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BANGKOK  
METROPOLITAN BANK  
PUB. CO., LTD

39.7

(Translation)  
Office of the Auditor General  
BANGKOK, THAILAND

To The shareholders of Bangkok Metropolitan Bank Public Company Limited:

We have examined the balance sheet of Bangkok Metropolitan Bank, PCL. as at December 31, 1998 and the related statement of income, changes in the shareholders' equity, statement of retained earnings and statement of cash flows for the year ended on the same date of which information accuracy and completeness are the sole responsibility of the Bank's management while we are responsible for expressing our opinions based on the results of our examination and audit of such financial statements.

The Bank's balance sheet as at Dec 31, 1997 as well as related statement of income, changes in shareholders' equity and statement of cash flows for the year then ended, being were shown in comparison, were audited by other auditor from whom a conditional opinion in his report dated February 26, 1998 was expressed due to factors related to insufficiency in allowance for doubtful debts, failure to evaluate the present value of properties foreclosed and the lack of information on the progress of the Bank's settlements of debts and commitments through converting into certificates of deposits or partial pay-off from liquidation with these financial institutions closed by the Authorities.

We have carried out our audit in accordance with the generally accepted auditing standards which require us to plan our auditing tasks in such a way that we can reasonably make sure whether or not those financial statements are presented in conformity with any significant facts. Our auditing tasks included performing of tests on transaction evidences in both financial figures and exposure of information in the financial statements, the appraisal of suitability in the accounting entries made by the Bank as well as projections of significant financial items made by the management. We believe that such auditing tasks have provided us with a fitting basis for our opinions.

As described in Note 3.5 to financial statements, the Bank computed its allowance for doubtful debts as related to its classified assets, according to Bank of Thailand's regulations, up to Bht 4,144 million. However, the Bank has been allowed by Bank of Thailand to specially set aside the allowance within 5 financial periods. In this financial period, the Bank was required to set aside its allowance for doubtful debts under the relaxed rules at Bht 16,231 million. Evidently, the Bank's allowance for doubtful debts as at Dec. 31, 1998 amounted to Bht 66,298 million or 73.7% of the full amount. As such, the Bank considers its allowance for doubtful debts has been sufficiently provided in accordance with the Bank of Thailand's regulations.

As described in Note 3.6 to financial statements, the Bank's solution to its counterparting loans through debt restructuring process had resulted in taking Bht 29,997 million of loans off the NPL portfolio. However, those loans at a total of Bht 12,770 million are yet to be reprocessed into proper agreements. This unfinished matter caused a problem in the provision of allowance for

doubtful debts and bad debts as the allowances cannot be accurately made. As the related financial data are highly significant, we are not in a position to express our opinions on the Bank's statement of income and statement of retained earnings as at Dec.31,1998.

We consider that except the impact of the subject matters as discussed in Paragraphs 4 and 5 above, the accompanying financial statements as at Dec. 31,1998, changes in the shareholders, equity and statement of cash flows so ended of Bangkok Metropolitan Bank, Pcl. are presented, in all significant areas, correctly and fairly in accordance with the generally accepted accounting principles. We would like to draw your attention to Note 3.22 to the financial statements regarding the Bank's Year 2000 preparation which is not a conditional subject and not included in our opinion to the financial statements.

Prathan Dabpetch  
Deputy Auditor-General  
Acting on behalf of the Auditor-General

Suchitra Sommanus  
Auditor-in-Charge

Office of the Auditor General  
August 24, 1999

Bangkok Metropolitan Bank Public Company Limited  
Notes to Financial Statements  
For the Year Ended December 31, 1998 and 1997

1. Basis of Financial Statement Presentation
  - 1.1 The financial statements are presented in the format as prescribed in the Announcement on Forms of Balance Sheet and Statement of Income of Commercial Banks issued by Bank of Thailand on January 23, 1997 and in accordance with Ministerial Regulations No. 7 (B.E.2539) dated October 25, 1996 issued by Ministry of Commerce under the provisions of Public Company Act B.E. 2535.

1.2 The financial statements are prepared to include the Bank's assets, liabilities, incomes and expenses of head office, all domestic and overseas branches and BIEF. All

significant interoffice transactions have been eliminated.

1.3 In 1997, Thailand and some other countries in Asia-Pacific Region plunged into a wide spread economic crisis due to a turmoil in the currency market and a very strong pressure of recession. In dealing with the crisis and to get the country out of serious troubles, the Thai government had no choice but to seek monetary assistance from the International Monetary Fund. Under such circumstances, the financial statements of the Bank are prepared with consideration toward continuity of the Bank's business and under principles consistent to that of the preceding year and also under the management's assessment of economic impact over the Bank's overall position.

## 2. Summary of Significant Accounting Policies

### 2.1 Recognition of Interest Income

The Bank recognizes its interest income on an accrual basis except interest income in loans and advances from those account with more than 6 months overdue is recognized on cash basis.

### 2.2 Recognition of Interest Expenses

The Bank recognized its interest expenses on accrual basis.

### 2.3 Loans and Advances

Loans and advances are presented by outstanding principal amount except overdraft accounts of which account holders have agreed with the Bank to add any interest incurred with the principal amount. Therefore, overdraft accounts are presented by an overall outstanding balance inclusive of income from interest receivables. For discount received in advance but not yet recognized as income at year-end are presented as other liabilities in the balance sheet.

### 2.4 Allowance for Doubtful Debts

Allowances for doubtful debts is shown according to Bank of Thailand's letter ref.ROT Ngcr (Wor) 1387/2541 regarding valueless or unrecoverable assets and doubtful as valueless or unrecoverable assets dated Jun. 30, 1998 which requires the Bank to set aside allowance in full and at not less than 50% for those assets classified as doubtful, at not less than 20% for those classified as sub-standard, at not less than 1% for those classified as special mention and not less than 1% for those classified as normal assets. The ROT's letter also specified that by the financial year ending Dec. 31, 1998, the Bank had to set aside its allowance for doubtful debts at 20% of the required amount and must, from time to time, add more fund to the allowance to fully meet the standard requirement in each class of the debts by the end of the year 2000. The Bank wrote off its bad debts on a case by case basis from its allowance for doubtful debts when found that the debt could not be recovered. For any bad debt recovered, the amount was credited to the allowance for doubtful debts.

### 2.5 Investment in Securities

Investment in debt instruments and listed securities are shown at total cost or at total market value of lower. Losses from diminution in value of securities for trading are shown in the statement of income while losses from securities for investment are shown as deficit in the shareholders' equity. Other securities are presented at cost. For premiums or discounts derived from investment in bonds and debentures are included in their costs and adjusted to the interest earned on the straight line basis over the maturity of the investment.

The market values of public sector's debt instruments are computed by using the Yield Curve of a finance and securities and adjusted with risk premium as seen appropriate. For debentures, the market values are based on the closing prices available from the Bond Dealers Club or on acquisition cost if the prices not available.

Interest incomes from investment in securities are recognized on an accrual basis while the income from dividends is recognized when the payment of dividend is declared. Premiums or discount derived from investment in securities are to be recognized in the

period when the securities are traded.

Investment in unit trust held by the Bank in excess of 20% of the total issue is shown at cost in accordance with the Bank of Thailand's letter ref. Bot Noi Wor (Wor) 370/2538 dated Fe, 15, 1995.

#### 2.6 Translation of Foreign Currencies

Assets and liabilities as well as forward exchange contracts in foreign currencies are translated into Baht currency using the rate of exchange at transaction date item by item. For remaining assets and liabilities including forward exchange contracts in foreign currencies at balance sheet date are translated into Baht currency using the reference rates posted by Bank of Thailand on the same date. Any gain or loss derived from currency translation is presented in the statement of income.

Balance sheets of the Bank's foreign offices are translated into Baht using Bof's reference exchange rate posted on the balance sheet date. Statements of income are translated into Baht using the monthly average exchange rate of the month when the transaction take place. Any gain or loss resulting from the currency translation is shown in the statement of income.

The Bank manages its foreign exchange risk through the buying or selling of forward exchange contracts and maintains its net holding of foreign currencies under its own policies but strictly follows Bank of Thailand's rules and regulations.

#### 2.7 Depreciation and Amortization of Leasehold Rights

The Bank depreciates its premises and equipment by straight line method over estimated useful life of each premises location or equipment at a rate of 3-20% a year. Cost of leasehold right is amortized throughout the term of lease.

#### 2.8 Deferred Income Tax

The Bank has adopted the practice of recognizing income tax effect on its net profit in each financial period regardless of when such accounting transaction is permitted as deductible expense by the Revenue Code. The Bank, therefore, presents the amount of income tax not allowed to enter into account as deductible expense for the current financial period as deferred income tax in the balance sheet. This income tax item will be eventually deducted as expense in the financial period when allowed.

#### 2.9 Staff Pension Fund

The Bank has set up the staff pension fund program for its employees who remain in service up to a number of years. The employees are not required to make any contribution to the fund but will be qualified for the benefit upon death, resignation or retirement. The cash benefit will be available more or less to the employees depending on the each employee's length of service. The Bank estimates its obligation to staff pension fund for accounting over employment termination of qualified staff-members. The staff pension fund item shown in the balance sheet as liability is the accumulated expenses set aside on a year by year basis and remain unpaid at the end of the period.

#### 2.10 Properties Foreclosed

Most of the Bank's properties foreclosed are part of the debt settlement arranged with its customers. The value of each property foreclosed is recognized into account at transfer price agreed less allowance for diminution in value. Any gain or loss in the value of each property is recognized when the property is sold.

#### 2.11 Loss Per Share

Loss per share is computed by the use of two class method which is by dividing annual net loss with the weighted average number of preferred shares and common shares issued over the year.

#### 2.12 Cash and Cash Equivalents

Cash and cash equivalents refer to cash on hand and cash in collection.

2.13 Expenses in Development or Up-Grading of Computer Systems  
 Expenses in development of computer systems to significantly increase the Bank's data processing capability are recognized as assets.  
 For those expenses involving the Bank's preparation of its computer systems for the coming of the Year 2000 are recorded in full during the period when the transactions were made.

3. Supplementary Information

3.1 Interbank and Money Market Items

3.1.1 Domestic

|  | (Millions of Baht) |       |        |         |       |       |
|--|--------------------|-------|--------|---------|-------|-------|
|  | 1997               | 1998  |        |         |       |       |
|  | At Call            | Term  | Total  | At Call | Term  | Total |
| Bank of Thailand and FIDF  | 12,038             | 998   | 13,036 | 445     | -     | 445   |
| Commercial banks   | 58                 | 570   | 628    | 67      | 364   | 431   |
| Other banks  | -                  | 492   | 492    | 1       | 502   | 503   |
| Finance, finance & securities, securities and credit financier companies | 4,718              | 169   | 4,887  | 173     | 3,875 | 4,048 |
| Other financial institutions   | 33                 | 21    | 54     | 24      | 281   | 305   |
| Total Domestic   | 16,847             | 2,250 | 19,097 | 710     | 5,022 | 5,732 |

The Bank granted loans and advances to finance companies, finance & securities companies and securities companies closed by the Authorities at Bht 4,699 million and those ordered to write down and recapitalize at Bht 33 million, amounting to a total of Bht 4,732 million.  
 The Bank set aside its allowance for doubtful debts against those loans up to Bht 1,214 million as described in Note 3.4.

3.1.2 Foreign

|                            | (Millions of Baht) |       |        |         |       |       |
|----------------------------|--------------------|-------|--------|---------|-------|-------|
|                            | 1997               | 1998  |        |         |       |       |
|                            | At Call            | Term  | Total  | At Call | Term  | Total |
| U.S. Dollar                | 612                | 1,831 | 2,443  | -       | 1,586 | 1,586 |
| Japanese Yen               | 60                 | -     | 60     | 71      | -     | 71    |
| Deutsche Mark              | 38                 | -     | 38     | 61      | -     | 61    |
| Other Currencies           | 99                 | -     | 99     | 189     | -     | 189   |
| Total Foreign              | 809                | 1,831 | 2,640  | 321     | 1,586 | 1,907 |
| Total Domestic and Foreign | 17,656             | 4,081 | 21,737 | 1,031   | 6,608 | 7,639 |

3.2 Securities Bought with Repurchase Contracts

|                            | (Millions of Baht) |        |            |        |
|----------------------------|--------------------|--------|------------|--------|
|                            | 1997               |        | 1998       |        |
|                            | R/P Market         | At BOT | R/P Market | At BOT |
| Government and BOT's Bonds | 120                | -      | 120        | -      |
| State Enterprise Bonds     | 15,380             | -      | 15,380     | -      |
| Total                      | 115,500            | -      | 115,500    | -      |

3.3 Investment in Securities

|                       | 1997                  |              | 1998                  |              |
|-----------------------|-----------------------|--------------|-----------------------|--------------|
|                       | Cost Value/Book Value | Market Value | Cost Value/Book Value | Market Value |
| Debt Instruments      | 245                   | 168          | 245                   | 198          |
| Private Sector        | (77)                  | -            | (5)                   | -            |
| Diminution in Value   | 168                   | 168          | 241                   | 198          |
| Debt Instrument - Net | -                     | -            | -                     | -            |

3.3.1 Securities for Trading

|                       | 1997                  |              | 1998                  |              |
|-----------------------|-----------------------|--------------|-----------------------|--------------|
|                       | Cost Value/Book Value | Market Value | Cost Value/Book Value | Market Value |
| Debt Instruments      | 245                   | 168          | 245                   | 198          |
| Private Sector        | (77)                  | -            | (5)                   | -            |
| Diminution in Value   | 168                   | 168          | 241                   | 198          |
| Debt Instrument - Net | -                     | -            | -                     | -            |

|  | 1998  | 1999  |
|--|-------|-------|
| Equity Securities                      | 270   | 209   |
| Listed Securities                      | 628   | 646   |
| Other Securities                       | 15    | 17    |
| Total                                  | 643   | 663   |
| Less Allowance for Diminution in Value | (373) | (453) |
| Equity Securities - Net                | 270   | 210   |
| Total Securities for Trading - Net     | 438   | 408   |

### 3.3.2 Securities for Investment

|   | 1998                      |              | 1999                      |              |
|---|---------------------------|--------------|---------------------------|--------------|
|   | Cost Value/<br>Book Value | Market Value | Cost Value/<br>Book Value | Market Value |
| Debt Instruments  |                           |              |                           |              |
| Gov't & State Enterprises   | 5,354                     | 5,599        | 1,276                     | 1,152        |
| Private Sector  | 341                       | 53           | 338                       | 335          |
| Total   | 5,695                     | 5,652        | 1,614                     | 1,487        |
| Less Allowance for Diminution in Value  | (43)                      | -            | (127)                     | -            |
| Debt Instruments - net  | 5,652                     | 5,652        | 1,487                     | 1,487        |
| Equity Securities   | 343                       | 58           | 392                       | 170          |
| Listed Securities   | 147                       | 147          | 275                       | N/A          |
| Foreign Securities  | 1,210                     | 665          | 858                       | 8            |
| Other Securities  | 1,700                     | 870          | 1,525                     | 178          |
| Total   | (830)                     | -            | (230)                     | -            |
| Less Allowance for Diminution in Value  | 870                       | 870          | 1,295                     | 178          |
| Equity Securities - Net   | 6,522                     | 6,522        | 2,782                     | 1,665        |
| Total Securities for Investment - Net   |                           |              |                           |              |
| Equity investment in business enterprises where the Bank's stake rises to 20% or above of each enterprise's total equity is shown in details below. |                           |              |                           |              |

(Millions of Baht)

| Type of Business   | 1998                      |              | 1997                      |              |
|--|---------------------------|--------------|---------------------------|--------------|
|  | Cost Value/<br>Book Value | Market Value | Cost Value/<br>Book Value | Market Value |
| 88k Metropolitan Mutual Fund   | 34.26                     | 34.26        | 34.26                     | 34.26        |
| Mutual Fund  | 343                       | 343          | 343                       | 343          |
| Equity investments in 65 business enterprises where the Bank's stake in each holding is below 20% of the enterprise's total equity are as follows. |                           |              |                           |              |
|  | (Millions of Baht)        |              | (Millions of Baht)        |              |
|  | 1998                      | 1997         | 1997                      | 1997         |
| Manufacturing  | 473                       | 473          | 473                       | 473          |
| Commerce   | 55                        | 55           | 55                        | 55           |
| Banking and Finance  | 348                       | 368          | 368                       | 368          |
| Others   | 1,123                     | 949          | 949                       | 949          |
| Total  | 1,999                     | 1,845        | 1,845                     | 1,845        |
| Total equity investment  | 2,342                     | 2,188        | 2,188                     | 2,188        |
| Less Allowance for diminution in value   | (1,202)                   | (683)        | (683)                     | (683)        |
| Equity Investment - Net  | 1,140                     | 1,505        | 1,505                     | 1,505        |

The Bank's investment in Bangkok Metropolitan Mutual Fund is recognized at cost to follow the Bank's accounting policies as described in Note 2.5 above. If the investment is presented in equity method, the Bank's financial statements would be effected as shown in details below:

|  | (Thousands of Baht except loss per share) |                    |
|--|---|--------------------|
|  | For the Year Ended                        | For the Year Ended |
| Increase in net loss                         | Dec. 31, 1998                             | Dec. 31, 1997      |
| Increase in loss per share (Baht)            | (18,415)                                  | (92,845)           |
| Increase in securities investment (decrease) | (0.00001)                                 | (0.09)             |
|  | 22,970                                    | (51,119)           |

Increase in shareholders' equity

41,385

41,726

3.3.3 The Bank's investment in debentures issued by 2 closed financial institutions amounted to Bht 43 million for which the Bank has not set aside its allowance for diminution in value owing to the fact that the Bank is in the process of converting the debentures into NCD with the Krung Thai Bank, Pcl.

3.3.4 The Bank's investments in the listed companies which are subject to delisting process by the Stock Exchange of Thailand are shown in details as follows.

|               | ( Millions of Baht ) |  |
|---------------|----------------------|--|
|               | Cost Value           | Market Value Allowance for Diminution in Value |
| Common Shares | 17                   | 17   |
| Debentures    | 86                   | 79   |
| Total         | 103                  | 79   |

3.3.5 The Bank's investment in unlisted companies where situation at each of them is similar to those companies being delisted by the Stock Exchange is shown below.

( Millions of Baht )

|               | ( Millions of Baht ) |  |
|---------------|----------------------|--|
|               | Cost Value           | Market Value Allowance for Diminution in Value |
| Common shares | 108                  | 10   |
|               |                      | 98   |

3.3.6 Investment in companies in troubles over payment or missing their payment schedules

|            | ( Millions of Baht ) |  |
|------------|----------------------|--|
|            | Cost Value           | Market Value Allowance for Diminution in Value |
| Debentures | 335                  | 150  |
|            |                      | 185  |

3.3.7 The Bank's investments in companies closed by the Authorities are shown below.

|               | ( Millions of Baht ) |  |
|---------------|----------------------|--|
|               | Cost Value           | Market value Allowance for Diminution in Value |
| Common Shares | 46                   | 15   |
|               |                      | 31   |

3.4 Loans & Advances

3.4.1 Classified by Type of Business

|                   | (Millions of Baht) |
|-------------------|--------------------|
| Overdraft         | 1998               |
| Loans             | 25,351             |
| Bills of Exchange | 115,694            |
| Total             | 180,794            |

3.4.2 Classified by Remaining Days Before Maturity

|                 | (Millions of Baht) |
|-----------------|--------------------|
| Not over 1 year | 1997               |
|                 | 84,009             |



Over 1 Year 96,785 90,344  
 Total 180,794 187,614

3.4.3 Classified by Currency unit and Account Location  
 (Millions of Baht)

|                  | 1998     |         | 1997     |         | Total   |
|------------------|----------|---------|----------|---------|---------|
|                  | Domestic | Foreign | Domestic | Foreign |         |
| Baht             | 171,924  | -       | 154,386  | -       | 154,386 |
| U.S. Dollar      | 5,618    | 3,239   | 10,440   | 2,171   | 12,611  |
| Other currencies | 13       | -       | 20,617   | -       | 20,617  |
| Total            | 177,555  | 3,239   | 180,794  | 2,171   | 187,614 |

3.4.4 Classified by Business Sector  
 (Millions of Baht)

|                              | 1998                   | 1997    |
|------------------------------|------------------------|---------|
|                              | Agriculture and Mining | 3,931   |
| Manufacturing and Commerce   | 113,500                | 119,219 |
| Real estate and Construction | 26,759                 | 28,568  |
| Public Utilities and Service | 20,674                 | 19,018  |
| Housing Loan                 | 9,969                  | 10,526  |
| Others                       | 5,861                  | 5,836   |
| Total                        | 180,794                | 187,614 |

The Bank's loans and advances granted to business enterprises troubled by financial problems and bad performance against which the Bank has set aside its allowances for doubtful debts are shown as follows.

|  | No. of Accts | Loans | Comm't | Doubtful Debt |   |
|--|--------------|-------|--------|---------------|---|
|  |              |       |        | Allowance     | 1 |
| 1. Closed Financial Institutions   | 22           | 4,699 | 4      | 1,213         |   |
| 2. Financial Institutions Under the Authorities' Control and Write-Down/ Recap Order | 3            | 33    | -      |               | 1 |
| 3. Listed Companies Subject to Delisting Process by SET                              | 16           | 1,130 | 23     | 540           |   |
| Total  | 41           | 5,862 | 27     | 1,754         |   |

Bht 4,699 million in loans and interest receivables in account with those financial institutions closed down by the Authorities is presented in the interbank item. Part of these debts at Bht 2,268 million is marked for converting into NCDs with Krung Thai Bank, Plc. while the rest is pending partial settlement through liquidation. The Bank has set aside Bht 1,213 million as allowance for doubtful debts for unrecoverable amount which is shown in the allowance for doubtful debts item under the heading of Loans and Advances.

For domestic loans granted to financial institutions under the Authorities intervention and subject to write-down and recapitalization order as well as listed companies under delisting process amounting to Bht 33 million and Bht 1,130 million respectively, the Bank has set aside allowance for doubtful debts up to Bht 1 million and Bht 540 million respectively which are included in the allowance for doubtful debts item under Loans and Advances.

3.5 Allowance for Doubtful Debts  
 (Millions of Baht)

|                                  |         |        |
|----------------------------------|---------|--------|
|                                  | 1998    | 1997   |
| Balance at beginning of the year | 28,003  | 3,617  |
| Doubtful Debts                   | 39,597  | 24,547 |
| Bad Debt Written Off             | (1,304) | (161)  |
| Bad Debts Recovered              | 2       | -      |
| Balance at year-end              | 66,298  | 28,003 |

As at Dec. 31, 1998, the Bank set aside its allowance for doubtful debts in loans and interest receivables up to Bht 66,298 million or 72.74% of the Bank's fully required allowance for doubtful debts. If its allowance for doubtful debts is to fully meet the accounting policies as described in Note 2.4, the Bank has to increase its allowance for doubtful debts by Bht 24,850 million.

As at Dec. 31, 1998, the Bank's loans were classified as follows.

( Millions of Baht )

| Loan Class      | Amount  | Allowance for Doubtful Debts |                 | Minimum Allowance Set Aside |
|-----------------|---------|------------------------------|-----------------|-----------------------------|
|                 |         | Percentage Required          | Amount Required |                             |
| Normal          | 32,405  | 1                            | 324             | 324                         |
| Special Mention | 7,506   | 2                            | 150             | 150                         |
| Sub-Standard    | 5,270   | 20                           | 526             | 526                         |
| Doubtful        | 15,065  | 50                           | 4,319           | 4,319                       |
| Very Doubtful   | 137,984 | 100                          | 85,571          | 60,979                      |
| Bad             | 258     | 100                          | 258             | -                           |
| Total           | 198,488 |                              | 91,148          | 66,298                      |

\* Unclassifiable

Non-performing loans (NPL) refer to those accounts that miss their payments for more than 6 months. As at Dec. 31, 1998, the Bank's NPLs amounted to Bht135,090 million or 70.07% of its total loans.

### 3.6 Debt Restructuring Process

The Bank has set up its process to restructure its problem loans under an internal regulation Ref. OF 695/2541 Re: Policies, Method and Procedures as Related to Debt Restructuring dated Nov. 4, 1998. This regulation defines its objectives and sets guidelines for the analysis and screening of borrowers, following-up and overseeing as well as reporting of the activities required which, as a whole, aim at keeping all actions in line with the Bank's accounting policies related to the debt restructuring process. The Bank's target in restructuring of its non-performing loans for 1998 was set at Bht 24,000 million but the actual restructured debts amounted to Bht 40,581 million in which cash settlement reached Bht 10,893 million while Bht 29,597 million was the aggregate amount of NPLs being turned into normally performing accounts. However, the Bank was still unable to reduce its NPL portfolio with some restructured accounts totaling Bht 12,770 million because these accounts were, during the period, in the middle of agreement preparation.

The Bank has set its debt restructuring target at Bht 80,000 million for a period of 3 years. For 1999, 2000 and 2001, the targets are Bht 40,000 million, Bht 20,000 million and Bht 20,000 million respectively. The Bank would continue its debt restructuring effort from year to year from 1999 onwards.

### 3.7 Properties Foreclosed

|  |       |       |
|--|-------|-------|
|  | 1998  | 1997  |
| Properties Foreclosed                  | 1,208 | 1,509 |
| Less Allowance for diminution in value | (301) | (258) |
|  | 907   | 1,251 |

The allowance for diminution in value at Bht 258 million was carried forward from preceding period ending Dec. 31, 1997 which originated from the value of properties foreclosed at Bht 258 million recorded by the Bank's foreign offices already closed.

| 3.8 Premises and Equipment                  | Depreciation (%) | 1998    | (Millions of Baht) 1997 |
|---|------------------|---------|-------------------------|
| Land  | --               | 1,339   | 1,176                   |
| Buildings                                   | 3.3 - 5          | 1,574   | 1,461                   |
| Equipment                                   | 10 - 20          | 1,839   | 1,822                   |
| Lease hold rights (Net) Based on Lease Term |                  | 235     | 245                     |
| Others                                      | 10 - 20          | 1,761   | 1,862                   |
| Total                                       |                  | 6,748   | 6,566                   |
| Less Accumulated Depreciation               |                  | (1,857) | (1,688)                 |
| Premises and equipment - Net                |                  | 4,891   | 4,878                   |

| 3.9 Other Assets              | 1998    | (Millions of Baht) 1997 |
|-------------------------------|---------|-------------------------|
| Advance and deferred expenses | 36      | 306                     |
| Account receivables           | 171     | 100                     |
| Other debts                   | 537     | 529                     |
| Other assets                  | (1,344) | 1,427                   |
| Total                         | 2,088   | 2,362                   |

Other assets at Bht 1,344 million is inclusive of deferred income tax of Bht 813 million and equity investment in Bangkok Metropolitan Life Insurance Co., Ltd. at Bht 289 million which is 67.8% of the company's registered capital. The holding was approved by the Bank of Thailand but share transfer registration is yet to be done.

| 3.10 Deposits                  | 1998    | (Millions of Baht) 1997 |
|--------------------------------|---------|-------------------------|
| 3.10.1 Classified by Type      |         |                         |
| Current                        | 983     | 1,084                   |
| Savings                        | 10,366  | 7,854                   |
| Term                           |         |                         |
| -Under 6 months                | 97,668  | 53,361                  |
| -6 months but less than 1 year | 29,303  | 4,216                   |
| -1 year and over               | 10,019  | 13,103                  |
| Certificates of Deposit        | 18,581  | 811                     |
| Total                          | 166,920 | 80,429                  |

| 3.10.2 Classified by remaining period before maturity | 1998    | (Millions of Baht) 1997 |
|---|---------|-------------------------|
| Not over 1 year                                       | 166,403 | 80,085                  |
| Over 1 year   | 517     | 343                     |
| Total   | 166,920 | 80,429                  |

| 3.10.3 Classified by currencies and domiciles of depositors | 1998     |         | 1997     |         |
|---|----------|---------|----------|---------|
|   | Domestic | Foreign | Domestic | Foreign |
| Baht  | 166,643  | 175     | 166,818  | 190     |
| U.S. Dollar   | 100      | 2       | 102      | 3       |
| Other Currencies  | -        | -       | -        | 1       |
| Total   | 166,743  | 177     | 166,920  | 194     |
|   |          |         |          | 80,429  |

| 3.11 Interbank and Money Market Items | (Millions of Baht) |
|---------------------------------------|--------------------|
| 3.11.1 Domestic                       |                    |
|                                       |                    |

|  | 1999  | 1997 | Total | At Call | Term  | Total   | At Call | Term | Total |
|--|-------|------|-------|---------|-------|---------|---------|------|-------|
| Bank of Thailand and FIDF  | -     | 54   | 54    | 99,302  | 103   | 99,405  |         |      |       |
| Commercial Banks   | 1,004 | -    | 1,004 | 12      | 87    | 99      |         |      |       |
| Other banks  | 232   | 20   | 252   | 1,113   | 1,000 | 2,113   |         |      |       |
| Finance, Finance & Securities,<br>Securities and Credit Foncier Co's | 4     | 224  | 228   | 213     | 15    | 228     |         |      |       |
| Other Financial Institutions   | 20    | 484  | 504   | 30      | 17    | 47      |         |      |       |
| Total Domestic   | 1,260 | 782  | 2,042 | 100,670 | 1,222 | 101,892 |         |      |       |
| 3.11.2 Foreign   |       |      |       |         |       |         |         |      |       |

(Millions of Baht)

|                            | 1998  | 1997  | Total | At Call | Term  | Total   |
|----------------------------|-------|-------|-------|---------|-------|---------|
| U.S. Dollar                | 271   | -     | 271   | -       | 2,256 | 2,256   |
| Japanese Yen               | -     | -     | -     | -       | 60    | 60      |
| Deutsche Mark              | 9     | -     | 9     | -       | 33    | 33      |
| Other Currencies           | -     | -     | -     | 4       | 1     | 5       |
| Total Foreign              | 280   | -     | 280   | 4       | 2,350 | 2,354   |
| Total Domestic and Foreign | 1,062 | 1,062 | 2,322 | 100,674 | 3,572 | 104,246 |

3.12 Borrowings

(Millions of Baht)

1998

|   | 1998  | 1997  | Total | Domestic | Foreign | Total | Domestic | Foreign | Total |
|---|-------|-------|-------|----------|---------|-------|----------|---------|-------|
| EMR Subordinated Debenture Issue No. 1/2001 | 1,000 | -     | 1,000 | 1,000    | -       | 1,000 | 1,000    | -       | 1,000 |
| Subordinated Floating Rate Notes            | -     | 1,834 | 1,834 | -        | 1,834   | -     | -        | 2,362   | 2,362 |
| Floating Rate Notes                         | 1,000 | -     | 1,000 | 1,834    | 2,834   | 1,000 | 1,000    | 7,083   | 8,083 |
| Total                                       | 2,000 | 1,834 | 3,834 | 2,834    | 1,000   | 3,834 | 2,000    | 7,083   | 8,083 |

EMR subordinated debentures are unsecured/holder identified type of debenture issued on Dec. 21, 1994 for 1 million units at a face value of Bht 1,000 with maturity of 7 years from the date of issuance and interest payable every 6 months at MLR-0.125% p.a. The Bank's subordinated floating rate notes at a total value of USD 50 million are unsecured and redeemable within June 2000 with interest payable every 6 months at 6-month LIBOR + 1.5% p.a. The Bank's floating rate notes at a total value of USD 100 million bearing an interest payable every 6 months at 6-month LIBOR + 0.475% p.a. were all redeemed during this financial period.

3.13 Other Liabilities

(Millions of Baht)

1998

|                              | 1998  | 1997 | Total |
|------------------------------|-------|------|-------|
| Staff Pension Fund           | 818   | -    | 818   |
| Deposit and Guarantee Monies | 11    | 11   | 22    |
| Deferred Expenses            | 432   | 226  | 658   |
| Income Received in Advance   | 23    | 88   | 111   |
| Others                       | 349   | 331  | 680   |
| Total                        | 1,633 | 656  | 2,289 |

The Bank's staff pension fund of Bht 818 million as at Dec. 31, 1998 was approved by the Board of Directors as fully committed obligation to the Bank's employees. The fund will be available to qualified employees individually in accordance with certain conditions upon termination of employment.

3.14 Legal Capital Fund

The Bank maintains its legal capital fund in accordance with the conditions set out by Bank of Thailand. As at Dec. 31, 1998 and 1997, the Bank's capital fund consisted of:

|                | (Millions of Baht) |         |
|----------------|--------------------|---------|
|                | 1998               | 1997    |
| Tier 1 Capital | 679                | (7,860) |
| Tier 2 Capital | 339                | 1,102   |
| Total          | 1,018              | (6,698) |

As at Dec. 31, 1998, the Bank's capital fund stood at Bht 1,018 million. This caused the ratio between capital fund and risk assets to stand below the standard requirement set by the Bank of Thailand. However, the Bank's management is working to correct the situation.

### 3.15 Commitments

(Millions of Baht)

1997

1998

|   | Baht   | Foreign Currencies | Total  | Baht   | Foreign Currencies | Total  |
|---|--------|--------------------|--------|--------|--------------------|--------|
| Aval to bills                                 | 574    | -                  | 574    | 1,778  | 678                | 2,456  |
| Loan guarantees                               | 682    | 703                | 1,385  | 757    | 3,178              | 3,935  |
| Other guarantees                              | 10,607 | 1,386              | 11,993 | 12,859 | 1,242              | 14,101 |
| Liabilities under acceptances of inward bills | 24     | 951                | 975    | -      | -                  | -      |
| Letters of credit                             | 186    | 691                | 877    | 306    | 4,710              | 5,016  |
| Foreign exchange contracts                    | -      | 142                | 142    | -      | 1,758              | 1,758  |
| Purchase contracts                            | -      | 873                | 873    | -      | 3,122              | 3,122  |
| Sale contracts                                | 9,551  | -                  | 9,551  | 8,479  | -                  | 8,479  |
| Unused overdraft                              | 131    | 444                | 575    | 612    | 5,993              | 6,605  |
| others  | 21,755 | 5,190              | 26,945 | 24,791 | 20,881             | 45,672 |
| Total   |        |                    |        |        |                    |        |

The Bank is defending a number of lawsuits with a total claims of Bht 141 million. From the verdicts delivered by the lower and the appeal courts, the Bank believes that its chances for winning the cases are considerable ample. Besides, the Bank has entered into agreements to buy computer equipment from suppliers at a total cost of Bht 260.4 million. Payments was already made up to Bht 228.4 million.

### 3.16 Related Party Transactions

Loans and commitments made to the Bank's officers with the rank of department head up and to business enterprises the Bank or its directors or such officers collectively hold at least 10% of their paid up capital are shown in details as follow.

|             | As at Dec. 31 |       | Monthly Average Balances |       |
|-------------|---------------|-------|--------------------------|-------|
|             | 1998          | 1997  | At Month-End             | 1997  |
| Loans       | 6             | 6,355 | 6                        | 5,389 |
| Commitments | -             | 1,743 | -                        | 2,189 |
| Total       | 6             | 8,098 | 6                        | 7,578 |

### 3.17 Other Benefits Paid to Directors and Executives

The Bank paid no other benefits to its directors and executives apart from normal executive's salary and bonus and director's fees and bonus.

### 3.18 Long-term Leasehold Rights

The Bank has obtained leasehold rights to premises at 47 locations for its branch and currency exchange offices. Most of the leases cover a length of 3 years but the leaseholds at 8 branch locations last from 7 to 30 years with longest to end in 2024. The leasing expenses totaled around Bht 3.39 million a year. Besides, the Bank has paid Bht 185.78 million for all of the leasehold rights.

3.19 Share Capital  
As at Dec. 31, 1998, the Bank maintained its registered and paid-up capital as follows.

|  | Baht           |
|--|----------------|
| Registered Capital   |                |
| 200 preferred shares at a par value of Bht 0.01            | 39,215,011,021 |
| 3,921,501,102,050 common shares at a par value of Bht 0.01 | 39,215,011,023 |
| Total  |                |
|  | Baht           |
| Issued and Paid-Up Capital                                 |                |
| 200 preferred shares at a par value of Bht 0.01            | 2              |
| 3,921,501,102,050 common shares at a par value of Bht 0.01 | 39,215,011,021 |
| Total  | 39,215,011,023 |

Holders of preferred shares enjoy the same rights with the holders of common shares except that the holders of preferred shares are entitled to extra dividend at Bht30 a year above the dividend paid to common share holders. This privilege granted to the holders of the preferred share is yet to be changed to become consistent with the capital write-down of the Bank already put into effect during the period.  
During the financial period ending Dec. 31, 1998, Bank of Thailand instructed the Bank to write down and recapitalize its capital in 2 occasions.

3.19.1 In its letter ref. BOT Nor. 137/2541 dated Jan. 23, 1998, Bank of Thailand laid down the following conditions for the Bank to comply.

#### Capital Write-Down

-By eliminating unsubscribed common shares totaling 397,749,012 shares at a combined value of Bht 3,977,490,120.  
-By writing off paid up capital of Bht 11,022,509,880 by Bht 11,011,487,370.12 to remain at Bht 11,022,509.88 causing both preferred and common shares to slide down from Bht 10 to Bht 0.01 in par value.  
-By offsetting the operating loss at the end of 1997, with the sum of Bht 11,011,487,370.12 written off from its shareholders' equity as well as the whole amounts of premium on share capital, legal reserve, other reserves and unappropriated retained earnings in the capital fund.

#### Recapitalization

To increase the Bank's remaining share capital of Bht 11,022,509.88 million by Bht 25,000,000,000 million to make the Bank's registered capital rise up to Bht 25,011,022,509.88 million. To complete its recap process, the Bank was instructed to issue 2,500,000,000 new common shares at a par value of Bht 0.01. The Bank registered its written-down capital and new registered capital with the Ministry of Commerce on Feb. 5, 1998 and its new paid-up capital at Bht 25,011.02 million on Feb. 9, 1998.

3.19.2 On Aug. 31, 1998, Bank of Thailand, in its letter ref. BOT Nor 3405/2541, instructed the Bank to write-down and increase its share capital as follows.

#### Capital Write-Down

-By writing down its paid up capital of Bht 25,011,022,509.88 by Bht 24,986,011,487.38 to remain at Bht 25,011,022.50. In effect, the Bank's 2,501,102,250,988 issued and subscribed shares were eliminated to remain at 2,501,102,250 shares consisting of 2,501,102,050 common shares and 200 preferred shares.

-Taking the sum of Bht 24,986,011,487.38 written off from its shareholders equity and reserves in the capital fund to offset the Bank's operating loss and keep the Bank's financial position in a true and accurate manner.

#### Recapitalization

-Increase the remaining capital of Bht 25,011,022.50 by Bht 39,190,000,000 to

make the Bank's capital rise to Bht 39,215,011,022.50 with new issue of 3,919,000,000 common shares at a par value of Bht 0.01. The whole lot of new shares was sold to the Financial Institutions Development Fund which in effect increase the FIDF's holding of the Bank's shares to 99.94%. The Bank registered its written down and increased registered capital with the Ministry of Commerce on Sept. 25, 1998 and its paid-up capital on Sept. 30, 1998.

3.20 Significant Financial Positions and Operating Results from Domestic and Foreign Operations

As at Dec. 31, 1998, the Bank's significant financial positions and operating results from its domestic and foreign operations can be set out separately as follows.

1. Financial Positions Classified by Operations

|  | 1998                |                    |                    | 1997                |                    |                    |
|--|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
|  | Domestic Operations | Foreign Operations | Eliminated Transac | Domestic Operations | Foreign Operations | Eliminated Transac |
| Total Assets                                   | 271,312             | 6,042              | 277,354            | 177,461             | 6,849              | 222,527            |
| Interbank and Money Market Items (Assets)      | 17,604              | 15                 | 17,619             | 4,118               | 21,737             | 4,136              |
| Loans  | 183,150             | -                  | 183,150            | 180,794             | -                  | 185,490            |
| Investment in Securities (Net)                 | 6,961               | -                  | 6,961              | 5,961               | -                  | 3,233              |
| Deposits                                       | 167,680             | -                  | 167,680            | 166,920             | -                  | 80,552             |
| Interbank and Money Market Items (Liabilities) | 1,349               | -                  | 1,349              | 973                 | 2,322              | 102,111            |
| Loans  | 2,256               | -                  | 2,256              | 578                 | 2,834              | 4,731              |
| Commitments                                    | 26,945              | -                  | 26,945             | 25,945              | -                  | 45,472             |
| Eliminated                                     | -                   | -                  | -                  | -                   | -                  | -                  |
| Total  | 271,312             | 6,042              | 277,354            | 177,461             | 6,849              | 222,527            |

2. Operating Results Classified by Transactions

|                             | 1998                |                    |                    | 1997                |                    |                    |
|-----------------------------|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
|                             | Domestic Operations | Foreign Operations | Eliminated Transac | Domestic Operations | Foreign Operations | Eliminated Transac |
| Total                       | 16,317              | 481                | 16,798             | 15,929              | 355                | 22,337             |
| Interest Income & Dividends | (439)               | (478)              | (869)              | (21,231)            | (338)              | (21,569)           |
| Interest Expenses           | 439                 | 5                  | 444                | 751                 | 17                 | 768                |
| Interest Income - Net       | 1,349               | 481                | 1,830              | 1,929               | 355                | 2,337              |
| Non-Interest Income         | (1,421)             | -                  | (1,421)            | (1,427)             | -                  | (1,427)            |
| Non-Interest Expenses       | (44,343)            | (1)                | (44,344)           | (44,338)            | (1)                | (44,339)           |
| Profit/(Loss) before Tax    | (56,065)            | 4                  | (56,061)           | (23,606)            | 16                 | (23,590)           |
| Profit/(Loss) after Tax     | (56,065)            | 4                  | (56,061)           | (23,606)            | 16                 | (23,590)           |

Bangkok Metropolitan Bank, Pcl. operates its business at various domestic locations and also in foreign countries. Its operating data are shown in the following manner. -Assets, liabilities, income and expenses are separately shown between domestic and foreign operations. Interoffice items between head office and branches and BIBF are eliminated to present the data in conformity with the Bank's financial

statements.

3.21 Net Assets of the Bank's Agency Offices in the United States  
The Bank's agency offices in New York City, N.Y and San Francisco, California were officially closed with their banking licenses were returned to the U.S. Banking authorities on Aug. 23, 1996. All assets of the two agencies were accounted for by the head office in book transfer. As at Dec. 31, 1997, the net value of the assets remaining was around US\$ 84.64 million. In 1998, the Bank, according to its auditing report, managed to dispose some of the assets and recover some debts. As at Dec. 31, 1998, the assets remained in account at around US\$44.84 million. Those assets were classified as doubtful debts at Bht 2,417 million which was presented in the balance sheet as loans, properties foreclosed and other items accordingly. As at Dec. 31, 1998, the Bank set aside allowance for possible loss of the assets up to Bht 1,412 million, and Bht 164 million respectively which are included in the allowance for doubtful debts under loans, interest receivables and properties foreclosed. The Bank at present continues its effort to reclaim its debts and settle its accounts with creditors.

3.22 The Bank's Reconfiguration of Its Computer Systems to Eliminate the Y2K Problem  
The Bank is in the middle of making its computer systems ready to comply with the arrival of the Year 2000. It Y2K program, started in early 1998 and to end in the year 2000, is managed by a specially formed committee known as The Technology Management Committee which has been assigned with the following scope of works.

1. Eliminate the impact of the Y2K on the Bank's computer systems and all computerized equipment. The Committee's action plan involves 5 major areas of concern and made some progress as follows.
  - In main-frame & mini-computers, the work is 93 % completed.
  - In communication network, the work is 74% complete.
  - In personal computer (PC) and others, the work is 87% completed.
  - In building facility support systems such as lifts, power supply, telephone system and other electronic systems, the work is 92% completed.
  - In system control and application software, the work is 79% completed.

2. Budget for investment in equipment and expenses for the Bank allocated at Bht 111.93 million for its Y2K program are as follows.

|  | Budget | Amount Used       |
|--|--------|-------------------|
| - Computers and Peripheral Equipment         | 28.40  | As at Dec. 31, 98 |
| - Cost of Application Software Redevelopment | 70.10  | 0.82              |
| - Whole System Test Run                      | 3.26   | 6.00              |
| - Contingency Expenses at 10%                | 10.17  | -                 |
| Total  | 111.93 | 1.01              |
|  |        | 7.83              |

3. Even though the Bank is confident that it can complete its preparation for the coming of the year 2000 in time, there is still a cause for concern that other organizations the Bank has been connected with in some areas of businesses may be unable to finish the preparations in time. If so, the Bank's operations in the Year 2000 and beyond might have been affected very significantly and the Bank, presently, is not in a position to make any guess in advance of how far the damage will be done to its business.

3.23 Privatization and Rehabilitation  
Relating to Note 3.14 regarding the Bank's position in maintaining its capital fund, it is the policy of the Government that BMB is to be rehabilitated as part of the Government's effort to restructure the country's banking and money market systems. The restructuring may come from a variety of concepts depending on the Government's final policy but the Bank after its rehabilitation is done will share its state enterprise status.

3.24 Risk Management in the Fluctuations of Interest Rates and Foreign Exchange Market  
The Bank has carried out its activities in the foreign exchange market by buying and selling forward exchange contracts with its counterparts to reduce the risk in its foreign exchange exposure connected to its international trade services. Its foreign exchange forward contracts have nothing at all to do with currency trading in the exchange market. The Bank recorded its



foreign exchange transaction as described in Note 2.6. To the financial statements, the Bank manages its exchange risks by allowing its customers to fix an exchange rate for not over 6 months for those in the export sector. For imports, the rate fixing would depend on the shipment period. As at Dec. 31, 1998, the Bank's forward contracts purchased and forward contracts sold were totaling Sfr 141.5 million and Sfr 478.8 million respectively.

BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED

BALANCE SHEETS

AS AT DECEMBER 31, 1998 AND 1997

|   | Baht<br>1998     | Baht<br>1997     |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| Cash  | 1,124,735,127    | 1,136,497,706    |
| Interbank and money market items                        |                  |                  |
| Domestic items  |                  |                  |
| Interest Bearing  | 11,892,829,899   | 5,215,124,767    |
| Non-interest Bearing                                    | 7,104,647,834    | 513,750,783      |
| Foreign items   |                  |                  |
| Interest Bearing  | 3,973,564,902    | 1,639,433,383    |
| Non-interest Bearing                                    | 366,938,132      | 366,341,353      |
| Total Interbank and Money Market Items                  | 21,336,630,770   | 7,934,956,091    |
| Securities purchased under resale agreements (Note 3.2) | 15,500,000,000   | -                |
| Investment in securities (Notes 3.3)                    |                  |                  |
| Securities for trading                                  | 888,568,549      | 968,961,767      |
| Securities for investment                               | 7,395,373,742    | 4,139,320,372    |
| Total Investment in Securities                          | 8,283,942,291    | 5,108,282,139    |
| Less Allowance for diminution in value of securities    | (1,322,463,419)  | (815,107,314)    |
| Investment in Securities - net                          | 6,961,478,872    | 4,293,174,825    |
| Loans and accrued interest receivables (Notes 3.4)      | 130,794,283,661  | 137,613,570,163  |
| Loans   | 7,553,348,722    | 6,933,789,308    |
| * Accrued interest receivables                          | 123,241,934,939  | 130,679,780,855  |
| Total Loans and Accrued Interest Receivables            | 130,794,283,661  | 137,613,570,163  |
| Less Allowance for doubtful accounts (Note 3.5)         | (66,297,531,047) | (68,632,682,927) |
| Loans and Accrued Interest Receivables - net            | 64,496,752,614   | 68,980,887,236   |
| Properties foreclosed - net (Notes 3.7)                 | 907,659,948      | 1,250,567,233    |
| Customers' liability under acceptances                  | 1,538,787,141    | 2,440,536,573    |
| Premises and equipment - net (Notes 3.8)                | 4,891,082,159    | 4,311,650,681    |
| Inter-office accounts                                   | 320,377,631      | 56,398,691       |
| Other assets (Notes 3.9)                                | 2,098,473,193    | 2,363,512,221    |
| Total Assets  | 177,418,795,217  | 196,371,413,610  |

The accompanying notes are an integral part of these statements

BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED

BALANCE SHEETS  
AS AT DECEMBER 31, 1998 AND 1997

| LIABILITIES AND SHAREHOLDERS' EQUITY                            | Baht<br>1998    | Baht<br>1997   |
|---|-----------------|----------------|
| Deposits  |                 |                |
| Deposits in baht  |                 |                |
| Deposits in foreign currencies                                  |                 |                |
| Total Deposits  | 166,817,530,220 | 80,354,247,458 |
| Interbank and money market items                                | 102,474,734     | 74,687,533     |
| Domestic items  | 166,920,004,954 | 80,428,934,991 |
| (Note3.11)  |                 |                |
| Interest bearing  |                 |                |
| Non-interest bearing  | 2,026,761,998   |                |
| Interest bearing  | 15,015,232      |                |
| Foreign items   |                 |                |
| Interest bearing  |                 |                |
| Non-interest bearing  | 280,200,270     |                |
| Total Interbank and Money Market Items                          | 2,322,372,877   | 2,349,726,311  |
| Borrowings  | 170,404,439     | 4,894,136      |
| Long term borrowings  |                 |                |
| Total Borrowings  | 170,404,439     | 4,894,136      |
| (Note3.12)  |                 |                |
| Bank's liability under acceptances                              | 2,834,400,000   | 8,083,098,000  |
| Accrued interest payables                                       | 1,538,787,141   | 8,083,098,000  |
| Other liabilities   | 1,999,458,723   | 2,440,536,978  |
| Total Liabilities   | 1,633,564,476   | 2,063,488,587  |
| (Note3.13)  |                 |                |
| The accompanying notes are an integral part of these statements | 177,416,952,610 | 656,009,901    |
|   | 198,246,877,458 |                |

BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED  
BALANCE SHEETS  
AS AT DECEMBER 31, 1998 AND 1997

| LIABILITIES AND SHAREHOLDERS' EQUITY                                      | Baht<br>1998     | Baht<br>1997     |
|---|------------------|------------------|
| Shareholders' Equity  |                  |                  |
| Share capital   |                  |                  |
| Authorized share capital, baht 0.01 Par value in 1998 and 10 baht in 1997 |                  |                  |
| (Note3.19)  |                  |                  |
| 200 preferred shares in 1998  | 39,215,011,021   | 2,000,000        |
| and 200,000 preferred shares in 1997                                      | 39,215,011,023   | 14,998,000,000   |
| 3,921,501,102,050 common shares in 1998                                   |                  |                  |
| and 1,499,800,000 common shares in 1997                                   |                  |                  |
| Total   | 2                | 2                |
| Issued and fully paid-up share capital                                    |                  |                  |
| and 200,000 preferred shares in 1998                                      |                  |                  |
| and 200,000 preferred shares in 1997                                      |                  |                  |
| 3,921,501,102,050 common shares in 1998                                   |                  |                  |
| and 1,499,800,000 common shares in 1997                                   |                  |                  |
| Total   | 2                | 2                |
| Premium on share capital  |                  |                  |
| Retained earnings   | 39,215,011,021   | 2,000,000        |
| Appropriated  | 39,215,011,023   | 11,020,509,880   |
| -legal reserve  |                  |                  |
| -Others   |                  |                  |
| Unappropriated  |                  |                  |
| Less Unrealized loss on securities for investment                         |                  |                  |
| Total Shareholders' Equity  | (38,536,239,903) | 686,005,008      |
| (Note 2.5)  |                  |                  |
|   | (678,968,513)    | 905,581,951      |
|   | (197,393)        | (357,538,502)    |
|   | (7,969,463,780)  | (11,043,932,605) |

|  |             |                 |                 |
|--|-------------|-----------------|-----------------|
| Total Liabilities and Shareholders' Equity |             | 177,418,795,217 | 190,277,413,678 |
| OFF-BALANCE SHEET ITEMS - CONTINGENCIES    | (Note 3.15) |                 |                 |
| Aval to bills guarantees of loans          |             | 1,959,585,093   | 6,390,835,860   |
| Liability under unmatured import bills     |             | 975,153,680     | 5,501,534,342   |
| Letters of credit                          |             | 877,492,642     | 5,016,353,242   |
| Other contingencies                        |             | 23,133,193,977  | 28,563,616,195  |

The accompanying notes are an integral part of these statements

Mr. Thamoon Duangmanee  
Director

Mr. Somchai Sakulsurarat  
Director

BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED  
STATEMENTS OF INCOME  
FOR TWELVE - MONTH PERIODS ENDED DECEMBER 31, 1998 AND 1997

|  | Baht<br>1998     | Baht<br>1997     |
|--|------------------|------------------|
| Interest and dividend income   |                  |                  |
| Loans  | 13,837,614,659   | 21,236,803,530   |
| Interbank and money market items                                     | 1,856,355,065    | 194,126,282      |
| Government securities and state enterprise securities                | 87,566,304       | 229,914,523      |
| Other securities   | 147,842,982      | 237,898,175      |
| Total Interest and Dividend Income                                   | 15,929,379,010   | 21,898,742,510   |
| Interest expenses  |                  |                  |
| Deposits   | 17,524,342,596   | 13,086,795,302   |
| Interbank and money market items                                     | 8,263,846,973    | 7,544,949,067    |
| Borrowings   | 436,623,084      | 498,622,306      |
| Total Interest Expenses  | 26,224,812,653   | 21,130,366,675   |
| Interest and Dividend Income - net                                   | (10,295,433,643) | 768,375,835      |
| Bad debt and doubtful accounts                                       | (39,639,669,518) | (24,864,447,755) |
| Interest and Dividend Income after<br>Bad Debt and Doubtful Accounts | (49,935,103,161) | (24,096,071,920) |
| Non-interest income  |                  |                  |
| Fees and services income   | 38,327,038       | 214,572,902      |
| Acceptances, aval and guarantees                                     | 520,117,655      | 751,128,867      |
| Others   | (2,062,109,742)  | 3,410,124,306    |
| Gain (Loss) on exchanges   | 76,890,433       | 97,193,490       |
| Other income   | (1,426,774,516)  | 4,473,019,565    |
| Total Non-Interest Income  | 2,136,499,760    | 1,382,702,469    |
| Non-interest expenses  |                  |                  |
| Personnel expenses   | 675,978,801      | 628,246,166      |
| Premises and equipment expenses                                      | 560,863,734      | 655,173,195      |
| Taxes and duties   | 202,247,392      | 127,250,876      |
| Fees and service expenses  | 10,045,635       | 3,836,939        |
| Directors' remuneration  | 1,113,065,721    | 1,249,779,922    |
| Other expenses   | 4,698,697,043    | 4,026,989,567    |
| Total Non-Interest Expenses  | (56,060,574,820) | (23,590,041,922) |
| Income (Loss) before income tax                                      | 161,271,218      | (26,097,410)     |
| Income tax   | 155,899,303,602  | (23,616,139,332) |
| Net profit (Loss)  | (0.02)           | (22.65)          |
| Profit (Loss) per share  | (0.02)           | (22.65)          |
| -Preferred shares  |                  |                  |
| -Common shares   | (0.02)           | (22.65)          |

The accompanying notes are an integral part of these statements

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BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED  
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR TWELVE - MONTH PERIOD DECEMBER 31, 1998 AND 1997

|  | BAHT<br>1998     | BAHT<br>1997     |
|--|------------------|------------------|
| Preferred share                              |                  |                  |
| Beginning balance                            | 2,000,000        | 2,000,000        |
| Decrease during period                       | (1,999,998)      | -                |
| Ending balance                               | 2                | 2,000,000        |
| Ordinary share capital                       |                  |                  |
| Beginning balance                            | 11,020,509,880   | 9,815,085,700    |
| Increase during period                       | 64,190,000,000   | 1,205,424,180    |
| Decrease during period                       | (35,995,498,859) | -                |
| Ending balance                               | 39,215,011,021   | 11,020,509,880   |
| Premium on share capital                     |                  |                  |
| Beginning balance                            | 1,043,932,606    | 1,043,932,606    |
| Increase during period                       | (1,043,932,606)  | -                |
| Ending balance                               | -                | 1,043,932,606    |
| Retained earnings                            |                  |                  |
| Appropriated                                 |                  |                  |
| Legal reserve                                |                  |                  |
| Beginning balance                            | 686,005,008      | 590,640,530      |
| Increase during period                       | -                | 95,364,478       |
| Decrease during period                       | (686,005,008)    | -                |
| Ending balance                               | -                | 686,005,008      |
| Others                                       |                  |                  |
| Beginning balance                            | 905,581,951      | 760,481,253      |
| Increase during period                       | -                | 145,100,698      |
| Decrease during period                       | (905,581,951)    | -                |
| Ending balance                               | -                | 905,581,951      |
| Unappropriated                               |                  |                  |
| Beginning balance                            | (21,269,954,723) | 2,586,649,786    |
| Increase during period                       | 38,633,018,422   | -                |
| Net Profit (loss)                            | (55,899,303,602) | (23,616,139,333) |
| Dividend payment                             | -                | -                |
| Reserves                                     | -                | (240,465,176)    |
| Ending balance                               | (38,536,239,903) | (21,269,954,723) |
| Unrealized loss on securities for investment |                  |                  |
| Beginning balance                            | (357,538,502)    | (247,833,111)    |
| Increase during period                       | (321,430,011)    | (109,705,391)    |
| Ending balance                               | (678,968,513)    | (357,538,502)    |
| Total Shareholders' Equity                   | (197,393)        | (7,969,463,780)  |

The accompanying notes are an integral part of these statements

BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED  
STATEMENT OF RETAINED EARNINGS  
FOR TWELVE - MONTH PERIOD DECEMBER 31, 1998 AND 1997

|  | BAHT<br>1998     | BAHT<br>1997     |
|--|------------------|------------------|
| Unappropriated retained earnings (deficit)     |                  |                  |
| Beginning balance                              | (21,269,954,723) | 2,586,649,786    |
| Less Appropriation of net income of prior year |                  | (240,465,176)    |
| Reserves                                       |                  |                  |
| Decrease in capital in 1998                    | 1,999,998        | -                |
| Preferred shares                               | 35,995,498,859   | -                |
| Common shares                                  | 1,043,932,606    | -                |
| Premium on share capital                       | 1,591,586,959    | -                |
| Retained earnings                              | (55,899,303,602) | (23,616,139,333) |
| Grin (loss) during period                      |                  |                  |

|  |                  |                  |
|--|------------------|------------------|
| Total Unappropriated Retained Earnings | (38,536,239,903) | (21,269,954,723) |
| Net loss for the year                  | -                | -                |
| Appropriated retained earnings         | -                | -                |
| Legal reserve                          | -                | -                |
| Others                                 | 686,005,008      | 905,581,951      |
| Total Appropriated Retained Earnings   | 1,591,586,959    | 1,591,586,959    |
| Total Deficit                          | (38,536,239,903) | (19,678,367,764) |

The accompanying notes are an integral part of these statements

BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE TWELVE - MONTH PERIOD ENDED DECEMBER 31, 1998 AND 1997

|  | BAHT<br>1998     | BAHT<br>1997     |
|--|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                  |                  |
| Net Gain (Loss)  | (55,899,303,602) | (23,616,139,333) |
| Adjustments to reconcile net gain (loss) to net cash provided by (used in) operating activities: |                  |                  |
| Depreciation and amortization  | 291,401,154      | 288,539,829      |
| Loss on diminution in value of investment in securities  | 186,275,894      | 200,413,377      |
| Doubtful accounts and loss on diminution in value  | 38,337,400,850   | 24,643,562,472   |
| Deferred income tax  | (192,024,203)    | 17,022,588       |
| (Gain) loss on translation of foreign currencies   | 3,085,118,133    | (1,648,483,576)  |
| (Increase) decrease in accrued interest and dividend income                                      | (1,082,883,206)  | (2,760,248,249)  |
| (Increase) decrease in accrued other income  | 4,175,268        | (31,069,551)     |
| (Increase) decrease in accrued interest expenses   | (64,029,864)     | (830,863,141)    |
| Increase (decrease) in accrued other expenses  | 1,025,111,689    | (171,575,525)    |
| Loss on selling assets   | 85,516,172       | -                |
| Loss on selling Investment   | 13,829,400       | -                |
| Gain (loss) from operations before changes in operating assets and liabilities                   | (14,209,412,315) | (3,908,837,109)  |
| (Increase) decrease in operating assets  | (14,005,202,161) | (23,958,134,243) |
| Deposits, loans and interbank and money market items   | (15,500,000,000) | -                |
| Securities purchased under resale agreements   | 20,413,233       | 324,601,129      |
| Investment in securities for trading   | 113,079,645      | (30,678,543)     |
| Properties foreclosed  | (294,752,031)    | 3,211,586,861    |
| Other assets   |                  |                  |
| Increase (decrease) in operating liabilities   | (12,711,248,423) | 22,074,671,068   |
| Deposits, borrowings and interbank and money market items  | (152,800,614)    | (685,623,125)    |
| Liability payable on demand  | 2,030,943,996    | (2,165,602,139)  |
| Other liabilities  | (54,708,978,670) | (5,138,016,101)  |
| Net cash provided (used in) operating activities   | (4,269,512,807)  | 4,244,336,670    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                  |                  |
| Decrease (increase) in investment in securities for investment                                   | (390,348,843)    | (750,013,418)    |
| (Increase) in premises and equipment   | (4,659,861,650)  | 3,494,323,252    |
| Net cash provided (used in) by investing activities  |                  |                  |

The accompanying notes are an integral part of these statements

BANGKOK METROPOLITAN BANK PUBLIC COMPANY LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE TWELVE - MONTH PERIOD ENDED DECEMBER 31, 1998 AND 1997

CASH FLOWS FROM FINANCING ACTIVITIES

BAHT  
1998

BAHT  
1997

|  |                 |                |
|--|-----------------|----------------|
| Long term borrowings                                 | (4,967,448,000) | -              |
| Issued and fully paid-up share capital               | 64,190,000,000  | 1,205,424,180  |
| Net cash provided by financing activities            | 59,222,552,000  | 1,205,424,180  |
| Effect of exchange rate on cash and cash equivalents | (25,264,319)    | 64,149,761     |
| Decrease in cash and cash equivalents                | (171,552,639)   | (374,118,908)  |
| Cash and cash equivalents as at January 1            | 1,196,287,766   | 1,570,406,674  |
| Cash and cash equivalents as at December 31          | 1,024,735,127   | 1,196,287,766  |
| Supplementary information of cash flows              |                 |                |
| Cash paid during the year for                        |                 |                |
| Interest expense                                     | 26,288,842,517  | 21,961,229,816 |
| Income tax   | 35,286,449      | 622,780,224    |

The accompanying notes are an integral part of these statements





(Translation)  
Office of the Auditor General  
AUDITORS' REPORT

To The shareholders of Bangkok Metropolitan Bank Public Company Limited:

We have examined the balance sheet of Bangkok Metropolitan Bank, Pcl. as at December 31, 1998 and the related statement of income, changes in the shareholders' equity, statement of retained earnings and statement of cash flows for the year ended on the same date of which information accuracy and completeness are the sole responsibility of the Bank's management while we are responsible for expressing our opinions based on the results of our examination and audit of such financial statements

The Bank's balance sheet as at Dec 31, 1997 as well as related statement of income, changes in shareholders' equity and statement of cash flows for the year then ended, being were shown in comparison, were audited by other auditor from whom a conditional opinion in his report dated February 26, 1998 was expressed due to factors related to insufficiency in allowance for doubtful debts, failure to evaluate the present value of properties foreclosed and the lack of information on the progress of the Bank's settlements of debts and commitments through converting into certificates of deposits or partial pay-off from liquidation with those financial institutions closed by the Authorities

We have carried out our audit in accordance with the generally accepted auditing standards which require us to plan our auditing tasks in such a way that we can rationally make sure whether or not those financial statements are presented in contradiction with any significant facts. Our auditing tasks included performing of tests on transaction evidences in both financial figures and exposure of information in the financial statements, the appraisal of suitability in the accounting method used by the Bank as well as objections of significant financial items made by the management. We believe that such auditing tasks have provided us with a fitting basis for our opinions.

As described in Note 3.5 to financial statements, the Bank computed its allowance for doubtful debts as related to its classified assets, according to Bank of Thailand's regulations, up to Bht 91,148 million. However, the Baobank has been allowed by Bank of Thailand to serially set aside the allowance within 5 financial periods. In this financial period, the Bank was required to set aside its allowance for doubtful debts under the relaxed rules at Bht 18,230 million. Evidently, the Bank's allowance for doubtful debts as at Dec. 31,1998 amounted to Bht 66,298 million or 72.74% of the full amount. As such, the Bank considers its allowance for doubtful debts has been sufficiently provided in accordance with the Bank of Thailand's regulations.

As described in Note 3.6 to financial statements, the Bank's solution to its non-performing loans through debt restructuring process has resulted in taking Bht 29,597 million of loans off its NFL portfolio. However, those loans at a total of Bht 12,770 million are yet to be reprocessed into proper agreements. This unfinished matter causes a problem in the provision of allowances for doubtful debts and bad debts as the allowances cannot be accurately made. As the related financial data are highly significant, we are not in a position to express our opinions on the Bank's statement of income and statement of retained earnings as at Dec.31,1998.

We consider that except the impact of the subject matters as discussed in Paragraphs 4 and 5 above, the accompanying financial statements as at Dec. 31,1998, changes in the shareholders, equity and statement of cash flows so ended of Bangkok Metropolitan Bank, Pcl. are presented, in all significant areas, correctly and fairly in accordance with the generally accepted accounting principles.

We would like to draw your attention to Note 3.22 to the financial statements regarding the Bank's Year 2000 preparation which is not a conditional subject and not included in our opinion to the financial statements.

Prathan Babpetch  
Deputy Auditor-General  
Acting on behalf of the Auditor-General

Suchitra Sommanus  
Auditor-in-Charge

Office of the Auditor General  
August 24, 1999

Bangkok Metropolitan Bank Public Company Limited

Notes to Financial Statements

For the Year Ended December 31, 1998 and 1997

1. Basis of Financial Statement Presentation
  - 1.1 The financial statements are presented in the format as prescribed in the Announcement on Forms of Balance Sheet and Statement of Income of Commercial Banks issued by Bank of Thailand on January 23, 1997 and in accordance with Ministerial Regulations No. 7 (B.E.2539) dated October 25, 1996 issued by Ministry of Commerce under the provisions of Public Company Act B.E. 2535.
  - 1.2 The financial statements are prepared to include the Bank's assets, liabilities, incomes and expenses of head office, all domestic and overseas branches and BIEF. All significant interoffice transactions have been eliminated.
  - 1.3 In 1997, Thailand and some other countries in Asia-Pacific Region plunged into a wide spread economic crisis due to a turmoil in the currency market and a very strong pressure of recession. In dealing with the crisis and to get the country out of serious troubles, the Thai government had no choice but to seek monetary assistance from the International Monetary Fund. Under such circumstances, the financial statements of the Bank are prepared with consideration toward continuity of the Bank's business and

under principles consistent to that of the preceding year and also under the management's assessment of economic impact over the Bank's overall position.

## 2. Summary of Significant Accounting Policies

### 2.1 Recognition of Interest Income

The Bank recognizes its interest income on an accrual basis except interest income in loans and advances from those account with more than 6 months overdue is recognized on cash basis.

### 2.2 Recognition of Interest Expenses

The Bank recognized its interest expenses on accrual basis.

### 2.3 Loans and Advances

Loans and advances are presented by outstanding principal amount except overdraft accounts of which account holders have agreed with the Bank to add any interest incurred with the principal amount. Therefore, overdraft accounts are presented by an overall outstanding balance inclusive of income from interest receivables. For discount received in advance but not yet recognized as income at year-end are presented as other liabilities in the balance sheet.

### 2.4 Allowance for Doubtful Debts

Allowances for doubtful debts is shown according to Bank of Thailand's letter ref.BOT Ngoy (Wor) 1387/2541 regarding valueless or unrecoverable assets and doubtful as valueless or unrecoverable assets dated Jun. 30, 1998 which requires the Bank to set aside allowance in full and at not less than 50% for those assets classified as doubtful, at not less than 20% for those classified as sub-standard, at not less than 2% for those classified as special mention and not less than 1% for those classified as normal assets. The Bot's letter also specified that by the financial year ending Dec. 31, 1998, the Bank had to set aside its allowance for doubtful debts at 20% of the required amount and must, from time to time, add more fund to the allowance to fully meet the standard requirement in each class of the debts by the end of the year 2000. The Bank wrote off its bad debts on a case by case basis from its allowance for doubtful debts when found that the debt could not be recovered. For any bad debt recovered, the amount was credited to the allowance for doubtful debts.

### 2.5 Investment in Securities

Investment in debt instruments and listed securities are shown at total cost or at total market value of lower. Losses from diminution in value of securities for trading are shown in the statement of income while losses from securities for investment are shown as deficit in the shareholders' equity. Other securities are presented at cost. For premiums or discounts derived from investment in bonds and debentures are included in their costs and adjusted to the interest earned on the straight line basis over the maturity of the investment.

The market values of public sector's debt instruments are computed by using the Yield Curve of a finance and securities and adjusted with risk premium as seen appropriate. For debentures, the market values are based on the closing prices available from the Bond Dealers Club or on acquisition cost if the prices not available.

Interest incomes from investment in securities are recognized on an accrual basis while the income from dividends is recognized when the payment of dividend is declared. Premiums or discount derived from investment in securities are to be recognized in the period when the securities are traded.

Investment in unit trust held by the Bank in excess of 20% of the total issue is shown at cost in accordance with the Bank of Thailand's letter ref. Bot Nor Wor (Wor) 370/2538 dated Fe. 15, 1995.

### 2.6 Translation of Foreign Currencies

Assets and liabilities as well as forward exchange contracts in foreign currencies are

translated into Baht currency using the rate of exchange at transaction date item by item. For remaining assets and liabilities including forward exchange contracts in foreign currencies at balance sheet date are translated into Baht currency using the reference rates posted by Bank of Thailand on the same date. Any gain or loss derived from currency translation is presented in the statement of income.

Balance sheets of the Bank's foreign offices are translated into Baht using BOT's reference exchange rate posted on the balance sheet date. Statements of income are translated into Baht using the monthly average exchange rate of the month when the transaction take place. Any gain or loss resulting from the currency translation is shown in the statement of income.

The Bank manages its foreign exchange risk through the buying or selling of forward exchange contracts and maintains its net holding of foreign currencies under its own policies but strictly follows Bank of Thailand's rules and regulations.

#### 2.7 Depreciation and Amortization of Leasehold Rights

The Bank depreciates its premises and equipment by straight line method over estimated useful life of each premises location or equipment at a rate of 3-20% a year. Cost of leasehold right is amortized throughout the term of lease.

#### 2.8 Deferred Income Tax

The Bank has adopted the practice of recognizing income tax effect on its net profit in each financial period regardless of when such accounting transaction is permitted as deductible expense by the Revenue Code. The Bank, therefore, presents the amount of income tax not allowed to enter into account as deductible expense for the current financial period as deferred income tax in the balance sheet. This income tax item will be eventually deducted as expense in the financial period when allowed.

#### 2.9 Staff Pension Fund

The Bank has set up the staff pension fund program for its employees who remain in service up to a number of years. The employees are not required to make any contribution to the fund but will be qualified for the benefit upon death, resignation or retirement. The cash benefit will be available more or less to the employees depending on the each employee's length of service. The Bank estimates its obligation to staff pension fund for accounting over employment termination of qualified staff-members. The staff pension fund item shown in the balance sheet as liability is the accumulated expenses set aside on a year by year basis and remain unpaid at the end of the period.

#### 2.10 Properties Foreclosed

Most of the Bank's properties foreclosed are part of the debt settlement arranged with its customers. The value of each property foreclosed is recognized into account at transfer price agreed less allowance for diminution in value. Any gain or loss in the value of each property is recognized when the property is sold.

#### 2.11 Loss Per Share

Loss per share is computed by the use of two class method which is by dividing annual net loss with the weighted average number of preferred shares and common shares issued over the year.

#### 2.12 Cash and Cash Equivalents

Cash and cash equivalents refer to cash on hand and cash in collection.

#### 2.13 Expenses in Development or Up-Grading of Computer Systems

Expenses in development of computer systems to significantly increase the Bank's data processing capability are recognized as assets. For those expenses involving the Bank's preparation of its computer systems for the coming of the Year 2000 are recorded in full during the period when the transactions were made.

### 3. Supplementary Information

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3.1 Interbank and Money Market Items  
3.1.1 Domestic

(Millions of Baht)

|  | 1997    |       | 1998    |      | 1997    |      | 1998    |      |
|--|---------|-------|---------|------|---------|------|---------|------|
|  | At Call | Term  | At Call | Term | At Call | Term | At Call | Term |
| Bank of Thailand and FIDF  | 12,038  | 998   | 13,036  | 445  | -       | -    | 445     | 445  |
| Commercial banks   | 58      | 570   | 628     | 67   | 364     | -    | 431     | -    |
| Other banks  | -       | 492   | 492     | 1    | 502     | -    | 503     | -    |
| Finance, finance & securities, securities and credit forcier companies | 4,718   | 169   | 4,887   | 173  | 3,875   | -    | 4,048   | -    |
| Other financial institutions   | 33      | 21    | 54      | 24   | 281     | -    | 305     | -    |
| Total Domestic   | 16,847  | 2,250 | 19,097  | 710  | 5,022   | -    | 5,732   | -    |

The Bank granted loans and advances to finance companies, finance & securities companies and securities companies closed by the Authorities at Bht 4,699 million and those ordered to write down and recapitalize at Bht 33 million, amounting to a total of Bht 4,732 million. The Bank set aside its allowance for doubtful debts against those loans up to Bht 1,214 million as described in Note 3.4.

(Millions of Baht)

3.1.2 Foreign

|                            | 1997    |       | 1998    |       | 1997    |      | 1998    |      |
|----------------------------|---------|-------|---------|-------|---------|------|---------|------|
|                            | At Call | Term  | At Call | Term  | At Call | Term | At Call | Term |
| U.S. Dollar                | 612     | 1,831 | 2,443   | -     | 1,586   | -    | 1,586   | -    |
| Japanese Yen               | 60      | -     | 60      | 71    | -       | -    | 71      | -    |
| Deutsche Mark              | 38      | -     | 38      | 61    | -       | -    | 61      | -    |
| Other Currencies           | 99      | -     | 99      | 189   | -       | -    | 189     | -    |
| Total Foreign              | 809     | 1,831 | 2,640   | 321   | 1,586   | -    | 1,907   | -    |
| Total Domestic and Foreign | 17,656  | 4,081 | 21,737  | 1,031 | 6,608   | -    | 7,639   | -    |

3.2 Securities Bought with Repurchase Contracts

(Millions of Baht)

|                            | 1998       |        | 1997       |       | 1997       |       |
|----------------------------|------------|--------|------------|-------|------------|-------|
|                            | R/E Market | Total  | R/E Market | Total | R/E Market | Total |
| Government and ECF's Bonds | 120        | 120    | -          | -     | -          | -     |
| State Enterprise Bonds     | 15,380     | 15,380 | -          | -     | -          | -     |
| Total                      | 15,500     | 15,500 | -          | -     | -          | -     |

3.3 Investment in Securities

(Millions of Baht)

|  | 1998                  |              | 1997                  |              |
|--|-----------------------|--------------|-----------------------|--------------|
|  | Cost Value/Book Value | Market Value | Cost Value/Book Value | Market Value |
| 3.3.1 Securities for Trading           |                       |              |                       |              |
| Debt Instruments                       | 245                   | 168          | 246                   | 198          |
| Private Sector                         | (77)                  | -            | (5)                   | -            |
| Less Allowance for Diminution in Value | 168                   | 168          | 241                   | 198          |
| Debt Instrument - Net                  | 628                   | 270          | 646                   | 209          |
| Equity Securities                      | 15                    | -            | 17                    | 1            |
| Listed Securities                      | 643                   | 270          | 663                   | 210          |
| Other Securities                       | (373)                 | -            | (453)                 | -            |
| Less Allowance for Diminution in Value | 270                   | 270          | 210                   | 210          |
| Equity Securities - Net                | 438                   | 438          | 451                   | 438          |
| Total Securities for Trading - Net     | 438                   | 438          | 451                   | 438          |

3.3.2 Securities for Investment

|   | (Millions of Baht)        |              |                           |
|---|---------------------------|--------------|---------------------------|
|   | 1998                      | 1999         | 1999                      |
|   | Cost Value/<br>Book Value | Market Value | Cost Value/<br>Book Value |
| Debt Instruments  |                           |              | Market Value              |
| Gov't & State Enterprises   | 5,354                     | 5,599        | 1,276                     |
| Private Sector  | 341                       | 53           | 338                       |
| Total   | 5,695                     | 5,652        | 1,614                     |
| Less Allowance for<br>Diminution in Value   | (43)                      | -            | (127)                     |
| Debt Instruments - net  | 5,652                     | 5,652        | 1,487                     |
| Equity Securities   |                           |              |                           |
| Listed Securities   | 343                       | 58           | 392                       |
| Foreign Securities  | 147                       | 147          | 275                       |
| Other Securities  | 1,210                     | 665          | 858                       |
| Total   | 1,700                     | 870          | 1,525                     |
| Less Allowance for<br>Diminution in Value   | (830)                     | -            | (230)                     |
| Equity Securities - Net   | 870                       | 870          | 1,295                     |
| Total Securities for Investment - Net   | 6,522                     | 6,522        | 2,782                     |
| Equity investment in Business enterprises where the Bank's stake rises to 20% or above of each enterprise's total equity is shown in details below. |                           |              | 1,665                     |

(Millions of Baht)

| Type of Business   | 1998               |               | 1997               |               |
|--|--------------------|---------------|--------------------|---------------|
|  | Value              | Holding Ratio | Value              | Holding Ratio |
| Bkk Metropolitan Mutual Fund   | 34.26              | 343           | 34.268             | 343           |
| Equity investments in 65 business enterprises where the Bank's stake in each holding is below 20% of the enterprise's total equity are as follows. |                    |               |                    |               |
|  | (Millions of Baht) |               | (Millions of Baht) |               |
|  | 1998               | 1997          | 1998               | 1997          |
| Manufacturing  | 473                | 473           | 473                | 473           |
| Commerce   | 55                 | 55            | 55                 | 55            |
| Banking and Finance  | 348                | 368           | 368                | 368           |
| Others   | 1,123              | 949           | 949                | 949           |
| Total  | 1,999              | 1,845         | 1,845              | 1,845         |
| Total equity investment  | 2,342              | 2,188         | 2,188              | 2,188         |
| Less Allowance for diminution in value   | (1,202)            | (683)         | (683)              | (683)         |
| Equity Investment - Net  | 1,140              | 1,505         | 1,505              | 1,505         |

The Bank's investment in Bangkok Metropolitan Mutual Fund is recognized at cost to follow the Bank's accounting policies as described in Note 2.5 above. If the investment is presented in equity method, the Bank's financial statements would be effected as shown in details below:

|  | (Thousands of Baht except loss per share) |                    |
|--|---|--------------------|
|  | For the Year Ended                        | For the Year Ended |
|  | Dec. 31, 1998                             | Dec. 31, 1997      |
| Increase in net loss                         | (18,415)                                  | (92,845)           |
| Increase in loss per share (Baht)            | (0.00001)                                 | (0.09)             |
| Increase in securities investment (decrease) | 22,970                                    | (51,119)           |
| Increase in shareholders' equity             | 41,585                                    | 41,726             |

3.3.3 The Bank's investment in debentures issued by 2 closed financial institutions amounted to Bht 43 million for which the Bank has not set aside its allowance for diminution in value owing to the fact that the Bank is in the process of converting the debentures into MCD with the Krung Thai Bank, Pcl.

3.3.4 The Bank's investments in the listed companies which are subject to delisting process

by the Stock Exchange of Thailand are shown in details as follows.

|               | Cost Value | ( Millions of Baht )<br>Market Value | Allowance for<br>Diminution in Value |
|---------------|------------|--------------------------------------|--------------------------------------|
| Common Shares | 17         | -                                    | 17                                   |
| Debentures    | 86         | 79                                   | 7                                    |
| Total         | 103        | 79                                   | 24                                   |

3.3.5 The Bank's investment in unlisted companies where situation at each of them is similar to those companies being delisted by the Stock Exchange is shown below.

|               | ( Millions of Baht ) |              |                                      |
|---------------|----------------------|--------------|--------------------------------------|
|               | Cost Value           | Market Value | Allowance for<br>Diminution in Value |
| Common shares | 108                  | 10           | 98                                   |

3.3.6 Investment in companies in troubles over payment or missing their payment schedules

|            | Cost Value | ( Millions of Baht )<br>Market Value | Allowance for<br>Diminution in Value |
|------------|------------|--------------------------------------|--------------------------------------|
| Debentures | 335        | 150                                  | 185                                  |

3.3.7 The Bank's investments in companies closed by the Authorities are shown below.

|               | Cost Value | ( Millions of Baht )<br>Market value | Allowance for<br>Diminution in Value |
|---------------|------------|--------------------------------------|--------------------------------------|
| Common Shares | 46         | 15                                   | 31                                   |

3.4 Loans & Advances

3.4.1 Classified by Type of Business

|                   | 1998    | 1997    | (Millions of Baht) |
|-------------------|---------|---------|--------------------|
| Overdraft         | 25,351  | 28,080  |                    |
| Loans             | 115,694 | 115,760 |                    |
| Bills of Exchange | 39,749  | 43,774  |                    |
| Total             | 180,794 | 187,614 |                    |

3.4.2 Classified by Remaining Days Before Maturity

|                 | 1998    | 1997    | (Millions of Baht) |
|-----------------|---------|---------|--------------------|
| Not over 1 Year | 84,009  | 97,270  |                    |
| Over 1 Year     | 96,785  | 90,344  |                    |
| Total           | 180,794 | 187,614 |                    |

3.4.3 Classified by Currency unit and Account Location

|             | (Millions of Baht) |         |         |
|-------------|--------------------|---------|---------|
|             | 1998               | 1997    | Total   |
| Baht        | 171,924            | 171,824 | 154,386 |
| U.S. Dollar | 5,618              | 8,857   | 2,171   |
|             | 3,239              | 10,440  | 12,611  |

|                  |         |       |         |        |       |         |
|------------------|---------|-------|---------|--------|-------|---------|
| Other currencies | 13      | -     | 13      | 20,617 | -     | 20,617  |
| Total            | 177,555 | 3,239 | 180,794 | 168,67 | 2,171 | 187,614 |

### 3.4.4 Classified by Business Sector

|                              | (Millions of Baht) |         |
|------------------------------|--------------------|---------|
|                              | 1997               | 1998    |
| Agriculture and Mining       | 4,447              | 3,931   |
| Manufacturing and Commerce   | 119,219            | 113,600 |
| Real estate and Construction | 28,568             | 26,759  |
| Public Utilities and Service | 19,018             | 20,674  |
| Housing Loan                 | 10,526             | 9,969   |
| Others                       | 5,836              | 5,861   |
| Total                        | 187,614            | 180,794 |

The Bank's loans and advances granted to business enterprises troubled by financial problems and bad performance against which the Bank has set aside its allowances for doubtful debts are shown as follows.

|  | No. of Accts | Loans | Comm't | Doubtful Debt Allowance |
|--|--------------|-------|--------|-------------------------|
| 1. Closed Financial Institutions   | 22           | 4,699 | 4      | 1,213                   |
| 2. Financial Institutions Under the Authorities' Control and Write-Down/ Recap Order | 3            | 33    | -      | 1                       |
| 3. Listed Companies Subject to Delisting Process by SBT                              | 16           | 1,130 | 23     | 540                     |
| Total  | 41           | 5,862 | 27     | 1,754                   |

Bht 4,699 million in loans and interest receivables in account with those financial institutions closed down by the Authorities is presented in the interbank item. Part of these debts at Bht 2,268 millions is marked for converting into NCDs with Krung Thai Bank, Pcl. while the rest is pending partial settlement through liquidation. The Bank has set aside Bht 1,213 million as allowance for doubtful debts for unrecoverable amount which is shown in the allowance for doubtful debts item under the heading of Loans and Advances.

For domestic loans granted to financial institutions under the Authorities intervention and subject to write-down and recapitalization order as well as listed companies under delisting process amounting to Bht 33 million and Bht 1,130 million respectively, the Bank has set aside allowance for doubtful debts up to Bht 1 million and Bht 540 million respectively which are included in the allowance for doubtful debts item under Loans and Advances.

### 3.5 Allowance for Doubtful Debts

|                                  | (Millions of Baht) |         |
|----------------------------------|--------------------|---------|
|                                  | 1997               | 1998    |
| Balance at beginning of the year | 3,617              | 28,003  |
| Doubtful Debts                   | 24,547             | 39,597  |
| Bad Debt Written Off             | (161)              | (1,304) |
| Bad Debts Recovered              | -                  | 2       |
| Balance at year-end              | 28,003             | 66,298  |

As at Dec. 31, 1998, the Bank set aside its allowance for doubtful debts in loans and interest receivables up to Bht 66,298 million or 72.74% of the Bank's fully required allowance for



doubtful debts. If its allowance for doubtful debts is to fully meet the accounting policies as described in Note 2.4, the Bank has to increase its allowance for doubtful debts by Bht 24,850 million.

As at Dec. 31, 1996, the Bank's loans were classified as follows.  
( Millions of Baht )

| Loan Class      | Amount  | Allowance for Doubtful Debts       |                 |                             |
|-----------------|---------|------------------------------------|-----------------|-----------------------------|
|                 |         | Percentage Required As Set by BOT* | Amount Required | Minimum Allowance Set Aside |
| Normal          | 32,405  | 1                                  | 324             | 324                         |
| Special Mention | 7,506   | 2                                  | 150             | 150                         |
| Sub-Standard    | 5,270   | 20                                 | 526             | 526                         |
| Doubtful        | 15,065  | 50                                 | 4,319           | 4,319                       |
| Very Doubtful   | 137,984 | 100                                | 85,571          | 60,979                      |
| Bad             | 258     | 100                                | 258             | -                           |
| Total           | 198,488 |                                    | 91,148          | 66,298                      |

\* Unclassifiable

Non-performing loans (NPL) refer to those accounts that miss their payments for more than 6 months. As at Dec. 31, 1998, the Bank's NPLs amounted to Bht135,080 million or 70.07% of its total loans.

### 3.6 Debt Restructuring Process

The Bank has set up its process to restructure its problem loans under an internal regulation Ref.OP 695/2541 Re: Policies, Method and Procedures as Related to Debt Restructuring dated Nov. 4, 1998. This regulation defines its objectives and sets guidelines for the analysis and screening of borrowers, following-up and overseeing as well as reporting of the activities required which, as a whole, aim at keeping all actions in line with the Bank's accounting policies related to the debt restructuring process. The Bank's target in restructuring of its non-performing loans for 1998 was set at Bht 24,000 million but the actual restructured debts amounted to Bht 40,561 million in which cash settlement reached Bht 10,933 million while Bht 29,597 million was the aggregate amount of NPLs being turned into normally performing accounts. However, the Bank was still unable to reduce its NPL portfolio with some restructured accounts totaling Bht 12,770 million because these accounts were, during the period, in the middle of agreement preparation.

The Bank has set its debt restructuring target at Bht 80,000 million for a period of 3 years. For 1999, 2000 and 2001, the targets are Bht 40,000 million, Bht 20,000 million and Bht 20,000 million respectively. The Bank would continue its debt restructuring effort from year to year from 1999 onwards.

### 3.7 Properties Foreclosed

| Properties Foreclosed                  | (Millions of Baht) |       |
|--|--------------------|-------|
|  | 1998               | 1997  |
| Less Allowance for diminution in value | 1,208              | 1,509 |
|  | (301)              | (238) |
|  | 907                | 1,251 |

The allowance for diminution in value at Bht 258 million was carried forward from preceding period ending Dec. 31, 1997 which originated from the value of properties foreclosed at Bht 258 million recorded by the Bank's foreign offices already closed.

### 3.8 Premises and Equipment

| Depreciation (%)                           | (Millions of Baht) |       |
|--|--------------------|-------|
|  | 1998               | 1997  |
| Land                                       |                    |       |
| Buildings                                  | 1,339              | 1,176 |
| Equipment                                  | 1,574              | 1,461 |
| Lease hold rights (Net)Based on Lease Term | 1,839              | 1,822 |
| Others                                     | 1,235              | 245   |
| Total                                      | 1,761              | 1,862 |
|  | 6,748              | 6,566 |

|                               |         |                    |
|-------------------------------|---------|--------------------|
| Less Accumulated Depreciation | (1,857) | (1,888)            |
| Premises and equipment - Net  | 4,891   | 4,878              |
| 3.9 Other Assets              |         |                    |
|                               |         | (Millions of Baht) |
|                               | 1998    | 1997               |
| Advance and deferred expenses | 36      | 306                |
| Account receivables           | 171     | 100                |
| Other debts                   | 537     | 529                |
| Other assets                  | (1,344) | 1,427              |
| Total                         | 2,088   | 2,362              |

Other assets at Bht 1,344 million is inclusive of deferred income tax of Bht 813 million and equity investment in Bangkok Metropolitan Life Insurance Co., Ltd. at Bht 289 million which is 67.8% of the company's registered capital. The holding was approved by the Bank of Thailand but share transfer registration is yet to be done.

|                                |         |                    |
|--------------------------------|---------|--------------------|
| 3.10 Deposits                  |         |                    |
| 3.10.1 Classified by Type      |         |                    |
|                                | 1998    | (Millions of Baht) |
|                                | 1997    |                    |
| Current                        | 983     | 1,084              |
| Savings                        | 10,366  | 7,854              |
| Term                           |         |                    |
| -Under 6 months                | 97,668  | 53,361             |
| -6 months but less than 1 year | 29,303  | 4,216              |
| -1 year and over               | 10,019  | 13,103             |
| Certificates of Deposit        | 18,581  | 811                |
| Total                          | 166,920 | 80,429             |

|   |         |                    |
|---|---------|--------------------|
| 3.10.2 Classified by remaining period before maturity |         |                    |
|   | 1998    | (Millions of Baht) |
|   | 1997    |                    |
| Not over 1 year                                       | 166,403 | 80,086             |
| Over 1 year   | 517     | 343                |
| Total   | 166,920 | 80,429             |

|   |          |         |          |         |        |
|---|----------|---------|----------|---------|--------|
| 3.10.3 Classified by currencies and domiciles of depositors |          |         |          |         |        |
|   | 1998     |         | 1997     |         |        |
|   | Domestic | Foreign | Domestic | Foreign | Total  |
| Baht  | 166,643  | 175     | 80,165   | 190     | 80,355 |
| U.S. Dollar   | 100      | 2       | 70       | 3       | 73     |
| Other Currencies  | -        | -       | -        | 1       | 1      |
| Total   | 166,743  | 177     | 80,235   | 194     | 80,429 |

|   |         |      |         |       |         |
|---|---------|------|---------|-------|---------|
| 3.11 Interbank and Money Market Items                             |         |      |         |       |         |
| 3.11.1 Domestic   |         |      |         |       |         |
|   | 1998    |      | 1997    |       |         |
|   | At Call | Term | At Call | Term  | Total   |
| Bank of Thailand and FIDF   | -       | 54   | 99,302  | 103   | 99,405  |
| Commercial Banks  | 1,004   | -    | 12      | 87    | 99      |
| Other banks   | 232     | 20   | 1,113   | 1,000 | 2,113   |
| Finance, Finance & Securities, Securities and Credit Foncier Co's | 4       | 224  | 213     | 15    | 228     |
| Other Financial Institutions                                      | 20      | 484  | 30      | 17    | 47      |
| Total Domestic  | 1,260   | 782  | 100,670 | 1,222 | 101,892 |
| 3.11.2 Foreign  |         |      |         |       |         |

( Millions of Baht)

|                            | 1998    |       | 1997    |         |
|----------------------------|---------|-------|---------|---------|
|                            | At Call | Term  | At Call | Term    |
| U.S. Dollar                | -       | 271   | -       | 2,256   |
| Japanese yen               | -       | -     | -       | 60      |
| Deutsche Mark              | -       | 9     | -       | 33      |
| Other Currencies           | -       | -     | 4       | 1       |
| Total Foreign              | -       | 280   | 4       | 2,350   |
| Total Domestic and Foreign | 1,260   | 1,062 | 100,674 | 3,572   |
|                            |         |       |         | 104,246 |

3.12 Borrowings

(Millions of Baht)

1998

|   | 1998     |         | 1997     |         |
|---|----------|---------|----------|---------|
|   | Domestic | Foreign | Domestic | Foreign |
| EMB Subordinated Debenture Issue No. 1/2001 | 1,000    | -       | 1,000    | -       |
| Subordinated Floating Rate Notes            | -        | 1,834   | 1,834    | -       |
| Floating Rate Notes                         | -        | -       | -        | 2,362   |
| Total                                       | 1,000    | 1,834   | 2,834    | 4,721   |
|   |          |         |          | 7,083   |
|   |          |         |          | 8,083   |

EMB subordinated debentures are unsecured/holder identified type of debenture issued on Dec. 21, 1994 for 1 million units at a face value of Bht 1,000 with maturity of 7 years from the date of issuance and interest payable every 6 months at MKR-0.125% p.a. The Bank's subordinated floating rate notes at a total value of USD 50 million are unsecured and redeemable within June 2000 with interest payable every 6 months at 6-month LIBOR + 1.5% p.a.

The Bank's floating rate notes at a total value of USD 100 million bearing an interest payable every 6 months at 6-month LIBOR + 0.475% p.a. were all redeemed during this financial period.

3.13 Other Liabilities

|                              | (Millions of Baht) |      |
|------------------------------|--------------------|------|
|                              | 1998               | 1997 |
| Staff Pension Fund           | 818                | -    |
| Deposit and Guarantee Monies | 11                 | 11   |
| Deferred Expenses            | 432                | 226  |
| Income Received in Advance   | 23                 | 88   |
| Others                       | 349                | 331  |
| Total                        | 1,633              | 656  |

The Bank's staff pension fund of Bht 818 million as at Dec. 31, 1998 was approved by the Board of Directors as fully committed obligation to the Bank's employees. The fund will be available to qualified employees individually in accordance with certain conditions upon termination of employment.

3.14 Legal Capital Fund

The Bank maintains its legal capital fund in accordance with the conditions set out by Bank of Thailand. As at Dec. 31, 1998 and 1997, the Bank's capital fund consisted of:

|                | (Millions of Baht) |         |
|----------------|--------------------|---------|
|                | 1998               | 1997    |
| Tier 1 Capital | 679                | (7,600) |
| Tier 2 Capital | 339                | 1,102   |
| Total          | 1,018              | (5,698) |

As at Dec. 31, 1998, the Bank's capital fund stood at Bht 1,018 million. This caused the ratio between capital fund and risk assets to stand below the standard requirement set by the Bank of Thailand. However, the Bank's management is working to correct the situation.

3.15 Commitments

(Millions of Baht)

1998

1997

|   | Baht   | Foreign Currencies | Total  | Baht   | Foreign Currencies | Total  |
|---|--------|--------------------|--------|--------|--------------------|--------|
| Aval to bills                                 | 574    | -                  | 574    | 1,778  | 678                | 2,456  |
| Loan guarantees                               | 682    | 703                | 1,385  | 757    | 3,178              | 3,935  |
| Other guarantees                              | 10,907 | 1,386              | 11,993 | 12,859 | 1,242              | 14,101 |
| Liabilities under acceptances of inward bills | 24     | 951                | 975    | -      | -                  | -      |
| Letters of credit                             | 186    | 691                | 877    | 306    | 4,710              | 5,016  |
| Foreign exchange contracts                    | -      | 142                | 142    | -      | 1,758              | 1,758  |
| Purchase contracts                            | -      | 873                | 873    | -      | 3,122              | 3,122  |
| Sale contracts                                | 9,551  | -                  | 9,551  | 8,479  | -                  | 8,479  |
| Unused overdraft                              | 131    | 444                | 575    | 612    | 5,993              | 6,605  |
| others  | 21,755 | 5,190              | 26,945 | 24,791 | 20,681             | 45,472 |

Total  
The Bank is defending a number of lawsuits with a total claims of Bht 141 million. From the verdicts delivered by the lower and the appeal courts, the Bank believes that its chances for winning the cases are considerable ample. Besides, the Bank has entered into agreements to buy computer equipment from suppliers at a total cost of Bht 260.4 million. Payments was already made up to Bht 228.4 million.

3.16 Related Party Transactions

Loans and commitments made to the Bank's officers with the rank of department head up and to business enterprises the Bank or its directors or such officers collectively hold at least 10% of their paid up capital are shown in details as follow.

|             | Monthly Average Balances |       |
|-------------|--------------------------|-------|
|             | 1998                     | 1997  |
| Loans       | 6                        | 6     |
| Commitments | -                        | 2,189 |
| Total       | 6                        | 7,578 |

3.17 Other Benefits Paid to Directors and Executives

The Bank paid no other benefits to its directors and executives apart from normal executive's salary and bonus and director's fees and bonus.

3.18 Long-term Leasehold Rights

The Bank has obtained leasehold rights to premises at 47 locations for its branch and currency exchange offices. Most of the leases cover a length of 3 years but the leaseholds at 8 branch locations last from 7 to 30 years with longest to end in 2024. The leasing expenses totaled around Bht 3.39 million a year. Besides, the Bank has paid Bht 135.78 million for all of the leasehold rights.

3.19 Share Capital

As at Dec. 31, 1998, the Bank maintained its registered and paid-up capital as follows.

|  | Baht           |
|--|----------------|
| Registered Capital   |                |
| 200 preferred shares at a par value of Bht 0.01            | 2              |
| 3,921,501,102.050 common shares at a par value of Bht 0.01 | 39,215,011,021 |
| Total  | 39,215,011,023 |

Issued and Paid-Up Capital

Baht

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200 preferred shares at a par value of Bht 0.01  
3,921,501,102,050 common shares at a par value of Bht 0.01 39,215,011,021  
Total 39,215,011,023

Holders of preferred shares enjoy the same rights with the holders of common shares except that the holders of preferred shares are entitled to extra dividend at Bht30 a year above the dividend paid to common share holders. This privilege granted to the holders of the preferred share is yet to be changed to become consistent with the capital write-down of the Bank already put into effect during the period.  
During the financial period ending Dec. 31, 1998, Bank of Thailand instructed the Bank to write down and recapitalize its capital in 2 occasions.

3.19.1 In its letter ref. BOT Nor. 137/2541 dated Jan. 23, 1998, Bank of Thailand laid down the following conditions for the Bank to comply.

#### Capital Write-Down

- By eliminating unsubscribed common shares totaling 397,749,012 shares at a combined value of Bht 3,977,890,120.
- By writing off paid up capital of Bht 11,022,509,880 by Bht 11,011,487,370.12 to remain at Bht 11,022,509,88 causing both preferred and common shares to slide down from Bht 10 to Bht 0.01 in par value.
- By offsetting the operating loss at the end of 1997, with the sum of Bht 11,011,487,370.12 written off from its shareholders' equity as well as the whole amounts of premium on share capital, legal reserve, other reserves and unappropriated retained earnings in the capital fund.

#### Recapitalization

To increase the Bank's remaining share capital of Bht 11,022,509,88 million by Bht 25,000,000,000 million to make the Bank's registered capital rise up to Bht 25,011,022,509,88 million. To complete its recap process, the Bank was instructed to issue 2,500,000,000 new common shares at a par value of Bht 0.01. The Bank registered its written-down capital and new registered capital with the Ministry of Commerce on Feb. 6, 1998 and its new paid-up capital at Bht 25,011.02 million on Feb. 9, 1998.

3.19.2 On Aug. 31, 1998, Bank of Thailand, in its letter ref. BOT Nor 3405/2541, instructed the Bank to write-down and increase its share capital as follows.

#### Capital Write-Down

- By writing down its paid up capital of Bht 25,011,022,509.88 by Bht 24,986,011,487.38 to remain at Bht 25,011,022,50. In effect, the Bank's 2,501,102,250,988 issued and subscribed shares were eliminated to remain at 2,501,102,250 shares consisting of 2,501,102,050 common shares and 200 preferred shares.
- Taking the sum of Bht 24,986,011,487.38 written off from its shareholders equity and reserves in the capital fund to offset the Bank's operating loss and keep the Bank's financial position in a true and accurate manner.

#### Recapitalization

-Increase the remaining capital of Bht 25,011,022,50 by Bht 39,190,000,000 to make the Bank's capital rise to Bht 39,215,011,022.50 with new issue of 3,919,000,000,000 common shares at a par value of Bht 0.01. The whole lot of new shares was sold to the Financial Institutions Development Fund which in effect increase the FIDF's holding of the Bank's shares to 99.94%. The Bank registered its written down and increased registered capital with the Ministry of Commerce on Sept. 29, 1998 and its paid-up capital on Sept.30, 1998.

3.20 Significant Financial Positions and Operating Results from Domestic and Foreign Operations

As at Dec. 31, 1998, the Bank's significant financial positions and operating results from its domestic and foreign operations can be set out separately as follows.

1. Financial Positions Classified by Operations

|  | 1998                |                    |                    | 1997                |                    |                    | Eliminated Transac Total | Eliminated Transac Total |
|--|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------------|--------------------------|
|  | Domestic Operations | Foreign Operations | Eliminated Transac | Domestic Operations | Foreign Operations | Eliminated Transac |                          |                          |
| Total Assets                                   | 271,312             | 6,042              | 277,354            | 177,461             | 6,849              | 222,527            | (32,250)                 |                          |
| Interbank and Money Market Items (Assets)      | 17,604              | 15                 | 17,619             | 4,118               | 21,737             | 4,136              | 3,500                    |                          |
| Loans  | 183,150             | -                  | 183,150            | (2,356)             | 180,794            | 185,490            | 2,1231                   |                          |
| Investment in Securities (Net)                 | 6,961               | -                  | 6,961              | -                   | 6,961              | 3,233              | -                        |                          |
| Deposits                                       | 167,680             | -                  | 167,680            | (760)               | 166,920            | 80,552             | (123)                    |                          |
| Interbank and Money Market Items (Liabilities) | 1,349               | -                  | 1,349              | 973                 | 2,322              | 102,111            | 576                      |                          |
| Loans  | 2,256               | -                  | 2,256              | 578                 | 2,834              | 4,731              | 3,352                    |                          |
| Commitments                                    | 26,945              | -                  | 26,945             | -                   | 26,945             | 45,472             | -                        |                          |

2. Operating Results Classified by Transactions

|                                   | 1998                |                    |                    | 1997                |                    |                    | Eliminated Transac Total | Eliminated Transac Total |
|-----------------------------------|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------------|--------------------------|
|                                   | Domestic Operations | Foreign Operations | Eliminated Transac | Domestic Operations | Foreign Operations | Eliminated Transac |                          |                          |
| Total Interest Income & Dividends | 16,317              | 481                | 16,798             | (869)               | 15,929             | 21,982             | 22,337                   |                          |
| Interest Expenses                 | (26,618)            | (476)              | (27,094)           | 869                 | (26,225)           | (21,231)           | (21,569)                 |                          |
| Interest Income - Net             | (10,301)            | 5                  | (10,296)           | -                   | (10,296)           | 751                | 768                      |                          |
| Non-Interest Income               | (1,421)             | -                  | (1,421)            | (6)                 | (1,427)            | 4,484              | 4,484                    |                          |
| Non-Interest Expenses             | (44,343)            | (1)                | (44,344)           | 6                   | (44,338)           | (28,841)           | (28,842)                 |                          |
| Profit (Loss) before Tax          | (56,065)            | 4                  | (56,061)           | -                   | (56,061)           | (23,606)           | (23,590)                 |                          |

Bangkok Metropolitan Bank, Pcl. operates its business at various domestic locations and also in foreign countries. Its operating data are shown in the following manner.  
 -Assets, liabilities, income and expenses are separately shown between domestic and foreign operations. Interoffice items between head office and branches and BIBF are eliminated to present the data in conformity with the Bank's financial statements.

3.21 Net Assets of The Bank's Agency Offices in the United States  
 The Bank's agency offices in New York City, N.Y and San Francisco, California were officially closed with their banking licenses were returned to the U.S. banking authorities on Aug. 23, 1996. All assets of the two agencies were accounted for by the head office in book transfer. As at Dec. 31, 1997, the net value of the assets remaining was around US\$ 84.64 million. In 1998, the Bank, according to its auditing report, managed to dispose some of the assets and recover some debts. As at Dec. 31, 1998, the assets remained in account at around US\$44.84 million. Those assets were classified as doubtful debts at Bht

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2,417 million which was presented in the balance sheet as loans, properties foreclosed and other items accordingly. As at Dec. 31, 1998, the Bank set aside allowance for possible loss of the assets up to Bht 1,412 million, and Bht 164 million respectively which are included in the allowance for doubtful debts under Loans, Interest receivables and properties foreclosed. The Bank at present continues its effort to reclaim its debts and settle its accounts with creditors.

3.22 The Bank's Reconfiguration of its Computer Systems to Eliminate the Y2K Problem  
 The Bank is in the middle of making its computer systems ready to comply with the arrival of the year 2000. It Y2K program, started in early 1998 and to end in the year 2000, is managed by a specially formed committee known as The Technology Management Committee which has been assigned with the following scope of works:

1. Eliminate the impact of the Y2K on the Bank's computer systems and all computerized equipment. The Committee's action plan involves 3 major areas of concern and made some progress as follows.
  - In main-frame & mini-computers, the work is 93 % completed.
  - In communication network, the work is 74% complete.
  - In personal computer (PC) and others, the work is 87% completed.
  - In building facility support systems such as lifts, power supply, telephone system and other electronic systems, the work is 92% completed.
  - In system control and application software, the work is 79% completed.
2. Budget for investment in equipment and expenses for the Bank allocated at Bht 111.93 million for its Y2K program are as follows.

|  | Budget | Amount Used<br>As at Dec. 31, 98 |
|--|--------|----------------------------------|
| - Computers and Peripheral Equipment         | 28.40  | 0.82                             |
| - Cost of Application Software Redevelopment | 70.10  | 6.00                             |
| - Whole System Test Run                      | 3.25   | -                                |
| - Contingency Expenses at 10%                | 10.17  | 1.01                             |
| Total  | 111.93 | 7.83                             |

3. Even though the Bank is confident that it can complete its preparation for the coming of the year 2000 in time, there is still a cause for concern that other organizations the Bank has been connected with in some areas of business may be unable to finish the preparations in time. If so, the Bank's operations in the Year 2000 and beyond might have been affected very significantly and the Bank, presently, is not in a position to make any guess in advance of how far the damage will be done to its business.

3.23 Privatization and Rehabilitation  
 Relating to Note 3.14 regarding the Bank's position in maintaining its capital fund, It is the policy of the Government that BMB is to be rehabilitated as part of the Government's effort to restructure the country's banking and money market systems. The restructuring may come from a variety of concepts depending on the Government's final policy but the Bank after its rehabilitation is done will shed its state enterprise status.

3.24 Risk Management in the Fluctuations of Interest Rates and Foreign Exchange Market  
 The Bank has carried out its activities in the foreign exchange market by buying and selling forward exchange contracts with its counterparts to reduce the risk in its foreign exchange exposure connected to its international trade services. Its foreign exchange forward contracts have nothing at all to do with currency trading in the exchange market. The Bank recorded its foreign exchange transactions as described in Note 2.6 To the financial statements. The Bank manages its exchange risks by allowing its customers to fix an exchange rate for not over 6 months for those in the export sector. For importers, the rate fixing would depend on the shipment period. As at Dec. 31, 1998, the Bank's forward contracts purchased and forward contracts sold were totaling Bht 141.5 million and Bht 873.3 million respectively.