) | 60 |
| Net realised and unrealised gains/(losses) on commodity derivatives | 3 | 2 |
| Net realised and unrealised gains/(losses) on security derivatives | 157 | (4) |
| **Net profit or loss on financial operations** | **2,303** | **2,612** |

## 7. Other operating income and expenses

Other operating income and expenses comprise:

| CZK million | 2004 | | 2003 | |
|---|---|---|---|---|
| | Income | Expenses | Income | Expenses |
| Income/(expenses) from the sale of assets | 109 | (103) | 71 | (98) |
| Gains/(losses) on the sale of equity investments | 804 | 0 | 783 | 0 |
| Remuneration to Management and Supervisory Boards | 0 | (35) | 0 | (34) |
| Other operating income/(expenses) | 510 | (1,033) | 2,492 | (786) |
| **Total** | **1,423** | **(1,171)** | **3,346** | **(918)** |

For the years ended 31 December 2004 and 2003, other operating income principally comprises income from the sale of equity investments (refer also to Note 16). In 2003, other operating income also reflected an estimated income receivable from the state guarantee in respect of realised losses on the guaranteed portfolio. The year-on-year increase in the amount of other operating expenses is attributable to the increase of the percentage of the insured deposits from 0.1 percent to 0.2 percent.

## 8. Administrative expenses

In addition to wages and salaries and social security costs, administrative expenses in the aggregate amount of CZK 9,408 million comprise other administrative expenses, such as tax charges, advisory fees and other purchased consumables. Wages and salaries include Management Board bonuses paid under management contracts and compensation paid under the equity compensation scheme. Remuneration to the members of the Management and Supervisory Boards arising from mandate contracts is recorded in the profit and loss statement line *Other operating expenses.*

| CZK million | 2004 | 2003 |
|---|---|---|
| **Total administrative expenses** | **(9,408)** | **(9,202)** |
| **Staff costs** | **(4,745)** | **(4,784)** |
| – Wages and salaries | (3,339) | (3,470) |
| – Social security and health insurance costs | (1,190) | (1,220) |
| – Other staff costs | (216) | (94) |
| **Other administrative expenses** | **(4,663)** | **(4,418)** |
| – Taxes and fees | (36) | (44) |
| – Legal, tax services and audit fees | (154) | (125) |
| – Other fees for advisory services | (187) | (148) |
| – Other purchased consumables | (4,286) | (4,101) |
| Of which: Rental charges | (617) | (720) |
| Repairs and maintenance | (594) | (531) |
| Consumed material and energy | (708) | (465) |
| Promotion and representation | (351) | (319) |
| IT and telecommunication services | (702) | (723) |
| Other services | (1,314) | (1,343) |
| Physical number of employees at the year-end | 7,276 | 8,207 |
| Average recalculated number of employees during the year | 7,855 | 8,683 |
| Average cost per employee (CZK) | 604,008 | 550,996 |

## 9. Reserves and provisions

Set out below is a summary of provisions and reserves:

| CZK million | Balance at 1 January 2004 | Charge | Use and release | Foreign exchange effect | Balance at 31 December 2004 |
|---|---|---|---|---|---|
| **Provisions** | | | | | |
| – Loans | 5,399 | 3,097 | 2,885 | (246) | 5,365 |
| – Tangible fixed assets | 655 | 98 | 140 | 0 | 613 |
| – Intangible fixed assets | 54 | 1 | 49 | 0 | 6 |
| – Equity investments | 1,240 | 87 | 172 | 0 | 1,155 |
| – Other receivables | 297 | 16 | 47 | 0 | 266 |
| **Total provisions** | **7,645** | **3,299** | **3,293** | **(246)** | **7,405** |
| **Reserves** | | | | | |
| – Taxes | 1,452 | 3,788 | 4,874 | 0 | 366 |
| – Loans and guarantees | 5,223 | 730 | 3,302 | (55) | 2,596 |
| – Other | 1,493 | 571 | 367 | (48) | 1,649 |
| **Total reserves** | **8,168** | **5,089** | **8,543** | **(103)** | **4,611** |

Set out below is an analysis of reserves and provisions for loans and guarantees:

| CZK million | Balance at 1 January 2004 | Creation | Use and release | Foreign exchange effect | Balance at 31 December 2004 |
|---|---|---|---|---|---|
| **Provisions for classified loans** | **5,039** | **3,095** | **2,872** | **(246)** | **5,016** |
| of which: banks | 15 | 26 | 41 | 0 | 0 |
| of which: customers | 5,024 | 3,069 | 2,831 | (246) | 5,016 |
| **Provisions for debtors in bankruptcy** | **360** | **2** | **13** | **0** | **349** |
| of which: banks | 0 | 0 | 0 | 0 | 0 |
| of which: customers | 360 | 2 | 13 | 0 | 349 |
| **Total provisions** | **5,399** | **3,097** | **2,885** | **-246** | **5,365** |
| of which: banks | 15 | 26 | 41 | 0 | 0 |
| of which: customers | 5,384 | 3,071 | 2,844 | -246 | 5,365 |
| **Total reserves** | **5,223** | **730** | **3,302** | **-55** | **2,596** |
| **Reserves and provisions** | **10,622** | **3,827** | **6,187** | **-301** | **7,961** |

With effect from 1 January 2002, the Bank has ceased to create reserves for standard on balance sheet loans and off balance sheet exposures. The Bank records non-tax deductible reserves for off balance sheet exposures rated as watch to loss. Reserves for off balance sheet exposures that meet the criteria set out in the Provisioning Act (guarantees issued by the Bank for loans advanced by other banks) are allowable for tax purposes. Pursuant to the requirement in the Provisioning Act, the Bank gradually releases a tax deductible reserve established prior to the 2001 year-end such that the balance of this reserve is reduced at no less than 25 percent each year to ensure its full release in the accounting period ending 31 December 2005. As of 31 December 2004, the balance of the general provision for loan losses is CZK 1,389 million.

## Reserves for off balance sheet exposures

| CZK million | 2004 |
|---|---|
| Reserve for off balance sheet commitments | 902 |
| Reserve for undrawn loan facilities | 305 |
| **Total** | **1 207** |

As of 31 December 2004, the balance of the reserves for off balance sheet exposures and guarantees was CZK 1,207 million. This reserve covers credit risks associated with issued credit commitments.

## Gains/(losses) arising from transferred and written off receivables

| CZK million | 2004 | | 2003 | |
|---|---|---|---|---|
| | Income | Expenses | Income | Expenses |
| Income/(expense) from loan receivables from banks written off | 0 | 0 | 0 | 0 |
| Income/(expense) from loan receivables from customers written off | 90 | (61) | 153 | (840) |
| Income/(expense) from other receivables written off | 0 | 0 | 0 | 0 |
| Income/(expense) from transferred receivables | 9 | (888) | 558 | (8,233) |
| **Total** | **99** | **(949)** | **711** | **(9,073)** |

### Reserves and provisions for tangible and intangible assets

During 2004, the Bank undertook a review of a set of owned buildings held for sale and leased buildings which served as a basis for adjusting the level of provisions charged against these buildings to reflect their estimated recoverable values. From this review, the Bank maintains impairment provisions of CZK 580 million as of 31 December 2004 (2003: CZK 614 million) which include expected losses on the sale of premises presently owned by the Bank, and the writedown of leasehold improvements on leased premises which the Bank intends to sell or terminate the rental agreements. The Bank has recognised a provision of CZK 388 million for the amount of future lease rental payments arising from the unutilised leased buildings which the Bank intends to vacate. This provision is included in *"Other reserves"*. In addition, the Bank has recognised a provision of CZK 156 million for the writedown of the carrying amount of prepaid rentals. This provision is reported within *Other assets.* The aggregate balance of provisions against assets is CZK 619 million (2003: CZK 709 million).

### Provisions for equity investments

Provisions for equity investments principally comprise provisions charged in respect of Komerční pojišťovna, a.s. on the basis of changes in its equity balance and losses incurred in prior periods.

### Other reserves

| CZK million | Balance at 1 January 2004 | Creation | Use | Foreign exchange effect | Balance at 31 December 2004 |
|---|---|---|---|---|---|
| Restructuring reserve | 135 | 0 | 135 | 0 | 0 |
| Reserves for other contractual commitments | 1,358 | 571 | 232 | (48) | 1,649 |
| **Total other reserves** | **1,493** | **571** | **367** | **(48)** | **1,649** |

Reserves for other contractual commitments primarily comprise reserves for legal disputes and reserves for anticipated staff costs.

## 10. Extraordinary income and extraordinary expenses

| CZK million | 2004 | 2003 |
|---|---|---|
| Extraordinary income | 0 | 10 |
| Extraordinary costs | (12) | 0 |
| **Net extraordinary income** | **(12)** | **10** |

## 11. Taxation

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Tax payable – current year | 3,785 | 3,637 |
| Tax paid – prior year | (9) | (9) |
| Deferred tax movement | 100 | 388 |
| **Total income tax expense** | **3,876** | **4,016** |

The decrease in the prior period tax expense of CZK 9 million (2003: a decrease of CZK 9 million) represents a decreased tax liability for the years ended 31 December 2003, 2002 and 2001 reflected in the tax returns filed in 2004.

The corporate tax rate for the year ended 31 December 2004 is 28 percent (2003: 31 percent). The Bank's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

| CZK million | 2004 | 2003 |
|---|---|---|
| **Profit/(loss) before tax** | **13,311** | **13,326** |
| **Items increasing the tax base** | **2,460** | **4,611** |
| Provisions and reserves | 1,826 | 3,251 |
| Costs associated with non-taxable income from securities | 6 | 17 |
| Losses on receivables | 218 | 1,056 |
| Other non-deductible expenses | 410 | 287 |
| **Items decreasing the tax base** | **(2,176)** | **(5,874)** |
| Provisions and reserves | (1,698) | (5,492) |
| Non-taxable income from securities | (436) | (355) |
| Recoveries of receivables written off | (7) | (18) |
| Other non-taxable income | (35) | (9) |
| **Tax base** | **13,595** | **12,063** |
| Tax losses carried forward | 0 | 0 |
| Items deductible from the tax base | (43) | (45) |
| Gifts | (21) | (2) |
| **Rounded tax base** | **13,531** | **12,016** |
| Tax rate | 28 | 31 |
| Income tax expense | 3,788 | 3,725 |
| Tax allowance | (3) | (88) |
| **Tax from the general tax base** | **3,785** | **3,637** |
| Stand-alone tax base | 0 | 0 |
| Tax rate applied to the stand-alone tax base | 15 | 15 |
| **Tax from the stand-alone tax base** | **0** | **0** |
| **Total tax** | **3,785** | **3,637** |

### Deferred income tax

Deferred income taxes are calculated from all temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is 26 percent for 2005 and 24 percent for 2006 onwards.

In the year ended 31 December 2004, the Bank reduced, through the profit and loss statement, the deferred tax asset by CZK 104 million and the deferred tax liability by CZK 4 million. In addition, the Bank recognised through equity an increase in the deferred tax liability of CZK 389 million arising from the change in fair values of hedging derivatives.

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Deferred income tax asset** | | |
| Balance at the beginning of the period | 496 | 902 |
| Movement in deferred tax assets | (104) | (406) |
| **Balance at the end of the period** | **392** | **496** |
| **Deferred income tax liability** | | |
| Balance at the beginning of the period | (625) | (1,124) |
| Movement in deferred tax liabilities – P&L impact | 4 | 18 |
| Movement in deferred tax liabilities – equity impact | (389) | 481 |
| **Balance at the end of the period** | **1,010** | **(625)** |
| **Increase/decrease in deferred income tax – P&L impact** | **(100)** | **(388)** |
| **Increase/decrease in deferred income tax – equity impact** | **(389)** | **481** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Deferred income tax assets** | **392** | **496** |
| Banking reserves and provisions | 1 | 15 |
| Provisions for non-banking receivables | 48 | 54 |
| Provisions for assets | 136 | 179 |
| Non-banking reserves | 150 | 192 |
| Other temporary differences | 50 | 56 |
| Depreciation | 7 | 0 |
| **Deferred income tax liabilities** | **(1,010)** | **(625)** |
| Depreciation | 0 | (7) |
| Other temporary differences | (25) | (23) |
| Change in fair value of hedging derivatives – equity impact | (985) | (595) |
| **Net deferred income tax asset/liability** | **(618)** | **(129)** |

## 12. Cash in hand, balances with central banks

Cash and balances with central banks comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Cash in hand | 5,598 | 6,709 |
| Balances with the Czech National Bank | 4,219 | 5,041 |
| **Total cash and balances with central banks** | **9,817** | **11,750** |

Balances with the Czech National Bank include:

| CZK million | 2004 | 2003 |
|---|---|---|
| Obligatory minimum reserves | 4,219 | 5,041 |
| Deposits repayable on demand | 0 | 0 |
| **Total** | **4,219** | **5,041** |

With effect from November 2003, all deposits with the CNB repayable on demand have been included in the obligatory minimum reserves. Obligatory minimum reserves bore interest at 2.50 percent and 2 percent as of 31 December 2004 and 2003, respectively.

## 13. Amounts due from banks

| CZK million | 2004 | 2003 |
|---|---|---|
| Term placements and loans to banks | 43,085 | 16,150 |
| Advances due from the central bank (repo transactions) | 173,066 | 166,402 |
| Placements with other banks | 114 | 130 |
| Securities acquired under initial offerings not designated for trading | 15,095 | 19,101 |
| **Total** | **231,360** | **201,783** |
| Provisions for losses on amounts due from banks | 0 | (15) |
| **Total due from banks** | **231,360** | **201,768** |

Set out below is an analysis by territory:

| CZK million | 2004 | 2003 |
|---|---|---|
| Czech Republic | 181,425 | 168,956 |
| Europe | 48,609 | 32,485 |
| Other | 1,326 | 342 |
| **Total** | **231,360** | **201,783** |

Details about loans written off and income from written off loans can be found at Note 9 to these financial statements. Advances due from the Czech National Bank and banks under repurchase transactions are collateralised by treasury bills issued by the Czech National Bank and other debt securities whose fair values are as follows:

| CZK million | 2004 | 2003 |
|---|---|---|
| Treasury bills | 169,607 | 163,062 |
| Debt securities issued by state institutions | 5,037 | 73 |
| Debt securities issued by other institutions | 0 | 10 |
| **Total** | **174,644** | **163,145** |

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

In the third quarter of 2003, pursuant to its investment strategy the Bank acquired, under an initial offering and normal market conditions, bonds issued by the parent company, Société Générale, denominated in CZK with an aggregate nominal value of CZK 5,000 million maturing in 2013. These bonds bear fixed interest at 3.98 percent. Since 2002, the Bank has carried bonds issued by the parent company denominated in CZK with an aggregate nominal value of CZK 14,000 million, maturing in 2012 and bearing fixed interest at 4.27 percent. In August 2004 the issuer made an early redemption of CZK 4,000 million in bonds for a price determined according to prevailing market conditions. The effect of the transaction on the Bank's profit or loss was immaterial.

## 14. Amounts due from customers

Amounts due from customers comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Loans and advances to customers | 159,367 | 162,386 |
| Securities acquired under initial offerings not designated for trading | 1,335 | 1,813 |
| Bills of exchange | 759 | 747 |
| Forfaits | 668 | 587 |
| **Total gross loans and advances to customers** | **162,129** | **165,533** |
| Provisions for loan losses | (5,365) | (5,384) |
| **Total amounts due from customers, net** | **156,764** | **160,149** |

Amounts due from customers include interest due of CZK 480 million (2003: CZK 511 million), of which CZK 236 million (2003: CZK 314 million) relates to overdue interest.

The balance of restructured receivables as of 31 December 2004 was CZK 2,103 million (2003: CZK 2,910 million).

The loan portfolio of the Bank as of 31 December 2004 (net of debt securities acquired under initial offerings not designated for trading) comprises the following breakdown by classification:

| CZK million | Gross receivable | Collateral applied | Net exposure | Provisions | Carrying value | Provisions (%) |
|---|---|---|---|---|---|---|
| Standard | 134,708 | 57,114 | 75,445 | 0 | 134,708 | 0.00 |
| Watch | 17,084 | 7,481 | 9,603 | 517 | 16,567 | 5.38 |
| Substandard | 4,012 | 1,869 | 2,143 | 744 | 3,268 | 34.72 |
| Doubtful | 1,145 | 412 | 733 | 484 | 661 | 66.03 |
| Loss | 3,780 | 177 | 3,603 | 3,603 | 177 | 100.00 |
| **Total by classification** | **160,729** | **67,053** | **91,527** | **5,348** | **155,381** | **5.84** |
| Other amounts due from customers | 65 | 0 | 0 | 17 | 48 | X |
| **Total** | **160,794** | **67,053** | **91,527** | **5,365** | **155,429** | **X** |

Loans classified as loss in the above table include amounts of CZK 2,883 million (2003: CZK 3,752 million), on which interest is not being accrued.

Set out below is the breakdown of loans by sector:

| CZK million | 2004 | 2003 |
|---|---|---|
| Agriculture | 6,776 | 6,440 |
| Processing industry | 32,341 | 31,444 |
| Distribution and production of energy | 5,825 | 5,685 |
| Construction | 5,993 | 4,325 |
| Trade, catering, transport and communication | 32,744 | 32,627 |
| Insurance, banking | 11,569 | 7,743 |
| Česká konsolidační agentura | 2,945 | 24,303 |
| Securities acquired under initial offerings not designated for trading | 1,335 | 1,813 |
| Other | 62,601 | 51,153 |
| **Total loans to clients** | **162,129** | **165,533** |

Set out below is an analysis by territory:

| CZK million | 2004 | 2003 |
|---|---|---|
| Czech Republic | 156,049 | 159,162 |
| Europe | 5,991 | 6,358 |
| Other | 89 | 13 |
| **Total** | **162,129** | **165,533** |

Set out below is an analysis by category of customers:

| CZK million | 2004 | 2003 |
|---|---|---|
| Retail customers | 41,385 | 31,034 |
| Corporate customers | 106,755 | 98,511 |
| Public sector | 13,989 | 35,988 |
| **Total** | **162,129** | **165,533** |

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

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

| CZK million | Total client loan collateral 2004 | Discounted client loan collateral value 2004 | Applied client loan collateral value 2004 | Applied client loan collateral value 2003 |
|---|---|---|---|---|
| Guarantees of state and governmental institutions* | 12,848 | 12,356 | 8,973 | 32,048 |
| Bank guarantee | 7,418 | 6,105 | 5,114 | 2,910 |
| Guaranteed deposits | 830 | 822 | 628 | 796 |
| Issued debentures in pledge | 10 | 2 | 2 | 12 |
| Pledge of real estate | 104,366 | 60,682 | 37,893 | 32,392 |
| Pledge of movable assets | 7,031 | 720 | 601 | 593 |
| Guarantee by legal entity | 11,434 | 2,417 | 1,533 | 1,542 |
| Guarantee by individual (physical entity) | 4,241 | 770 | 641 | 714 |
| Pledge of receivables | 27,682 | 11,239 | 8,730 | 8,318 |
| Insurance of credit risk | 2,088 | 2,068 | 2,021 | 2,428 |
| Other | 1,847 | 934 | 917 | 1,141 |
| **Total nominal value of collateral** | **179,795** | **98,115** | **67,053** | **82,894** |

* Guarantees of state and governmental institutions include the state guarantee for loans issued to Česká konsolidační agentura.

## Syndicated loans granted

Non-banking syndicated loans

| | Participation CZK million | Interest rate (%) | Portion of risk (%) |
|---|---|---|---|
| Komerční banka, a.s. | 6 | 3.68 | 33.33 |
| Other creditors | 11 | | 66.67 |
| **Total to client 1*** | **17** | | **100.00** |
| Komerční banka, a.s. | 427 | 3.55 | 43.66 |
| Other creditors | 552 | | 56.34 |
| **Total to client 2*** | **979** | | **100.00** |
| Komerční banka, a.s. | 186 | 3.23 | 41.52 |
| Other creditors | 261 | | 58.48 |
| **Total to client 3*** | **447** | | **100.00** |

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

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

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

| CZK million | 2004<br>Carrying value | 2003<br>Carrying value |
|---|---|---|
| Shares and participation certificates for trading | 19 | 140 |
| Shares and participation certificates available for sale | 93 | 93 |
| **Total shares and participation certificates** | **112** | **233** |
| Debt securities for trading* | 4,611 | 3,203 |
| Debt securities available for sale* | 10,257 | 12,210 |
| Debt securities held to maturity | 985 | 97 |
| **Total debt securities** | **15,853** | **15,510** |
| **Total debt securities, shares, participation certificates and other holdings** | **15,965** | **15,743** |

* Does not include bonds which are presented in "State zero-coupon bonds and other securities eligible for refinancing with the CNB".

### Trading securities

Trading securities comprise:

| CZK million | 2004<br>Fair value | 2004<br>Cost | 2003<br>Fair value | 2003<br>Cost |
|---|---|---|---|---|
| **Shares and participation certificates** | **19** | **19** | **140** | **154** |
| Treasury bills | 235 | 234 | 1,462 | 1,462 |
| Bills of exchange | 149 | 149 | 0 | 0 |
| Fixed income debt securities | 3,996 | 3,961 | 1,393 | 1,395 |
| Variable yield debt securities | 231 | 231 | 348 | 348 |
| **Debt securities and bills** | **4,611** | **4,575** | **3,203** | **3,205** |
| **Total trading securities** | **4,630** | **4,594** | **3,343** | **3,359** |

As of 31 December 2004, the portfolio of trading securities includes securities at a fair value of CZK 4,246 million (2003: CZK 1,880 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 384 million (2003: CZK 1,463 million) that are not publicly traded on stock exchanges (they are traded on the interbank market). Trading shares at fair value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Trading shares and participation certificates** | | |
| – Czech crowns | 19 | 140 |
| **Trading shares and participation certificates** | **19** | **140** |

Trading shares at fair value, allocated by issuer, comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Trading shares and participation certificates** | | |
| – Foreign financial institutions | 7 | 0 |
| – Non-banking entities in the Czech Republic | 12 | 140 |
| **Total trading shares and participation certificates** | **19** | **140** |

Trading debt securities at fair value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Variable yield debt securities** | | |
| – Czech crowns | 231 | 348 |
| **Total variable yield debt securities** | **231** | **348** |
| **Fixed income debt securities** | | |
| – Czech crowns | 1,188 | 2,420 |
| – Other currencies | 3,192 | 435 |
| **Total fixed income debt securities** | **4,380** | **2,855** |
| **Total trading debt securities** | **4,611** | **3,203** |

Trading debt securities at fair value, allocated by issuer, comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Trading debt securities issued by** | | |
| – State institutions in the Czech Republic | 49 | 1,664 |
| – Foreign state institutions | 3,149 | 435 |
| – Financial institutions in the Czech Republic | 0 | 133 |
| – Foreign financial institutions | 353 | 306 |
| – Other entities in the Czech Republic | 690 | 629 |
| – Other foreign entities | 370 | 36 |
| **Total trading debt securities** | **4,611** | **3,203** |

## Securities available for sale

Securities available for sale comprise:

| CZK million | 2004 Fair value | 2004 Cost | 2003 Fair value | 2003 Cost |
|---|---|---|---|---|
| **Shares and participation certificates** | **93** | **93** | **93** | **93** |
| Fixed income debt securities | 4,882 | 5,371 | 5,147 | 5,430 |
| Variable yield debt securities | 5,375 | 6,108 | 7,063 | 8,412 |
| **Debt securities** | **10,257** | **11,479** | **12,210** | **13,842** |
| **Total securities available for sale** | **10,350** | **11,572** | **12,303** | **13,935** |

As of 31 December 2004, the portfolio of available-for-sale securities includes securities at a fair value of CZK 2,793 million (2003: CZK 2,196 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 7,557 million (2003: CZK 10,107 million) that are not publicly traded on stock exchanges. Shares and participation certificates available for sale at fair value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Shares and participation certificates available for sale** | | |
| – Czech crowns | 91 | 90 |
| – Other currencies | 2 | 3 |
| **Total shares and participation certificates available for sale** | **93** | **93** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Shares and participation certificates available for sale issued by** | | |
| – Non-banking entities in the Czech Republic | 31 | 30 |
| – Financial institutions in the Czech Republic | 60 | 60 |
| – Foreign non-banking entities | 2 | 3 |
| **Total shares and participation certificates available for sale** | **93** | **93** |

Debt securities available for sale at fair value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Variable yield debt securities** | | |
| – Czech crowns | 788 | 1,004 |
| – Other currencies | 4,587 | 6,059 |
| **Total variable yield debt securities** | **5,375** | **7,063** |
| **Fixed income debt securities** | | |
| – Czech crowns | 2,744 | 2,813 |
| – Other currencies | 2,138 | 2,334 |
| **Total fixed income debt securities** | **4,882** | **5,147** |
| **Total debt securities available for sale** | **10,257** | **12,210** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Debt securities available for sale issued by** | | |
| – State institutions in the Czech Republic | 830 | 131 |
| – Financial institutions in the Czech Republic | 216 | 214 |
| – Foreign financial institutions | 0 | 101 |
| – Other entities in the Czech Republic | 720 | 710 |
| – Other foreign entities | 8,491 | 11,054 |
| **Total debt securities available for sale** | **10,257** | **12,210** |

## Asset Backed Securities

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

The Bank establishes the value of these securities by reference to the credit profile of underlying assets using a model which facilitates the simulation of future cash flows from these securities by modelling the development of the credit quality of underlying assets.

The carrying value of these securities as of 31 December 2004, net of remeasurement and a provision for impairment, is CZK 5,895 million (2003: CZK 8,392 million). The decrease in the carrying value in 2004 is primarily attributable to the sale of these securities with an aggregate nominal value of USD 29 million (CZK 744 million), the redemption of the portion of the nominal values of these securities and a significant decrease in the USD exchange rate.

The Bank established provisions for impairment of CZK 1,441 million as of 31 December 2004 (2003: CZK 1,816 million) against the asset backed securities and recognised a positive revaluation of CZK 49 million (2003: CZK nil) arising from the change of market parameters in equity. Management of the Bank considers that this impairment charge represents its best estimate of the net recoverable value of these assets and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio.

### Other debt securities

During the year ended 31 December 2004, pursuant to its investment strategy the Bank acquired Czech Government bonds denominated in EUR with an aggregate nominal value of EUR 25 million (CZK 762 million), which will mature in 2014, and sold Czech Government bonds with an aggregate nominal value of CZK 5,035 million. During the year ended 31 December 2004, Czech Government bonds with an aggregate nominal value of CZK 2,820 million were redeemed at maturity.

### Investments held to maturity

Investments held to maturity comprise:

| CZK million | 2004 Carrying value | 2004 Cost | 2003 Carrying value | 2003 Cost |
|---|---|---|---|---|
| Fixed income debt securities | 985 | 985 | 97 | 97 |
| **Total debt securities** | **985** | **985** | **97** | **97** |

As of 31 December 2004, investments held to maturity include bonds of CZK 985 million (2003: CZK 97 million) that are publicly traded on stock exchanges.

Debt securities held to maturity at carrying value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Fixed income debt securities** | | |
| – Czech crowns | 0 | 97 |
| – Other currencies | 985 | 0 |
| **Total fixed income debt securities** | **985** | **97** |
| **Total debt securities held to maturity** | **985** | **97** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Debt securities held to maturity issued by** | | |
| – Financial institutions in the Czech Republic | 0 | 97 |
| – State foreign institutions | 985 | 0 |
| **Total debt securities held to maturity** | **985** | **97** |

Pursuant to its investment strategy, the Bank acquired Government bonds of EMU countries with an aggregate nominal value of EUR 31 million (CZK 985 million) during 2004.

## 16. Equity investments in subsidiary and associated undertakings

The following tables present information about the Bank's subsidiary and associated undertakings as of 31 December 2004:

| CZK million Company name legal status | Registered office | Principal activities | Share capital in 2004 | Share capital in 2003 | Total other equity components in 2003 | Total equity and in 2003 |
|---|---|---|---|---|---|---|
| **Subsidiary undertakings** | | | **1,829** | **1,526** | **593** | **2,119** |
| Komerční pojišťovna, a.s. | Karolinská 1/650, 186 00 Praha 8 | Insurance activities | 808 | 752 | (426) | 326 |
| Komerční banka Bratislava, a.s. | Medená 6, 811 02 Bratislava | Banking activities | 393 | 393 | 159 | 552 |
| Penzijní fond Komerční banky a.s. | Lucemburská 1170/7, 113 11 Praha 2 | Pension fund | 200 | 200 | 543 | 743 |
| Factoring KB, a.s. | Na Poříčí 36, 110 02, Praha 1 | Factoring | 84 | 84 | 43 | 127 |
| Investiční kapitálová společnost KB, a.s. | Dlouhá 34, 110 15 Praha 1 | Investment company | 50 | 50 | 269 | 319 |
| ESSOX s.r.o. | Senovážné nám. 231/7, 370 01 České Budějovice | Consumer lending, leasing | 245 | X | X | X |
| ALL IN REAL ESTATE LEASING a.s. | Truhlářská 18/1118, 110 00 Praha 1 | Support banking services | 2 | X | X | X |
| ASIS, a.s. v likvidaci | Nám. OSN 1/844, 190 02 Praha 9 | In liquidation | 1 | 1 | 9 | 10 |
| Komercni Finance, B. V. | Teleportboulevard 140, 1043 EJ Amsterdam, Netherlands | Finance | 1 | 1 | 6 | 7 |
| ALL IN, a.s. v likvidaci | Truhlářská 18, 110 00 Praha 1 | In liquidation | 45 | 45 | (10) | 35 |

| CZK million Company name legal status | Registered office | Principal activities | Share capital in 2004 | Share capital in 2003 | Total other equity components in 2003 | Total equity and in 2003 |
|---|---|---|---|---|---|---|
| **Associated undertakings** | | | **501** | **501** | **1,022** | **1,523** |
| Všeobecná stavební spořitelna KB, a.s. | Bělehradská 128, 120 21 Praha 2 | Building society | 500 | 500 | 1,022 | 1,522 |
| CBCB – Czech Banking Credit Bureau, a.s. | Na Příkopě 21/1096, 117 19 Praha 1 | Collection of data for credit risk analysis | 1 | 1 | 0 | 1 |

Note: Figures reported in respect of Komerční banka Bratislava, a.s., and Komercni Finance B. V. were re-translated into Czech Crowns using the CNB exchange rate ruling as of 31 December 2004 and 2003.

| CZK million<br>Company name and legal status | Direct holding in equity % | Nominal value of shares CZK thousand | Number of shares held by the Bank pcs | Share of share capital CZK million | Cost of shares or holdings CZK million |
|---|---|---|---|---|---|
| **Subsidiary undertakings** | | | | **1,709** | **2,781** |
| Komerční pojišťovna, a.s. | 100 | 100 and 50* | 9,580 | 808 | 1,709 |
| Komerční banka Bratislava, a.s. | 100 | SKK 100 thousand | 5,000 | 393 | 466 |
| Penzijní fond Komerční banky a.s. | 100 | 100 | 2,000 | 200 | 230 |
| Factoring KB, a.s. | 100 | 10 and 100** | 4,800 | 84 | 90 |
| Investiční kapitálová společnost KB, a.s. | 100 | 100 | 500 | 50 | 75 |
| ESSOX s.r.o. | 50.9 | – | – | 125 | 125 |
| ALL IN REAL ESTATE LEASING a.s. | 100 | 100 | 20 | 2 | 39 |
| ASIS, a.s. v likvidaci | 100 | 100 | 10 | 1 | 1 |
| Komercni Finance, B. V. | 100 | EUR 454 | 40 | 1 | 1 |
| ALL IN, a.s. v likvidaci | 100 | 213 | 209 | 45 | 45 |
| **Associated undertakings** | | | **200** | **220** | |
| Všeobecná stavební Spořitelna KB, a.s. | 40 | 100 | 2,000 | 200 | 220 |
| CBCB – Czech Banking Credit Bureau, a.s. | 20 | 10 | 24 | 0 | 0*** |

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

* Komerční pojišťovna, a.s. issued 6,580 shares with a nominal value of CZK 100 thousand per share and 3,000 shares with a nominal value of CZK 50 thousand per share.

** Factoring KB, a.s. issued 4,400 shares with a nominal value of CZK 10 thousand per share and 400 shares with a nominal value of CZK 100 thousand.

*** The cost of CBCB – Czech Banking Credit Bureau,a.s. is CZK 240 thousand.

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

| CZK million<br>Company name and legal status | Cost at 1 January 2004 | Change for the period – additions | Change for the period – disposals | Foreign exchange differences | Cost at 31 December 2004 |
|---|---|---|---|---|---|
| Komerční pojišťovna, a.s. | 1 508 | 201 | 0 | 0 | 1 709 |
| Komerční banka Bratislava, a.s. | 433 | 0 | 0 | 33 | 466 |
| Penzijní fond Komerční banky a.s. | 230 | 0 | 0 | 0 | 230 |
| Factoring KB, a.s. | 90 | 0 | 0 | 0 | 90 |
| MUZO, a.s. | 61 | 0 | 61 | 0 | 0 |
| Investiční kapitálová společnost KB, a.s. | 75 | 0 | 0 | 0 | 75 |
| ESSOX s.r.o. | 0 | 125 | 0 | 0 | 125 |
| ALL IN REAL ESTATE LEASING a.s. | 0 | 39 | 0 | 0 | 39 |
| ASIS, a.s. v likvidaci | 1 | 0 | 0 | 0 | 1 |
| Komercni Finance, B. V. | 1 | 0 | 0 | 0 | 1 |
| ALL IN, a.s. v likvidaci | 45 | 0 | 0 | 0 | 45 |
| **Total subsidiary undertakings** | **2,444** | **365** | **61** | **33** | **2,781** |
| Všeobecná stavební spořitelna KB, a.s. | 220 | 0 | 0 | 0 | 220 |
| CBCB – Czech Banking Credit Bureau, a.s. | 0 | 0 | 0 | 0 | 0* |
| **Total associated undertakings** | **220** | **0** | **0** | **0** | **220** |
| **Total equity holdings** | **2,664** | **365** | **61** | **33** | **3,001** |

* The value of CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

| CZK million<br>Company name and legal status | Investments | Provisions | Net book value |
|---|---|---|---|
| Subsidiary undertakings | | | |
| Komerční pojišťovna, a.s. | 1,709 | (1,119) | 590 |
| Komerční banka Bratislava, a.s. | 466 | 0 | 466 |
| Penzijní fond Komerční banky a.s. | 230 | 0 | 230 |
| Factoring KB, a.s. | 90 | 0 | 90 |
| Investiční kapitálová společnost KB, a.s. | 75 | 0 | 75 |
| ESSOX s.r.o. | 125 | 0 | 125 |
| ALL IN REAL ESTATE LEASING a.s. | 39 | (36) | 3 |
| ASIS, a.s. v likvidaci | 1 | 0 | 1 |
| Komercni Finance, B. V. | 1 | 0 | 1 |
| ALL IN, a.s. v likvidaci | 45 | 0 | 45 |
| **Total subsidiary undertakings as of 31 December 2004** | **2,781** | **(1,155)** | **1,626** |
| **Total subsidiary undertakings as of 31 December 2003** | **2,444** | **(1,240)** | **1,204** |
| Associated undertakings | | | |
| Všeobecná stavební spořitelna KB, a.s. | 220 | 0 | 220 |
| CBCB – Czech Banking Credit Bureau, a.s. | 0 | 0 | 0* |
| **Total associated undertakings as of 31 December 2004** | **220** | **0** | **220** |
| **Total associated undertakings as of 31 December 2003** | **220** | **0** | **220** |
| **Total equity investments as of 31 December 2004** | **3,001** | **(1,155)** | **1,846** |
| **Total equity investments as of 31 December 2003** | **2,664** | **(1,240)** | **1,424** |

* The value of CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

## Changes in equity investments in subsidiaries and associates in 2004

In September 2003, the Bank increased the share capital of Franfinance Consumer Credit, s.r.o. from CZK 120 million to CZK 245 million and became the majority shareholder of the entity owning 51 percent of its issued share capital. Given that the share capital increase was registered in the Register of Companies in March 2004, the Bank has reported the equity investment in Franfinance Consumer Credit, s.r.o. in its financial statements since 2004.

Pursuant to an agreement on the merger between Franfinance Consumer Credit, s.r.o., and ESSOX LEASING a.s., dated 22 June 2004, with the effective date of the merger being 1 January 2004, Franfinance Consumer Credit, s.r.o. has become the universal legal successor of these two entities. Franfinance Consumer Credit, s.r.o. was renamed to ESSOX s.r.o. in July 2004.

In December 2003, the Bank entered into an agreement to sell 52.6 percent of the shares of MUZO, a.s. for USD 34.7 million. This transaction was settled in February 2004 with an aggregate gain of CZK 803 million.

Reflecting the capital requirements arising from the Insurance Act, the Bank resolved in late 2003 to boost the equity of Komerční pojišťovna, a.s. by a total of CZK 200 million. The equity increase was effected in March 2004 and took the form of a share capital increase of CZK 56 million and a partial settlement of accumulated losses of CZK 144 million. With the objective of reducing accumulated losses brought forward, the Bank decided in November 2004 to make another settlement of Komerční pojišťovna's losses through the decrease of share capital of CZK 205 million. The share capital decrease was not registered in the Register of Companies at the balance sheet date.

In 2004, the liquidation of ALL IN, a.s. v likvidaci was completed. As part of the liquidation process, in November 2004 the Bank acquired 100 percent of the issued share capital of ALL IN REAL ESTATE LEASING a.s., ("AIREL") from ALL IN, a.s. v likvidaci for CZK 39 million. The Bank has not received the payment of the liquidation share at the balance sheet date. In addition, the process of liquidation of ASIS, a.s. v likvidaci continued in 2004. In December 2004 the Bank received a dividend payment of CZK 35 million from AIREL.

Pursuant to an agreement of April 2004, the Bank provided Všeobecná stavební spořitelna KB, a.s. (renamed to Modrá pyramida stavební spořitelna, a.s. with effect from 1 January 2005) with funding in the form of a subordinated debt of CZK 245 million.

## 17. Tangible and intangible fixed assets

Tangible fixed assets

| CZK million | Land | Buildings | Other | Acquisition of assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **31 December 2003** | **382** | **12,154** | **7,880** | **451** | **20,867** |
| Additions | 0 | 193 | 554 | 745 | 1,492 |
| Disposals/transfers | 32 | 124 | 1,407 | 817 | 2,380 |
| **31 December 2004** | **350** | **12,223** | **7,027** | **379** | **19,979** |
| **Accumulated depreciation and provisions** | | | | | |
| **31 December 2003** | **0** | **4,408** | **6,753** | **14** | **11,175** |
| Additions – accumulated depreciation | 0 | 488 | 486 | 0 | 974 |
| Disposals – accumulated depreciation | 0 | 48 | 1,399 | 0 | 1,447 |
| Provisions | 0 | (48) | 15 | (9) | (42) |
| **31 December 2004** | **0** | **4,800** | **5,855** | **5** | **10,660** |
| **Net book value** | | | | | |
| **31 December 2003** | **382** | **7,746** | **1,127** | **437** | **9,692** |
| **31 December 2004** | **350** | **7,423** | **1,172** | **374** | **9,319** |

Intangible fixed assets

| CZK million | Intangible fixed assets | Acquisition of assets | Total |
|---|---|---|---|
| **Cost** | | | |
| **31 December 2003** | **3,291** | **1,245** | **4,536** |
| Additions | 1,327 | 747 | 2,074 |
| Disposals | 418 | 1,391 | 1,809 |
| **31 December 2004** | **4,200** | **601** | **4,801** |
| **Accumulated amortisation and provisions** | | | |
| **31 December 2003** | **2,569** | **0** | **2,569** |
| Additions – accumulated amortisation | 628 | 0 | 628 |
| Disposals – accumulated amortisation | 407 | 0 | 407 |
| Provisions | (49) | 0 | (49) |
| **31 December 2004** | **2,741** | **0** | **2,741** |
| **Net book value** | | | |
| **31 December 2003** | **722** | **1,245** | **1,967** |
| **31 December 2004** | **1,459** | **601** | **2,060** |

Tangible fixed assets held under finance leases

| CZK million | Amount |
|---|---|
| **Cost at 31 December 2003** | **548** |
| Additions for 2004 | 0 |
| Disposals for 2004 | (33) |
| **Cost at 31 December 2004** | **515** |

| CZK million | Amount |
|---|---|
| Instalments paid including lease advances and prepaid rent in 2004 | 79 |
| Breakdown of future lease payments | 12 |
| Of which: up to 1 year | 12 |
| up to 5 years | 0 |

## 18. Other assets, prepayments and accrued income

Other assets

| CZK million | 2004 | 2003 |
|---|---|---|
| Positive fair values of derivative transactions | 11,333 | 9,015 |
| Settlement balances | 228 | 9 |
| Other receivables from securities trading | 147 | 11 |
| Estimated receivables | 114 | 4,227 |
| Other assets | 1,289 | 1,843 |
| Deferred tax | 392 | 496 |
| **Total** | **13,503** | **15,601** |
| Provisions | (266) | (297) |
| **Total other assets** | **13,237** | **15,304** |

Other assets in 2003 were composed of an estimated balance in respect of the amounts due from Česká konsolidační agentura totalling CZK 4,148 million arising from realised losses on the portfolio of loans covered under the state guarantee. The transaction with Česká konsolidační agentura was settled during 2004 (refer also to Note 2) and the estimated balance was reversed in 2004.

### Prepayments and accrued income

As of 31 December 2004, the aggregate balance of prepayments and accrued income was CZK 768 million (2003: CZK 899 million). In 2004, these prepayments and accrued income principally comprise lease payments, other rental payments, credit insurance, invoices from foreign suppliers and fees in respect of received loans.

## 19. Amounts owed to banks

| CZK million | 2004 | 2003 |
|---|---|---|
| Amounts owed to banks – current accounts | 1,470 | 1,662 |
| Account with the Czech National Bank | 70 | 96 |
| Other amounts owed to banks | 14,399 | 16,894 |
| Of which: repayable on demand | 8,625 | 8,344 |
| **Total amounts owed to banks** | **15,939** | **18,652** |

## 20. Amounts owed to customers

| CZK million | 2004 | 2003 |
|---|---|---|
| Current accounts | 212,254 | 202,272 |
| Savings accounts | 12,236 | 13,981 |
| of which: on demand | 1,677 | 1,622 |
| at notice | 10,559 | 12,359 |
| Term deposits | 88,324 | 92,499 |
| of which: with maturity | 88,324 | 92,499 |
| Loans from customers | 4,926 | 95 |
| Other payables to customers | 5,541 | 6,961 |
| **Total amounts owed to customers** | **323,281** | **315,808** |

## 21. Payables from debt securities

Certificates of deposit and issued debt comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Bonds | 0 | 11,420 |
| Mortgage bonds | 9,255 | 9,928 |
| **Total debt securities** | **9,255** | **21,348** |
| Other payables from debt securities | 2,662 | 360 |
| Depository promissory notes | 38,717 | 33,698 |
| **Total** | **50,634** | **55,406** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Less than 1 year | 0 | 17,190 |
| From 1 to 2 years | 0 | 0 |
| From 2 to 3 years | 1,213 | 0 |
| From 3 to 4 years | 2,524 | 1,247 |
| Over 4 years | 5,518 | 2,911 |
| **Total debt securities** | **9,255** | **21,348** |

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

| Name | Interest rate | Issue date | Maturity date | 2004 CZK million | 2003 CZK million |
|---|---|---|---|---|---|
| Zero coupon bonds of Komerční banka, a.s., 770970000947 | Zero coupon (issued with discount for CZK 3,805 million) | 8 August 1997 | 8 August 2004 | 0 | 6,641 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000110 | 8.125% (mortgage bonds 2) | 13 May 1999 | 13 May 2004 | 0 | 4,206 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000102 | 8.0% (mortgage bonds 1) | 15 June 1999 | 15 June 2004 | 0 | 1,564 |
| Bonds of Komerční banka, a.s., CZ0003700528 | 8.0% | 10 September 1999 | 10 September 2004 | 0 | 4,779 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000151 | 6M PRIBOR plus 350 basis points (mortgage bonds 3) | 15 September 2000 | 15 September 2007 | 1,213 | 1,247 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000268 | 5.5% | 21 August 2003 | 21 August 2009 | 5,518 | 2,911 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000383 | 4.5% | 5 August 2004 | 5 August 2008 | 2,524 | 0 |
| **Total bonds** | | | | **9,255** | **21,348** |

Note: Six-month PRIBOR was 266 basis points as of 31 December 2004 (2003: 217 basis points).

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

### Other liabilities

| CZK million | 2004 | 2003 |
|---|---|---|
| Negative fair values of derivative transactions | 4,692 | 3,459 |
| Settlement balances and outstanding balances | 62 | 90 |
| Other payables from securities trading and issues of securities | 1,820 | 104 |
| Other liabilities | 780 | 962 |
| Estimated payables | 1,601 | 1,820 |
| Corporate income tax | 0 | 0 |
| Deferred tax | 1,010 | 625 |
| **Total** | **9,965** | **7,060** |

With effect from 2003, pursuant to applicable accounting regulations, the Bank has recorded a reserve for corporate income tax which is reported within the line *Reserve for taxes*.

### Deferred income and accrued expenses

As of 31 December 2004, deferred income and accrued expenses amounted to CZK 21 million (2003: CZK 5,884 million). In 2003, this balance included an up-front payment of CZK 5,862 million made by Česká konsolidační agentura in respect of the payout under the State Guarantee Agreement. The transaction with Česká konsolidační agentura was settled during 2004 (refer also to Note 2).

## 23. Subordinated liabilities

The Bank reported no subordinated liabilities as of 31 December 2004.

## 24. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926 thousand and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).

Set out below is a summary of the entities that hold more than three percent of the Bank's issued share capital as of 31 December 2004:

| Name of the entity | Registered office | Ownership percentage |
|---|---|---|
| SOCIETE GENERALE S.A. | 29 BLD Haussman, Paris | 60.353 |
| The Bank of New York ADR Department | 101 Barclay Street, New York | 5.664 |
| Chase Nominees Limited | 125 London Wall, London | 3.736 |

Société Générale S.A., being the only entity with a qualified holding in the Bank, is a French joint stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and the following of the French Commercial Code, as well as current by-laws.

On the basis of the consent of the Czech National Bank, The Bank of New York ADR Department holds shares to which global depository receipts (GDRs) owned by a number of foreign investors were issued.

## 25. Retained earnings

The Bank has generated a profit of CZK 9,435 million in respect of the year ended 31 December 2004. Management of the Bank has not yet approved the allocation of the Bank's profit for the year ended 31 December 2004. In accordance with the resolution of the General Meeting of Shareholders held on 17 June 2004, the aggregate balance of the net profit of CZK 9,310 million made in respect of the year ended 31 December 2003 was allocated as follows: CZK 7,602 million to dividends (CZK 200 per share before tax), CZK 466 million to the reserve fund, CZK 71 million to the social fund and the remaining balance of the net profit of CZK 1,172 million was allocated to retained earnings.

## 26. Earnings per share

Earnings per share of CZK 248.23 (2003: CZK 244.95 per share) have been calculated by dividing the net profit of CZK 9,435 million (2003: CZK 9,310 million) by the number of shares in issue, that is 38,009,852.

## 27. Gains or losses from revaluation

| CZK million | 1 January 2004 | Increase | Decrease | 31 December 2004 |
|---|---|---|---|---|
| **Gains or losses from revaluation:** | | | | |
| – Of hedging derivatives | 1,924 | 3,908 | 2,044 | 3,788 |
| – Of deferred taxes in respect of hedging derivatives | (596) | 633 | 1,022 | (985) |
| – Of re-translation of equity holdings | (34) | 34 | 0 | 0 |
| Total | **1,294** | **4,575** | **3,066** | **2,803** |

## 28. Risk management and financial instruments

### (a) Credit risk

**Credit rating of borrowers**

The Bank quantifies counterparty risk using ratings on the basis of set criteria depending upon the type and profile of the borrower. The rating of the borrower serves as a basis for calculating anticipated risk expenses taking into account the type of credit products and underlying collateral. The Bank rates corporate borrowers and municipalities based upon quantitative and qualitative criteria. The used methodology is based upon the methodology implemented throughout the whole Société Générale Group. The Bank additionally refers to ratings published by external rating agencies. With effect from 2003, the Bank has also used the information supplied by the Central Loan Register (information about legal entities) operated by the Czech National Bank and for which banks are required to provide relevant information. Dedicated teams regularly assess ratings assigned to individual borrowers for correctness and accuracy. In arriving at the rating of retail clients, the Bank principally uses quantitative criteria as well as information supplied by the Client Information Bank Register (information about individuals – citizens and businessmen) operated by CBCB, a.s.

The Bank monitors credit risk concentration on an aggregate basis (i.e., in respect of all on and off balance sheet positions). The Bank specifically monitors credit risk concentrations by industry sectors and by groups of economically linked entities. Among other tests, the Bank compares the distribution of its credit portfolio by sectors to the proportion of industries in the Czech Republic (share of GDP). With regard to groups of economically linked entities, the Bank monitors the proportion of credit exposures to the groups to the Bank's capital and the concentration of corporate credit exposures by the level of rating and maturity buckets.

### Classification of receivables

The Bank performs classification of loan receivables and other receivables arising from its financial activities according to the Regulation of the Czech National Bank (No. 9/2002 of 16 November 2002; No. 6/2004 of 15 September 2004). This classification is regularly reviewed and updated.

### Receivables that are not categorised

The Bank does not classify other amounts due from customers pursuant to the Regulation issued by the Czech National Bank. These amounts consist of non-credit receivables that principally originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically amounts receivable arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

### Provisioning for receivables

The Bank assesses specific provisions and reserves according to the regulation as defined by the CNB (No. 9/2002 from November 16, 2002; No. 6/2004 from September 15, 2004). In 2004, KB prepared a new methodology for creation of specific provisions in compliance with CNB's regulation No. 6/2004 and with IAS/IFRS principles. This new methodology took effect on January 1, 2005.

### Loan collateral

The amount of the recognised value of collateral is based on the Bank's internal rules on collateral valuation and discounting as set by the departments from within Risk Management. More specifically, the Bank uses internal valuation rules for the valuation for real estate collateral. Methods used in defining values and discounts are based on an expert analysis and incorporate all relevant factors (evolution of market conditions, changes in legal environment, etc). The calculation of specific provisions and reserves is based on these internal collateral valuation rules.
A very significant proportion of the Bank's loan portfolio is secured by real estate collateral which represents more than half of aggregate collateral values.

### Recovery of amounts due from borrowers

The Bank's recovery activities take place on two distinct levels. The "soft collection" unit initiates pre-emptive action according to precisely defined rules and protocol. This first level of intervention is relayed by the activity of the "Asset Recovery" Department which is organised according to the type of individual functions: loan restructuring, loan recovery, outsourcing of collection and collateral valuation.

### Credit risk hedging instruments

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

### Revocable contractual commitments

The Bank monitors revocable contractual commitments on the same basis as irrevocable commitments. The risk is identified on a client basis and is monitored on a monthly basis but no provisions or reserves are created. These commitments account for 16 percent (2003: 7 percent) of all the Bank's contracted undrawn commitments.

### Credit risk of financial derivatives

Credit exposure or replacement cost of financial derivative instruments represents the Bank's credit exposure which is generated from derivative contracts. This exposure is measured as the maximum potential losses of the Bank in the event some of its counterparties fail to perform their obligations under such derivative contracts. The credit exposure of each contract is calculated using the Current Average Risk ("CAR"). The CAR indicator takes into account (i) the relevant market parameters at the time of calculation, (ii) the notional amount and (iii) the remaining maturity of the derivative contract. The Bank assesses credit risks on all derivative instruments on a daily basis.

As of 31 December 2004, the Bank posted a credit exposure of CZK 21,342 million (2003: CZK 16,093 million) on financial derivative instruments. Note that this amount represents the gross replacement cost at market rates as of 31 December 2004 of all outstanding agreements, i.e., excluding the effect of any netting agreement.

(b) Market risk

### Segmentation of the Bank's financial operations

For market risk management purposes, the Bank has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions entered into by the Bank's dealers for trading purposes or for accommodating customer needs. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.
In order to measure market risks, the Bank operates a system of limits which monitors its market positions.

### Products traded by the Bank

The Bank trades the following products that can bear market risks: loans and deposits in the interbank market, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, FRAs, interest rate futures), treasury bills and Government bonds, corporate bonds and other specific products, such as bond futures, bills of exchange/bill programmes, cash management for selected clients, etc. The Bank does not conduct any proprietary option transactions: option products are always backed-to-back on the interbank market.
The Bank enters into transactions with financial derivative instruments for proprietary purposes as well as at clients' requests. In addition, the Bank may use derivative instruments (such as interest rate swaps, FRAs and currency swaps) to hedge some of its positions.
The Bank also enters into a number of structured financial derivative transactions for its clients which are designed to meet the clients' hedging needs. Market risks from such derivatives transactions are eliminated via back-to-back transactions with the market.

### Market risk in the Market Book

In order to measure market risks inherent in activities in the Market Book, the Bank uses the Value-at-Risk concept as an aggregate metric. Value-at-Risk is calculated using historical simulations and represents a maximum potential loss over a given time period (typically one trading day) with a confidence level of 99 percent. The validity of the Value-at-Risk is then verified through a back-testing process: the actual trading results are compared with the Value-at-Risk results. Overshoots are monitored to ensure consistency with the 99 percent confidence level. Value-at-Risk is monitored by the management of the Bank.
The Global Value-at-Risks over the holding period of one day with a confidence level of 99 percent were EUR (270,000) and EUR (584,000) as of 31 December 2004 and 2003, respectively. The average Global Value-at-Risk was EUR (827,000) and EUR (417,000) for the years ended 31 December 2004 and 2003, respectively.
In order to also take into account events with a probability of occurrence that is lower than Value-at-Risk scenarios, the Bank has implemented daily analyses of potential losses generated by larger shocks ("stress tests") applied to all open positions of the Market Book. Several types of stress tests for foreign exchange and interest rate exposures are used.

### Market risk in the Structural Book

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

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

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

### (c) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict inadequate exposure to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

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

Financial derivative instruments designated as held for trading derivatives:

| CZK million | Notional value | | Notional value | |
|---|---|---|---|---|
| | 2004 | 2004 | 2003 | 2003 |
| | Assets | Liabilities | Assets | Liabilities |
| **Interest rate instruments** | | | | |
| Interest rate swaps | 134,576 | 134,576 | 83,477 | 83,477 |
| Forward rate agreements | 247,945 | 247,945 | 159,693 | 159,693 |
| Options | 400 | 400 | 1,400 | 1,400 |
| **Total** | **382,921** | **382,921** | **244,570** | **244,570** |
| **Foreign currency instruments** | | | | |
| Currency swaps | 69,170 | 68,944 | 42,690 | 42,578 |
| Cross currency swaps | 7,125 | 5,432 | 10,005 | 7,672 |
| Currency forwards | 5,117 | 5,111 | 3,843 | 3,805 |
| Purchased options | 6,076 | 6,077 | 3,545 | 3,567 |
| Sold options | 6,077 | 6,076 | 3,567 | 3,545 |
| **Total** | **93,565** | **91,640** | **63,650** | **61,167** |
| **Other instruments** | | | | |
| Credit options | 0 | 0 | 11 | 11 |
| Forwards on debt securities | 158 | 158 | 1,025 | 1,025 |
| Forwards on equities | 0 | 0 | 2 | 2 |
| Commodity forwards | 116 | 116 | 0 | 0 |
| Commodity swaps | 15 | 15 | 0 | 0 |
| Purchased commodity options | 321 | 321 | 0 | 0 |
| Sold commodity options | 321 | 321 | 0 | 0 |
| Equity options | 0 | 0, | 9 | 9 |
| **Total** | **931** | **931** | **1,047** | **1,047** |
| TOTAL | 477,417 | 475,492 | 309,267 | 306,784 |

| CZK million | Fair value 2004 Positive | Fair value 2004 Negative | Fair value 2003 Positive | Fair value 2003 Negative |
|---|---|---|---|---|
| **Interest rate instruments** | | | | |
| Interest rate swaps | 2,147 | 2,268 | 1,635 | 1,731 |
| Forward rate agreements | 247 | 299 | 62 | 64 |
| Options | 2 | 0 | 11 | 7 |
| **Total** | **2,396** | **2,567** | **1,708** | **1,802** |
| **Foreign currency instruments** | | | | |
| Currency swaps | 1,869 | 1,643 | 876 | 827 |
| Cross currency swaps | 1,775 | 58 | 2,400 | 56 |
| Currency forwards | 102 | 96 | 73 | 33 |
| Purchased options | 202 | 0 | 43 | 0 |
| Sold options | 0 | 202 | 0 | 43 |
| **Total** | **3,948** | **1,999** | **3,392** | **959** |
| **Other instruments** | | | | |
| Forwards on debt securities | 0 | 0 | 1 | 0 |
| Commodity forwards | 7 | 7 | 0 | 0 |
| Commodity swaps | 1 | 0 | 0 | 0 |
| Purchased commodity options | 19 | 0 | 0 | 0 |
| Sold commodity options | 0 | 19 | 0 | 0 |
| **Total** | **27** | **26** | **1** | **0** |
| **TOTAL** | **6,371** | **4,592** | **5,101** | **2,761** |

The presented derivatives are negotiated only on the OTC market.

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

| CZK million | Less than 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **Interest rate instruments** | | | | |
| Interest rate swaps | 16,944 | 82,930 | 34,702 | 134,576 |
| Forward rate agreements | 239,595 | 8,350 | 0 | 247,945 |
| Options | 400 | 0 | 0 | 400 |
| **Total** | **256,939** | **91,280** | **34,702** | **382,921** |
| **Foreign currency instruments** | | | | |
| Swaps | 68,993 | 177 | 0 | 69,170 |
| Cross currency swaps | 3,738 | 3,341 | 46 | 7,125 |
| Forwards | 4,756 | 361 | 0 | 5,117 |
| Purchased options | 5,171 | 905 | 0 | 6,076 |
| Sold options | 5,159 | 918 | 0 | 6,077 |
| **Total** | **87,817** | **5,702** | **46** | **93,565** |
| **Other instruments** | | | | |
| Forwards on debt securities | 158 | 0 | 0 | 158 |
| Commodity forwards | 116 | 0 | 0 | 116 |
| Commodity swaps | 15 | 0 | 0 | 15 |
| Purchased commodity options | 321 | 0 | 0 | 321 |
| Sold commodity options | 321 | 0 | 0 | 321 |
| **Total** | **931** | **0** | **0** | **931** |
| **TOTAL** | **345,687** | **96,982** | **34,748** | **477,417** |

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

Financial derivative instruments designated as hedging:

| CZK million | Notional value | | Notional value | |
|---|---|---|---|---|
| | 2004 | 2004 | 2003 | 2003 |
| | Assets | Liabilities | Assets | Liabilities |
| **Interest rate instruments** | | | | |
| Interest rate swaps | 104,983 | 104,983 | 89,497 | 89,497 |
| **Total** | **104,983** | **104,983** | **89,497** | **89,497** |
| TOTAL | **104,983** | **104,983** | **89,497** | **89,497** |

| CZK million | Fair value | | Fair value | |
|---|---|---|---|---|
| | 2004 | 2004 | 2003 | 2003 |
| | Positive | Negative | Positive | Negative |
| **Interest rate instruments** | | | | |
| Interest rate swaps | 4,962 | 107 | 3,914 | 697 |
| **Total** | **4,962** | **107** | **3,914** | **697** |
| TOTAL | **4,962** | **107** | **3,914** | **697** |

Remaining maturity of derivatives designated as hedging:

| CZK million | Less than 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest rate swaps | 7,000 | 41,928 | 56,055 | 104,983 |
| **Total** | **7,000** | **41,928** | **56,055** | **104,983** |

### (d) Interest rate risk

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

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

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the "maturity undefined" category.

| CZK million | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years undefined | Maturity | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash in hand, balances with central banks | 2,678 | 0 | 0 | 0 | 7,139 | 9,817 |
| State zero-coupon bonds and other securities eligible for refinancing with the CNB | 2,244 | 850 | 990 | 2,989 | 0 | 7,073 |
| Amounts due from banks | 208,283 | 7,841 | 5,056 | 10,000 | 180 | 231,360 |
| Amounts due from customers | 81,325 | 30,019 | 42,343 | 2,143 | 934 | 156,764 |
| Debt securities | 5,745 | 2,363 | 4,985 | 2,760 | 0 | 15,853 |
| Shares, participation certificates and other holdings | 0 | 0 | 0 | 0 | 112 | 112 |
| Equity holdings in associates | 0 | 0 | 0 | 0 | 220 | 220 |
| Equity holdings in subsidiaries | 0 | 0 | 0 | 0 | 1,626 | 1,626 |
| Intangible fixed assets | 0 | 0 | 0 | 0 | 2,060 | 2,060 |
| Tangible fixed assets | 0 | 0 | 0 | 0 | 9,319 | 9,319 |
| Other assets | 551 | 0 | 0 | 0 | 12,686 | 13,237 |
| Prepayments and deferred income | 0 | 0 | 0 | 0 | 768 | 768 |
| **Total assets** | **300,826** | **41,073** | **53,374** | **17,892** | **35,044** | **448,209** |
| Liabilities | | | | | | |
| Amounts owed to banks | 13,383 | 759 | 351 | 0 | 1,446 | 15,939 |
| Amounts owed to customers | 85,033 | 2,356 | 690 | 34 | 235,168 | 323,281 |
| Payables from debt securities | 41,514 | 914 | 8,191 | 15 | 0 | 50,634 |
| Other liabilities | 4,256 | 0 | 0 | 0 | 5,709 | 9,965 |
| Deferred income and accrued expenses | 21 | 0 | 0 | 0 | 0 | 21 |
| Reserves | 0 | 0 | 0 | 0 | 4,611 | 4,611 |
| **Total liabilities** | **144,207** | **4,029** | **9,232** | **49** | **246,934** | **404,451** |
| **On balance sheet interest rate sensitivity gap at 31 December 2004** | **156,619** | **37,044** | **44,142** | **17,843** | **(211,890)** | **43,758** |
| Off balance sheet assets* | 99,081 | 197,646 | 122,031 | 75,817 | 0 | 494,575 |
| Off balance sheet liabilities* | 187,457 | 193,595 | 90,427 | 23,096 | 0 | 494,575 |
| **Net off balance sheet interest rate sensitivity gap at 31 December 2004** | **(88,376)** | **4,051** | **31,604** | **52,721** | **0** | **0** |
| **Cumulative interest rate sensitivity gap at 31 December 2004** | **68,243** | **109,338** | **185,084** | **255,648** | **43,758** | **x** |
| Total assets at 31 December 2003 | 287,790 | 57,587 | 44,734 | 25,662 | 35,624 | 451,397 |
| Total liabilities at 31 December 2003 | 150,257 | 26,453 | 1,215 | 3,046 | 230,007 | 410,978 |
| Net on balance sheet interest rate sensitivity gap at 31 December 2003 | 137,533 | 31,134 | 43,519 | 22,616 | (194,383) | 40,419 |
| Net off balance sheet interest rate sensitivity gap at 31 December 2003 | (75,699) | 5,097 | 29,611 | 40,991 | 0 | 0 |
| Cumulative interest rate sensitivity gap at 31 December 2003 | 61,834 | 98,065 | 171,195 | 234,802 | 40,419 | x |

* Off balance sheet assets and liabilities reflect amounts receivable and payable arising from interest rate derivatives which include interest rate swaps, interest rate forwards, interest rate options and cross currency swaps.

### (e) Liquidity risk

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

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

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

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

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

| CZK million | On demand to 7 days | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash in hand, balances with central banks | 7,139 | 0 | 0 | 0 | 0 | 2,678 | 9,817 |
| State zero-coupon bonds and other securities eligible for refinancing with the CNB | 643 | 1,601 | 850 | 990 | 2,989 | 0 | 7,073 |
| Amounts due from banks | 92,171 | 115,861 | 7,688 | 4,030 | 11,245 | 365 | 231,360 |
| Amounts due from customers | 2,213 | 16,894 | 37,045 | 45,023 | 34,892 | 20,697 | 156,764 |
| Debt securities | 2 | 803 | 2,087 | 5,763 | 7,198 | 0 | 15,853 |
| Shares, participation certificates and other holdings | 0 | 0 | 0 | 0 | 0 | 112 | 112 |
| Equity holdings in associates | 0 | 0 | 0 | 0 | 0 | 220 | 220 |
| Equity holdings in subsidiaries | 0 | 0 | 0 | 0 | 0 | 1,626 | 1,626 |
| Intangible fixed assets | 0 | 0 | 0 | 0 | 0 | 2,060 | 2,060 |
| Tangible fixed assets | 0 | 0 | 0 | 0 | 0 | 9,319 | 9,319 |
| Other assets | 552 | 0 | 0 | 0 | 0 | 12,685 | 13,237 |
| Prepayments and deferred income | 0 | 0 | 0 | 0 | 0 | 768 | 768 |
| **Total assets** | **102,720** | **135,159** | **47,670** | **55,806** | **56,324** | **50,530** | **448,209** |
| Liabilities | | | | | | | |
| Amounts owed to banks | 12,274 | 881 | 922 | 1,862 | 0 | 0 | 15,939 |
| Amounts owed to customers | 272,772 | 39,488 | 4,765 | 5,517 | 739 | 0 | 323,281 |
| Payables from debt securities | 33,868 | 7,213 | 462 | 9,091 | 0 | 0 | 50,634 |
| Other liabilities | 4,225 | 31 | 0 | 0 | 0 | 5,709 | 9,965 |
| Deferred income and accrued expenses | 21 | 0 | 0 | 0 | 0 | 0 | 21 |
| Reserves | 0 | 0 | 366 | 0 | 0 | 4,245 | 4,611 |
| Share capital | 0 | 0 | 0 | 0 | 0 | 19,002 | 19,002 |
| Share premium | 0 | 0 | 0 | 0 | 0 | 139 | 139 |
| Reserve funds and other funds from profit | 0 | 0 | 0 | 0 | 0 | 2,114 | 2,114 |
| Gains or losses from revaluation | 0 | 0 | 0 | 0 | 0 | 2,803 | 2,803 |
| Retained earnings or accumulated losses brought forward | 0 | 0 | 0 | 0 | 0 | 10,265 | 10,265 |
| Profit/(loss) for the period | 0 | 0 | 0 | 0 | 0 | 9,435 | 9,435 |
| **Total liabilities** | **323,160** | **47,613** | **6,515** | **16,470** | **739** | **53,712** | **448,209** |
| **On balance sheet net liquidity gap at 31 December 2004** | **(220,440)** | **87,546** | **41,155** | **39,336** | **55,585** | **(3,182)** | **0** |
| Off balance sheet assets* | 29,530 | 39,684 | 73,383 | 20,842 | 6,586 | 36,036 | 206,061 |
| Off balance sheet liabilities* | 28,733 | 30,660 | 29,697 | 6,655 | 945 | 757 | 97,447 |
| **Off balance sheet net liquidity gap at 31 December 2004** | **797** | **9,024** | **43,686** | **14,187** | **5,641** | **35,279** | **108,614** |
| Total assets at 31 December 2003 | 77,687 | 140,454 | 71,196 | 53,970 | 57,341 | 50,749 | 451,397 |
| Total liabilities at 31 December 2003 | 304,944 | 48,716 | 33,245 | 9,676 | 3,595 | 51,221 | 451,397 |
| On balance sheet net liquidity gap at 31 December 2003 | (227,257) | 91,738 | 37,951 | 44,294 | 53,746 | (472) | 0 |
| Off balance sheet net liquidity gap at 31 December 2003 | 189 | 5,795 | 41,309 | 12,277 | 3,999 | 24,828 | 88,397 |

* Off balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and receivables and payables under guarantees, letters of credit and committed facilities.

(f) Aggregate assets and liabilities in foreign currencies

| CZK million | 2004 | 2003 |
|---|---|---|
| Assets | | |
| CZK | 395,875 | 414,880 |
| Foreign currency | 52,334 | 36,517 |
| **Total assets** | **448,209** | **451,397** |
| Liabilities | | |
| CZK | 401,075 | 409,240 |
| Foreign currency | 47,134 | 42,157 |
| **Total liabilities** | **448,209** | **451,397** |
| Off balance sheet assets | | |
| CZK | 580,874 | 418,508 |
| Foreign currency | 123,881 | 85,914 |
| **Total off balance sheet assets** | **704,755** | **504,422** |
| Off balance sheet liabilities | | |
| CZK | 883,682 | 745,989 |
| Foreign currency | 135,483 | 85,758 |
| **Total off balance sheet liabilities** | **1,019,165** | **831,747** |

(g) Operational risk

In October 2004, the Bank established the Operational Risks Department which cooperates with the parent company in implementing advanced operational risk management techniques at the Société Générale level. The principal objectives of this department involve implementing such operational risk management that will facilitate the fulfilment of the requirements arising to the Bank under Basel II as well as general requirements of the regulator in respect of the Bank's internal management and control system. This department is also responsible for business continuity planning and insurance.

(h) Legal risk

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

## 29. Contingencies and off balance sheet commitments

### Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2004. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 763 million (2003: CZK 435 million) for these legal disputes. The Bank has also recorded an accrual of CZK 113 million (2003: CZK 92 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2004, the Bank assessed lawsuits filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Commitments arising from the issuance of guarantees

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

### Capital commitments

As of 31 December 2004, the Bank had capital commitments of CZK 79 million (2003: CZK 84 million) in respect of current capital investment projects.

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

Documentary letters of credit are written irrevocable undertakings by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The condition for opening a letter of credit is its collateralisation, that is, no uncollateralised letter of credit can be opened. The Bank records provisions against these instruments on the same basis as is applicable to loans.

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

Principal off balance sheet exposures include unutilised overdrafts and approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. 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 credit in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Bank represent issued loan commitments or guarantees, undrawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Bank which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

Financial commitments and contingencies comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Non-payment guarantees including commitments to issued non-payment guarantees | 11,976 | 8,629 |
| Payment guarantees including commitments to issued payment guarantees | 5,113 | 4,157 |
| Letters of credit uncovered | 863 | 575 |
| Stand by letters of credit uncovered | 577 | 846 |
| **Commitments from guarantees** | **18,529** | **14,207** |
| Received bills of exchange/acceptances and endorsements of bills of exchange | 63 | 62 |
| **Total contingent liabilities** | **18,592** | **14,269** |
| Committed facilities | 14,344 | 13,734 |
| Undrawn credit commitments | 20,975 | 20,520 |
| Confirmed letters of credit | 63 | 149 |
| Unutilised overdrafts and approved overdraft loans | 34,671 | 30,487 |
| Unutilised discount facilities | 199 | 510 |
| Unutilised limits under Framework agreements to provide financial services | 21,867 | 10,954 |
| **Total other commitments and unutilised overdrafts** | **92,119** | **76,354** |
| Letters of credit covered | 300 | 42 |
| Stand by letters of credit covered | 7 | 1 |
| **Total contingent revocable and irrevocable commitments** | **111,018** | **90,666** |

The Bank provides a variety of credit facilities to its largest clients including Czech entities which are part of international groups and which are State owned. Of the Bank's committed facilities and guarantees, CZK 14,379 million (2003: CZK 6,220 million) is revocable. All other committed facilities, undrawn credit commitments and unutilised overdrafts are irrevocable and are not subject to further approvals by the Bank.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As of 31 December 2004, the Bank recorded provisions for these risks amounting to CZK 1,207 million (2003: CZK 1,213 million).

## 30. Related parties

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

| CZK million<br>Company | 2004 | 2003 |
|---|---|---|
| Komerční banka Bratislava, a.s. | 413 | 0 |
| CAC LEASING, a.s. | x | x |
| Factoring KB, a.s. | 312 | 265 |
| ESSOX s.r.o. | 915 | x |
| Všeobecná stavební spořitelna KB, a.s. | 574 | 113 |
| MUZO, a.s. | x | 318 |
| **Total loans** | **2,214** | **696** |
| Komerční pojišťovna, a.s. | 268 | 273 |
| Komerční banka Bratislava, a.s. | 12 | 2 |
| CAC LEASING, a.s. | x | x |
| Factoring KB, a.s. | 64 | 64 |
| Investiční kapitálová společnost KB, a.s | 90 | 139 |
| ALL IN REAL ESTATE LEASING a.s. | 5 | x |
| ESSOX s.r.o. | 4 | x |
| Všeobecná stavební spořitelna KB, a.s. | 3 | 102 |
| MUZO, a.s. | x | 32 |
| ASIS, a.s. v likvidaci | 9 | 8 |
| ALL IN, a.s. v likvidaci | 62 | 23 |
| Reflexim, a.s. | x | x |
| Penzijní fond Komerční banky a.s. | 0 | 0 |
| **Total deposits** | **517** | **643** |

Other amounts due from and owed to the Bank's financial group were immaterial in 2004 and 2003.
Interest income on the loans advanced to the entities from within the Bank's financial group:

| CZK million<br>Company | 2004 | 2003 |
|---|---|---|
| Komerční banka Bratislava, a.s. | 4 | 14 |
| Factoring KB, a.s. | 6 | 6 |
| MUZO, a.s. | 4* | 26 |
| ESSOX s.r.o. | 16 | x |
| Všeobecná stavební spořitelna KB, a.s. | 7 | 0 |
| **Total interest paid on loans advanced by the Bank** | **37** | **46** |

* Figure for the first quarter of 2004 only.

Other income and expenses related to the Bank's financial group were immaterial in 2004 and 2003.
As of 31 December 2004, the Bank carried guarantees of CZK 750 million (2003: CZK 800 million) issued to entities from within the financial group.

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

Principal balances due from the Société Générale Group entities include:

| CZK million<br>Company | 2004 | 2003 |
|---|---|---|
| Société Générale London | 0 | 0 |
| Société Générale Paris | 16,886 | 19,991 |
| Société Générale Tokyo | 9 | 0 |
| Sogelease ČR, a.s. | x | x |
| Franfinance Consumer Credit, s.r.o.* | x | 400 |
| SG Equipment Finance Czech Republic s.r.o.** | 2,569 | 1,077 |
| SGBT Luxembourg | 187 | 407 |
| ALD Automotive Czech Republic s.r.o. | 393 | x |
| **Total** | **20,044** | **21,875** |

Principal balances owed to the Société Générale Group entities include:

| CZK million<br>Company | 2004 | 2003 |
|---|---|---|
| SG Equipment Finance Czech Republic s.r.o.** | 114 | 52 |
| SG Finance Praha, a.s. | x | x |
| SGBT Luxembourg | 1 | 29 |
| Société Générale Warsaw | 11 | 38 |
| Société Générale Paris | 1,456 | 1,796 |
| SG Private Banking Switzerland | 500 | x |
| SG Zurich | 15 | x |
| SG London | 34 | x |
| SG New York | 11 | 3 |
| Franfinance Consumer Credit, s.r.o.* | x | 27 |
| Société Générale, Prague Branch | x | x |
| Sogelease ČR, a.s. | x | x |
| **Total** | **2,142** | **1,945** |

* ESSOX s.r.o. is included in the Bank's financial group in 2004.
** Franfinance Czech Republic, s.r.o. in 2003.

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

As of 31 December 2004, the Bank also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 88,872 million (2003: CZK 49,091 million) and CZK 90,924 million (2003: CZK 40,332 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives and accepted guarantees for credit exposures.

As of 31 December 2004 and 2003, the Bank also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2004, the Bank realised total income of CZK 1,845 million (2003: CZK 718 million) and total expenses and a net loss on trading derivatives of CZK 1,909 million (2003: CZK 591 million) with Société Générale Paris. Income includes interest income from debt securities acquired under initial offerings not designated for trading issued by Société Générale Paris (refer also to Note 13), income from interbank deposits, fees from transactions with securities and interest income on hedging derivatives. Expenses comprise expenses of interbank deposits, net loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management and consultancy services.

In the years ended 31 December 2004 and 2003, the Bank realised no material amounts of income or expenses with other Société Générale Group entities.

Remuneration and receivables of the members of the Management and Supervisory Boards and the Directors' Committee

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Remuneration to the Management Board members* | 51 | 47 |
| Remuneration to the Supervisory Board members** | 3 | 3 |
| Remuneration to the Directors' Committee members*** | 84 | 72 |
| Total | 138 | 122 |

* Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2004 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2004, figures for expatriate members of the Management Board include a portion of remuneration net of bonuses for 2004 and other compensations and benefits arising from expatriate relocation contracts.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2004 to the current and former members of the Supervisory Board.

*** Remuneration to the Directors' Committee members represents the sum of compensation and benefits paid in 2004 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee.

| | 2004 | 2003 |
|---|---|---|
| Number of the Management Board members | 6 | 6 |
| Number of the Supervisory Board members | 9 | 9 |
| Number of the Directors' Committee members | 19* | 20* |

* These figures include all members of the Management Board who are also members of the Directors' Committee.

As of 31 December 2004, the Bank recorded an estimated payable of CZK 28 million (2003: CZK 22 million) for Management Board bonuses within staff costs. The reserve for the equity compensation programme of CZK 18 million held as of 31 December 2003 was released in mid-2004 following the expiration of this programme.
In respect of issued loans and guarantees, the Bank recorded loans of CZK 8 million (2003: CZK 7 million) provided to members of the Directors' Committee as of 31 December 2004.

## 31. Assets under administration

As of 31 December 2004, the Bank managed client assets in the amount of CZK 3,274 million (2003: CZK 2,909 million), of which no assets were from the Bank's subsidiaries.

## 32. Post balance sheet events

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

# Unconsolidated Financial Statements under IFRS as of 31 December 2004

## Unconsolidated Profit and Loss Statement for the year ended 31 December 2004

| CZK million | 2004 | 2003 |
|---|---|---|
| Interest income | 20,053 | 20,085 |
| Interest expense | (7,290) | (8,148) |
| **Net interest income** | **12,763** | **11,937** |
| | | |
| Net fees and commissions | 8,886 | 8,711 |
| Net profit/(loss) on financial operations | 605 | 800 |
| Dividends and other income | 463 | 396 |
| **Net banking income** | **22,717** | **21,844** |
| | | |
| Personnel expenses | (4,799) | (5,418) |
| General administrative expenses | (5,284) | (4,807) |
| Depreciation, impairment and disposal of fixed assets | (1,709) | (1,525) |
| **Total operating expenses** | **(11,792)** | **(11,750)** |
| **Profit before provision for loan and investment losses, other risk and income taxes** | **10,925** | **10,094** |
| Provision for loan losses | 1,557 | 2,582 |
| Provisions for impairment of securities | (85) | (74) |
| Provisions for other risk expenses | (131) | (35) |
| **Cost of risk** | **1,341** | **2,473** |
| Profit or loss on subsidiaries and associates | 889 | 716 |
| **Profit/(loss) before income taxes** | **13,155** | **13,283** |
| Income taxes | (3,853) | (4,021) |
| **Net profit/(loss)** | **9,302** | **9,262** |
| **Earnings/(loss) per share (in CZK)** | **244.73** | **243.68** |

# Unconsolidated Balance Sheet as of 31 December 2004

| CZK million | 2004 | 2003 |
|---|---|---|
| **Assets** | | |
| Cash and current balances with banks | 10,139 | 12,340 |
| Amounts due from banks | 231,247 | 201,638 |
| Trading securities | 9,642 | 25,674 |
| Positive fair value of financial derivative transactions | 11,333 | 9,015 |
| Due from Česká konsolidační agentura | 2,945 | 24,303 |
| Loans and advances to customers, net | 153,818 | 131,042 |
| Securities available for sale | 12,411 | 22,673 |
| Investments held to maturity | 985 | 97 |
| Prepayments, accrued income and other assets | 2,070 | 7,095 |
| Deferred tax asset | 392 | 496 |
| Investments in subsidiaries and associates | 1,846 | 1,424 |
| Tangible and intangible fixed assets, net | 11,470 | 11,768 |
| **Total assets** | **448,298** | **447,565** |
| | | |
| **Liabilities** | | |
| Amounts due to banks | 18,548 | 18,959 |
| Amounts due to customers | 361,998 | 349,505 |
| Negative fair value of financial derivative transactions | 4,699 | 3,458 |
| Certificated debt | 9,255 | 21,348 |
| Accruals, provisions and other liabilities | 8,697 | 11,796 |
| Income taxes payable | 366 | 1,449 |
| Deferred tax liability | 1,028 | 651 |
| **Total liabilities** | **404,591** | **407,166** |
| | | |
| **Shareholders' equity** | | |
| Share capital | 19,005 | 19,005 |
| Share premium and reserves | 24,702 | 21,394 |
| **Total shareholders' equity** | **43,707** | **40,399** |
| **Total liabilities and shareholders' equity** | **448,298** | **447,565** |

# Unconsolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2004

| CZK million | Share capital | Capital and reserve funds and undistributed profit* | Compen-sation reserve | Hedging reserve | Revaluation reserve | Reserve from revaluation of available--for-sale securities | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2002** | **19,005** | **12,374** | **35** | **2,398** | **(54)** | **0** | **33,758** |
| Cash flow hedging: | | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 124 | 0 | 0 | 124 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (1,194) | 0 | 0 | (1,194) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | 20 | 0 | 20 |
| Other treasury shares | 0 | (34) | 0 | 0 | 0 | 0 | (34) |
| Equity compensation programme reserve | 0 | 0 | (17) | 0 | 0 | 0 | (17) |
| Dividends | 0 | (1,520) | 0 | 0 | 0 | 0 | (1,520) |
| Net profit for the period | 0 | 9,262 | 0 | 0 | 0 | 0 | 9,262 |
| **Balance at 31 December 2003** | **19,005** | **20,082** | **18** | **1,328** | **(34)** | **0** | **40,399** |
| Change of accounting policy** | 0 | (191) | 0 | 0 | 0 | 191 | 0 |
| **Balance at 1 January 2004** | **19,005** | **19,891** | **18** | **1,328** | **(34)** | **191** | **40,399** |
| Cash flow hedging: | | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 2,886 | 0 | 0 | 2,886 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (1,411) | 0 | 0 | (1,411) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | 34 | 0 | 34 |
| Unrealised gains or losses on available-for-sale securities, net of tax | 0 | 0 | 0 | 0 | 0 | 45 | 236 |
| Other treasury shares | 0 | 72 | 0 | 0 | 0 | 0 | 72 |
| Equity compensation programme reserve | 0 | 0 | (18) | 0 | 0 | 0 | (18) |
| Dividends | 0 | (7,602) | 0 | 0 | 0 | 0 | (7,602) |
| Net profit for the period | 0 | 9,302 | 0 | 0 | 0 | 0 | 9,302 |
| **Balance at 31 December 2004** | **19,005** | **21,663** | **0** | **2,803** | **0** | **236** | **43,707** |

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

** Unrealised gains or losses on the revaluation of available-for-sale securities as of 1 January 2004, net of tax.

# Unconsolidated Cash Flow Statement for the year ended 31 December 2004

| CZK million | 2004 | 2004 | 2003 | 2003 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest receipts | 19,793 | | 19,979 | |
| Interest payments | (6,089) | | (7,224) | |
| Commission and fee receipts | 9,592 | | 9,373 | |
| Commission and fee payments | (727) | | (662) | |
| Other income receipts | 548 | | 885 | |
| Cash payments to employees and suppliers, and other payments | (8,755) | | (8,648) | |
| **Operating cash flow before changes in operating assets and operating liabilities** | **14,362** | | **13,703** | |
| Due from banks | (29,565) | | (2,149) | |
| Loans and advances to customers | (3,386) | | 1,976 | |
| Securities held for trading | 16,205 | | (16,381) | |
| Other assets | 450 | | 98 | |
| **Total (increase)/decrease in operating assets** | **(16,296)** | | **(16,456)** | |
| Amounts due to banks | (218) | | (3,885) | |
| Amounts due to customers | 12,463 | | 8,470 | |
| Other liabilities | 4,526 | | 3,698 | |
| **Total increase/(decrease) in operating liabilities** | **16,771** | | **8,283** | |
| Net cash flow from operating activities before taxes | 14,837 | | 5,530 | |
| Income taxes paid | (4,860) | | (4,975) | |
| **Net cash flows from operating activities** | | **9,977** | | **555** |
| **Cash flows from investing activities** | | | | |
| Dividends received | 426 | | 288 | |
| Purchase of investments held to maturity | (1,045) | | 0 | |
| Maturity of investments held to maturity* | 138 | | 2,237 | |
| Purchase of securities available for sale | (803) | | (4,765) | |
| Sale of securities available for sale* | 11,013 | | 5,836 | |
| Purchase of tangible and intangible fixed assets | (1,514) | | (2,644) | |
| Sale of tangible and intangible fixed assets | 103 | | 481 | |
| Purchase of investments in subsidiaries and associates | (257) | | 0 | |
| Sale of investments in subsidiaries and associates | 882 | | 900 | |
| **Net cash flow from investing activities** | | **8,943** | | **2,333** |
| **Cash flows from financing activities** | | | | |
| Paid dividends | (7,530) | | (1,510) | |
| Subordinated debt | 0 | | (5,466) | |
| Certificated debts issued | 5,133 | | 2,555 | |
| Certificated debts redeemed* | (18,532) | | (913) | |
| **Net cash flow from financing activities** | | **(20,929)** | | **(5,334)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(2,009)** | | **(2,446)** | |
| **Cash and cash equivalents at beginning of year** | **10,678** | | **13,124** | |
| **Cash and cash equivalents at end of year (see Note 33)** | | **8,669** | | **10,678** |

* The amount also includes received and paid coupons.

Deloitte.

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# Consolidated Financial Statements under IFRS as of 31 December 2004

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

Having its registered office at: Prague 1, Na Příkopě 33/969, 114 07
Identification number: 453 17 054
Principal activities: Acceptance of deposits from the public, provision of loans, advances and guarantees, proprietary trading with securities

We have audited the accompanying consolidated balance sheets of Komerční banka, a. s. and subsidiaries ("the Group") as of 31 December 2004 and 2003, and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004 and 2003, and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards.

Prague, 16 March 2005

**Audit firm:**
Deloitte s.r.o.
Certificate no. 79
Represented by:

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

Michal Petrman, statutory executive

# Consolidated Profit and Loss Statement for the year ended 31 December 2004

| CZK million | Note | 2004 | 2003 |
|---|---|---|---|
| Interest income | 5 | 20,630 | 20,362 |
| Interest expense | 5 | (7,475) | (8,196) |
| **Net interest income** | | **13,155** | **12,166** |
| | | | |
| Net fees and commissions | 6 | 9,211 | 9,075 |
| Net profit/(loss) on financial operations | 7 | 636 | 708 |
| Dividends and other income | 8 | 210 | 542 |
| **Net banking income** | | **23,212** | **22,491** |
| | | | |
| Personnel expenses | 9 | (5,138) | (5,822) |
| General administrative expenses | 10 | (5,434) | (4,993) |
| Depreciation, impairment and disposal of fixed assets | 11 | (1,811) | (1,714) |
| **Total operating expenses** | | **(12,383)** | **(12,529)** |
| Profit/(loss) attributable to exclusion of companies from consolidation | 12 | 610 | 12 |
| | | | |
| Income from share of associated undertakings | 12 | 13 | 433 |
| **Profit before provision for loan and investment losses, other risks and income taxes** | | **11,452** | **10,407** |
| Provision for loan losses | | 1,546 | 2,579 |
| Provisions for impairment of securities | | (85) | (74) |
| Provisions for other risk expenses | | (111) | (40) |
| **Cost of risk** | **13** | **1,350** | **2,465** |
| Profit or loss on unconsolidated equity investments | | (15) | 24 |
| **Profit/(loss) before income taxes** | | **12,787** | **12,896** |
| Income taxes | 14 | (3,912) | (4,166) |
| **Net profit/(loss) before minority interest** | | **8,875** | **8,730** |
| **Profit/(loss) attributable to minority interest** | | **22** | **(61)** |
| **Net profit/(loss)** | | **8,897** | **8,669** |
| **Earnings/(loss) per share (in CZK)** | **16** | **234.08** | **228.07** |

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

# Consolidated Balance Sheet as of 31 December 2004

| CZK million | Note | 2004 | 2003 |
|---|---|---|---|
| **Assets** | | | |
| Cash and current balances with banks | 17 | 10,259 | 12,449 |
| Amounts due from banks | 18 | 233,436 | 202,123 |
| Trading securities | 19 | 9,673 | 26,105 |
| Positive fair value of financial derivative transactions | 37 | 11,339 | 9,023 |
| Due from Česká konsolidační agentura | 20 | 2,945 | 24,303 |
| Loans and advances to customers, net | 21 | 156,525 | 133,130 |
| Securities available for sale | 22 | 19,630 | 27,556 |
| Investments held to maturity | 23 | 1,001 | 248 |
| Prepayments, accrued income and other assets | 24 | 2,355 | 7,604 |
| Deferred tax asset | 31 | 404 | 510 |
| Investments in associates and unconsolidated subsidiaries | 25 | 828 | 876 |
| Tangible and intangible fixed assets, net | 26 | 11,874 | 12,736 |
| **Total assets** | | **460,269** | **456,663** |
| | | | |
| **Liabilities** | | | |
| Amounts due to banks | 27 | 20,547 | 20,085 |
| Amounts due to customers | 28 | 368,966 | 353,569 |
| Negative fair value of financial derivative transactions | 37 | 4,700 | 3,474 |
| Certificated debt | 29 | 9,255 | 21,024 |
| Accruals, provisions and other liabilities | 30 | 10,855 | 14,742 |
| Income taxes payable | 14 | 367 | 1,443 |
| Deferred tax liability | 31 | 1,055 | 679 |
| **Total liabilities** | | **415,745** | **415,016** |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 32 | 19,005 | 19,005 |
| Share premium and reserves | | 25,446 | 22,396 |
| **Total shareholders' equity** | | **44,451** | **41,401** |
| **Minority interest** | | **73** | **246** |
| **Total liabilities and shareholders' equity** | | **460,269** | **456,663** |

The accompanying notes are an integral part of these consolidated financial statements.
These financial statements were approved by the Board of Directors on 16 March 2005.

Signed on behalf of the Board of Directors:

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

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

# Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2004

| CZK million | Share capital | Capital and reserve funds and undistributed profit* | Compen-sation reserve | Hedging reserve | Revaluation reserve | Reserve from revaluation of available-for-sale securities | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2002** | **19,005** | **13,966** | **35** | **2,415** | **(55)** | **0** | **35,366** |
| Cash flow hedging: | | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 124 | 0 | 0 | 124 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (1,211) | 0 | 0 | (1,211) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | 25 | 0 | 25 |
| Other treasury shares | 0 | (35) | 0 | 0 | 0 | 0 | (35) |
| Equity compensation programme reserve | 0 | 0 | (17) | 0 | 0 | 0 | (17) |
| Dividends | 0 | (1,520) | 0 | 0 | 0 | 0 | (1,520) |
| Net profit for the period | 0 | 8,669 | 0 | 0 | 0 | 0 | 8,669 |
| **Balance at 31 December 2003** | **19,005** | **21,080** | **18** | **1,328** | **(30)** | **0** | **41,401** |
| Change of accounting policy** | 0 | (131) | 0 | 0 | 0 | 131 | 0 |
| **Balance at 1 January 2004** | **19,005** | **20,949** | **18** | **1,328** | **(30)** | **131** | **41,401** |
| Cash flow hedging: | | | | | | | |
| – net fair value, net of tax | 0 | 0 | 0 | 2,896 | 0 | 0 | 2,896 |
| – transfer to net profit, net of tax | 0 | 0 | 0 | (1,411) | 0 | 0 | (1,411) |
| Currency translation from foreign investments | 0 | 0 | 0 | 0 | (1) | 0 | (1) |
| Unrealised gains or losses on available-for-sale securities, net of tax | 0 | 0 | 0 | 0 | 0 | 217 | 217 |
| Other treasury shares | 0 | 72 | 0 | 0 | 0 | 0 | 72 |
| Equity compensation programme reserve | 0 | 0 | (18) | 0 | 0 | 0 | (18) |
| Dividends | 0 | (7,602) | 0 | 0 | 0 | 0 | (7,602) |
| Net profit for the period | 0 | 8,897 | 0 | 0 | 0 | 0 | 8,897 |
| **Balance at 31 December 2004** | **19,005** | **22,316** | **0** | **2,813** | **(31)** | **348** | **44,451** |

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

** Unrealised gains or losses on the revaluation of available-for-sale securities as of 1 January 2004, net of tax.

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

# Consolidated Cash Flow Statement for the year ended 31 December 2004

| CZK million | 2004 | 2004 | 2003 | 2003 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest receipts | 20,348 | | 20,219 | |
| Interest payments | (6,170) | | (7,224) | |
| Commission and fee receipts | 12,415 | | 9,951 | |
| Commission and fee payments | (762) | | (668) | |
| Other income receipts | 791 | | 385 | |
| Cash payments to employees and suppliers, and other payments | (10,255) | | (9,021) | |
| **Operating cash flow before changes in operating assets and operating liabilities** | **16,367** | | **13,642** | |
| Due from banks | (31,276) | | (2,133) | |
| Loans and advances to customers | (3,578) | | 1,786 | |
| Securities held for trading | 16,609 | | (16,301) | |
| Other assets | 137 | | (461) | |
| **Total (increase)/decrease in operating assets** | **(18,108)** | | **(17,109)** | |
| Amounts due to banks | 584 | | (4,612) | |
| Amounts due to customers | 12,845 | | 11,683 | |
| Other liabilities | 4,918 | | 4,611 | |
| **Total increase/(decrease) in operating liabilities** | **18,347** | | **11,682** | |
| Net cash flow from operating activities before taxes | 16,606 | | 8,215 | |
| Income taxes paid | (4,908) | | (5,134) | |
| **Net cash flows from operating activities** | | **11,698** | | **3,081** |
| **Cash flows from investing activities** | | | | |
| Dividends received | 239 | | 249 | |
| Purchase of investments held to maturity | (1,045) | | 0 | |
| Maturity of investments held to maturity* | 273 | | 2 | |
| Purchase of securities available for sale | (2,627) | | (7,234) | |
| Sale of securities available for sale* | 10,703 | | 6,089 | |
| Purchase of tangible and intangible fixed assets | (1,569) | | (2,804) | |
| Sale of tangible and intangible fixed assets | 104 | | 513 | |
| Purchase of investments in subsidiaries and associates | (57) | | 0 | |
| Sale of investments in subsidiaries and associates | 880 | | 1,006 | |
| **Net cash flow from investing activities** | | **6,901** | | **(2,179)** |
| **Cash flows from financing activities** | | | | |
| Paid dividends | (7,530) | | (1,510) | |
| Dividends paid to minority shareholders | 0 | | (48) | |
| Subordinated debt | 0 | | (3,464) | |
| Certificated debts issued | 5,133 | | 2,555 | |
| Certificated debts redeemed* | (18,191) | | (913) | |
| **Net cash flow from financing activities** | | **(20,588)** | | **(3,380)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(1,989)** | | **(2,478)** | |
| **Cash and cash equivalents at beginning of year** | **10,782** | | **13,260** | |
| **Cash and cash equivalents at end of year (see Note 33)** | | **8,793** | | **10,782** |

* The amount also includes received and paid coupons.

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

# Notes to the Consolidated Financial Statements under IFRS as of 31 December 2004

## 1. Principal activities

The Financial Group of Komerční banka, a.s. (the "Group") consists of Komerční banka, a.s. (the "Bank") and 12 subsidiaries and associated undertakings. The parent enterprise of the Group is the Bank which is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as follows:

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

The Bank generates a substantial proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1, Czech Republic.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its subsidiary Komerční banka Bratislava, a.s. and in the Netherlands through its subsidiary Komercni Finance B.V. (a special purpose vehicle used to raise funds for the Group on the international financial markets).

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale is the Bank's majority shareholder, holding 60.35 percent (2003: 60.35 percent) of the Bank's issued share capital.

### The main activities of subsidiary companies of the Bank as of 31 December 2004

| Company's name | Direct holding % | Group holding % | Principal activity | Registered office |
|---|---|---|---|---|
| ALL IN, a.s. v likvidaci | 100.0 | 100.0 | Valuation services | Prague |
| Investiční kapitálová společnost KB, a.s. | 100.0 | 100.0 | Collective investment scheme manager | Prague |
| Penzijní fond Komerční banky a.s. | 100.0 | 100.0 | Pension fund | Prague |
| Komerční banka Bratislava, a.s. | 100.0 | 100.0 | Banking services | Bratislava |
| Komerční pojišťovna, a.s. | 100.0 | 100.0 | Insurance activities | Prague |
| Komercni Finance, B.V. | 100.0 | 100.0 | Finance | Amsterdam |
| Factoring KB, a.s. | 100.0 | 100.0 | Factoring | Prague |
| ASIS, a.s. v likvidaci | 100.0 | 100.0 | Support activities (information technologies) | Prague |
| ALL IN REAL ESTATE LEASING a.s. | 100.0 | 100.0 | Support banking services | Prague |
| ESSOX s.r.o. | 50.9 | 50.9 | Consumer lending, leasing | České Budějovice |

In September 2003, the Bank increased the share capital of Franfinance Consumer Credit, s.r.o. from CZK 120 million to CZK 245 million and became the majority shareholder of the entity owning 51 percent of its issued share capital. Given that the share capital increase was registered in the Register of Companies in March 2004, the Bank has reported the equity investment in Franfinance Consumer Credit, s.r.o. in its financial statements since 2004.

Pursuant to an agreement on the merger between Franfinance Consumer Credit, s.r.o., and ESSOX LEASING a.s., dated 22 June 2004, with the effective date of the merger being 1 January 2004, Franfinance Consumer Credit, s.r.o. has become the universal legal successor of these two entities. Franfinance Consumer Credit, s.r.o. was renamed to ESSOX s.r.o. in July 2004.

In December 2003, the Bank entered into an agreement to sell 52.6 percent of the shares of MUZO, a.s. for USD 34.7 million. This transaction was settled in February 2004 with an aggregate gain of CZK 610 million.

Reflecting the capital requirements arising from the Insurance Act, the Bank resolved in late 2003 to boost the equity of Komerční pojišťovna, a.s. by a total of CZK 200 million. The equity increase was effected in March 2004 and took the form of a share capital increase of CZK 56 million and a partial settlement of accumulated losses of CZK 144 million. With the objective of reducing accumulated losses brought forward, the Bank decided in November 2004 to make another settlement of Komerční pojišťovna's losses through the decrease of share capital of CZK 205 million. The share capital decrease was not registered in the Register of Companies at the balance sheet date.

The Bank does not include Penzijní fond Komerční banky a.s. in consolidation because the company is subject to regulatory restrictions regarding the distribution of profits.

In 2004, the liquidation of ALL IN, a.s. v likvidaci was completed. As part of the liquidation process, in November 2004 the Bank acquired 100 percent of the issued share capital of ALL IN REAL ESTATE LEASING a.s., ("AIREL") from ALL IN, a.s. v likvidaci for CZK 39 million. The Bank has not received the payment of the liquidation share at the balance sheet date. In addition, the process of liquidation of ASIS, a.s. v likvidaci continued in 2004. In December 2004 the Bank received a dividend payment of CZK 35 million from AIREL.

Pursuant to an agreement of April 2004, the Bank provided Všeobecná stavební spořitelna KB, a.s. (renamed to Modrá pyramida stavební spořitelna, a.s. with effect from 1 January 2005) with funding in the form of a subordinated debt of CZK 245 million.

The main activities of associated companies of the Bank as of 31 December 2004

| Company's name | Direct holding % | Group holding % | Principal activity | Registered office |
|---|---|---|---|---|
| Všeobecná stavební spořitelna KB, a.s. | 40.0 | 40.0 | Building society | Prague |
| CBCB – Czech Banking Credit Bureau, a.s. | 20.0 | 20.0 | Data collection for credit risk assessments | Prague |

## 2. Events for the year ended 31 December 2004

### Dividends declared in respect of the year ended 31 December 2003

At the General Meeting held on 17 June 2004, the shareholders approved a dividend for the year ended 31 December 2003 of CZK 200 per share before tax. The dividend was declared in the aggregate amount of CZK 7,602 million in respect of the total net profit of CZK 9,310 million under Czech Accounting Standards for that year.

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

On 29 December 2000, pursuant to the Public Support Act 59/2000 Coll., the Bank entered into an agreement with Konsolidační banka Praha, s.p.ú. under which Konsolidační banka guaranteed a defined portfolio of classified on and off balance sheet exposures. The guarantee has applied to the net book values as of 31 December 2000. The period for determining the level of the pay-out under the guarantee matured as of 31 December 2003.

The aggregate declared losses incurred on the guaranteed portfolio amounted to CZK 5,247 million, of which five percent represents the Bank's participation, i.e. an amount of CZK 262 million. The final settlement in relation to Česká konsolidační agentura amounted to CZK 4,984 million (95 percent of the final loss) and was performed as of 18 June 2004.
The European Commission has assessed the state guarantee pursuant to EU rules on state aid. The European Commission has issued a decision that the state guarantee provided to the Bank is compliant with EU rules on state aid. This decision is effective even though the settlement of the state guarantee was made subsequently to the date of the Czech Republic's accession to the EU.

## 3. Principal accounting policies

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

### (a) Basis of accounting

The consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") effective for the year ended 31 December 2004. The consolidated financial statements are prepared on the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and are reported in the financial statements of the periods to which they relate, and on the going concern assumption. The financial statements include a balance sheet, a profit and loss statement, a statement of changes in shareholders' equity, a cash flow statement and notes to the financial statements.
The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities held for trading and all derivative contracts at the balance sheet date. Assets that are not remeasured to fair value and suffered an impairment are stated at net recoverable amount.
The Group entities maintain their books of account and prepare statements for regulatory purposes in accordance with Czech accounting principles and those of other jurisdictions in which the Group operates. The accompanying financial statements are based on the accounting records, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS. In certain instances, the reported amounts relating to the previous accounting period have been reclassified to conform to the current year's presentation.
The presentation of consolidated financial statements in conformity with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the date of the financial statements and actual results should not significantly differ from those estimates.
The reporting currency used in the consolidated financial statements is the Czech Crown ("CZK") with accuracy to CZK million.

### (b) Basis of consolidation

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

### (c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are reported in the financial statements in CZK. At each balance sheet date:

(i) Cash items denominated in foreign currencies are translated into CZK at the CNB mid-rate,

(ii) Non-cash items denominated in foreign currencies, which are stated at historical cost, are translated into CZK at the CNB mid-rate ruling at the transaction date, and

(iii) Non-cash items denominated in foreign currencies, which are measured at fair value, are translated into CZK at the CNB mid-rate ruling at the date on which the fair value was determined.

Income and expenses denominated in foreign currencies are recorded in Czech Crowns in the underlying accounting system of the Group and are therefore reported in the financial statements at the official exchange rate prevailing as of the date of the transaction.

Gains or losses arising from movements in exchange rates after the date of the transaction are recognised in *Net profit/(loss) on financial operations*.

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

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

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its estimated recoverable value. Further details about provisioning are set out in Note 37 to these financial statements.

The Group charges penalty interest to borrowers when a portion of the loan falls overdue. Pursuant to the Group's policies, penalty interest is not covered by the collateral set aside against the loan of the borrower. Penalty interest is accounted for on a cash basis in *Interest income*.

The Group writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Group in respect of these loans. The loss loan is written off through expenses, with the related provision for loan losses being released. Subsequent recoveries are credited to the profit and loss statement in *Provision for loan losses* if previously written off.

### (e) Securities

Securities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition of the securities and pursuant to the Group's security investment strategy. The Group has allocated securities to the "Held for trading" portfolio, the "Available for sale" portfolio and the "Held to maturity" portfolio. With effect from 2002, the Group has also carried securities in the category "Acquired under initial offerings not designated for trading" which are reported together with loans. The principal difference among the portfolios relates to the measurement approach of securities and the recognition of their fair values in the financial statements.

All securities held by the Group are initially recognised using settlement date accounting and are measured at cost which includes direct transaction costs associated with the acquisition of securities.

All purchases and sales of securities that do not meet the "regular way" settlement criterion (that is, within the time frame established generally by regulation or convention in the market place concerned) are treated as financial derivatives and are recognised on the face of the balance sheet upon settlement at fair value. The cost of debt securities is gradually increased to reflect the accrued interest income using the effective interest rate method. Interest income includes the accrued coupon and the accrued difference between the nominal value of the security and its cost.

Dividend income arising from securities is recorded as the dividends are declared and is included as a receivable in the balance sheet line *Prepayments, accrued income and other assets* and in *Net profit/(loss) on financial operations* in the profit and loss statement. Upon receipt of the dividend, the receivable is offset against the collected cash.

Transactions with treasury shares that are settled on a gross basis by the delivery of treasury shares have a direct impact on the Group's equity.

### Trading securities

Securities held for trading are financial assets (equity and debt securities, treasury bills, participation certificates) acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices. Subsequent to the initial recognition, these securities are accounted for and stated at fair value which approximates the price quoted on recognised stock exchanges or any other public securities markets.

Unrealised gains and losses arising from the fair value remeasurement of securities as well as realised gains and losses are recognised as income in the profit and loss statement line *Net profit/(loss) on financial operations.*

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised as spot transactions. Transactions that do not meet the "regular way" settlement criterion are treated as financial derivatives.

### Investments held to maturity

Investments held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective yield method.

The Group assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets not remeasured to fair value is calculated as the difference between the asset's carrying amount and its recoverable amount. When an impairment of assets is identified, the Group recognises provisions through the profit and loss statement line *Provision for impairment of securities*.

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

Securities acquired under initial offerings not designated for trading are financial assets that have originated as a result of the provision of cash, goods or services directly to the borrower. Securities acquired under initial offerings are valued on the same basis as investments held to maturity. These securities are reported on the balance sheet together with amounts due from banks or customers, as appropriate.

### Available for sale securities

Available for sale securities are those financial assets that are not classified as financial assets held for trading, held-to-maturity investments or securities acquired under initial offerings not designated for trading. This portfolio comprises equity securities and debt securities, including asset backed securities, and participation certificates. Subsequent to the initial recognition, securities available for sale are accounted for and stated at fair value.

Accrued interest income is recognised through the profit and loss statement. Unrealised gains or losses from the fair value remeasurement of securities are included in equity until their sale, maturity or impairment.

In the year ended 31 December 2004, the Group revised its policy of accounting for unrealised gains or losses on securities available for sale. In prior periods, unrealised gains or losses were included in the profit and loss statement, with effect from 2004, the Group has recognised these gains and losses in the *"Reserve from revaluation of available-for-sale securities"* within equity.

In changing the policy of accounting for unrealised gains and losses on the available-for-sale securities the Group has adopted the allowed alternative treatment set out in IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. As such, the change was reflected only in the current period, comparative information for prior periods was not restated in the financial statements. As of 1 January 2004, the Group re-allocated unrealised gains and losses on the securities available for sale generated subsequent to 1 January 2001 from "Retained earnings" to the *"Reserve from revaluation of available-for-sale securities"*. This re-allocation in the aggregate amount of CZK 131 million also included the relevant income taxation in accordance with IAS 12 Income Taxes and is reflected in the statement of changes in shareholders' equity.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

If equity securities cannot be measured using the methods referred to above or on any other valuation basis they are carried at cost.

The Group assesses on a regular basis whether there is any objective evidence that a security carried in the available for sale portfolio may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the market interest rate for similar financial instruments. The amount of the impairment loss for assets remeasured to fair value is calculated as the difference between the asset's carrying amount and its recoverable amount. When impairment of assets is identified, the aggregate net loss which was taken directly to equity is reversed and recognised through the profit and loss statement line *"Provision for impairment of securities."*

### (f) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation together with accumulated impairment losses and increased by technical improvements. Fixed assets are depreciated indirectly through the accumulated depreciation charge. Depreciation is calculated on a straight line basis to write off the cost of tangible and intangible fixed assets over their estimated useful economic lives.

The Group specifically does not depreciate land, works of art, tangible and intangible fixed assets in the course of construction and technical improvements, unless they are brought into a condition fit for use.

During the reporting period, the Group used the following estimated useful economic lives in years:

| | |
|---|---|
| Machinery and equipment, computers, vehicles | 4 |
| Fixtures, fittings and equipment | 6 |
| Energy machinery and equipment | 12 |
| Technical improvements on historic buildings | 15 |
| Distribution equipment | 20 |
| Buildings and structures | 30 |
| Technical improvements on leasehold assets, except for historic buildings | According to the lease term |

The Group periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Group's requirements, management of the Group determines a provision for asset impairment. In respect of the assets owned by the Group, the provision is assessed by reference to the net selling price based on third party valuation reports adjusted downwards for an estimate of associated sale costs. Leasehold assets are provisioned by reference to the residual value of technical improvements.

Repairs and renewals are charged directly to the profit and loss statement when the expenditure is incurred.

### (g) Leases

Assets held under finance leases when substantially all the risks and rewards of ownership are transferred, are recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. These assets are depreciated over their useful lives.

Lease payments are apportioned between interest reported in finance charges and reduction of the lease obligation. Finance charges are allocated over the lease term so as to achieve a constant rate of interest.

Payments made under operating leases are charged to the profit and loss statement on a straight line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable, assets are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income. Lease income is recognised over the term of the lease reflecting a constant periodic rate of return.

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

In accordance with IFRS, the Group recognises a provision when, and only when:
- It has a present obligation (legal or constructive) as a result of a past event,
- It is probable that the settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits, and
- A reliable estimate can be made of the amount of the obligation.

In the normal course of business, the Group enters into credit related commitments which are recorded in off balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Specific provisions are made for estimated losses on these commitments on the same basis as set out in Note 3 (d).

### (i) Employment benefits

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

### (j) Certificated debts

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

### (k) Recognition of income and expense

Interest income and expense are recognised in the profit and loss statement for all interest bearing instruments on an accruals basis using the effective interest rate. Interest income includes amortisation of interest earned on debt financial instruments. Interest on non-performing loans is recognised on a case by case basis when interest on selected loans ceases to be accrued. Penalty interest is accounted for and included in interest income on a cash basis. Fees and commissions are recognised in the period to which they relate on an accruals basis.

### (l) Income taxation

Taxation is calculated in accordance with the provisions of the relevant legislation of the Czech Republic and other jurisdictions in which the Group operates, based on the profit recognised in the profit and loss statement prepared pursuant to Czech Accounting Standards and accounting standards of other jurisdictions. Income taxation is included in the profit and loss statement, or equity if it relates to an item directly taken to equity.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realised. The principal temporary differences arise from depreciation on property, plant and equipment, specific provisions for loans, and tax losses carried forward. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

Deferred tax related to cash flow hedges where fair value changes are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss statement together with the deferred gain or loss.

### (m) Repurchase agreements

Securities sold under repurchase agreements ("repos") are recorded as assets in the balance sheet lines "*Securities held for trading*" or *"Securities available for sale"* as appropriate and the counterparty liability is included in "Amounts due to banks" or *"Amounts due to customers"* as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded off balance sheet where they are remeasured to fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the balance sheet line *"Due from banks"* or *"Loans and advances to customers"* as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued evenly to expenses/income over the life of the repo agreement using the effective interest rate.

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

### (n) Derivative financial instruments and hedging

In the normal course of business, the Group enters into contracts for derivative financial instruments which represent a financial instrument that requires a very low or zero initial investment relative to the nominal value of the contract.

The derivative financial instruments used include interest rate and currency forwards, swaps, securities based derivatives, and options. These financial instruments are used by the Group to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. The Group also acts as an intermediary provider of these instruments to certain clients.

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

Certain derivatives are embedded in other financial instruments, such as the conversion option in a convertible bond, and are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with fair value changes reported in the profit and loss statement. In such cases, the financial derivative is separated from the host contract and is accounted for separately.

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

On the date a derivative contract is entered into, the Group always designates derivatives as either trading or hedging. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

(a) The Group has developed a risk management strategy;

(b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing whether the hedge is effective;

(c) The hedge is effective, that is, if, at inception and throughout the period, changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Hedging derivatives are accounted for according to the type of a hedging relationship which can be either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge); or (iii) a hedge of an investment in a foreign entity.

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

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

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

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

The fair value of derivative instruments held for trading and hedging purposes are disclosed in Note 37.

### (o) Regulatory requirements

The banks within the Group are subject to the regulatory requirements of the respective national central banks. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk associated with clients, liquidity, interest rate and foreign currency position.

Similarly, other Group companies are subject to regulatory requirements specifically in relation to insurance and collective investment schemes.

### (p) Fiduciary activities

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

### (q) Share capital and treasury stock

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

## (r) Technical provisions

### Life insurance provisions

The life insurance provision is created as a sum of reserves calculated under individual life insurance policies and represents balances of the Group's commitments calculated using the "Zillmer" method. This technical provision takes into account the calculated costs and the portfolio size. This provision includes an element of unearned premiums, if any.

## Changes of accounting policies arising from the implementation of new IFRS and revised IAS effective from 1 January 2005

The Group has undertaken a detailed analysis of the revised standards in order to identify and implement the relevant changes. All the new IFRS and revisions of the extant IAS have been implemented with effect from 1 January 2005. Set out below are the changes and estimated impacts on retained earnings, if relevant.

### IAS 16 Property, Plant & Equipment

Introduction of the component approach

The revised wording of IAS 16 expressly requires that an enterprise determine the amount of depreciation separately for each significant component of property, plant & equipment.

The application of the treatment has relevance for the Group's operating buildings which can be split into components. Given that the Group owns operating buildings that were acquired a fairly long time ago, it is not possible to clearly determine the costs of individual components. The Group has made a reasonable estimate of the impact of the change of the policy which appears immaterial based upon the obtained results. Hence, the Group has applied the component approach prospectively beginning in the period from 1 January 2005. The impact on retained earnings as of 1 January 2005 is therefore zero.

### IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement

Measurement of financial instruments held for trading

These standards no longer require that interest income and expense attributable to financial instruments remeasured to fair value through the profit and loss statement be recognised separately.

In accordance with this guidance, the Group, effective 1 January 2005, has recognised interest income and expense on financial instruments held for trading (for example, debt securities held for trading) as a component of the fair value remeasurement in the *"Net profit/(loss) on financial operations"*, not in the line *"Net interest income"*. Reflecting the change referred to above, the Group will make a reclassification of CZK 540 million.

Definition of loans and receivables

IAS 39 has revised the definition of the category of "loans and receivables originated by the enterprise" to "loans and receivables". Under the modified definition, an entity is permitted to classify in "loans and receivables" loans that are purchased provided they are not quoted in an active market.

The Group has assessed the purchased receivables categorised as "loans and receivables" and re-allocated the receivables that do not meet the above definition into a different portfolio with effect from 1 January 2005. The re-allocation comprised securities with the carrying amount of CZK 1,335 million which the Group decided to include in the held-to-maturity investments portfolio. The impact on the profit and loss statement and retained earnings is zero. The change will also be reflected in the 2004 comparative period.

### IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

Assets held for sale

Following the implementation of IFRS 5, the Group has reviewed its non-current assets and identified assets which meet the "assets held for sale" definition as of 1 January 2005. As of this date, assets with the carrying value of CZK 37 million, which are no longer being depreciated, were re-allocated to this category.

**IFRS 3 Business Combinations**

Goodwill

The new IFRS 3 prohibits amortisation of goodwill acquired in a business combination. In accordance with Transitional Provisions of IFRS 3, amortisation of goodwill is discontinued at the date of the adoption of IFRS 3 (accumulated amortisation at that date is charged against the gross amount of goodwill) and the goodwill is tested for impairment for the first time. Subsequently, an impairment test is undertaken annually.

The Bank tested goodwill for impairment as of 1 January 2005. The impact on retained earnings as of 1 January 2005 is zero.

**IFRS 4 Insurance Contracts**

Recognition of Komerční pojišťovna's insurance products

Insurance contracts are issued through Komerční pojišťovna within the Group. The Group has reviewed its existing products with the objective of separating insurance products (as defined in IFRS 4), financial products with a discretionary participation feature as an allocation of profit (dealt with in IFRS 4) and financial products that are not addressed by IFRS 4. All products have been designated as insurance contracts or financial instruments covered by IFRS 4.

The Group has also reviewed embedded derivatives in insurance contracts with the result that no embedded derivatives included in the existing insurance contracts need to be accounted for separately (unbundled).

The Group will additionally adopt the "shadow accounting" practice in respect of its life insurance contracts. Under shadow accounting, the Group will recognise an insurance provision with a charge against capital, which will cover the estimated participation of policyholders in unrealised gains on investments in the insurer's assets (assets held for sale) which are taken directly to equity. The adoption of this practice will impact the retained earnings as of 1 January 2005 in the amount of CZK 89 million.

The Group has identified a provision which does not comply with IFRS 4 and will therefore no longer be reflected in the financial statements. The impact of the release of this provision on retained earnings as of 1 January 2005 is immaterial.

### Other changes of accounting policies

**Accruals**

With effect from 2005, the Group has commenced recording accruals for certain items, specifically initial fees from loans, fees from guarantees and annual fees from payment cards, which results in a fairer presentation of information. In accordance with IAS 8, the Group will apply the changes of accounting policies retrospectively. As of 1 January 2005, the net impact on retained earnings (decrease) is CZK 37 million, CZK 14 million and CZK 78 million in respect of initial fees from loans, fees from guarantees and fees from payment cards, respectively.

## 4. Source of profits and losses

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

## 5. Net interest income

Net interest income comprises:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Interest income** | | |
| – Loans and advances to financial institutions | 9,658 | 8,754 |
| – Loans and advances to customers* | 9,293 | 9,792 |
| – Bonds and treasury bills | 1,679 | 1,816 |
| **Total interest income** | **20,630** | **20,362** |
| **Interest expense** | | |
| – Amounts owed to financial institutions | (2,259) | (1,706) |
| – Amounts owed to customers | (4,156) | (4,928) |
| – Certificated debts | (1,060) | (1,562) |
| **Total interest expense** | **(7,475)** | **(8,196)** |
| **Total net interest income** | **13,155** | **12,166** |

* Interest income from loans and advances to customers also includes interest received from Česká konsolidační agentura.

Interest income and expense also includes accrued interest income from hedging financial derivatives of CZK 4,225 million (2003: CZK 3,363 million) and accrued interest expense from hedging financial derivatives of CZK 2,181 million (2003: CZK 1,615 million). Net interest income from these derivatives amounts to CZK 2,044 million (2003: CZK 1,748 million).

## 6. Net fees and commissions

Net fees and commissions comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Net fees and commission from services and transactions | 7,433 | 7,129 |
| Net gain from foreign exchange commissions from clean payments | 1,096 | 1,218 |
| Net gain from foreign exchange commissions from other transactions | 682 | 728 |
| **Total net fees and commissions** | **9,211** | **9,075** |

Net fees and commissions comprise foreign exchange commissions from clean and documentary payments and client cash exchange and conversion transactions as equal to the difference between the purchase/sale rate of foreign currencies determined by the Group and the official exchange rates as promulgated by the Czech National Bank used under the requirements of the Accounting Act in re-translating transactions denominated in foreign currencies. The Group includes foreign exchange commissions in *Net fees and commissions* because these revenues represent significant recurring income from payment and exchange transactions effected with the Group's customers. Net fees from documentary payments of CZK 14 million were presented in *Net gain from foreign exchange commissions from clean and documentary payments* in 2003 but they are reported in *Net gain from foreign exchange commissions from other transactions* reflecting the current period.

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

Net profit/(loss) on financial operations comprises:

| CZK million | 2004 | 2003 |
|---|---|---|
| Net realised gains/(losses) on securities | (143) | 17 |
| Net unrealised gains/(losses) on securities | 84 | (22) |
| Dividend income on securities held for trading and available for sale | 69 | 37 |
| Net realised and unrealised gains/(losses) on security derivatives | 158 | (5) |
| Net realised and unrealised gains/(losses) on interest rate and credit derivatives | (141) | 59 |
| Net realised and unrealised gains/(losses) on trading commodity derivatives | 3 | 2 |
| Net realised and unrealised gains/(losses) on foreign exchange financial derivatives, spot foreign exchange transactions and re-translation of foreign currency assets and liabilities | 606 | 620 |
| **Total net profit/(loss) on financial operations** | **636** | **708** |

## 8. Dividends and other income

Other income comprises:

| CZK million | 2004 | 2003 |
|---|---|---|
| Dividend receipts from subsidiaries and associates | 85 | 0 |
| Other income | 125 | 542 |
| **Total dividends and other income** | **210** | **542** |

*Other income* shown above is predominantly composed of property rental income and fees for authorisation and maintenance services connected with the payment cards system.
Other income for the year ended 31 December 2003 also reflected the net loss of CZK 8 million on the sale of tangible assets. In 2004 the Group re-allocated this loss to *Depreciation, impairment and disposal of fixed assets* under the total operating costs. *Other income* for the year ended 31 December 2003 additionally included income of CZK 54 million which is presented in *General administrative expenses* in 2004. Comparative information for 2003 was restated.

## 9. Personnel expenses

Personnel expenses comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Wages, salaries and bonuses | 3,712 | 4,356 |
| Social security costs | 1,426 | 1,466 |
| **Total personnel expenses** | **5,138** | **5,822** |
| Physical number of employees at the period-end | 7,718 | 8,813 |
| Average recalculated number of employees during the period | 8,298 | 9,288 |
| **Average cost per employee (CZK)** | **619,185** | **626,830** |

*Personnel expenses* for the year ended 31 December 2003 include staff costs of CZK 218 million which the Group reported within Restructuring costs in 2003. Given that the Group no longer reports restructuring costs separately in 2004, the charges included in this line in 2003 were re-allocated into the lines *Personnel expenses, General administrative expenses* and *Depreciation, impairment and disposal of fixed assets* as appropriate. In addition, costs of CZK 58 million were re-allocated from *General administrative expenses* to *Personnel expenses.*

Social security costs include costs of CZK 44 million (2003: CZK 45 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 35 million (2003: CZK 42 million) incurred in contributing to the employees' capital life insurance scheme.

*Wages, salaries and bonuses* reflect the charge for the provision for the employee loyalty and jubilee programme amounting to CZK 5 million (2003: a charge of CZK 147 million). The aggregate balance of the provision as of 31 December 2004 is CZK 219 million (2003: CZK 214 million).

## 10. General administrative expenses

General administrative expenses comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Insurance of deposits and transactions | 625 | 316 |
| Costs associated with client transactions | 979 | 752 |
| Staff costs | 214 | 231 |
| Property rent | 469 | 697 |
| Property maintenance | 1,536 | 1,303 |
| IT support | 306 | 327 |
| Office equipment and other consumption | 94 | 112 |
| Telecommunications, post and other services | 445 | 446 |
| External advisory services | 553 | 469 |
| Other expenses | 213 | 340 |
| **Total general administrative expenses** | **5,434** | **4,993** |

*General administrative expenses* for the year ended 31 December 2003 include operating costs of CZK 453 million which the Group reported within *Restructuring costs* in 2003. Given that the Group no longer reports restructuring costs separately in 2004, the charges included in this line in 2003 were re-allocated into the lines *Personnel expenses, General administrative expenses* and *Depreciation, impairment and disposal of fixed assets* as appropriate. In addition, the Group re-allocated the income of CZK 100 million to General administrative expenses, of which CZK 54 million was re-allocated from *Other income* and CZK 46 million from *Depreciation and other provisions*. By contrast, *General administrative expenses* included total costs of CZK 103 million in 2003, of which CZK 58 million, CZK 24 million and CZK 21 million was re-allocated to *Personnel expenses, Provisions for other risk expenses* and *Depreciation, impairment and disposal of fixed assets*, respectively.

*Insurance of deposits and transactions* shown as a component of *General administrative expenses* include an estimated balance of payments to the Deposit Insurance Fund of CZK 587 million (2003: CZK 285 million). The year-on-year increase in the amount of the costs is attributable to the increase of the percentage of the insured deposits from 0.1 percent to 0.2 percent.

## 11. Depreciation, impairment and disposal of fixed assets

Depreciation, impairment and disposal of fixed assets comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Depreciation of tangible and intangible fixed assets | 1,853 | 2,030 |
| Provisions for assets and net gain on the sale of assets | (42) | (316) |
| **Total depreciation, impairment and disposal of fixed assets** | **1,811** | **1,714** |

Gains or losses on the sale of assets were included in *Other income* in 2003.

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

The Group has excluded MUZO, a.s. from the consolidated results for the year ended 31 December 2004 because the company was sold. The company was excluded from consolidation at the value of its equity at the date of the sale. The gain arising from exclusion of this company from consolidation amounted to CZK 610 million.
Income from share of associated undertakings totals CZK 13 million.

## 13. Cost of risk

### Provisions for loans and other credit commitments

The movement in the provisions was as follows:

| CZK million | 2004 | 2003 |
|---|---|---|
| Balance at 1 January | (10,782) | (20,581) |
| Balance of provisions of a subsidiary upon its inclusion in consolidation | (148) | 0 |
| Net provisioning for loan losses | 1,546 | 2,579 |
| Re-allocation to other provisions (refer to Note 30) | 1,684 | 0 |
| Impact of loans written off and transferred | 495 | 6,910 |
| Exchange rate differences attributable to provisions | 332 | 310 |
| **Balance at period end** | **(6,873)** | **(10,782)** |

The balance of provisions in 2004 also includes the provisions for other non-credit amounts due from customers (refer also to Note 37) which were reported within *Other assets* in 2003. Comparative information for 2003 was restated.
The balance of provisions as of 31 December 2004 and 2003 comprises:

| CZK million | 2004 | 2003 |
|---|---|---|
| Specific provisions for loans to customers (refer to Note 21) | (5,627) | (5,464) |
| Provisions for other loans to customers (refer to Note 21) | (36) | (21) |
| General provision for loans to customers | 0 | (4,050) |
| Reserve for other credit risks | 0 | (17) |
| Provisions for loans to financial institutions | 0 | (15) |
| Provisions for guarantees and other credit related commitments (refer to Note 30) | (1,210) | (1,215) |
| **Total** | **(6,873)** | **(10,782)** |

During the year ended 31 December 2004, the balance of provisions decreased by CZK 3,928 million compared to the balance at the end of 2003 (the year-on-year decrease in 2003 was CZK 9,799 million) principally as a result of the release of general loan provision totalling CZK 2,415 million and re-allocation of the remaining balance of the general loan provision totalling CZK 1,635 million to other reserves in the amount of CZK 1,389 million (refer to Note 30) to cover ongoing commitments and to the provision for guarantees and other credit related commitments in the amount of CZK 246 million. Further, during the year ended 31 December 2004 the provision for guarantees and other credit related commitments totalling CZK 295 million was re-allocated to other reserves. In 2003, the decrease in the balance of provisions was principally due to the sale of a significant amount of non-performing loans.

### Provisions for securities

The balance of provisions for securities comprises:

| CZK million | 2004 | 2003 |
|---|---|---|
| Balance at 1 January | (1,867) | (2,367) |
| Net provisioning against securities | (85) | (74) |
| Impact of the sale of securities | 284 | 0 |
| Impact of the write-off of the nominal value of securities | 0 | 241 |
| Exchange rate differences attributable to provisions | 175 | 333 |
| **Balance at the period-end** | **(1,493)** | **(1,867)** |

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

### Provisions for unconsolidated investments in subsidiaries and associates

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Creation of provisions | (35) | 0 |
| Release of provisions | 20 | 24 |
| **Total provision for investments in subsidiaries and associates** | **(15)** | **24** |

| CZK million | 2004 | 2003 |
|---|---|---|
| Balance at 1 January | (21) | (45) |
| Creation of provisions | (35) | 0 |
| Release and use of provisions | 21 | 24 |
| **Balance at 31 December** | **(35)** | **(21)** |

### Provisions for other risk expenses

The balance of *Provisions for other risk expenses* principally consists of the net charge for provisions for legal disputes, together with the costs incurred by the Group as a result of the outcome of the legal disputes. In 2003, these income and costs were presented in *Depreciation and other provisions* which were included in operating costs (for further information see Note 30).

## 14. Income Taxes

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Tax payable – current year, reported in profit or loss | (3,832) | (3,789) |
| Tax paid – prior year | 10 | 9 |
| Deferred tax movement | (90) | (386) |
| **Total income taxes** | **(3,912)** | **(4,166)** |
| Tax payable – current year, reported in equity | (17) | 0 |
| **Total tax expense** | **(3,929)** | **(4,166)** |

| CZK million | 2004 | 2003 |
|---|---|---|
| **Profit before tax** | **12,787** | **12,896** |
| Theoretical tax credit calculated at a tax rate of 28% (31%), 19% (25%) | 3,562 | 3,956 |
| Income not taxable, primarily interest | (607) | (1,826) |
| Expenses not deductible for tax purposes | 913 | 1,663 |
| Use of tax losses carried forward | (5) | 0 |
| Tax allowance | (3) | (95) |
| Movement in deferred tax | 90 | 386 |
| Unconsolidated tax losses | 1 | 62 |
| Other | (12) | (17) |
| Tax payable on securities available for sale | (17) | 0 |
| **Income tax expense** | **3,922** | **4,129** |
| Other tax expense (15 % foreign dividend tax) | 0 | 45 |
| Prior period tax expense | (10) | (9) |
| Withholding tax (15 % dividend tax) | 0 | 1 |
| **Total income taxes** | **3,912** | **4,166** |
| **Tax payable on securities available for sale reported in equity*** | **17** | **0** |
| **Total income tax** | **3,929** | **4,166** |
| Effective tax rate | 30.59 % | 32.30 % |

* This amount represents the tax paid on unrealised gains from the revaluation of securities available for sale which are revalued through equity under IFRS.

The decrease in the prior period tax expense of CZK 10 million (2003: a decrease of CZK 9 million) represents a decreased tax liability for the years ended 31 December 2003, 2002 and 2001 reflected in the tax returns filed in 2004. The corporate tax rate for the year ended 31 December 2004 is 28 percent in the Czech Republic and 19 percent in Slovakia (2003: 31 percent and 25 percent, respectively). The Group's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.
Further information about deferred tax is presented in Note 31.

## 15. Distribution of profits/Allocation of losses

The Group generated a net profit of CZK 8,897 million for the year ended 31 December 2004. Distribution of profits and settlement of losses for the year ended 31 December 2004 will be approved by the general meetings of the Group companies.

## 16. Earnings per share

Earnings per share of CZK 234.08 (2003: CZK 228.07 per share) have been calculated by dividing the net profit of CZK 8,897 million (2003: CZK 8,669 million) by the number of shares in issue, that is 38,009,852.

## 17. Cash and current balances with banks

Cash and current balances with banks comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Cash and cash equivalents | 5,830 | 7,198 |
| Balances with central banks | 4,305 | 5,086 |
| Current accounts with other banks | 124 | 165 |
| **Total cash and current balances with banks** | **10,259** | **12,449** |

Current accounts with other banks include nostro accounts maintained with correspondent banks. Given the liquidity of these funds they have been included within the same caption as cash.

Balances with the central banks represent obligatory minimum reserves. The obligatory minimum reserves with the Czech National Bank bore interest at 2.50 percent and 2 percent as of 31 December 2004 and 2003, respectively. Obligatory minimum reserves with the National Bank of Slovakia bore interest at 1.5 percent and 1.5 percent as of 31 December 2004 and 2003, respectively.

## 18. Amounts due from banks

Balances due from banks comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Loans and advances to banks | 5,473 | 1,155 |
| Debt securities of banks acquired under initial offerings not designated for trading | 15,095 | 19,101 |
| Advances due from central banks (repo transactions) | 174,939 | 166,832 |
| Term placements with other banks | 37,929 | 15,050 |
| **Total** | **233,436** | **202,138** |
| Provisions | 0 | (15) |
| **Total amounts due from banks** | **233,436** | **202,123** |

Advances due from central banks and other banks under repurchase transactions are collateralised by treasury bills issued by central banks and other debt securities with fair value:

| CZK million | 2004 | 2003 |
|---|---|---|
| Treasury bills | 171,362 | 163,401 |
| Debt securities issued by state institutions | 5,037 | 73 |
| Debt securities issued by other institutions | 0 | 10 |
| **Total** | **176,399** | **163,484** |

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

In the third quarter of 2003, pursuant to its investment strategy the Group acquired, under an initial offering and normal market conditions, bonds issued by the parent company, Société Générale, denominated in CZK with an aggregate nominal value of CZK 5,000 million maturing in 2013. These bonds bear fixed interest at 3.98 percent. Since 2002, the Group has carried bonds issued by the parent company denominated in CZK with an aggregate nominal value of CZK 14,000 million, maturing in 2012 and bearing fixed interest at 4.27 percent. In August 2004 the issuer made an early redemption of CZK 4,000 million in bonds for a price determined according to prevailing market conditions. The effect of the transaction on the Group's profit or loss was immaterial.

## 19. Trading securities

Trading securities comprise:

| CZK million | 2004 Fair value | 2004 Cost | 2003 Fair value | 2003 Cost |
|---|---|---|---|---|
| **Shares and participation certificates** | **50** | **50** | **140** | **154** |
| Fixed income debt securities | 6,116 | 6,029 | 2,901 | 2,892 |
| Variable yield debt securities | 472 | 471 | 348 | 348 |
| Bills of exchange | 149 | 149 | 0 | 0 |
| Treasury bills | 2,886 | 2,886 | 22,716 | 22,715 |
| **Total debt securities** | **9,623** | **9,535** | **25,965** | **25,955** |
| **Total trading securities** | **9,673** | **9,585** | **26,105** | **26,109** |

The Group's portfolio of trading securities includes treasury bills of CZK 2,651 million issued by the Czech Finance Ministry and the Czech Consolidation Agency (2003: CZK 22,411 million) and Slovak Government treasury bills of CZK 235 million (2003: CZK 305 million).

As of 31 December 2004, the portfolio of trading securities includes securities at a fair value of CZK 6,607 million (2003: CZK 3,389 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 3,066 million (2003: CZK 22,716 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Trading shares and participation certificates at fair value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Shares and participation certificates** | | |
| – Czech crowns | 50 | 140 |
| **Total trading shares and participation certificates** | **50** | **140** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Trading shares and participation certificates issued by:** | | |
| – Foreign financial institutions | 7 | 0 |
| – Other entities in the Czech Republic | 43 | 140 |
| **Total trading shares and participation certificates** | **50** | **140** |

Debt trading securities at fair value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Variable yield debt securities** | | |
| – Czech crowns | 472 | 348 |
| **Total variable yield debt securities** | **472** | **348** |
| **Fixed income debt securities (including bills of exchange and treasury bills)** | | |
| – Czech crowns | 5,959 | 24,751 |
| – Other currencies | 3,192 | 866 |
| **Total fixed income debt securities** | **9,151** | **25,617** |
| **Total trading debt securities** | **9,623** | **25,695** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Debt trading securities issued by:** | | |
| – State institutions in the Czech Republic | 5,061 | 23,995 |
| – Foreign state institutions | 3,149 | 866 |
| – Financial institutions in the Czech Republic | 0 | 133 |
| – Foreign financial institutions | 353 | 306 |
| – Other entities in the Czech Republic | 690 | 629 |
| – Other foreign entities | 370 | 36 |
| **Total trading debt securities** | **9,623** | **25,965** |

## 20. Due from Česká konsolidační agentura

Amounts due from Česká konsolidační agentura ("ČKA") comprised loans of CZK 2,945 million as of 31 December 2004 (2003: CZK 24,303 million).

Česká konsolidační agentura was formed as the legal successor to Konsolidační banka Praha, s. p. ú. pursuant to the Czech Consolidation Agency Act 239/2001 Coll., which took effect on 1 September 2001. The commitments of Česká konsolidační agentura are guaranteed by the Czech State.

The following table sets out the principal terms and conditions of the loans advanced by the Group to ČKA to refinance the transfers of distressed assets in March 2000 as of 31 December 2004:

| Term | Loan dated 25 March 2000 |
|---|---|
| Maturity | 24 March 2005 |
| Loan balance (loan issued in CZK) | CZK 2,148 million |
| Interest rates | Market benchmark rate plus contractual margin |
| Interest repayment | Fixed interest rate – annual<br>Variable interest rate – semi-annual |
| Principal repayment | 13 quarterly instalments<br>First due 25 March 2002 |

The remaining balance of loans of CZK 797 million (2003: CZK 5,813 million) represents loans advanced to ČKA not connected with the refinancing of a transfer of distressed assets.

Amounts due from ČKA include interest due of CZK 308 million (2003: CZK 771 million). The aggregate balance of interest for 2004 and 2003 represents accrued interest that is not overdue.

## 21. Loans and advances to customers

Loans and advances to customers comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Debt securities acquired under initial offerings not designated for trading | 1,335 | 1,813 |
| Loans to customers | 159,317 | 139,355 |
| Bills of exchange | 759 | 747 |
| Forfaits | 668 | 587 |
| Other amounts due from customers | 109 | 163 |
| **Total gross loans and advances to customers** | **162,188** | **142,665** |
| Provisions for loans to customers | (5,627) | (9,514) |
| Provisions for other amounts due from customers | (36) | (21) |
| **Total loans and advances to customers, net** | **156,525** | **133,130** |

In 2004 loans to customers reflected other non-credit amounts due from customers and provisions for these balances in the amount of CZK 73 million. Comparative information for 2003 was restated.

Loans and advances to customers include interest due of CZK 487 million (2003: CZK 517 million), of which CZK 240 million (2003: CZK 317 million) relates to overdue interest.

The loan portfolio of the Group as of 31 December 2004 (net of debt securities acquired under initial offerings and other amounts due from customers) comprises the following breakdown by classification:

| CZK million | Gross receivable | Collateral applied | Net exposure | Provisions | Carrying value | Provisions (%) |
|---|---|---|---|---|---|---|
| Standard | 134,076 | 54,670 | 79,406 | 0 | 134,076 | 0 |
| Watch | 17,318 | 7,590 | 9,728 | (520) | 16,798 | 5 |
| Substandard | 4,165 | 1,955 | 2,210 | (772) | 3,393 | 35 |
| Doubtful | 1,171 | 412 | 759 | (497) | 674 | 65 |
| Loss | 4,014 | 177 | 3,837 | (3,838) | 176 | 100 |
| **Total** | **160,744** | **64,804** | **95,940** | **(5,627)** | **155,117** | |

Loans classified as loss in the above table include amounts of CZK 3,087 million (2003: CZK 3,755 million), on which interest is not being accrued.

Set out below is the breakdown of loans by sector (net of other amounts due from customers):

| CZK million | 2004 | 2003 |
|---|---|---|
| Agriculture | 7,096 | 6,720 |
| Processing industry | 33,138 | 32,436 |
| Distribution and production of energy | 5,877 | 5,685 |
| Construction | 6,071 | 4,447 |
| Trade, catering, transport and communication | 34,180 | 33,697 |
| Insurance, banking | 10,868 | 7,755 |
| Securities acquired under initial offerings not designated for trading | 1,335 | 1,813 |
| Other | 63,514 | 49,949 |
| **Total loans to clients** | **162,079** | **142,502** |

Set out below is an analysis by territory:

| CZK million | 2004 | 2003 |
|---|---|---|
| Czech Republic | 154,229 | 134,438 |
| Other European countries | 7,761 | 6,358 |
| Other | 89 | 1,706 |
| **Total** | **162,079** | **142,502** |

Set out below is an analysis by category of customers:

| CZK million | 2004 | 2003 |
|---|---|---|
| Retail customers | 42,459 | 31,142 |
| Corporate customers | 108,576 | 99,675 |
| Public sector | 11,044 | 11,685 |
| **Total** | **162,079** | **142,502** |

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

| CZK million | Total client loan collateral 2004 | Discounted client loan collateral value 2004 | Applied client loan collateral value 2004 | Total client loan collateral 2003 | Discounted client loan collateral value 2003 | Applied client loan collateral value 2003 |
|---|---|---|---|---|---|---|
| Guarantees of state and governmental institutions | 9,903 | 9,411 | 6,028 | 11,091 | 10,622 | 7,780 |
| Bank guarantee | 7,770 | 6,105 | 5,114 | 5,169 | 3,685 | 2,910 |
| Guaranteed deposits | 830 | 822 | 628 | 1,083 | 1,073 | 796 |
| Issued debentures in pledge | 211 | 2 | 2 | 237 | 125 | 80 |
| Pledge of real estate | 105,022 | 60,730 | 37,941 | 108,848 | 53,318 | 32,392 |
| Pledge of movable assets | 8,607 | 1,255 | 1,136 | 7,187 | 711 | 593 |
| Guarantee by legal entity | 11,813 | 2,452 | 1,568 | 14,050 | 2,111 | 1,542 |
| Guarantee by individual (physical entity) | 4,241 | 770 | 641 | 4,675 | 862 | 714 |
| Pledge of receivables | 28,575 | 11,317 | 8,808 | 26,777 | 11,184 | 8,318 |
| Insurance of credit risk | 2,088 | 2,068 | 2,021 | 2,468 | 2,451 | 2,428 |
| Other | 2,033 | 934 | 917 | 2,142 | 1,201 | 1,141 |
| **Total nominal value of collateral** | **181,093** | **95,866** | **64,804** | **183,727** | **87,343** | **58,694** |

Pledges on industrial real-estate represent 26 percent of total pledges on real estate (2003: 36 percent).

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

As of 31 December 2003, the Group maintained the loan loss general provision of CZK 4,050 million to cover risks associated with the portfolio of loans advanced to corporate customers with a significant concentration of industry risk and the portfolio of consumer, mortgage and overdraft loans advanced to retail customers. This general provision also covered management's assessment of the estimated risk of losses in connection with a further potential impairment of the portfolio of non-performing loans due to economic cycles and existing weaknesses in the legal framework regarding the enforcement of creditor rights. During 2004 the Group released CZK 2,415 million and re-allocated CZK 1,389 million to other provisions (for further information see Notes 13 and 30) and CZK 246 million to provisions for guarantees and other credit related commitments.

### Trade finance losses

During 1999, the Group incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Group.
As of 31 December 2004, on balance sheet loans to this client included an amount of CZK 1,516 million (2003: CZK 1,737 million) that was fully provided for. Included within the Group's off balance sheet receivables from this client in 2003 were documentary letters of credit of CZK 367 million which were fully removed from the off balance sheet in 2004. The Group is continuing to take action in all relevant jurisdictions to recover its funds.

## 22. Securities available for sale

Securities available for sale comprise:

| CZK million | 2004 Fair value | 2004 Cost | 2003 Fair value | 2003 Cost |
|---|---|---|---|---|
| **Shares and participation certificates** | **151** | **137** | **176** | **158** |
| Fixed income debt securities | 13,973 | 14,307 | 19,686 | 20,413 |
| Variable yield debt securities | 5,506 | 6,270 | 7,694 | 9,041 |
| **Total debt securities** | **19,479** | **20,577** | **27,380** | **29,454** |
| **Total securities available for sale** | **19,630** | **20,714** | **27,556** | **29,612** |

As of 31 December 2004, the available-for-sale portfolio includes securities at a fair value of CZK 12,015 million (2003: CZK 17,367 million) that are publicly traded on stock exchanges and securities at a fair value of CZK 7,615 million (2003: CZK 10,189 million) that are not publicly traded.

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Shares and participation certificates** | | |
| – Czech Crowns | 149 | 173 |
| – Other currencies | 2 | 3 |
| **Total shares and participation certificates available for sale** | **151** | **176** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Shares and participation certificates available for sale issued by:** | | |
| – Banks in the Czech Republic | 60 | 60 |
| – Non-banking entities in the Czech Republic | 89 | 113 |
| – Non-banking foreign entities | 2 | 3 |
| **Total shares and participation certificates available for sale** | **151** | **176** |

Debt securities available for sale at fair value comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Variable yield debt securities** | | |
| – Czech crowns | 919 | 1,636 |
| – Other currencies | 4,587 | 6,058 |
| **Total variable yield debt securities** | **5,506** | **7,694** |
| **Fixed income debt securities** | | |
| – Czech crowns | 11,835 | 17,352 |
| – Other currencies | 2,138 | 2,334 |
| **Total fixed income debt securities** | **13,973** | **19,686** |
| **Total debt securities available for sale** | **19,479** | **27,380** |

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

| CZK million | 2004 | 2003 |
|---|---|---|
| **Debt securities available for sale issued by:** | | |
| – State institutions in the Czech Republic | 8,192 | 13,757 |
| – Foreign state institutions | 0 | 440 |
| – Financial institutions in the Czech Republic | 1,056 | 368 |
| – Foreign financial institutions | 434 | 101 |
| – Other entities in the Czech Republic | 1,186 | 1,314 |
| – Other foreign entities | 8,611 | 11,400 |
| **Total debt securities available for sale** | **19,479** | **27,380** |

## Asset Backed Securities

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

The Group establishes the value of these securities by reference to the credit profile of underlying assets using a model which facilitates the simulation of future cash flows from these securities by modelling the development of the credit quality of underlying assets.

The carrying value of these securities as of 31 December 2004, net of remeasurement and a provision for impairment, is CZK 5,895 million (2003: CZK 8,392 million). The decrease in the carrying value in 2004 is primarily attributable to the sale of these securities with an aggregate nominal value of USD 29 million (CZK 744 million), the redemption of the portion of the nominal values of these securities and a significant decrease in the USD exchange rate.

The Group established provisions for impairment of CZK 1,441 million as of 31 December 2004 (2003: CZK 1,816 million) against the asset backed securities and recognised a positive revaluation of CZK 49 million (2003: CZK nil) arising from the change of market parameters in equity. Management of the Group considers that this impairment charge represents its best estimate of the net recoverable value of these assets and reflects changes in market credit conditions in the markets of the underlying assets since the purchase of the portfolio.

### Other debt securities

During the year ended 31 December 2004, pursuant to its investment strategy the Group acquired Czech Government bonds denominated in EUR with an aggregate nominal value of EUR 25 million (CZK 762 million), which will mature in 2014, and sold Czech Government bonds with an aggregate nominal value of CZK 5,035 million. During the year ended 31 December 2004, Czech Government bonds with an aggregate nominal value of CZK 2,820 million were redeemed at maturity.

## 23. Investments held to maturity

Investments held to maturity comprise:

| CZK million | 2004 Carrying value CZKm | 2004 Cost CZKm | 2003 Carrying value CZKm | 2003 Cost CZKm |
|---|---|---|---|---|
| Fixed income debt securities | 1,001 | 1,001 | 248 | 241 |
| **Total investments held to maturity** | **1,001** | **1,001** | **248** | **241** |

As of 31 December 2004, investments held to maturity include bonds of CZK 1,001 million (2003: mortgage bonds of CZK 97 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Fixed income debt securities** | | |
| – Czech Crowns | 0 | 97 |
| – Other currencies | 1,001 | 151 |
| **Total fixed income debt securities** | **1,001** | **248** |
| **Total debt securities held to maturity** | **1,001** | **248** |

Investments held to maturity, allocated by issuer, comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Debt securities held to maturity issued by:** | | |
| – Foreign state institutions | 1,001 | 151 |
| – Financial institutions in the Czech Republic | 0 | 97 |
| **Total debt securities held to maturity** | **1,001** | **248** |

Mortgage bonds included in the held-to-maturity portfolio with maturity as of 31 December 2003 and a nominal value of CZK 90 million were duly redeemed in the first quarter of 2004. Pursuant to its investment strategy, the Group acquired Government bonds of Euro zone countries with an aggregate nominal value of EUR 31 million (CZK 987 million) during 2004.

## 24. Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Prepayments and accrued income | 778 | 836 |
| Settlement balances | 228 | 9 |
| Receivables from securities trading | 147 | 30 |
| Other assets | 1,202 | 6,729 |
| **Total prepayments, accrued income and other assets** | **2,355** | **7,604** |

Other non-credit amounts due from customers and provisions for these amounts reported in this category in 2003 are presented in *Loans and advances to customers* in 2004. Comparative information for 2003 was restated.
Other assets in 2003 were composed of an estimated balance in respect of the amounts due from Česká konsolidační agentura totalling CZK 4,148 million arising from realised losses on the portfolio of loans covered under the state guarantee. The transaction with Česká konsolidační agentura was settled during 2004 (refer also to Note 2) and the estimated balance was reversed in 2004.

## 25. Investments in associates and unconsolidated subsidiaries

Investments in associates and unconsolidated subsidiaries comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Investments in subsidiary undertakings | 292 | 267 |
| Investments in associated undertakings | 536 | 609 |
| **Total investments in subsidiaries and associates** | **828** | **876** |

| CZK million | Group's ownership interest (%) | 2004 Cost of investment | 2004 Net book value | 2003 Cost of investment | 2003 Net book value |
|---|---|---|---|---|---|
| **Subsidiary companies** | | | | | |
| Penzijní fond Komerční banky a.s. | 100.00 | 230 | 230 | 230 | 230 |
| ALL IN REAL ESTATE LEASING a.s. | 100.00 | 39 | 4 | 0 | 0 |
| ALL IN, a.s. v likvidaci | 100.00 | 45 | 45 | 45 | 24 |
| ASIS, a.s. v likvidaci | 100.00 | 1 | 13 | 1 | 13 |
| Společnost pro informační databáze, a. s. | – | 0 | 0 | 1 | 0 |
| **Total subsidiary companies** | | **315** | **292** | **277** | **267** |

| CZK million | Group's ownership interest (%) | 2004 Cost of investment | 2004 Share of net assets | 2003 Cost of investment | 2003 Share of net assets |
|---|---|---|---|---|---|
| **Associated undertakings** | | | | | |
| Všeobecná stavební spořitelna KB, a.s. | 40.00 | 220 | 536 | 220 | 609 |
| **Associated undertakings total** | | **220** | **536** | **220** | **609** |

| CZK million | Group's ownership interest (%) | 2004 Cost of investment | 2004 Net book value | 2003 Cost of investment | 2003 Net book value |
|---|---|---|---|---|---|
| **Companies with minority interest** | | | | | |
| CBCB – Czech Banking Credit Bureau, a.s.* | 20.00 | 0 | 0 | 0 | 0 |
| **Companies with minority interest total** | | **0** | **0** | **0** | **0** |
| **Investments in associates and unconsolidated subsidiaries** | | **535** | **828** | **497** | **876** |

* The cost and net book value of CBCB - Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

The investment in ASIS, a.s., which was placed into liquidation in June 2003, is included in consolidation at the residual value of its equity at the date of liquidation.
In 2004, the Group sold MUZO, a.s., which held 100 percent of the issued share capital of the unconsolidated subsidiary Společnost pro informační databáze.

## 26. Tangible and intangible fixed assets

The movements during the year ended 31 December 2004 are as follows:

| CZK million | Intangible fixed assets | Land | Buildings | Fixtures, fittings and equipment | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 31 December 2003 | 3,589 | 426 | 12,843 | 9,284 | 1,570 | 27,712 |
| Additions | 1,542 | 0 | 193 | 608 | 1,508 | 3,851 |
| Disposals/Transfers | 594 | 71 | 654 | 2,100 | 2,095 | 5,514 |
| **31 December 2004** | **4,537** | **355** | **12,382** | **7,792** | **983** | **26,049** |
| **Accumulated depreciation and provisions** | | | | | | |
| 31 December 2003 | 2,787 | 0 | 4,519 | 7,656 | 14 | 14,976 |
| Additions | 679 | 0 | 492 | 673 | 0 | 1,844 |
| Disposals | 542 | 0 | 122 | 1,889 | 0 | 2,553 |
| Impairment charge | (49) | 0 | (49) | 15 | (9) | (92) |
| **31 December 2004** | **2,875** | **0** | **4,840** | **6,455** | **5** | **14,175** |
| **Net book value** | | | | | | |
| 31 December 2003 | 802 | 426 | 8,324 | 1,628 | 1,556 | 12,736 |
| **31 December 2004** | **1,662** | **355** | **7,542** | **1,337** | **978** | **11,874** |

As of 31 December 2004, the net book value of assets held by the Group under finance lease agreements was CZK 98 million (2003: CZK 264 million).
During 2004, the Group undertook a review of a set of owned buildings held for sale and leased buildings which served as a basis for adjusting the level of provisions charged against these buildings to reflect their estimated recoverable values. From this review, the Group maintains impairment provisions of CZK 580 million as of 31 December 2004 (2003: CZK 614 million) which include expected losses on the sale of premises presently owned by the Group, and the write down of leasehold improvements on leased premises which the Group intends to sell or terminate the rental agreements. The impairment charge is included within accumulated provisions and depreciation in the table shown above. The Group has recognised a provision of CZK 388 million for the amount of future lease rental payments arising from the unutilised leased buildings which the Group intends to vacate. This provision is included in *Accruals, provisions and other liabilities* (refer to Note 30). In addition, the Group has recognised a provision of CZK 156 million for the write down of the carrying amount of prepaid rentals. This provision is reported within *Prepayments, accrued income and other assets*.

## 27. Amounts due to banks

Amounts due to banks comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Current accounts | 1,466 | 1,667 |
| Other amounts due to banks | 19,081 | 18,418 |
| **Total amounts due to banks** | **20,547** | **20,085** |

## 28. Amounts due to customers

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Current accounts | 213,041 | 202,923 |
| Savings accounts | 12,255 | 14,019 |
| Term deposits | 89,374 | 93,591 |
| Loans from customers | 43,643 | 33,792 |
| Other payables to customers | 10,653 | 9,244 |
| **Total amounts due to customers** | **368,966** | **353,569** |

*Other payables to customers* include life insurance payables of CZK 5,047 million (2003: CZK 2,702 million).

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Private companies | 117,370 | 113,761 |
| Other financial institutions, non-banking entities | 5,643 | 7,082 |
| Insurance companies | 7,473 | 2,196 |
| Public administration | 1,526 | 1,602 |
| Individuals | 125,230 | 121,865 |
| Deposits – bills of exchange | 38,716 | 33,601 |
| Private entrepreneurs | 19,836 | 18,337 |
| Government agencies | 40,791 | 39,628 |
| Other | 7,616 | 8,442 |
| Non-residents* | 4,765 | 7,055 |
| **Total amounts due to customers** | **368,966** | **353,569** |

* The line "Non-residents" includes all clients – non-residents.

## 29. Certificated debt

Certificated debts comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Bonds | 0 | 11,096 |
| Mortgage bonds | 9,255 | 9,928 |
| **Total certificated debt** | **9,255** | **21,024** |

Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.

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

| CZK million | 2004 | 2003 |
|---|---|---|
| In less than one year | 0 | 16,866 |
| In one to two years | 0 | 0 |
| In two to three years | 1,213 | 0 |
| In three to four years | 2,524 | 1,247 |
| Four years and thereafter | 5,518 | 2,911 |
| Total certificated debt | 9,255 | 21,024 |

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

| CZK million<br>Name | Interest rate | Issue date | Maturity date | 2004 | 2003 |
|---|---|---|---|---|---|
| Zero coupon bonds of Komerční banka, a.s., 770970000947 | Zero coupon (issued with discount for CZK 3,805 million) | 8 August 1997 | 8 August 2004 | 0 | 6,641 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000110 | 8.125% | 13 May 1999 | 13 May 2004 | 0 | 4,206 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000102 | 8.0% | 15 June 1999 | 15 June 2004 | 0 | 1,564 |
| Bonds of Komerční banka, a.s., CZ0003700528 | 8.0% | 10 September 1999 | 10 September 2004 | 0 | 4,455 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000151 | 6M PRIBOR plus 350 basis points | 15 September 2000 | 15 September 2007 | 1,213 | 1,247 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000268 | 5.5% | 21 August 2003 | 21 August 2009 | 5,518 | 2,911 |
| Mortgage bonds of Komerční banka, a.s., CZ0002000383 | 4.5% | 5 August 2004 | 5 August 2008 | 2,524 | 0 |
| Total bonds | | | | 9,255 | 21,024 |

Note: Six-month PRIBOR was 266 basis points as of 31 December 2004 (2003: 217 basis points).

## 30. Accruals, provisions and other liabilities

Accruals, provisions and other liabilities comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Settlement balances | 63 | 90 |
| Payables from securities trading and issues of securities | 1,983 | 191 |
| Other liabilities | 2,668 | 3,292 |
| Accruals and deferred income | 83 | 5,900 |
| Provision for other credit commitments | 1,210 | 1,232 |
| Other provisions | 4,848 | 4,037 |
| Total accruals, provisions and other liabilities | 10,855 | 14,742 |

As of 31 December 2003, accruals and deferred income included an up-front payment of CZK 5,862 million made by Česká konsolidační agentura in respect of the payout under the State Guarantee Agreement. The transaction with Česká konsolidační agentura was settled during 2004 (refer also to Note 2).

As of 31 December 2004, the balance of the provision for other credit commitments was CZK 1,210 million (2003: CZK 1,215 million). This covers credit risks associated with issued credit commitments.
Set out below is an analysis of the provision for other credit commitments:

| CZK million<br>Risk | Balance<br>2004 | Balance<br>2003 |
|---|---|---|
| Provision for off balance sheet commitments | 902 | 1,024 |
| Provision for undrawn loan facilities | 308 | 191 |
| **Total** | **1,210** | **1,215** |

Other provisions are composed of the following balances:

| CZK million | 1 January 2004 | Creation | Release | Foreign exchange difference | 31 December 2004 |
|---|---|---|---|---|---|
| Restructuring provision | 192 | 0 | (163) | 0 | 29 |
| Provisions for contracted commitments | 3,845 | 2,324 | (1,302) | (48) | 4,819 |
| **Total** | **4,037** | **2,324** | **(1,465)** | **(48)** | **4,848** |

Provisions for contracted commitments principally comprise the provision for ongoing commitments, outstanding vacation days, legal disputes, termination of rental agreements and the provision for bonuses. Provisions for contracted commitments further include technical reserves of CZK 1,762 million (2003: CZK 2,450 million). The creation of provisions principally involves the re-allocation of the general loan provision in the amount of CZK 1,389 million and a portion of the provision for guarantees and other credit related commitments in the amount of CZK 295 million to other provisions (see Note 13).

## 31. Deferred income taxes

Deferred income taxes are calculated from all temporary differences between tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised, that is, 26 percent for 2005 (Slovakia: 19 percent), 24 percent for 2006 onwards (2003: 31 percent; Slovakia: 25 percent, 2004: 28 percent; Slovakia: 19 percent).
Deferred income tax assets and liabilities are attributable to the following items:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Deferred tax assets** | **404** | **510** |
| Depreciation | 7 | 9 |
| Unrealised losses on securities | 0 | 22 |
| Banking reserves and provisions | 1 | 16 |
| Provisions for non-banking receivables | 51 | 64 |
| Provisions for assets | 136 | 179 |
| Non-banking reserves | 150 | 189 |
| Loss brought forward from previous periods | 0 | 206 |
| Other temporary differences | 59 | 61 |
| Adjustment for uncertain realisation of tax asset | 0 | (236) |
| **Deferred tax liabilities** | **(1,055)** | **(679)** |
| Depreciation | (8) | (33) |
| Leases | (36) | (25) |
| Revaluation of hedging derivatives – equity impact | (984) | (596) |
| Other temporary differences | (27) | (25) |
| **Net deferred tax assets/(liabilities)** | **(651)** | **(169)** |

Deferred tax recognised in the financial statements:

| CZK million | 2004 | 2003 |
|---|---|---|
| **Deferred tax asset** | | |
| Balance at the beginning of period | 510 | 905 |
| Movement in deferred tax assets | (103) | (395) |
| Consolidation adjustments (transfer) | (3) | 0 |
| **Balance at the end of period** | **404** | **510** |
| **Deferred tax liability** | | |
| Balance at the beginning of period | (679) | (1,168) |
| Movement in deferred tax liabilities – profit and loss impact | 13 | 9 |
| Movement in deferred tax liabilities – equity impact | (389) | 480 |
| **Balance at the end of period** | **(1,055)** | **(679)** |
| **Increase/decrease in deferred tax – profit and loss impact** | **(90)** | **(386)** |
| **Increase/decrease in deferred tax – equity impact** | **(389)** | **480** |

In the year ended 31 December 2004, the Group reduced, through the profit and loss statement, the deferred tax asset by CZK 103 million (2003: a decrease of CZK 395 million) and the deferred tax liability by CZK 13 million (2003: a decrease of CZK 9 million). In addition, the Group recognised through equity, an increase in the deferred tax liability of CZK 389 million (2003: a decrease of CZK 480 million) arising from the change in fair values of hedging derivatives.

## 32. Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926 thousand and consists of 38,009,852 ordinary shares with a nominal value of CZK 500 each (ISIN: CZ0008019106).

Set out below is a summary of the entities that hold more than 3 percent of the Bank's issued share capital as of 31 December 2004:

| Name of the entity | Registered office | Ownership percentage |
|---|---|---|
| SOCIÉTÉ GÉNÉRALE S.A. | 29 Boulevard Haussmann, Paris | 60.353 |
| The Bank of New York ADR Department | 101 Barclay Street, New York | 5.664 |
| Chase Nominees Limited | 125 London Wall, London | 3.736 |

Société Générale S.A., being the only entity with a qualified holding in the Bank, is a French joint stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and the following of the French Commercial Code, as well as current by-laws.

On the basis of the consent of the Czech National Bank, The Bank of New York ADR Department holds shares to which global depository receipts (GDRs) owned by a number of foreign investors were issued.

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

| CZK million | 2004 | 2003 | Change in the year |
|---|---|---|---|
| Cash and balances with central banks | 10,135 | 12,284 | (2,149) |
| Amounts due from banks | 124 | 165 | (41) |
| Amounts due to banks | (1,466) | (1,667) | 201 |
| **Total** | **8,793** | **10,782** | **(1,989)** |

## 34. Commitments and contingent liabilities

### Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2004. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 773 million (2003: CZK 490 million) for these legal disputes (see Note 30). The Group has also recorded an accrual of CZK 113 million (2003: CZK 92 million) for costs associated with a potential payment of interest on the pursued claims.

As of 31 December 2004, the Group assessed lawsuits filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Commitments arising from the issuance of guarantees

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

### Capital commitments

As of 31 December 2004, the Group had capital commitments of CZK 79 million (2003: CZK 84 million) in respect of current capital investment projects.

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

Documentary letters of credit are written irrevocable undertakings by the Group on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The condition for opening a letter of credit is its collateralisation, that is, no uncollateralised letter of credit can be opened. The Group records provisions against these instruments on the same basis as is applicable to loans.

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

Principal off balance sheet exposures include unutilised overdrafts and approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. 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 credit in the form of loans, guarantees or stand-by letters of credit. Commitments to extend credit issued by the Group represent issued loan commitments or guarantees, undrawn portions of and approved overdrafts loans. Commitments to extend credit or guarantees issued by the Group which are contingent upon customers maintaining specific credit standards (including the condition that a customer's solvency does not deteriorate) are revocable commitments. Irrevocable commitments represent undrawn portions of authorised loans and approved overdraft facilities because they result from contractual terms and conditions in the credit agreements.

Financial commitments and contingencies comprise:

| CZK million | 2004 | 2003 |
|---|---|---|
| Non-payment guarantees including commitments to issued non-payment guarantees | 12,157 | 8,633 |
| Payment guarantees including commitments to issued payment guarantees | 4,338 | 3,446 |
| Letters of credit uncovered | 866 | 576 |
| Stand by letters of credit uncovered | 577 | 846 |
| **Commitments from guarantees** | **17,938** | **13,501** |
| Received bills of exchange/acceptances and endorsements of bills of exchange | 63 | 62 |
| **Total contingent liabilities** | **18,001** | **13,563** |
| Committed facilities | 15,302 | 13,644 |
| Undrawn credit commitments | 21,088 | 20,785 |
| Confirmed letters of credit | 63 | 149 |
| Unutilised overdrafts and approved overdraft loans | 34,825 | 30,630 |
| Unutilised discount facilities | 199 | 510 |
| Unutilised limits under Framework agreements to provide financial services | 21,867 | 10,954 |
| **Total other commitments and unutilised overdrafts** | **93,344** | **76,672** |
| Letters of credit covered | 300 | 42 |
| Stand by letters of credit covered | 7 | 1 |
| **Total contingent revocable and irrevocable commitments** | **111,652** | **90,278** |

The Group provides a variety of credit facilities to its largest clients including Czech entities which are part of international groups and which are State owned. Of the Group's committed facilities and guarantees, CZK 14,476 million (2003: CZK 6,220 million) is revocable. All other committed facilities, undrawn credit commitments and unutilised overdrafts are irrevocable and are not subject to further approvals by the Group.

The risk associated with off balance sheet credit commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. As of 31 December 2004, the Group recorded provisions for these risks amounting to CZK 1,210 million (2003: CZK 1,215 million) – for further information see Note 30.

## Finance lease commitments

The Group has entered into finance leases in respect of equipment (computers, ATMs and cars), the payments for which extend over a two-year period. The future commitments, together with interest, are included within the balance sheet line *Accruals, provisions and other liabilities*.

Assets held under finance leases:

| CZK million | 2004 Including interest | 2004 Excluding interest | 2003 Including interest | 2003 Excluding interest |
|---|---|---|---|---|
| Leased assets | 567 | 519 | 662 | 596 |
| Paid instalments | 553 | 505 | 516 | 474 |
| **Amounts due** | **14** | **14** | **146** | **122** |

Remaining maturity of remaining instalment:

| CZK million | 2004 Including interest | 2004 Excluding interest | 2003 Including interest | 2003 Excluding interest |
|---|---|---|---|---|
| Up to 1 year | 13 | 13 | 119 | 98 |
| 1 to 5 years | 1 | 1 | 27 | 24 |
| **Total** | **14** | **14** | **146** | **122** |

## 35. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2004, the Group was controlled by Société Générale which owns 60.35 percent of the Bank's issued share capital.
A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits and other types of transactions. These transactions were carried out on commercial terms and at market rates.

### Amounts due to and from associates

As of 31 December 2004, the Group had loans outstanding of CZK 574 million (2003: CZK 113 million) to the associates. The amounts of associated undertakings placed with the Bank totalled CZK 3 million (2003: CZK 102 million).
The following table summarises loans issued to the Group's associated undertakings and their deposits with the Bank:

| CZK million<br>Company | 2004 | 2003 |
|---|---|---|
| Všeobecná stavební spořitelna KB, a.s. | 574 | 113 |
| **Total loans** | **574** | **113** |
| Všeobecná stavební spořitelna KB, a.s. | 3 | 102 |
| **Total deposits** | **3** | **102** |

As of 31 December 2004 and 2003, other amounts due to and from the companies of the Bank's Group were immaterial.
As of 31 December 2004, the Group recorded interest income from loans granted to associates of CZK 7 million (2003: CZK nil).
In the years ended 31 December 2004 and 2003, the Group realised no material amounts of other income or expenses with its associates.

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

Principal balances due from the Société Générale Group entities include:

| CZK million<br>Company | 2004 | 2003 |
|---|---|---|
| Société Générale Paris | 16,886 | 19,991 |
| SG Equipment Finance Czech Republic, s.r.o.* | 2,611 | 1,077 |
| ALD Automotive Czech Republic, s.r.o. | 483 | 0 |
| Franfinance Consumer Credit, s.r.o.** | x | 400 |
| Société Générale Tokyo | 9 | 0 |
| SGBT Luxemburg | 187 | 407 |
| **Total** | **20,176** | **21,875** |

* Franfinance Czech Republic, s.r.o. in 2003.
** Franfinance Consumer Credit, s.r.o., now ESSOX s.r.o., is included in the Group.

Principal balances owed to the Société Générale Group entities include:

| CZK million<br>Company | 2004 | 2003 |
|---|---|---|
| SG Equipment Finance Czech Republic, s.r.o.* | 114 | 52 |
| SGBT Luxemburg | 1 | 29 |
| Société Générale Warsaw | 11 | 38 |
| Société Générale Paris | 1,456 | 1,796 |
| Franfinance Consumer Credit, s.r.o.** | x | 27 |
| SG Private Banking Switzerland | 500 | 0 |
| SG Zurich | 15 | 0 |
| SG London | 34 | 0 |
| SG New York | 11 | 3 |
| Inter Europe Conseil | 450 | 0 |
| Total | **2,592** | **1,945** |

* Franfinance Czech Republic, s.r.o. in 2003.

** Franfinance Consumer Credit, s.r.o., now ESSOX s.r.o., is included in the Group.

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

As of 31 December 2004, the Group also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 88,872 million (2003: CZK 49,091 million) and CZK 90,924 million (2003: CZK 40,332 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives and accepted guarantees for credit exposures.

As of 31 December 2004 and 2003, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the year ended 31 December 2004, the Group realised total revenue of CZK 1,845 million (2003: CZK 718 million) and total expenses and a net loss from trading derivatives of CZK 1,909 million (2003: CZK 591 million) with Société Générale Paris. Income includes interest income from debt securities acquired under initial offerings not designated for trading issued by Société Générale Paris (refer also to Note 18), income from interbank deposits, fees from transactions with securities and interest income on hedging derivatives. Expenses comprise expenses of interbank deposits, net loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management and consultancy services.

In the years ended 31 December 2004 and 2003, the Group realised no material amounts of income or expenses with other Société Générale Group entities.

### Remuneration and amounts due from the members of the Management and Supervisory Boards and Directors' Committee

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Remuneration to the Management Board members* | 51 | 47 |
| Remuneration to the Supervisory Board members** | 3 | 3 |
| Remuneration to the Directors' Committee members*** | 84 | 72 |
| Total | **138** | **122** |

* Remuneration to the Management Board members includes amounts paid during the year ended 31 December 2004 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2004, figures for expatriate members of the Management Board include a portion of remuneration net of bonuses for 2004 and other compensations and benefits arising from expatriate relocation contracts.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2004 to the current and former members of the Supervisory Board.

*** Remuneration to the Directors' committee members represents the sum of compensation and benefits paid in 2004 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Management Board members (as it is reflected in the remuneration to the Management Board members). All the Management Board members are members of the Directors' Committee.

| CZK million | 2004 | 2003 |
|---|---|---|
| Number of the Management Board members | 6 | 6 |
| Number of the Supervisory Board members | 9 | 9 |
| Number of the Directors' Committee members | 19* | 20* |

* These figures include all members of the Management Board who are also members of the Directors' Committee.

As of 31 December 2004, the Group recorded an estimated payable of CZK 28 million (2003: CZK 22 million) for Management Board bonuses. The reserve for the equity compensation programme of CZK 18 million was released in mid-2004 following the expiration of this programme.
In respect of loans and guarantees as of 31 December 2004, the Group recorded loan receivables totalling CZK 8 million (2003: CZK 7 million) granted to the Directors' Committee members.

## 36. Movement of the hedging reserve in the consolidated statement of changes in shareholders' equity

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

| CZK million | 2004 | 2003 |
|---|---|---|
| Cash flow hedge fair value at 1 January | 1,924 | 3,492 |
| Deferred income tax liability at 1 January | (596) | (1,077) |
| **Balance at 1 January** | **1,328** | **2,415** |

Movements during the year:

| CZK million | 2004 | 2003 |
|---|---|---|
| Gains/losses from changes in fair value | 3,908 | 180 |
| Deferred income tax | (1,022) | (56) |
| **Total** | **2,886** | **124** |
| Transferred to interest income/expense | (2,044) | (1,748) |
| Deferred income tax | 633 | 537 |
| **Total** | **(1,411)** | **(1,211)** |
| Balance at 31 December | 3,788 | 1,924 |
| Deferred income tax | (985) | (596) |
| **Balance at 31 December** | **2,803** | **1,328** |

## 37. Risk management and financial instruments

### (a) Credit risk

**Credit rating of borrowers**

The Group quantifies counterparty risk using ratings on the basis of set criteria depending upon the type and profile of the borrower. The rating of the borrower serves as a basis for calculating anticipated risk expenses taking into account the type of credit products and underlying collateral. The Group rates corporate borrowers and municipalities based upon quantitative and qualitative criteria. The used methodology is based upon the methodology implemented throughout the whole Société Générale Group. The Group additionally refers to ratings published by external rating agencies. With effect from 2003, the Group has also used the information supplied by the Central Loan Register (information about legal entities) operated by the Czech National Bank and for which banks are required to provide relevant information. Dedicated teams regularly assess ratings assigned to individual borrowers for correctness and accuracy. In arriving at the rating of retail clients, the Group principally uses quantitative criteria as well as information supplied by the Client Information Bank Register (information about individuals – citizens and businessmen) operated by CBCB, a.s.

The Group monitors credit risk concentration on an aggregate basis (i.e., in respect of all on and off balance sheet positions). The Group specifically monitors credit risk concentrations by industry sectors and by groups of economically linked entities. Among other tests, the Group compares the distribution of its credit portfolio by sectors to the proportion of industries in the Czech Republic (share of GDP). With regard to groups of economically linked entities, the Group monitors the proportion of credit exposures to the groups to the Group's capital and the concentration of corporate credit exposures by the level of rating and maturity buckets.

### Classification of receivables

The Group performs classification of loan receivables and other receivables arising from its financial activities according to the Regulation of the Czech National Bank (No. 9/2002 of 16 November 2002; No. 6/2004 of 15 September 2004). This classification is regularly reviewed and updated.

### Receivables that are not categorised

The Group does not classify other amounts due from customers pursuant to the Regulation issued by the Czech National Bank. These amounts consist of non-credit receivables that principally originated from the system of payment, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities on behalf of clients that have not been settled, and balances receivable that arise from business arrangements that do not represent financial activities, specifically amounts receivable arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

### Provisioning for receivables

For most of Group's loan portfolio, classification, business and financial position, collateral valuation and provisioning are assessed individually on a quarterly basis based on CNB regulations via provisioning committees. Provisions and reserves are set based on a comprehensive assessment of all available parameters (overdue, insurance of collateral, etc).

### Loan collateral

The amount of the recognised value of collateral is based on the Group's internal rules on collateral valuation and discounting as set by the departments from within Risk Management. More specifically, the Group uses internal valuation rules for the valuation for real estate collateral. Methods used in defining values and discounts are based on an expert analysis and incorporate all relevant factors (evolution of market conditions, changes in legal environment, etc). The calculation of specific provisions and reserves is based on these internal collateral valuation rules.
A very significant proportion of the Group's loan portfolio is secured by real estate collateral which represents more than half of aggregate collateral values.

### Recovery of amounts due from borrowers

The Group's recovery activities take place on two distinct levels. The "soft collection" unit initiates pre-emptive action according to precisely defined rules and protocol. This first level of intervention is relayed by the activity of the "Asset Recovery" Department which is organised according to the type of individual functions: loan restructuring, loan recovery, outsourcing of collection and collateral valuation.

### Credit risk hedging instruments

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

### Revocable contractual commitments

The Group monitors revocable contractual commitments on the same basis as irrevocable commitments. The risk is identified on a client basis and is monitored on a monthly basis but no provisions or reserves are created. These commitments account for 16 percent (2003: 7 percent) of all the Group's contracted undrawn commitments.

### Credit risk of financial derivatives

Credit exposure or replacement cost of financial derivative instruments represents the Group's credit exposure which is generated from derivative contracts. This exposure is measured as the maximum potential losses of the Group in the event some of its counterparties fail to perform their obligations under such derivative contracts. The credit exposure of each contract is calculated using the Current Average Risk ("CAR"). The CAR indicator takes into account (i) the relevant market parameters at the time of calculation, (ii) the notional amount and (iii) the remaining maturity of the derivative contract. The Group assesses credit risks on all derivative instruments on a daily basis.
As of 31 December 2004, the Group posted a credit exposure of CZK 21,492 million (2003: CZK 16,093 million) on financial derivative instruments. Note that this amount represents the gross replacement cost at market rates as of 31 December 2004 of all outstanding agreements, i.e., excluding the effect of any netting agreement.

## (b) Market risk

### Segmentation of the Group's financial operations

For market risk management purposes, the Group has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions entered into by the Group's dealers for trading purposes or for accommodating customer needs. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.
In order to measure market risks, the Group operates a system of limits which monitors its market positions.

### Products traded by the Group

The Group trades the following products that can bear market risks: loans and deposits in the interbank market, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, FRAs, interest rate futures), treasury bills and Government bonds, corporate bonds and other specific products, such as bond futures, bills of exchange/bill programmes, cash management for selected clients, etc. The Group does not conduct any proprietary option transactions: option products are always backed-to-back on the interbank market.
The Group enters into transactions with financial derivative instruments for proprietary purposes as well as at clients' requests. In addition, the Group may use derivative instruments (such as interest rate swaps, FRAs and currency swaps) to hedge some of its positions.
In order to hedge its own positions, the Group primarily uses interest rate swaps, FRAs and currency swaps.
The Group also enters into a number of structured financial derivative transactions for its clients which are designed to meet the clients' hedging needs. Market risks from such derivatives transactions are eliminated via back-to-back transactions with the market.

### Market risk in the Market Book

In order to measure market risks inherent in activities in the Market Book, the Group uses the Value-at-Risk concept as an aggregate metric. Value-at-Risk is calculated using historical simulations and represents a maximum potential loss over a given time period (typically one trading day) with a confidence level of 99 percent. The validity of the Value-at-Risk is then verified through a back-testing process: the actual trading results are compared with the Value-at-Risk results. Overshoots are monitored to ensure consistency with the 99 percent confidence level. Value-at-Risk is monitored by the management of the Group.
The Global Value-at-Risks over the holding period of one day with a confidence level of 99 percent were EUR (265,000) and EUR (584,000) as of 31 December 2004 and 2003, respectively. The average Global Value-at-Risk was EUR (829,000) and EUR (417,000) for the years ended 31 December 2004 and 2003, respectively.
In order to also take into account events with a probability of occurrence that is lower than Value-at-Risk scenarios, the Group has implemented daily analyses of potential losses generated by larger shocks ("stress tests") applied to all open positions of the Market Book. Several types of stress tests for foreign exchange and interest rate exposures are used.

### Market risk in the Structural Book

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

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

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

## (c) Financial derivatives

The Group operates a system of market risk and counterparty limits which are designed to restrict inadequate exposure to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging (refer also to Note 3 to these financial statements).

Financial derivative instruments designated as held for trading:

| CZK million | Notional value | | Notional value | | Fair value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2004 | 2003 | 2003 | 2004 | 2004 | 2003 | 2003 |
| | Assets | Liabilities | Assets | Liabilities | Positive | Negative | Positive | Negative |
| **Interest rate instruments** | | | | | | | | |
| Interest rate swaps | 134,506 | 134,506 | 83,538 | 83,538 | 2,146 | 2,268 | 1,635 | 1,735 |
| Forward Rate Agreements | 247,945 | 247,945 | 159,693 | 159,693 | 247 | 299 | 62 | 64 |
| Options | 400 | 400 | 1,400 | 1,400 | 2 | 0 | 11 | 7 |
| **Total** | **382,851** | **382,851** | **244,631** | **244,631** | **2,395** | **2,567** | **1,708** | **1,806** |
| **Foreign currency instruments** | | | | | | | | |
| Currency swaps | 69,358 | 69,124 | 44,033 | 43,924 | 1,870 | 1,639 | 877 | 829 |
| Cross currency swaps | 7,125 | 5,432 | 10,005 | 7,672 | 1,775 | 58 | 2,400 | 56 |
| Forwards | 5,522 | 5,526 | 4,488 | 4,455 | 103 | 105 | 75 | 39 |
| Purchased options | 6,942 | 6,955 | 3,655 | 3,675 | 208 | 0 | 48 | 0 |
| Sold options | 6,438 | 6,427 | 3,675 | 3,655 | 0 | 208 | 0 | 47 |
| **Total** | **95,385** | **93,464** | **65,856** | **63,381** | **3,956** | **2,010** | **3,400** | **971** |
| **Other instruments** | | | | | | | | |
| Credit options | 0 | 0 | 11 | 11 | 0 | 0 | 0 | 0 |
| Forwards on debt securities | 158 | 158 | 1,025 | 1,025 | 0 | 0 | 1 | 0 |
| Forwards on equities | 0 | 0 | 2 | 2 | 0 | 0 | 0 | 0 |
| Commodity forwards | 116 | 116 | 0 | 0 | 7 | 7 | 0 | 0 |
| Commodity swaps | 15 | 15 | 0 | 0 | 1 | 0 | 0 | 0 |
| Purchased commodity options | 321 | 321 | 0 | 0 | 19 | 0 | 0 | 0 |
| Sold commodity options | 321 | 321 | 0 | 0 | 0 | 19 | 0 | 0 |
| Equity options | 0 | 0 | 9 | 9 | 0 | 0 | 0 | 0 |
| **Total** | **931** | **931** | **1,047** | **1,047** | **27** | **26** | **1** | **0** |
| Total | 479,167 | 477,246 | 311,534 | 309,059 | 6,378 | 4,603 | 5,109 | 2,777 |

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

| CZK million | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **Interest rate instruments** | | | | |
| Interest rate swaps | 16,944 | 82,860 | 34,702 | 134,506 |
| Forward Rate Agreements | 239,595 | 8,350 | 0 | 247,945 |
| Options | 400 | 0 | 0 | 400 |
| **Total** | **256,939** | **91,210** | **34,702** | **382,851** |
| **Foreign currency instruments** | | | | |
| Swaps | 69,358 | 0 | 0 | 69,358 |
| Cross currency swaps | 3,738 | 3,341 | 46 | 7,125 |
| Forwards | 4,978 | 544 | 0 | 5,522 |
| Purchased options | 6,037 | 905 | 0 | 6,942 |
| Sold options | 5,520 | 918 | 0 | 6,438 |
| **Total** | **89,631** | **5,708** | **46** | **95,385** |
| **Other instruments** | | | | |
| Forwards on debt securities | 158 | 0 | 0 | 158 |
| Commodity forwards | 116 | 0 | 0 | 116 |
| Commodity swaps | 15 | 0 | 0 | 15 |
| Purchased commodity options | 321 | 0 | 0 | 321 |
| Sold commodity options | 321 | 0 | 0 | 321 |
| **Total** | **931** | **0** | **0** | **931** |
| **Total** | **347,501** | **96,918** | **34,748** | **479,167** |

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

Financial derivative instruments designated as hedging:

| CZK million | Notional value | | Notional value | | Fair value | | Fair value | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2004 | 2003 | 2003 | 2004 | 2004 | 2003 | 2003 |
| | Assets | Liabilities | Assets | Liabilities | Positive | Negative | Positive | Negative |
| Interest rate swaps | 104,621 | 104,621 | 89,497 | 89,479 | 4,961 | 97 | 3,914 | 697 |
| **Total** | **104,621** | **104,621** | **89,497** | **89,479** | **4,961** | **97** | **3,914** | **697** |

Remaining maturity of derivatives designated as hedging:

| CZK million | Up to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Interest rate swaps | 6,997 | 41,783 | 55,841 | 104,621 |
| **Total** | **6,997** | **41,783** | **55,841** | **104,621** |

The Group treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met. Further information on hedges is provided in Note 3 to these financial statements.

## (d) Interest rate risk

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

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

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the "maturity undefined" category.

| CZK million | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and current balances with banks | 2,774 | 0 | 0 | 0 | 7,485 | 10,259 |
| Amounts due from banks | 210,472 | 7,841 | 5,056 | 10,000 | 67 | 233,436 |
| Securities held for trading | 2,889 | 1,242 | 3,980 | 1,512 | 50 | 9,673 |
| Positive fair values of financial derivative transactions | 0 | 0 | 0 | 0 | 11,339 | 11,339 |
| Due from Česká konsolidační agentura | 2,945 | 0 | 0 | 0 | 0 | 2,945 |
| Loans and advances to customers, net | 80,566 | 30,381 | 42,494 | 2,143 | 941 | 156,525 |
| Securities available for sale | 5,097 | 2,014 | 6,096 | 6,272 | 151 | 19,630 |
| Investments held to maturity | 3 | 10 | 576 | 412 | 0 | 1,001 |
| Prepayments, accrued income and other assets | 530 | 239 | 3 | 0 | 1,583 | 2,355 |
| Deferred tax asset | 0 | 0 | 0 | 0 | 404 | 404 |
| Investments in associates and unconsolidated subsidiaries | 0 | 0 | 0 | 0 | 828 | 828 |
| Tangible and intangible fixed assets, net | 0 | 0 | 0 | 0 | 11,874 | 11,874 |
| **Total assets** | **305,276** | **41,727** | **58,205** | **20,339** | **34,722** | **460,269** |
| **Liabilities** | | | | | | |
| Amounts due to banks | 17,792 | 895 | 415 | 0 | 1,445 | 20,547 |
| Amounts due to customers | 123,375 | 4,385 | 2,913 | 2,132 | 236,161 | 368,966 |
| Negative fair values of financial derivative transactions | 0 | 0 | 0 | 0 | 4,700 | 4,700 |
| Certificated debt | 1,196 | 143 | 7,916 | 0 | 0 | 9,255 |
| Accruals, provisions and other liabilities | 4,431 | 0 | 1,919 | 0 | 4,505 | 10,855 |
| Income taxes payable | 0 | 4 | 0 | 0 | 363 | 367 |
| Deferred tax liability | 0 | 0 | 0 | 0 | 1,055 | 1,055 |
| Minority interest | 0 | 0 | 0 | 0 | 73 | 73 |
| **Total liabilities** | **146,794** | **5,427** | **13,163** | **2,132** | **248,302** | **415,818** |
| **On balance sheet interest rate sensitivity gap at 31 December 2004** | **158,482** | **36,300** | **45,042** | **18,207** | **(213,580)** | **44,451** |
| Off balance sheet assets* | 98,759 | 197,643 | 121,924 | 75,817 | 0 | 494,143 |
| Off balance sheet liabilities* | 187,347 | 193,595 | 90,319 | 22,882 | 0 | 494,143 |
| **Net off balance sheet interest rate sensitivity gap at 31 December 2004** | **(88,588)** | **4,048** | **31,605** | **52,935** | **0** | **0** |
| **Cumulative interest rate sensitivity gap at 31 December 2004** | **69,894** | **110,242** | **186,889** | **258,031** | **44,451** | **x** |
| Total assets at 31 December 2003 | 290,222 | 58,795 | 46,227 | 28,074 | 33,345 | 456,663 |
| Total liabilities at 31 December 2003 | 152,136 | 26,928 | 3,919 | 3,045 | 229,234 | 415,262 |
| Net on balance sheet interest rate sensitivity gap at 31 December 2003 | 138,086 | 31,867 | 42,308 | 25,029 | (195,889) | 41,401 |
| Net off balance sheet interest rate sensitivity gap at 31 December 2003 | (75,764) | 5,107 | 29,666 | 40,991 | 0 | 0 |
| Cumulative interest rate sensitivity gap at 31 December 2003 | 62,322 | 99,296 | 171,270 | 237,290 | 41,401 | x |

* Off balance sheet assets and liabilities reflect amounts receivable and payable arising from interest rate derivatives which include interest rate swaps, interest rate forwards, interest rate options and cross currency swaps.

Average interest rates as of 31 December 2004:

| Assets | CZK | USD | EUR |
|---|---|---|---|
| Cash and balances with the CNB | 0.80 % | x | x |
| Treasury bills and other bills eligible for refinancing | 2.63 % | x | x |
| Amounts due from banks | 2.66 % | 2.44 % | 2.21 % |
| Loans and advances to customers | 5.76 % | 3.04 % | 3.43 % |
| Interest earning securities | 4.48 % | 3.63 % | 3.45 % |
| **Total assets** | **3.20 %** | **3.69 %** | **2.65 %** |
| **Total interest earning assets** | **3.89 %** | **3.03%** | **2.65 %** |

| Liabilities | | | |
|---|---|---|---|
| Amounts owed to banks | 1.70 % | 2.30 % | 2.54 % |
| Amounts owed to customers | 0.95 % | 0.68 % | 0.78 % |
| Certificated debt | 3.44 % | x | x |
| **Total liabilities** | **0.89 %** | **1.13 %** | **0.81 %** |
| **Total interest bearing liabilities** | **1.05 %** | **1.19 %** | **0.83 %** |

Note: The above table sets out the average interest rates for December 2004 calculated as a weighted average for each asset and liability category.

### (e) Liquidity risk

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

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

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

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

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

The "on demand" category principally consists of all current accounts of banks and clients.

| CZK million | On demand to 7 days | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Maturity undefined | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and current balances with banks | 7,373 | 0 | 0 | 0 | 0 | 2,886 | 10,259 |
| Amounts due from banks | 93,075 | 117,033 | 7,688 | 4,030 | 11,245 | 365 | 233,436 |
| Securities held for trading | 645 | 2,058 | 1,170 | 4,176 | 1,574 | 50 | 9,673 |
| Positive fair values of financial derivative transactions | 0 | 0 | 0 | 0 | 0 | 11,339 | 11,339 |
| Due from Česká konsolidační agentura | 750 | 2,195 | 0 | 0 | 0 | 0 | 2,945 |
| Loans and advances to customers, net | 1,243 | 16,457 | 37,611 | 45,512 | 34,892 | 20,810 | 156,525 |
| Securities available for sale | 0 | 343 | 1,810 | 6,678 | 10,648 | 151 | 19,630 |
| Investments held to maturity | 0 | 3 | 10 | 576 | 412 | 0 | 1,001 |
| Prepayments, accrued income and other assets | 516 | 87 | 239 | 3 | 0 | 1,510 | 2,355 |
| Deferred tax asset | 0 | 0 | 0 | 0 | 0 | 404 | 404 |
| Investments in associates and unconsolidated subsidiaries | 0 | 0 | 0 | 0 | 0 | 828 | 828 |
| Tangible and intangible fixed assets, net | 0 | 0 | 0 | 0 | 0 | 11,874 | 11,874 |
| **Total assets** | **103,602** | **138,176** | **48,528** | **60,975** | **58,771** | **50,217** | **460,269** |
| **Liabilities** | | | | | | | |
| Amounts due to banks | 15,186 | 2,501 | 998 | 1,862 | 0 | 0 | 20,547 |
| Amounts due to customers | 305,024 | 47,098 | 6,487 | 7,535 | 2,822 | 0 | 368,966 |
| Negative fair values of financial derivative transactions | 0 | 0 | 0 | 0 | 0 | 4,700 | 4,700 |
| Certificated debt | 0 | 21 | 143 | 9,091 | 0 | 0 | 9,255 |
| Accruals, provisions and other liabilities | 4,303 | 232 | 7 | 1,919 | 0 | 4,394 | 10,855 |
| Income taxes payable | 0 | 6 | 361 | 0 | 0 | 0 | 367 |
| Deferred tax liability | 0 | 0 | 0 | 0 | 0 | 1,055 | 1,055 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 73 | 73 |
| Shareholders' equity | 0 | 0 | 0 | 0 | 0 | 44,451 | 44,451 |
| **Total liabilities** | **324,513** | **49,858** | **7,996** | **20,407** | **2,822** | **54,673** | **460,269** |
| **On balance sheet liquidity gapat 31 December 2004** | **(220,911)** | **88,318** | **40,532** | **40,568** | **55,949** | **(4,456)** | **0** |
| Off balance sheet assets* | 34,502 | 40,419 | 74,591 | 21,107 | 6,587 | 36,311 | 213,517 |
| Off balance sheet liabilities* | 32,117 | 31,508 | 30,735 | 6,778 | 855 | 757 | 102,750 |
| **Net off balance sheet liquidity gap at 31 December 2004** | **2,385** | **8,911** | **43,856** | **14,329** | **5,732** | **35,554** | **110,767** |
| Total assets at 31 December 2003 | 78,423 | 141,728 | 72,794 | 55,963 | 59,929 | 47,826 | 456,663 |
| Total liabilities at 31 December 2003 | 309,009 | 49,126 | 33,755 | 9,683 | 3,595 | 51,495 | 456,663 |
| Net on balance sheet liquidity gap at 31 December 2003 | (230,586) | 92,602 | 39,039 | 46,280 | 56,334 | (3,669) | 0 |
| Net off balance sheet liquidity gap at 31 December 2003 | 578 | 5,816 | 41,385 | 12,313 | 3,999 | 24,181 | 88,272 |

* Off balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, forward and option contracts and payables under guarantees, letters of credit and committed facilities.

(f) Foreign exchange position

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within "Other currencies". Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the Czech National Bank established in respect of limits on open positions, the most significant tool for measuring the Group's open foreign currency position involves monitoring the "value at risk" limit on the foreign exchange exposure of the whole Group. In establishing the "value at risk" the Group monitors its open foreign currency position in 14 currencies and offsets mutual correlations. The "value at risk" limit is established such that the Group is unable to breach the regulatory limits of the Czech National Bank without breaching the "value at risk" limit. Further information about risk management is provided in Note B.

| CZK million | Czech crowns | Eurozone currencies | US dollars | Swiss francs | Slovak crowns | Other currencies | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and current balances with banks | 8,458 | 1,035 | 264 | 80 | 195 | 227 | 10,259 |
| Amounts due from banks | 203,094 | 19,712 | 7,494 | 0 | 2,581 | 555 | 233,436 |
| Securities held for trading | 6,481 | 1,420 | 0 | 0 | 607 | 1,165 | 9,673 |
| Positive fair values of financial derivative transactions | 11,331 | 0 | 0 | 0 | 8 | 0 | 11,339 |
| Due from Česká konsolidační agentura | 2,898 | 0 | 47 | 0 | 0 | 0 | 2,945 |
| Loans and advances to customers, net | 144,318 | 7,815 | 2,877 | 103 | 1,403 | 9 | 156,525 |
| Securities available for sale | 12,903 | 833 | 5,894 | 0 | 0 | 0 | 19,630 |
| Investments held to maturity | 0 | 985 | 0 | 0 | 16 | 0 | 1,001 |
| Prepayments, accrued income and other assets | 1,982 | 288 | 58 | 0 | 9 | 18 | 2,355 |
| Deferred tax asset | 404 | 0 | 0 | 0 | 0 | 0 | 404 |
| Investments in associates and unconsolidated subsidiaries | 828 | 0 | 0 | 0 | 0 | 0 | 828 |
| Tangible and intangible fixed assets, net | 11,829 | 0 | 0 | 0 | 45 | 0 | 11,874 |
| **Total assets** | **404,526** | **32,088** | **16,634** | **183** | **4,864** | **1,974** | **460,269** |
| **Liabilities** | | | | | | | |
| Amounts due to banks | 13,839 | 1,376 | 4,423 | 37 | 787 | 85 | 20,547 |
| Amounts due to customers | 327,141 | 28,790 | 9,566 | 337 | 2,225 | 907 | 368,966 |
| Negative fair values of financial derivative transactions | 4,675 | 0 | 0 | 0 | 25 | 0 | 4,700 |
| Certificated debt | 9,255 | 0 | 0 | 0 | 0 | 0 | 9,255 |
| Accruals, provisions and other liabilities | 9,066 | 780 | 953 | 0 | 30 | 26 | 10,855 |
| Income taxes payable | 367 | 0 | 0 | 0 | 0 | 0 | 367 |
| Deferred tax liability | 1,053 | 0 | 0 | 0 | 2 | 0 | 1,055 |
| Minority interest | 73 | 0 | 0 | 0 | 0 | 0 | 73 |
| Shareholders' equity | 44,323 | 5 | 0 | 0 | 123 | 0 | 44,451 |
| **Total liabilities** | **409,792** | **30,951** | **14,942** | **374** | **3,192** | **1,018** | **460,269** |
| **Net FX position at 31 December 2004** | **(5,266)** | **1,137** | **1,692** | **(191)** | **1,672** | **956** | **0** |
| Off balance sheet assets* | 461,475 | 70,518 | 34,840 | 355 | 2,975 | 6,130 | 576,293 |
| Off balance sheet liabilities* | 454,237 | 71,705 | 36,812 | 182 | 4,390 | 7,047 | 574,373 |
| **Net off balance sheet FX position** | **7,238** | **(1,187)** | **(1,972)** | **173** | **(1,415)** | **(917)** | **1,920** |
| **Total net FX position at 31 December 2004** | **1,972** | **(50)** | **(280)** | **(18)** | **257** | **39** | **1,920** |
| Total assets at 31 December 2003 | 417,775 | 18,790 | 15,484 | 545 | 3,089 | 980 | 456,663 |
| Total liabilities at 31 December 2003 | 412,196 | 26,490 | 14,372 | 390 | 2,412 | 803 | 456,663 |
| Net FX position at 31 December 2003 | 5,579 | (7,700) | 1,112 | 155 | 677 | 177 | 0 |
| Off balance sheet net FX position at 31 December 2003 | (3,071) | 7,027 | (1,163) | (154) | (47) | (117) | 2,476 |
| Total net FX position at 31 December 2003 | 2,508 | (673) | (51) | 1 | 630 | 60 | 2,476 |

* Off balance sheet assets and liabilities include amounts receivable and payable arising from spot and forward transactions.

### (g) Operational risk

In October 2004, the Group established the Operational Risks Department which cooperates with the parent company of the Bank in implementing advanced operational risk management techniques at the Société Générale level. The principal objectives of this department involve implementing such operational risk management that will facilitate the fulfilment of the requirements arising to the Group under Basel II as well as general requirements of the regulator in respect of the Group's internal management and control system. This department is also responsible for business continuity planning and insurance.

### (h) Legal risk

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

### (i) Estimated fair value of assets and liabilities of the Group

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.
In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

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

The carrying values of cash and current balances with the central bank are generally deemed to approximate their fair value.

#### b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are equal to market values at the balance sheet date.

#### c) Due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral.

#### d) Loans and advances to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans to customers approximates the carrying values at the balance sheet date. Provisions are taken into consideration when calculating fair values.

### e) Amounts owed to banks and customers

The fair value of term deposits repayable on demand represents the carrying value of amounts repayable on demand at the balance sheet date. The fair value of term deposits at variable interest rates approximates their carrying values at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts owed to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts owed to banks and customers approximates the carrying values at the balance sheet date.

### f) Certificated debt

The fair value of certificated debt issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is equal to an estimate made by the Group.
The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value:

| CZK million | 2004 Carrying value | 2004 Fair value | 2003 Carrying value | 2003 Fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and current balances with banks | 10,259 | 10,259 | 12,449 | 12,449 |
| Amounts due from banks | 233,436 | 233,260 | 202,123 | 202,272 |
| Loans and advances to customers, including loans to Česká konsolidační agentura, net | 159,470 | 162,958 | 157,433 | 160,900 |
| Investments held to maturity | 1,001 | 1,017 | 248 | 256 |
| **Financial liabilities** | | | | |
| Amounts owed to banks | 20,547 | 20,438 | 20,085 | 20,026 |
| Amounts owed to customers | 368,966 | 365,442 | 353,569 | 351,869 |
| Certificated debt | 9,255 | 9,236 | 21,024 | 21,417 |

## 38. Assets under management

As of 31 December 2004, the Group managed client assets in the amount of CZK 40,174 million (2003: CZK 37,371 million), of which the assets of Penzijní fond Komerční banky a.s. amounted to CZK 12,660 million (2003: CZK 10,293 million).

## 39. Post balance sheet events

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

# Survey of Financial Results 2000 – 2004

| CZK million | Unconsolidated data | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| International Financial Reporting Standards (IFRS) | Net Interest Income | 12,763 | 11,937 | 12,447 | 12,989 | 12,287 |
| | Net Fees and Commissions | 8,886 | 8,711 | 8,320 | 8,394 | 7,181 |
| | Net Banking Income | 22,717 | 21,844 | 22,597 | 23,809 | 21,805 |
| | Total Operating Costs | (11,792) | (11,750) | (12,760) | (15,065) | (13,783) |
| | Net Profit/(Loss) | 9,302 | 9,262 | 8,763 | 2,532 | (19) |
| | Net Profit/(Loss) per Share (CZK) | 244.73 | 243.68 | 230.55 | 66.62 | (0.51) |
| | Total Assets | 448,298 | 447,565 | 439,753 | 421,720 | 402,205 |
| | Loans and advances to Customers, net | 153,818 | 131,042 | 121,154 | 135,197 | 126,943 |
| | Amounts Due to Customers | 361,998 | 349,505 | 341,114 | 321,345 | 287,624 |
| | Total Shareholders' Equity | 43,707 | 40,399 | 33,758 | 23,598 | 20,211 |
| | Return on Average Equity, ROAE (%) | 22.12 | 24.98 | 30.56 | 11.56 | x |
| | Return on Average Assets, ROAA (%) | 2.08 | 2.09 | 2.03 | 0.61 | x |
| | Net Interest Margin (%) | 3.13 | 3.00 | 3.25 | 3.64 | 3.62 |
| | Cost/Income Ratio (%) | 51.91 | 53.58 | 56.47 | 63.27 | 63.21 |
| | Operating Costs on an Employee (CZK thousand) | (1,501) | (1,353) | (1,428) | (1,526) | (1,162) |
| | Net Profit on an Employee (CZK thousand) | 1,184 | 1,067 | 981 | 256 | x |
| | Total Assets on an Employee (CZK thousand) | 57,072 | 51,545 | 49,217 | 42,714 | 33,898 |
| Czech Accounting Standards (CAS) | Net Interest Income | 12,776 | 11,962 | 12,614 | 13,565 | 12,344 |
| | Net Fees and Commissions | 7,125 | 5,780 | 6,232 | 5,981 | 4,422 |
| | Total Operating Costs | (10,579) | (10,120) | (11,705) | (12,066) | (11,022) |
| | Net Profit/(Loss) | 9,435 | 9,310 | 9,229 | 2,624 | (149) |
| | Total Assets | 448,209 | 451,397 | 445,982 | 429,659 | 407,558 |
| | Amounts Due From Customers | 156,764 | 160,149 | 163,806 | 193,774 | 133,977 |
| | Amounts Owed to Customers | 323,281 | 315,808 | 305,788 | 289,638 | 272,228 |
| | Total Shareholders' Equity | 43,758 | 40,419 | 33,804 | 23,668 | 20,034 |
| | Return on Average Equity, ROAE (%) | 22.42 | 25.09 | 32.12 | 12.01 | x |
| | Return on Average Assets, ROAA (%) | 2.10 | 2.07 | 2.11 | 0.63 | x |
| Methodology of the Czech National Bank* | Capital Adequacy (%) | 12.84 | 15.37 | 13.35 | 14.30 | 14.38 |
| | Tier 1 | 29,350 | 27,734 | 22,138 | 19,951 | 20,100 |
| | Tier 2 | 0 | 2,272 | 6,091 | 9,607 | 9,973 |
| | Tier 3 | 0 | 0 | 0 | 0 | 0 |
| | Deductible Items From Tier 1 and Tier 2 | 3,178 | 2,590 | 1,896 | 1,387 | 1,322 |
| | Capital Requirement A | 16,680 | 14,543 | 15,164 | 15,071 | 15,424 |
| | Capital Requirement B | 906 | 776 | 638 | 688 | 573 |
| | Number of Employees (Average) | 7,855 | 8,683 | 8,935 | 9,873 | 11,865 |
| | Number of Points of Sale | 335 | 335 | 331 | 323 | 342 |

| CZK million | Consolidated data | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| International Financial Reporting Standards (IFRS) | Net Profit/(Loss) | 8,897 | 8,669 | 9,026 | 2,904 | (221) |
| | Net Profit/(Loss) per Share (CZK) | 234.08 | 228.07 | 237.46 | 76.40 | (5.81) |
| | Total Assets | 460,269 | 456,663 | 446,092 | 431,433 | 409,090 |
| | Loans and advances to Customers, net | 156,525 | 133,130 | 122,978 | 136,681 | 127,391 |
| | Amounts Due to Customers | 368,966 | 353,569 | 341,708 | 323,018 | 279,510 |
| | Total Shareholders' Equity | 44,451 | 41,401 | 35,366 | 24,927 | 21,165 |
| | Return on Average Equity, ROAE (%) | 20.73 | 22.58 | 29.94 | 12.60 | x |

* Data for 2003 and 2004 according to a new methodology.

# Legal Information

## Identification Details of the Company Entered in the Commercial Register as of 31 December 2004

**(maintained with the Municipal Court in Prague, Section B, File No. 1360)**

| | |
|---|---|
| **Date of incorporation:** | 5 March 1992 |
| **Business name:** | Komerční banka, a.s. |
| **Registered office:** | Prague 1, Na Příkopě 33, building identification number 969, postcode 114 07 |
| **Identification number:** | 45 31 70 54 |
| **Legal form:** | Public limited company |
| **Shares:** | 38,009,852 dematerialised ordinary bearer shares of a nominal value of CZK 500 each |
| **Share capital:** | CZK 19,004,926,000 of which paid up 100% |

### Objects of business in accordance with §2 of KB Articles of Association:

I. The Bank shall carry on business pursuant to Act No 21/1992 Coll., the Banking Act, as amended. The business activities of the Bank shall include:

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

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

a) accounting consultants activities, book-keeping,
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real estate,
e) organization of specialized courses, training, and other educational programs including teaching,
f) business, financial, organizational, and economic consultants activity.

Statutory body – Board of Directors:

| | |
|---|---|
| Chairman: | **Alexis Raymond Juan,** birth date 11 June 1943<br>Prague 1, Senovážné náměstí čp. 869/28, Date of entry into office: 5 October 2001<br>Person responsible for the performance of the activities of a brokerage house. |
| Vice-Chairman: | **Laurent Goutard,** birth date 13 May 1961<br>Praha 6, Heineho 342/4, PSČ 160 00, Date of entry into office: 1 September 2004 |
| Member: | **Didier Colin,** birth date 20 April 1963<br>Praha 1, Vlašská 5/361, PSČ 110 00, Date of entry into office: 9 October 2004 |
| Member: | **Peter Palečka,** birth number: 591103/6692<br>Černošice, Jahodová 1565, Prague-West District, postcode 252 28, Date of entry into office: 5 October 2001 |
| Member: | **Matúš Púll,** birth number: 490625/214<br>Vrané nad Vltavou, Nad školkou 530, Prague - West District, postcode 252 46, Date of entry into office: 5 October 2001 |
| Member: | **Philippe Rucheton,** birth date 9 September 1948<br>Prague 1, Břehová 8/208, postcode 110 00, Date of entry into office: 2 May 2002 |

Acting on behalf of the Bank:

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

Signing on behalf of the Bank: Either all members of the Board of Directors jointly or any two members of the Board jointly shall sign on behalf of the Bank.

Supervisory Board:

| | |
|---|---|
| Member: | **Petr Laube,** birth number 490708/118<br>Prague 5, Košíře, Kvapilova 958/9, Date of entry into office: 8 October 2001 |
| Member: | **Pavel Krejčí,** birth number 631108/0644<br>Olomouc, Rolsberská 30, postcode 772 00, Member of the Supervisory Board from: 27 May 2001 |
| Member: | **Miroslava Šmídová,** birth number 655506/0094<br>Plzeň, Žižkova 55, Plzeň-město District, postcode 320 15, Member of the Supervisory Board from: 27 May 2001 |
| Member: | **Jan Kučera,** birth number 511030/013<br>Náchod, Ovocná Str. 1576, postcode 574 01, Member of the Supervisory Board from: 27 May 2001 |
| Member: | **Jan Juchelka,** birth number 710919/5148<br>Poděbrady, Jižní 1339, Nymburk District, postcode 290 01, Date of entry into office: 8 October 2001 |
| Member: | **Didier Alix,** birth date 16 August 1946<br>14, bis Rue Raynouard, 75116 Paris, French Republic, Date of entry into office: 8 October 2001 |
| Member: | **Jean-Louis Mattei,** birth date 8 September 1947<br>24, Rue Pierre et Marie Curie, 75005 Paris, French Republic, Date of entry into office: 8 October 2001 |
| Member: | **Christian Achille Frederic Poirier,** birth date 30 November 1948<br>19, Rue Mademoiselle, 78000 Versailles, French Republic, Date of entry into office: 8 October 2001 |
| Member: | **Séverin Cabannes,** birth date 21 July 1958<br>14, Rue de Voisins, 78430 Louveciennes, French Republic, Date of entry into office: 8 October 2001<br>Person responsible for the performance of the activities of a brokerage house. |

Other facts:

**Manner of the Company's establishment:**

In accordance with the privatisation project for the state financial institution Komerční banka, with its registered office in Prague, Na Příkopě 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole promoter, established the public limited company styled Komerční banka, a.s., based on a Founding Deed of 3 March 1992 under section 172 of the Commercial Code.

## Information on Komerční banka Securities

Bonds of Komerční banka (unredeemed)

**List of bonds issued by Komerční banka**

| No. | Bonds | Issue Date<br>Maturity Date | Volume in CZK<br>Number of pcs. | Interest Rate | Pay-out of Interest |
|---|---|---|---|---|---|
| 1. | HZL 2000/2007<br>ISIN: CZ0002000151 | 15. 9. 2000<br>15. 9. 2007 | 1,100,000,000<br>11,000 pcs. | 6month<br>PRIBOR + 3.50 p. p. | Half-yearly |
| 2. | HZL 2003/2009<br>ISIN: CZ0002000268 | 21. 8. 2003<br>21. 8. 2009 | 5,000,000,000<br>500,000 pcs | 5.5% p.a. | Yearly |
| 3. | HZL 2004/2008<br>ISIN: CZ0002000383 | 5. 8. 2004<br>5. 8. 2008 | 2,430,000,000<br>243,000 pcs | 4.5% p.a. | Yearly |

HZL = mortgage bonds

All bonds are issued in CZK, are registered, made out to the bearer in dematerialised form, and have a nominal value of CZK 10,000, except for the mortgage bonds ISIN: CZ0002000151, which have a nominal value of CZK 100,000.
The mortgage bonds HZL ISIN CZ0002000268 were issued in the scope of the KB Debt Issuance Programme approved by a decision of the Securities Commission dated 6 May 2003. The 10-Year Debt Issuance Programme with the maturity of any single issue of up to 10 years enables the Bank to issue mortgage bonds with a maximum amount of CZK 15 billion outstanding.
Unredeemed bonds were issued in the relevant years in accordance with the Bonds Act and Securities Act, as amended. The issue of bonds was licensed by a decision of the Ministry of Finance or the Securities Commission.

### Public trading

All unredeemed bonds (apart from bonds without interest coupons, which are not publicly tradable) are accepted for trading on the free market of the Prague Stock Exchange.
The transferability of bonds is unlimited. Bonds are transferred upon registration of their ownership in the account of the new owner in the Securities Centre.

### Rights vested in the bonds

Rights and obligations pertaining to the bonds are governed by and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the Terms and Conditions of each issue.
Bonds bear interest from the date of issue and payment of the yield is made at half-yearly or yearly intervals. The yield on the securities is paid by the issuer – Komerční banka, a.s., registered office Na Příkopě 33, Prague 1, through its Headquarters and branches.
The bonds will be paid by Komerční banka, a.s., Na Příkopě 33, Prague 1, through the Bank's Headquarters and branches in a lump-sum of the nominal value on the maturity date.

## Komerční banka Shares

| | |
|---|---|
| Type: | ordinary share |
| Form: | bearer share |
| Representation: | dematerialised |
| Total value of the issue: | CZK 19,004,926,000 |
| Total number of shares: | 38,009,852 |
| Nominal value of 1 share: | CZK 500 |
| ISIN: | CZ0008019106 |

### Public trading

Komerční banka shares are publicly traded on Czech capital markets – the Prague Stock Exchange and RM-SYSTÉM (the organiser of the non-exchange market of securities). For further information about trading in shares, share prices and dividends please refer to the chapter Komerční banka Share Price.

### Rights vested in the shares

Rights pertaining to ordinary shares are derived from Act No. 513/1991 Coll., the Commercial Code, as amended, and have no special rights attached.

Shareholders' voting rights are governed by the nominal value of the shares. Each CZK 500 of the nominal value of the share is equivalent to one vote.

Shareholders are entitled to a share of the Bank's profit (dividend) approved for distribution by the annual general meeting based upon the Bank's financial result and in accordance with the conditions stated in the generally binding legal regulations. Dividend rights belong to shareholders who own shares 30 calendar days following the date of the annual general meeting that approved the payment of the dividend. If the Board of Directors decides to register the rights for the payment of a dividend in the records of dematerialised securities, those shareholders shall have a right to a dividend whose right is registered in the records of dematerialised securities 30 calendar days after the date of the annual general meeting that approved the dividend. The dividend is payable 30 days after the decisive day on which the shareholder's right arose, in accordance with the previous sentence of this provision. The right to the payment of the dividend is time-barred from four years after its date of payment. In the event of the shareholder's death his legal inheritor shall be authorised to exercise all rights attached to the shares.

On the Bank's liquidation and dissolution the means of liquidation is governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the annual general meeting in the proportion of the nominal value of the shares held by the Bank's shareholders.

### Acquisition of own shares

In 2004, Komerční banka acquired its own stock in accordance with the Commercial Code, which provides specific terms under which a company may purchase its own shares, and based on a decision of the Bank's General Meetings of 26 June 2002 and 17 June 2004. Acquisition of the Bank's own stock was for purposes of market making.

### Information on the Acquisition by Komerční banka of its Own Shares

| | Number/nominal value as at 1 January 2004 (pcs/ CZK thousand) | Proportion of sharecapital as at 1 January 2004 (%) | Number/nominal value as at 31 December 2004 (pcs/ CZK thousand) | Proportion of share capital as at 31 December 2004 (%) |
|---|---|---|---|---|
| Trading portfolio | 9,222 | 0.024 | 1,033 | 0.003 |
| | 4,611 | | 516.50 | |
| Portfolio available for sale | 18,240 | 0.048 | 0 | 0 |
| | 9,120 | | 0 | |

| | Number/nominal value of acquired shares (pcs/ CZK thousand) | Number/nominal value of sold shares (pcs/ CZK thousand) | Sum of purchase prices of acquired shares (CZK thousand) | Min. and max. acquisition price (CZK) | Sum of selling prices of sold shares (CZK thousand) | Min. and max. selling price (CZK) |
|---|---|---|---|---|---|---|
| Trading portfolio | 1,123,647 | 1,131,836 | 3,288,190 | 2,384 | 3,306,737 | 2,401 |
| | 561,823.5 | 565,918 | | 3,463 | | 3,499 |
| Portfolio available for sale | 0 | 18,240 | 0 | 0 | 53,646 | 2,892 |
| | 0 | 9,120 | | 0 | | 2,975 |

## Komerční banka Global depository receipts

Global depository receipts (GDRs) were issued for shares of Komerční banka administered by The Bank of New York ADR Department (shares held on its proprietary account in the Securities Centre). GDRs bear, in principle, the same rights as shares of the Bank and they may be re-converted into shares. One GDR represents one third of a share of the Bank.
The GDR programme was launched at the end of June 1995 by the issue of the first block – Komerční banka entered the international capital markets, and the second issue was in 1996.
From the start, the GDRs have been traded on the London Stock Exchange and in the PORTAL system (the market of the National Association of Securities Dealers, Inc.) in the US. The number of GDRs issued as at 31 December 2004 was 6,458,319.

### United Kingdom tax considerations

The following comments below are of a general nature and are based on current United Kingdom ("U.K.") tax law and U.K. Inland Revenue practice as at the date of this document, both of which are subject to change at any time, possibly with retrospective effect. These comments represent a summary of the principal U.K. tax consequences to a holder, who or which is resident or ordinarily resident in the U.K. or is carrying on a trade or business in the U.K. through a permanent establishment (collectively, "U.K. Holders"), of the ownership of GDRs or Shares delivered upon surrender of GDRs. It deals only with GDRs or Shares held as capital assets and does not deal with certain special classes of holders, such as dealers.

### Taxation of dividends and other distributions

Distributions, including cash dividends paid with respect to the underlying Shares to a U.K. Holder, will generally be taxed as income of the U.K. Holder. Any Czech withholding tax paid in respect of such distributions to a U.K. Holder will generally be available as a credit against any U.K. tax liability of such U.K. Holder (and not recoverable from the Czech authorities) in respect of such distribution.
Where dividends are paid by or through a U.K. paying agent or collected by a U.K. collecting agent, such agent may, in certain cases, be required to supply to the U.K. Inland Revenue details of the payment and certain details relating to the U.K. Holder (including the U.K. Holder's name and address). U.K. Inland Revenue published practice indicates that the U.K. Inland Revenue will not exercise its power to obtain information where such dividends are paid or received during the 2004/2005 tax year which ends on 5 April, 2005. It has not yet been announced whether this practice will continue for the 2005/2006 tax year which begins on 6 April, 2005. Any information obtained may, in certain circumstances, be provided by the U.K. Inland Revenue to the tax authorities of other jurisdictions.

### Sale or other disposition of GDRs

A U.K. Holder of GDRs may, depending on individual circumstances and subject to any available exemption or relief, be subjected to United Kingdom tax on a disposition or deemed disposition of a GDR (or of Shares acquired upon surrender of GDRs). Relief may be available for any Czech tax paid on such a disposal. There should be no liability for United Kingdom stamp duty or stamp duty reserve tax on a disposition of a GDR provided the disposition is undertaken by delivery.

### Surrender of GDRs

Upon surrender of a GDR to the Depositary in return for a Share, no liability for U.K. taxation should arise provided the GDR holder is the beneficial owner of the Shares. Generally, the Shares acquired from the Depositary will be acquired at a base cost equal to the cost to the U.K. Holder of acquiring the GDR surrendered.

EACH PROSPECTIVE PURCHASER SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISER AS TO THE SPECIFIC TAX CONSEQUENCES OF AN INVESTMENT IN THE GDRs.

## Emoluments and Benefits of the Management and Statutory Bodies

In accordance with the Act No. 256/2004 Coll., on Undertaking on the Capital Market and in line with the European Commission Recommendation of 14 December 2004 (2004/913/EC), Komerční banka releases information on all non-monetary income and income in-kind received by members of the Board of Directors and Supervisory Board from the issuer and entities controlled by the issuer, specified by each person, during the financial reporting period 2004. The data are published in the structure described in Section III. - 5.3 of the Commission Recommendation:

(A) the total amount of salary paid or due for the services performed under the relevant financial year, including where appropriate the attendance fees fixed by the annual general share-holders meeting;

(B) the remuneration and advantages received from any undertaking belonging to the same group;

(C) remuneration paid in the form of profit sharing and/or bonus payments for 2003;

(D) any significant remuneration paid for special services outside the scope of the usual functions;

(E) the compensation paid to or receivable by each former member of the Board of Directors or Supervisory Board in connection with the termination of his activities during that financial year;

(F) total estimated value of non-cash benefits considered as remuneration, other than the items covered in points (a) to (e).

In following tables all the emoluments of KB directors are presented in above described structure unless they amounted to zero and were not paid to KB directors at all.

| CZK | (A) | (C) | (D) | (F) | Total |
|---|---|---|---|---|---|
| **Board of Directors:** | | | | | |
| Alexis Juan, Chairman | 3,600,000 | 4,800,000 | 3,504,754 | 1,442,325 | 13,347,079 |
| Laurent Goutard, Vice-Chairman[1)] | 820,000 | 0 | 1,815,861 | 1,508,685 | 4,144,546 |
| Didier Colin[2)] | 556,429 | 0 | 1,197,103 | 872,383 | 2,625,915 |
| Peter Palečka | 2,460,000 | 2,200,000 | 1,429,366 | 368,846 | 6,458,212 |
| Matúš Púll | 2,460,000 | 2,400,000 | 2,038,649 | 213,552 | 7,112,201 |
| Philippe Rucheton | 2,460,000 | 2,112,000 | 3,399,925 | 1,475,199 | 9,447,124 |
| Olivier Flourens[3)] | 1,903,571 | 1,440,000 | 1,966,958 | 108,340 | 5,418,869 |
| Guy Poupet, Vice-Chairman[4)] | 1,025,000 | 640,000 | 1,967,670 | 1,216,164 | 4,848,834 |

[1)] In the position since 1 September 2004.
[2)] In KB since 30 August 2004, in the position since 9 October 2004.
[3)] In the position until 8 October 2004.
[4)] In the position until 31 May 2004.

| CZK | (A) | (D) | (F) | Total |
|---|---|---|---|---|
| **Supervisory Board:** | | | | |
| Didier Alix, Chairman | 866,250 | 0 | 0 | 866,250 |
| Jean-Louis Mattei, Vice-Chairman | 313,500 | 0 | 0 | 313,500 |
| Severin Cabannes | 330,000 | 0 | 0 | 330,000 |
| Jan Juchelka | 0 | 0 | 0 | 0 |
| Pavel Krejčí* | 346,500 | 324,000 [1)] | 6,480 [1)] | 676,980 |
| Jan Kučera* | 346,500 | 325,667 | 28,938 | 701,105 |
| Petr Laube | 346,500 | 0 | 0 | 346,500 |
| Christian Poirier | 346,500 | 0 | 0 | 346,500 |
| Miroslava Šmídová* | 346,500 | 522,256 | 32,867 | 901,623 |

* Elected by KB employees, total emoluments include regular salaries.
[1)] Refunded by KB Trade Unions.

Information on the number of shares issued by the issuer and held by members of the Board of Directors and Supervisory Board, including individuals related to these individuals; information on option and long-term contracts and similar agreements whose underlying assets are interim certificates issued by the issuer, and whose contractual parties are the listed individuals, or which were entered into in the interest of the listed individuals:

| | 31 December 2004 |
|---|---|
| **Board of Directors:** | |
| Alexis Juan, Chairman | None |
| Laurent Goutard, Vice-Chairman | None |
| Didier Colin | None |
| Peter Palečka | 5,000 shares |
| Matúš Púll | None |
| Philippe Rucheton | None |
| **Supervisory Board:** | |
| Didier Alix, Chairman | None |
| Jean-Louis Mattei, Vice-Chairman | None |
| Severin Cabannes | None |
| Jan Juchelka | None |
| Pavel Krejčí | 1,700 shares |
| Jan Kučera | 2,280 shares |
| Petr Laube | 1,924 shares |
| Christian Poirier | None |
| Miroslava Šmídová | 60 shares |

Information on individual transactions performed by the listed individuals in the financial reporting period whose underlying assets are shares of Komerční banka:

| | Date | Sale/Purchase | Pieces of shares |
|---|---|---|---|
| **Board of Directors:** | | | |
| Peter Palečka | 9 March 2004 | Sale | 1,000 |
| | 26 March 2004 | Sale | 1,000 |
| **Supervisory Board:** | | | |
| Petr Laube | 12 May 2004 | Purchase | 350 |
| | 17 June 2004 | Purchase | 233 |

For further information please see Notes to the Unconsolidated Financial Statements according to CAS, Note No 30 – Related parties, paragraph: Remuneration and equity compensation scheme of the members of the Management and Supervisory Boards.

## Information on remuneration provided to auditors in 2004

In 2004 KB and the consolidated KB Group provided the remuneration to the auditors as follows:

CZK thousand

| Type of service | KB | KB consolidated group * |
|---|---|---|
| Statutory audit | 17,758 | 26,481 |
| Audit related services | 2,248 | 2,725 |
| Legal and tax related services | 0 | 541 |
| Other | 79 | 3,128 |
| **Total:** | **20,085** | **32,875** |

* KB consolidated group comprise Komerční banka, ESSOX, Factoring KB, Investiční kapitálová společnost KB, Komerční banka Bratislava, Komerční pojišťovna, Modrá pyramida stavební spořitelna (until 31 December 2004 under name Všeobecná stavební spořitelna KB), Komercni Finance BV.

## Description of Real Estate Owned by the Bank

Komerční banka owns real estate used mostly for the business activities for which it is licensed under existing legislation. Summary of the real estate owned by the Bank:

| CAS, CZK million | As at 31 December 2004 | | |
|---|---|---|---|
| | Purchase price | Accumulated depreciation and provisions | Net book value |
| Land | 350 | 0 | 350 |
| Buildings | 12,223 | 4,800 | 7,423 |

| CAS, CZK million | As at 31 December 2004 | |
|---|---|---|
| | Number | Area in $m^2$ |
| Land | 486 | 333,969 |
| Buildings | 228 | 487,414 |

See also Notes to the Unconsolidated Financial Statements according to CAS, Note No 17 – Tangible and intangible fixed assets.

## Investments

### Investments made by the company

| CAS, CZK million | As at 31 December 2003 | As at 31 December 2004 |
|---|---|---|
| Bonds | 29,957 | 22,926 |
| Shares | 233 | 112 |
| Equity investments in subsidiary and associated undertakings | 1,424 | 1,846 |
| **Total** | **31,614** | **24,884** |

### Main investments – excluding financial investments*

| CAS, CZK million | As at 31 December 2003 | As at 31 December 2004 |
|---|---|---|
| Tangible fixed assets | 9,692 | 9,319 |
| Intangible fixed assets | 1,967 | 2,060 |
| **Total tangible and intangible fixed assets** | **11,659** | **11,379** |
| Tangible fixed assets held under finance leases | 249 | 97 |

* Net book value of investments.

See also Notes to the Unconsolidated Financial Statements according to CAS, Note No 17 – Tangible and intangible fixed assets.

### Main ongoing investments – excluding financial investments

In 2004, the Bank made non-financial investments in a total of CZK 1.4 billion. Most of the amount was invested in the area of information technologies for the purchase and upgrading of software and hardware equipment and consultancy services in IT. Significant amounts were also invested into real estate owned by the Bank and the ATM network.

All the Bank's non-financial investments were made in the Czech Republic and were financed from internal resources.

### Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for the year 2005 will not exceed CZK 2.0 billion. The biggest portion of the total amount represents investments related to IT. The Bank's investment plans may change in the future depending on developments in related conditions, i.e. the actual investments may differ from the plan.

## Legal Disputes

### Legal Disputes in which the Bank acts as a plaintiff

As at 31 December 2004, Komerční banka was a plaintiff in a total of 38 important legal proceedings. The proceedings had or could have material implications for the Bank's financial results. The total amount involved in the legal proceedings is CZK 14.23 billion. Of these legal proceedings, 20 are actions for payment in a total amount of CZK 2.09 billion and 18 are bankruptcy proceedings, with a total amount of CZK 12.14 billion.

With respect to its overall financial situation, Komerční banka regards as material all disputes involving amounts exceeding CZK 10 million and all bankruptcy proceedings for amounts exceeding CZK 50 million. The reason for the higher threshold for bankruptcy proceedings is the fact that the average recovery from bankruptcies in Komerční banka's experience does not exceed 20%. The outcomes of bankruptcy proceedings usually have less significant implications on the Bank's financial position than do legal disputes of similar amounts.

### Legal Disputes in which the Bank acts as a defendant

The total number of disputes in which the Bank acts as a defendant totalled CZK 52.1 billion as at 31 December 2004. Based on a detailed analysis of the risk inherent in the legal proceedings conducted against the Bank, a reserve of CZK 876.3 million was created as at the end of 2004. This amount represents the value of all disputes with a potential risk to the Bank.

See also Notes to the Unconsolidated Financial Statements according to CAS, Note No 29 – Contingencies and off balance sheet commitments, paragraph: Legal disputes.

## Licences and Trademarks

If using any third party rights which are governed by the relevant statutory provisions on the protection of intellectual property or intangible industrial property rights, Komerční banka rigorously monitors the fulfilment of all statutory requirements. Any such rights are used only in accordance with valid laws and international conventions, or under a relevant licence, as appropriate.

Komerční banka also owns (has registered) approximately seventy trademarks entered (registered) in the public register of trademarks maintained by the Industrial Property Office of the Czech Republic, which pertain in particular to the Bank's products. Komerční banka has also registered (applied for registration of) trademarks in the Slovak Republic.

## Expenses on research and development

In 2004, Komerční banka had spent significant expenses of hundreds of millions of crowns on research and development. These expenses include mainly expenses for development studies and realisation of individual projects, particularly in the area of information technologies and systems including development of internet applications. The main target of research and development in KB is to improve client service and further to extend the product range.

# Report on Relations Among Related Entities

## for the Year Ended 31 December 2004

(hereinafter the "Report on Relations")

Komerční banka, a.s., having its registered office address at Na Příkopě 33/969, Prague 1, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies, Section B, File 1360, maintained at the Municipal Court in Prague (hereinafter referred to as "KB" or the "Bank"), is part of a business group (holding company) in which the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entity (hereinafter referred to as "related entities") exist.
This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2004, that is, from 1 January 2004 to 31 December 2004 (hereinafter referred to as the "reporting period").

## I. Introduction

In the period from 1 January 2004 to 31 December 2004, KB was a member of the Société Générale S.A. Group, having its registered office address at 29, BLD Hausmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter "SG" or "SG Paris").
During the course of the reporting period, the Bank entered into arrangements with the following related entities:

(a) SG's Head Office and branch offices

| Company | Registered office |
|---|---|
| SG Paris | 29, BLD Hausmann, Paris, France |
| SG London | Exchange House, Primrose Street, London, Great Britain |
| SG New York | 1221 Avenue of the Americans, 10020, New York, USA |
| SG Tokyo | Ark Mori Building, 12-32 Akasaka 1 Chrome, Minato-ku, 107-6015 Tokyo, Japan |
| SG Milan | Via Olona 2, 20123 Milan, Italy |
| SG Zurich | Sighlguai 253, 8031 Zurich, Switzerland |
| SG Warsaw | Ul. Marszalkowska 111, Warsaw, Poland |
| SG Frankfurt | Mainzer Landstrasse 36, Frankfurt am Main, Germany |
| SG Bruxelles | Tour Bastion, 5 Place du Champs de Mars, 1050 Bruxelles, Belgium |
| SG Canada | 1501 Avenue McGill College, Montreal, Quebec, Canada |
| SG Vienna | Prinz Eugen Strasse 32, A1041, Vienna, Austria |
| SG Amsterdam | Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, The Netherlands |

(b) SG's subsidiaries

| Company | Registered office | SG's share of voting power |
|---|---|---|
| Barep | 3, Rue Lafayette, 75009 Paris, France | 100.00 |
| SGBT Luxembourg | 11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg | 100.00 |
| SG Asset Management | 2 Place de la Coupole, 92078 Paris La Defense, France | 100.00 |
| SG Equipment Finance Czech Republic, s.r.o.* | Jungmannova 34, 111 21 Prague 1, Czech Republic, | 100.00 |
| SG Ruegg Bank** | 65 Talstrasse, Zurich, Switzerland | 100.00 |
| SG Private banking (Suisse) SA | Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneve 11, Switzerland | 77.62 |
| SKB Banka D. D. | Ajdovscina 4, 1513 Ljubljana, Slovenia | 99.58 |
| Sogecap | 12-46 Boulevard A. Martin, 45000 Orleans, France | 100.00 |
| N.S.G.B. | 5 Champollion Street, Cairo, Egypt | 78.38 |
| B.R.D. | Boulevard Ion Mihalache no. 1-7, sector 1, Bucuresti, Romania | 58.32 |
| FIMAT International banque SA (UK branch) | SG House, 41 Tower Hill, London, Great Britain | 100.00 |
| FIMAT International banque SA (Frankfurt branch) | Neue Mainzer Strase 52, 60311 Frankfurt am Main, Germany | 100.00 |
| SG Marocaine de Banques | 55, Boulevard Abdelmoumen, Casablanca, Morocco | 51.91 |
| Franfinance | 59, Avenue de Chatou, 92853 Rueil Malmaison, France | 99.99 |
| Inter Europe Conseil | Tour Société Générale 17 Cours Valmy 92987 Paris La Defénse, France | 100.00 |
| ALD Automotive s.r.o. | Prague 10, U Stavoservisu 527/1, 100 40, Czech Republic | 100.00 |

* The new name of the company (formerly Franfinance Czech republic s.r.o.) was registered in the Register of Companies on 1 October 2004.

** Arrangements have passed to SG Private banking (Suisse) SA with effect from August 2004.

## II. Arrangements with Related Entities

### A. Contracts and Agreements with the Controlling Entity and Other Related Entities

**Banking Transactions**

During the reporting period, KB entered into the following contractual agreements with related entities that were subject to banking secrecy restrictions:

**Deposit Arrangements**

In the deposit segment, KB entered into arrangements with 26 branches and subsidiaries of the SG Group. In 2004, KB maintained a total of 35 open accounts, of which 20 were loro accounts for branches and subsidiaries of the SG Group, 7 were current accounts and four overdraft accounts opened for non-banking entities of the SG Group. The average overdraft balance on loro accounts (borrowing) was CZK 83.6 million, the average credit balance (deposit) was CZK 202.2 million. During the reporting period, the average credit balance on current and overdraft accounts was CZK 35.2 million; the average overdraft balance on those accounts was CZK 52.3 million. During the reporting period, the debit interest on overdraft accounts and overdrafts on current accounts was CZK 2.2 million; fees associated with the maintenance of accounts and related transactions amounted to CZK 2 million.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, SG Tokyo, SG New York, SG Frankfurt, SG Zurich and SG Warsaw. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 18.1 million; the average overdraft balance on nostro accounts was CZK 37.8 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 3.9 million; KB's income arising from the fees from loro accounts was CZK 0.2 million. Interest expenses paid by KB on loro accounts amounted to CZK 0.9 million in the reporting period.

Only one related entity held term deposits (including depository bills) with KB during the reporting period. The average balance of these deposits was CZK 46.2 million in the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

### Loan Arrangements

In the loan segment, KB provided 62 loans in the aggregate amount of CZK 2,898.6 million at the reporting period-end. The average balance of the loans during the reporting period was CZK 1,859.5 million. The aggregate amount of interest income was CZK 59.8 million.

In the area of foreign trade financing, KB issued two counter-guarantees worth CZK 6.2 million.

As of 31 December 2004, the aggregate number of payment guarantees issued for the benefit of related entities was 11 in the amount of CZK 7.4 million, and the number of non-payment guarantees was 17 in the amount of CZK 56.7 million. The aggregate amount of income arising from the fees for the issued guarantees was CZK 0.4 million in the reporting period.

In the reporting period, KB received two guarantees from an entity from within the SG Group as collateral for loans advanced to clients.

### Investment Banking Arrangements

In the investment banking segment, KB carried out transactions with seven related parties. The total number of transactions was 5,449 in the amount of CZK 450,998.9 million, of which:

a) 2,228 transactions in the aggregate amount of CZK 112,168.9 million were foreign currency transactions (spots, forwards, swaps);
b) 184 transactions in the aggregate amount of CZK 110,600.9 million were interest rate derivatives (swaps and futures);
c) Option contracts with foreign currency instruments, a total of 2,017 contracts in the aggregate amount of CZK 32,030.0 million;
d) Depository transactions – KB implemented 964 transactions in the amount of CZK 180,363.5million;
e) Securities held for trading – a total of 56 transactions in the amount of CZK 15,835.6 million; and
f) Transactions with commodity instruments – conducted with SG Paris, the amounts receivable and payable under these transactions were CZK 403.9 million at the reporting period-end.

KB holds no equity investment in the SG Group entities, the only exception being equity holdings in the companies controlled by KB.

All of the banking products were provided under standard terms and conditions, according to KB's price list, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

## Other Arrangements

I. Contracts and Agreements Entered into during the Reporting Period

| Type of agreement (or subject matter of the agreement if not clear from the name of the agreement) | Contractual party | Performance | Counter-performance | Damaged incurred by KB |
|---|---|---|---|---|
| Agreement on the provision of advisory services by SG | SG Paris | Contractual fee | Provision of legal and consultancy services by SG's Legal Department | None |
| SoGe Assistance Agreement | SG Paris | Contractual fee | Provision of consultancy services to the Human Resources Division | None |
| Contract for co-operation in corporate banking and distribution | SG Paris | Contractual fee | Provision of corporate banking and distribution services | None |
| Contract for cooperation in KB's real estate development | SG Paris | Contractual fee | Real estate development advisory services | None |
| Brokerage Conformity Agreement | SG Asset Management | Mediation of the sale of SGAM's participation certificates | Contractual fees | None |
| Service Level Agreement including amendment no. 1 thereto | SG Frankfurt | Fees according to the price list | Implementation of payments of KB's clients in favour of German beneficiaries through SG branch Frankfurt | None |
| ACPI – subscribing for product of SG at KB's points of sale | SG Paris | Mediation of the sale of selected products of SG | Contractual fee | None |
| SG – LABO Agreement | SG Paris | Fees according to the price list | Inspection of swift reports in terms of money laundering, terrorism financing and other restrictions (embargoes) | None |
| Clearing agreement | FIMAT International banque SA (Frankfurt branch) | Fees according to the price list | Settlement of transactions (futures, options) concluded by KB in EUREX or OTC through FIMAT | None |
| General Agreement on Securities | FIMAT International banque SA (Frankfurt branch) | Fees according to the price list | Securities lending | None |
| Full Service Agreement | FIMAT International banque SA (Frankfurt branch) | Fees according to the price list | Transactions with securities and forward transactions | None |
| Master Netting Agreement | FIMAT International banque SA (Frankfurt branch) | Fees according to the price list | Transactions with commodity futures | None |
| Custody Contract | SG Paris | Administration of securities listed on a stock exchange | Fees according to the price list | None |
| Sub-Custodian Service Agreement | SG Paris | Fees according to the price list | Administration of securities listed in France | None |
| Appointment of Process Agent for KB for ISDA Masters Agreement | SG New York | Free of charge | Provision of information as to whether a lawsuit has been filed against KB in the USA | None |

II. Performance Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

| Type of agreement (or subject matter of the agreement if not clear from the name of the agreement) | Contractual party | Performance | Counter-performance | Damaged incurred by KB |
|---|---|---|---|---|
| Agency Contract | SG Paris | Processing and mediation of the purchase and sale of securities and their transfer through the Securities Centre | Contractual fee | None |
| Contracts and agreements relating to the provision of management and advisory services – "management support agreement", including Amendment No. 1 concluded in 2004 | SG Paris | Contractual fee | Provision of management and consultancy services | None |
| ISDA Master Agreement | SG Paris | Fees for mediation | Mediation of transactions with derivatives | None |
| Service Level Agreement | SG Paris | Fees according to the price list | Mediation of payments | None |
| Insurance agreement – insurance of banking risks | SG Paris | Premiums paid | Provision of insurance | None |
| Insurance agreement – insurance of professional liability | SG Paris | Premiums paid | Provision of insurance | None |
| Cooperation agreement | SG Equipment Finance Czech Republic, s.r.o. | Mediation of finance leasing as part of the "KB Leasing" product | Mediation fee | None |
| Contract for the provision of advisory services | Sogecap | Contractual fees | Provision of insurance related advisory services | None |
| Service Level Agreement – Processing of out-going smooth payments through nostro accounts | SG New York | Fees according to the price listi | Mediation of payments | None |
| Appointment of Process Agent for KB for ISDA Masters Agreement | SG London | Free of charge | Provision of information as to whethera lawsuit has been filed against KB in the United Kingdom | None |
| Agreement on the allocation of expatriates – the subject matter of the agreement is the allocation of SG's staff to work at KB | SG Paris | Contractual fee | Allocation of SG's staff to KB | None |
| Guarantee received in respect of court expenses – guarantee in respect of two loans issued to a client in connection with the purchase of part of SG Paris' business, that is, SG's Prague Branch | SG Paris | Contractual fee | Provision of guarantee | None |
| Sale back of the portion of the notes issued by SG under the EURO Medium Term Note Programme | SG Paris | Hand-over of notes | Payment of the set sale-back price | None |

### B. Other Legal Acts Implemented in the Interest of the Bank and the Controlling Entity and Other Related Entities

Pursuant to a decision of the General Meeting held on 17 June 2004, the shareholder, SG Paris, received dividends of CZK 4,588,045,400 in respect of KB's shares for the year ended 31 December 2003.
On the basis of an agreement to purchase notes entered into with SG Paris, KB received interest of 4.2719 percent p.a., that is, CZK 521.2 million, for the year ended 31 December 2004.
On the basis of an agreement to purchase notes entered into with SG Paris, KB received interest of 3.9773 percent p.a., that is, CZK 202.2 million, for the year ended 31 December 2004.

### C. Measures Taken or Implemented in the Interest of the Bank or at the Initiative of the Controlling Entity and Other Related Entities

During the reporting period, KB did not take or implement any measures that would be in the interest of or at the initiative of the related entities.

## III. Conclusion

The Management Board of the Bank has reviewed all arrangements put in place between the Bank and the related entities during the reporting period and states that the Bank incurred no damage as a result of any contracts, agreements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

Prague, 21 March 2005

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

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

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