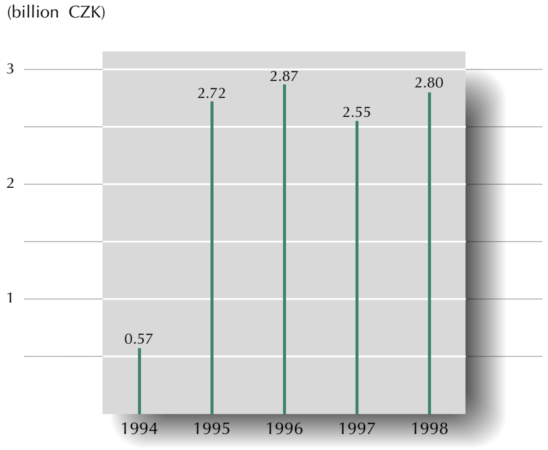
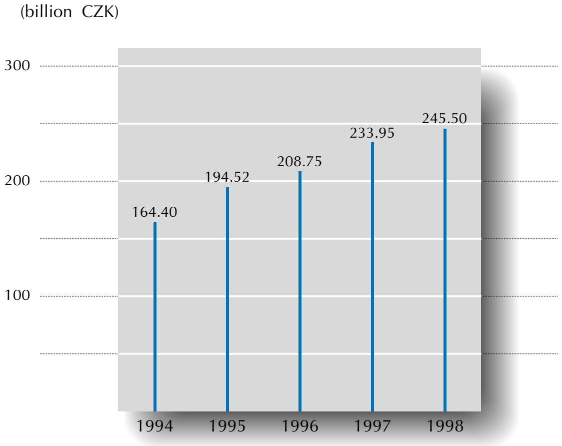
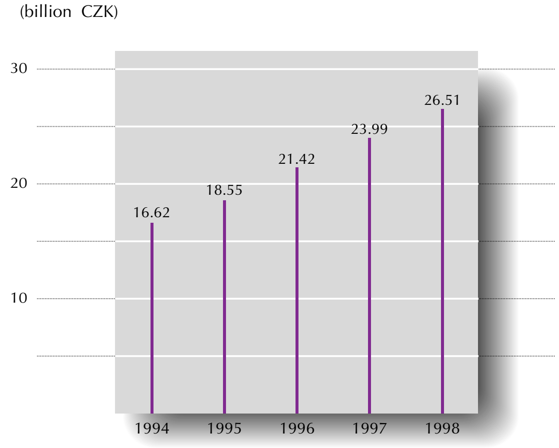
PROFIT FOR THE YEAR



ASSETS



SHAREHOLDERS' EQUITY



CONSOLIDATED FIVE YEAR FINANCIAL SUMMARY
(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

	1998	1997	1996	1995	1994
Results for the year (CZKm)					
Profit before taxation*	4,264	4,021	3,215	3,435	3,413
Income tax expense*	1,461	1,469	339	824	2,838
Profit for the year*	2,803	2,552	2,873	2,715	570
At year-end (CZKm)					
Shareholders' equity*	26,509	23,989	21,417	18,554	16,616
Amounts owed to customers	122,017	115,917	90,632	83,376	64,323
Amounts owed to banks	62,908	60,104	59,331	53,372	54,671
Debt securities in issue	15,495	15,345	15,535	15,880	9,718
Loans and advances to customers	111,686	110,917	85,325	80,915	81,585
Loans and advances to banks	83,435	62,197	49,391	48,191	36,751
Assets*	245,503	233,945	208,747	194,520	164,399
Ratios (%)					
Return on average shareholders' equity (ROAE)*	11.10	11.24	14.38	15.44	3.46
Return on average total assets (ROAA)*	1.17	1.15	1.42	1.51	0.39
Bank capital adequacy ratio**	16.48	12.60	12.31	9.96	7.25
Total shareholders' equity to total assets*	10.80	10.25	10.26	9.54	10.11
Exchange rate CZK / USD (year-end)	29.86	34.64	27.33	26.60	28.05
Average exchange rate CZK / USD	32.27	31.71	27.14	26.55	28.78

* As restated due to the adoption of IAS 12 (revised) in 1998 and the adoption of mark-to-market accounting for trading securities and derivatives in 1997.

** Parent company figures. Calculated in accordance with Czech National Bank regulations except for including as regulatory capital the proposed allocation from profits to the Statutory Reserve Fund. This amount becomes regulatory capital when the allocation is approved by the Annual General Meeting.

Ratings (as at 30 June 1999)

Moody's	Long-term:	Baa1	Short-term:	Prime-2
Standard & Poor's	Long-term:	BBB–	Short-term:	A-3
Capital Intelligence	Long-term:	BBB	Short-term:	A-2
Thomson BankWatch	Issuer:	IC-B	Short-term:	LC-1
Fitch IBCA	Support (from state authorities):		2	

BOARD OF DIRECTORS OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA

Pavel Kavánek	Chairman of the Board of Directors and General Manager
Josef Tauber	Vice-Chairman of the Board of Directors and Senior Executive Officer
Jozef Šalak	Member of the Board of Directors and Senior Executive Officer (Until 15 June 1998)
Vladimír Staňura	Member of the Board of Directors and Senior Executive Officer
Rudolf Autner	Member of the Board of Directors and Senior Executive Officer (Until 31 December 1998)
Petr Knapp	Member of the Board of Directors and Senior Executive Officer
Jan Lamser	Member of the Board of Directors and Senior Executive Officer
Ladislav Unčovský	Member of the Board of Directors and Senior Executive Officer (Since 15 June 1998)

STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF ČSOB AT THE GENERAL MEETING OF SHAREHOLDERS

Dear shareholders,

Your bank has proved a very good performance during last year.

Consolidated net profits increased to 2.8 billion CZK representing growth of 9.8 % on the previous year's net profits of 2.6 billion CZK. Return on average total assets in 1998 increased to 1.17 % from 1.15 % in 1997 and return on average shareholders' equity was 11.10 % compared to 11.24 %. All of that has been achieved despite the difficult challenges that faced ČSOB in 1998 (such as the global financial markets turmoil in the third quarter and the continuing economic slowdown in the Czech Republic and the Slovak Republic).

Sustainable growth of shareholder value has always been and will be the philosophy that management pursues.

As a result of such an approach, ČSOB leads in shareholder value growth despite its state ownership. The 1998 financial results confirm the trend of a stable profits stream that has been produced by the Bank since 1994. This consistent trend is testimony to management's approach of emphasizing risk-adjusted returns. Rather than seeking additional risk exposure as a means to boost returns, Bank management have traditionally exercised conservative risk management, which is especially critical in our volatile economic environment. This provides safety to the Bank's depositors and creditors while producing a stable return for the Bank's shareholders.

Unlike some other banks in the region, ČSOB did not involve itself in unscrupulous corporate transactions made possible by opaque privatization schemes or cronyism.

We are now in the midst of an ambitious strategic shift.

Through its new strategy the Bank has started moving towards a diversified, customer-segmented approach to its banking activities. Looking back, ČSOB initially served as a niche bank in foreign trade banking and some six years ago it was transformed into a universal bank offering a wide range of services to its customers. ČSOB has now reached another turning point in its history.

A major program has been launched which is expected to change the Bank's operational focus significantly. By focusing its resources on specific customer segments, the Bank will build up expertise through specialisation and thus increase the quality and breadth of products and services that can be tailored to each of these segments.

One of the major initiatives of the strategic shift is the establishment of dedicated retail and small and medium-sized enterprise (SME) functions to tap the apparent potential of these two customer segments. ČSOB’s roots in the domestic market will play an important role in its development and success.

We are committed to upgrade our information systems’ architecture and to support it by adequate investment resources in order to achieve this strategy.

Privatization is an important milestone.

At the time of writing, potential investors are in the final lap of the running to purchase the Czech state's stake in ČSOB. The Czech Government is expected to announce the winner shortly. The obvious result will be the emergence of one very strong shareholder having control over ČSOB's operations. Privatization has been initiated and supported by the top executives of the Bank as one of the critical elements of ČSOB's generic strategy. I very much look forward to teaming up with one of the large investor candidates as the resulting synergies of privatization will catapult ČSOB to the top professional banking service provider in both the Czech and Slovak markets.

Thanks to our staff the successful completion of privatization comes shortly.

The Bank is the people that run it, not the bricks and mortar in which they work. Accordingly, it is this human capital which is the real subject of ČSOB's shareholder value. The high value of this human capital has been recognised in the significant privatization achievements to date. The large volume of privatization work has brought huge strains on the already demanding workload of many staff. Although it has been very demanding, I trust that the staff who participated have grown professionally from the valuable experience gained. The successful privatization of ČSOB will be a direct result of their extraordinary efforts.

I would like to extend my thanks and appreciation to all the staff of ČSOB who have really worked hard during last year. Thanks to it ČSOB has confirmed its leading position on the domestic market in terms of efficiency and profitability, in other words: in terms of return on investment which you, the shareholders, are interested in most.

Pavel Kavánek
Chairman of the Board
of Directors and General Manager

REPORT OF THE BOARD OF DIRECTORS ON ČSOB'S BUSINESS AND PROPERTY IN 1998 AND ITS GOALS

I. MAJOR MACROECONOMIC FACTORS

CZECH REPUBLIC

External economic environment. The Czech economy was affected in 1998, and will continue to be influenced in 1999, by a slow-down in economic growth and a corresponding decrease in demand for imported goods and services in developed countries. Regional financial crises, such as the lingering crisis in South-East Asia and the recurring crises in Russia and Brazil, had only an indirect impact. The Czech economy was only slightly affected by the direct effects of financial and currency crises due to the marginal importance of the country's capital market. (The development of the capital market itself, however, was significantly hindered by a decline in share prices; for example, the CNB-120 Index showed a drop of 40 %.)

Despite the negative influence of the world's macroeconomic environment, the Czech economy was positively affected in 1998 by the economic policies adopted. These policies succeeded in reversing the negative trends in the balance of payments as evidenced by a decrease in the large **trade deficit** (CZK 151.2 billion, or 9.2 % of GDP in 1997 and CZK 79.5 billion, or 4.5 % of GDP in 1998) and the **current account deficit** (6.2 % of GDP in 1997 and about 1.9 % of GDP in 1998). This was due to a restrictive monetary policy applied from the middle of 1996 and a tightening in the fiscal area from April and May 1997 (the so-called "austerity packages").

Macroeconomic environment in the Czech Republic. The restrictive Czech National Bank (CNB) policies which lowered the money supply primarily through higher interest rates resulted in a significant decrease in inflation during 1998, from 13.1 % in January to 6.8 % in December.

Following a **low** 1 % **growth rate of GDP** in 1997, the economy shrank in 1998 by 2.7 %. This negative growth was caused by a decrease in the main components of domestic demand, that is a year-on-year decrease in household consumption of 2.4 % and investment in fixed capital of 3.7 % with only moderate growth of government and non-profit institutions consumption of 1.1 %. Increased foreign demand for Czech goods and services was unable to compensate for the lowered domestic demand. Overall exports of goods in 1998 grew by 17.7 % due to, among other things, favourable price developments. The initial high growth rate of 45 % in the first quarter gave way to a year-on-year decline in December of 2.3 %.

The deepening economic decline manifested itself in **individual economic sectors**. The growth rate in manufacturing industries slowed, as evidenced by the yearly increase in industrial production of only 1.6 % and the 7 % decrease in the volume of building production. Most service industries also showed a fall in turnover. Year-on-year, retail turnover decreased by 7.2 % as real household income decreased, which was due, among other things, to a higher unemployment rate which reached 7.5 % at the end of 1998.

The decisive factors impacting the production of goods differ significantly according to both the condition of the respective sector and the condition of individual companies. In particular, many companies with foreign control achieved good results even in the difficult economic environment and, to a significant degree, influenced the growth of imports.

It is not only the lack of financial resources resulting from the **CNB policies** that are slowing growth, but also the more general problems of Czech companies that originated in the process of privatization. These problems include a lack of capital, high indebtedness, insufficient quality of "corporate governance", unrealized restructuring, and the like. It is difficult to solve these problems in the current state of **the Czech economy under the existing system, institutions, laws and other factors.**

These issues also affect the **willingness of banks** to help solve the problem of insufficient funds in the Czech economy. In fact, in the current system certain banks are losing control over funds provided as loans because of inadequate enforceability of unpaid claims and inability to realize collateral. Often those banks have no assurance that they can achieve an adequate return due to the project and management quality. The amount of classified loans is increasing and it is necessary to provide for potential loan losses. That is why "reducing of the price of money" by the lowering of CNB interest rates, which has taken place several times since July 1998, did not lead to additional lending by banks and growth stimulus. Repurchase (repo) rates have declined from 14.75 % to 9.50 %, discount rates have declined from 13.00 % to 7.50 % and Lombard rates have declined from 23.00 % to 12.50 %. The minimum mandatory reserve requirement has been lowered to 7.5 % since 30 July 1998, which has eased the banks' situation. New CNB regulations, however, in particular the change in the rules for the creation of reserves and provisions against real estate collateral, have had the opposite effect for certain banks.

System shortcomings, influencing the behaviour of all entities, had some additional macroeconomic effects. **The aggregate volume of loans** provided in both CZK and foreign currencies showed a 2.7 % decrease for the year 1998. Banks placed available funds primarily in highly liquid assets, in deposits with the CNB, in state and CNB treasury bills (21.1 % of the total volume of assets) and in deposits with other banks (19.1 %).

The public budget deficit deepened to CZK -29.3 billion (1.6 % of GDP). Both the coverage of losses of Konsolidační banka and the fulfilment of guarantee to Česká spořitelna accounted for half of the amount.

Capital inflow in the form of **foreign direct investments** was a very positive development. For the year 1998, the inflow was USD 2.5 billion, which was a 95 % increase year-on-year, significant amount going to the banking sector.

Necessary funds have also been obtained through increasing **the gross indebtedness of the Czech Republic abroad**, taking advantage of interest rate differentials between the Czech Republic and its creditors. By 30 September 1998, gross indebtedness reached USD 24.1 billion, or about 41.3 % of GDP. The liabilities of the commercial sector represented 48 % of the total amount.

This development was also influenced, in addition to the high interest rate differential, by relatively stable **foreign exchange rates**, where the nominal exchange rate of the Czech crown did not change, and even strengthened despite all expectations. The exchange rate was not initially affected by the sharp lowering of interest rate differentials resulting from the eased CNB currency policy. The three-month PRIBOR/FIBOR for CZK/DEM at December 1998 compared to December 1997 showed a decrease from 13.77 % to 6.71 %.

However, the reaction of exchange rates to lower interest rates was delayed until 1999. This development may contribute to the Czech economy by stimulating exports, or it may cause further imbalance, for example if the domestic demand is not sufficiently covered from domestic sources.

Macroeconomic indicators of the Czech Republic 1994 - 1998

Indicator		Unit	1994	1995	1996	1997	1998
GDP	yearly growth	%	2.7	6.4	3.9	1.0	**(2.7)**
Industrial production	yearly growth	%	2.1	8.7	6.4	4.5	**1.6**
Building production	yearly growth	%	7.5	8.5	4.8	(3.9)	**(7.0)**
Inflation rate	yearly average	%	10.0	9.1	8.8	8.5	**10.7**
Unemployment rate	at year-end	%	3.2	2.9	3.5	5.2	**7.5**
Balance of payments							
- Current account		USDmn	(786.8)	(1,369.1)	(4,292.2)	(3,211.0)	**(1,046.1)**
- Capital account		USDmn	3,371.1	8,232.7	4,297.3	1,091.8	**2,632.8**
Trade balance		CZKbn	(44.4)	(105.9)	(155.8)	(151.2)	**(79.5)**
Foreign exchange reserves							
- CNB		USDmn	6.2	14.0	12.4	9.8	**12.6**
- Total		USDbn	8.9	17.0	16.1	15.0	**N/A**
Gross indebtedness		USDbn	10.7	16.5	20.8	21.4	**24.1**[2]
Stock of money (M2) [1]	yearly growth	%	19.9	19.8	9.2	10.1	**5.2**
Interest rates on credits	yearly average	%	13.1	12.8	12.5	13.2	**12.9**
Interest rates on deposits	yearly average	%	7.1	7.0	6.8	7.7	**8.1**
Exchange rate CZK/USD	yearly average		28.78	26.55	27.14	31.71	**32.27**
Exchange rate CZK/DEM	yearly average		17.75	18.52	18.06	18.28	**18.33**

[1] net, float and short-term operations of some banks and SPT Telecom contribution were eliminated
[2] Q1-Q3 1998
N/A = not available
Source: Czech National Bank (CNB), Czech Statistical Office

SLOVAK REPUBLIC

The growth trend of the Slovak economy in 1998 did not deviate significantly from previous years' trends, although the first signs of a slow-down began to appear. As in the previous year, it was the increase in domestic demand of 6.1 % that contributed mostly to the real GDP growth. Net exports stagnated at the level of previous year and were not therefore a significant stimulus for higher GDP. Since the previous political cycle came to an end in 1998, the changes in economic policies considered necessary to correct the existing economic imbalance could not yet be expected to be in place.

Significant demand for imports and an inadequate ability to export, led to the deepening of the **trade balance deficit** by SKK 12.4 billion over 1997, reaching 11.3 % of GDP. This fact shows that the improvement in foreign trade due to administrative measures without sufficient support from the business sector did not last long.

The results of foreign trade correspond with the **current account deficit**, which for three consecutive years (after revising the data) exceeded 10 %. Foreign capital inflow was not sufficient to finance this deficit.

A further increase in the gross **foreign debt** of the Slovak Republic (foreign debt was about 60 % of GDP) was necessary due to the lack of resources on the domestic financial market. Both the state and the commercial sector contributed to the increase.

Negative developments in **public budgeting**, appearing in 1997, continued in 1998. A significant deficit in public finances led to increasing dependency of the state on financial market resources. This continued the trend of high **real interest rates**. According to the industrial producers' price index, the average rate was 16 % on credits drawn. The volatility of interest rates further strengthened this trend. Replacing private investments by public investments and providing loans to the state instead of to the private sector were other negative trends.

Unbalanced developments in the economy, together with political uncertainties before the parliamentary elections, brought about an expectation in domestic and foreign markets of devaluation and contributed to significant pressure on the foreign exchange market. After initial foreign exchange intervention, the National Bank of Slovakia was forced to change its exchange rate mechanisms, and beginning 1 October 1998 it has implemented a regulated **SKK floating**. After an initial overshooting, the SKK stabilized under the level of 22 SKK/DEM.

The year 1998 was a turnaround year for the Slovak Republic with regard to both its political future and, in particular, its economic development.

Macroeconomic indicators of the Slovak Republic 1994 - 1998

Indicator		**Unit**	**1994**	**1995**	**1996**	**1997**	**1998**
GDP	yearly growth	%	4.9	6.9	6.6	6.5	**4.4**
Industrial production	yearly growth	%	4.9	8.3	2.5	2.7	**4.6**
Building production	yearly growth	%	(6.8)	2.9	4.4	9.2	**(3.5)**
Inflation rate	yearly average	%	13.4	9.9	5.8	6.1	**6.7**
Unemployment rate	at year-end	%	14.8	13.1	12.8	12.5	**15.6**
Balance of payments							
- Current account		USDmn	664.9	391.4	(2,098.1)	(1,952.3)	**(2,059.2)**
- Capital account		USDmn	196.1	1,053.9	2,192.2	1,807.4	**1,781.9**
Trade balance		CZKbn	2.6	(5.7)	(64.5)	(68.4)	**(80.8)**
Foreign exchange reserves							
- NBS		USDmn	1.7	3.4	3.5	3.3	**2.9**
- Total		USDbn	3.4	5.1	5.7	6.5	**6.1**
Gross indebtedness		USDbn	4.3	5.8	7.8	9.7	**11.8**
Stock of money (M2)	yearly growth	%	18.6	21.2	16.5	8.9	**2.7**
Interest rates on credits	yearly average	%	14.6	15.6	13.7	14.9	**16.7**
Interest rates on deposits	yearly average	%	9.3	9.0	6.7	8.0	**10.2**
Exchange rate SKK/USD	yearly average		31.28	29.57	30.65	33.62	**35.23**
Exchange rate SKK/DEM	yearly average		20.06	20.65	20.39	19.41	**20.06**

Source: National Bank of Slovakia (NBS), Statistical Office of the Slovak Republic

II. THE BANK'S COMMERCIAL ACTIVITIES IN 1998

In 1998, the Bank successfully avoided the unfavourable macroeconomic development in the Czech Republic as well as in the Slovak Republic and the financial crisis in Russia. Because of its long-term cautious attitude toward risks, the Bank was not forced to create extensive reserves and provisions, despite the problems of some of the Bank's customers. In this way, during 1998 the Bank successfully continued its trend of positive business results and maintained an approximate 9 % share in the deposit market in the Czech Republic and increased its share in the loan market to 10 % in the Czech Republic.

In 1998, the **volume of loans** provided by the Bank remained at approximately the same level as was in the prior year, despite write-offs of loans to clients and the strengthening of the CZK exchange rate, which decreased the value of the high balance of assets held in foreign currencies. At the same time, the percentage of "standard" receivables in the overall portfolio increased. The structure of the portfolio was changed due to write-offs amounting to CZK 8.8 billion (IAS) of loss loans stemming from the period before 1993 which had been fully provisioned in the past. In view of the ongoing recession, the Bank granted loans only to the most creditworthy clients, which significantly contributed to the improvement of its portfolio. Thanks to its conservative, country risk-minded policies, the Bank was not affected seriously by the problems appearing in East Asian markets or by the financial crisis in Russia; some activities carried out in Russia and other countries were reduced.

Unbalanced developments in the economy, together with political uncertainties before the parliamentary elections, brought about an expectation in domestic and foreign markets of devaluation and contributed to significant pressure on the foreign exchange market. After initial foreign exchange intervention, the National Bank of Slovakia was forced to change its exchange rate mechanisms, and beginning 1 October 1998 it has implemented a regulated **SKK floating**. After an initial overshooting, the SKK stabilized under the level of 22 SKK/DEM.

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Indicator		**Unit**	**1994**	**1995**	**1996**	**1997**	**1998**
GDP	yearly growth	%	4.9	6.9	6.6	6.5	**4.4**
Industrial production	yearly growth	%	4.9	8.3	2.5	2.7	**4.6**
Building production	yearly growth	%	(6.8)	2.9	4.4	9.2	**(3.5)**
Inflation rate	yearly average	%	13.4	9.9	5.8	6.1	**6.7**
Unemployment rate	at year-end	%	14.8	13.1	12.8	12.5	**15.6**
Balance of payments							
- Current account		USDmn	664.9	391.4	(2,098.1)	(1,952.3)	**(2,059.2)**
- Capital account		USDmn	196.1	1,053.9	2,192.2	1,807.4	**1,781.9**
Trade balance		CZKbn	2.6	(5.7)	(64.5)	(68.4)	**(80.8)**
Foreign exchange reserves							
- NBS		USDmn	1.7	3.4	3.5	3.3	**2.9**
- Total		USDbn	3.4	5.1	5.7	6.5	**6.1**
Gross indebtedness		USDbn	4.3	5.8	7.8	9.7	**11.8**
Stock of money (M2)	yearly growth	%	18.6	21.2	16.5	8.9	**2.7**
Interest rates on credits	yearly average	%	14.6	15.6	13.7	14.9	**16.7**
Interest rates on deposits	yearly average	%	9.3	9.0	6.7	8.0	**10.2**
Exchange rate SKK/USD	yearly average		31.28	29.57	30.65	33.62	**35.23**
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In 1998, the **volume of loans** provided by the Bank remained at approximately the same level as was in the prior year, despite write-offs of loans to clients and the strengthening of the CZK exchange rate, which decreased the value of the high balance of assets held in foreign currencies. At the same time, the percentage of "standard" receivables in the overall portfolio increased. The structure of the portfolio was changed due to write-offs amounting to CZK 8.8 billion (IAS) of loss loans stemming from the period before 1993 which had been fully provisioned in the past. In view of the ongoing recession, the Bank granted loans only to the most creditworthy clients, which significantly contributed to the improvement of its portfolio. Thanks to its conservative, country risk-minded policies, the Bank was not affected seriously by the problems appearing in East Asian markets or by the financial crisis in Russia; some activities carried out in Russia and other countries were reduced.

Also in 1998, stable results enabled the Bank to generate sufficient funds to cover credit risks, in assessment of which the Bank continued to be very successful. The Bank's approach to the valuation of real estate collateral proved positive in that it was not necessary to create hardly any additional provisions and reserves to meet stricter CNB regulations.

Corporate banking. In accordance with previous years' strategy, the Bank further expanded the level of services provided to its corporate clientele, focusing mainly on large companies. A customized approach to providing services to clients from this segment was also supported by changes in the Bank's organizational structure. Bank departments providing structured finance products tailored to specific needs of individual customers or projects were linked more closely to the Corporate Banking Division's customer desk that is serving major companies. These departments provide structured finance and its distribution (export and import finance, project finance, loan syndications). This reorganization has also enabled the associated financing of acquisitions, investments into production facilities, operational requirements and financial service for trading activities, in particular for those oriented toward foreign countries.

The application of a consistent customer approach and cross-selling methods also broadened the business co-operation with corporate clients also in the area of foreign exchange and deposit operations and their respective derivative transactions, and supported sales of products for financing customers' activities through capital markets.

Among the most successful deals in 1998 were the acquisition of the mandate from Transgas for the co-arrangement of a medium-term CZK 5.5 billion loan and the co-arrangement of a DEM 280 million loan to ČEZ. The Bank's strong position was also confirmed in Slovakia through its participation in syndicated loans, the largest of which were credit facilities provided to Slovenské Telekomunikácie and SCP Ružomberok. In a number of transactions, the Bank also successfully acted as agent or paying agent of creditors (Transgas, Turkish Railways, Slovenské Telekomunikácie, SCP Ružomberok and ČEZ).

Syndicated-loan activities included participation in the financing of top Czech and Slovak corporate clients, in loans arranged for foreign financial institutions and creditworthy foreign corporates and projects as well. These activities concentrated on countries of special interest and were directed to preferred industries.

The use of special-purpose import foreign-exchange credits designed to finance imports of production equipment and modern technologies stagnated. The strong growth in the number of business projects, resulting from sales efforts and prepared at the beginning of the year using export buyer's credit as an effective instrument to support the export of goods and investments, was severely curtailed due to the crises in South-East Asia and Russia and their global impact. This in many cases resulted in the interruption or abandonment of some projects. Forfaiting activities proved less vulnerable and showed significant growth despite the market instability. Under the direction of the Bank, a relatively new, and as yet not fully appreciated product, 'commodity financing', was successfully launched onto the domestic market. This is a very sophisticated instrument designed to finance flows of commodities traded on stock-exchanges and other highly liquid commodities, which further attracted other important clients.

The Bank participated significantly in financing exports of power plants that were efficiently supported by EGAP (e.g., Ayoun Moussa in Egypt). The co-operation of the Bank with the International Finance Corporation (IFC) further developed in the area of monitoring jointly-financed projects (ECKG and Nová Huť).

In 1998, non-documentary payments continued the positive trend towards the usage of electronic payment systems, that is, data interchange based on the international standard **UN/EDIFACT**. In both the Czech Republic and the Slovak Republic, the number of customers using EDIFACT for domestic and foreign payments increased further by 35 % in 1998.

International banking. The newly established International Division includes bank relations, international payments and guarantees and custody services. During 1998, the Bank improved its position as a leading provider of CZK clearing services to international banks, in particular to foreign operators on the CZK markets. On the other hand, the introduction of the single European currency enabled the Bank to radically rationalize the network of nostro accounts in EMU countries. The Bank continued to be the most reliable link for international banks in settling cross-border payments relating to Czech and Slovak exports and imports. The decline in the number of documentary transactions and guarantees was more than compensated by the increased flows of clean payments.

Despite the unfavourable development on the local capital markets, the Bank retained its dominant market share in custodian services provided to foreign portfolio investors in the Czech Republic and the Slovak Republic. In 1998, custodian services were extended to include custody for local portfolio investors trading in the international markets, which placed the Bank into a new role as a global custodian.

The Bank was well prepared for all **euro-denominated services** provided to its domestic and foreign customers.

Financial markets operations. In 1998, as in the past, the Bank enjoyed success in its activities in the financial markets, both international and domestic.

In the area of spot operations, the Bank strengthened its leading position as a market maker in USD/DEM exchanges. Although during the year the average transaction amount traded decreased, the quantity of trades increased, which is due mainly to the implementation of new electronic systems in the markets enabling smaller transaction amounts. In the CZK market, the Bank is recognized as one of the major market makers, although trading in the CZK has increasingly been moving to the London market. The most successful product in the **FX area** in 1998 was trading in options, where the Bank gained a dominant position as a market maker in CZK options. By beginning futures operations in a trial regime, though small so far, the Bank broadened the range of products offered to its customers. The Bank's goal for 1998 was to introduce as many customers as possible to this new product.

In the **money market** area, the Bank maintained its position from the previous period when it became one of the major market makers, especially in the areas of short-term securities (treasury bills), deposits and FX swaps. The Bank is already an important player in products introduced by the Bank in 1997: interest rate derivatives (forward rate agreements - FRA, interest rate swaps - IRS, and interest rate options). In this area, the Bank became a leader on the Czech inter-bank market and has been successful as a corporate advisor. To broaden its range of products, in 1998 the Bank began to trade in the foreign emerging markets, within narrow limits, particularly in Hungary, Poland, Slovakia and Russia. Through the prudent selection of investment opportunities and risk assessment relating to these markets, the Bank, unlike other banking houses here and abroad, was able to avoid losses.

Despite an unfavourable **capital markets** environment in 1998, characterized by high volatility of interest and exchange rates, low liquidity and lack of interest especially from foreign investors, the Bank participated in the majority of important domestic bond issues. One success was the expansion of customer finance through promissory bond issues. These short-term debt instruments are one mechanism that enables issuers' needs to be matched with the investors' interests.

The beginning of 1998 was marked by increased trading in derivatives for clients used to hedge against their interest rate risks (FRA, IRS). This trend, however, was interrupted by the crisis in Russia and the subsequent drop in interest rates.

Due to the developments in the domestic and world capital markets, 1998 was a dramatic year. The development in the domestic market reflected the turbulence in the world financial markets, in particular in East Asia and Russia.

Czech equity markets showed a decline in prices for two consecutive years. The Bank's strategy in the area of **foreign currency equity shares** showed satisfactory results, despite the market turbulences.

During the Russian crisis, the Bank generated profit in the **Czech bond market** due to wise investment in government bonds. Due to a successive lowering of interest rates at the end of the year the Bank succeeded in recognizing significant gains.

The Bank significantly increased its activities in the area of **foreign currency bonds** and **crown bonds issued by foreign issuers**, in trading DEM and USD denominated bonds. In 1998, foreign markets were very turbulent. The business results of most investors accumulating higher credit risk were hurt by big credit losses, while the investors investing in government bonds with the lowest credit risk were successful in exceptional cases. The Bank, belonging to the second investor group, correctly assessed the development of interest rates in 1998, restructured its portfolio by moving from interest spread-related products to U.S. and German government bonds and remained flexible as the market developed. The result of this was that the bond portfolio of the Bank performed better than the overwhelming majority of other managers of comparable bond portfolios.

After the problems at the beginning of the year, in the middle of 1998 the Bank succeeded in consolidating and subsequently further developing asset management for both companies and individuals.

The Bank's activities on the **financial markets** are based on quality **analyses** of both domestic and selected foreign, in particular emerging, markets. These analyses focus on support for activities in the money market, the fundamental analyses of companies traded on the stock markets and also the macroeconomic area. The Bank became an authority in the area of analyses proved by frequent quotations in the press.

Retail services. This area is developing as ČSOB's key strategic priority. The Bank was successful in acquiring retail clientele in 1998, which is evidenced by dramatic growth of the number of retail customers from 209 thousand to 262 thousand (that is 25 %). This growth was reflected in the increase of retail primary deposits by 12 % and is proving the continued customer migration to larger, stable banks and the Bank's competitive interest rates. Even though the corporate deposits declined to a certain degree in 1998, the total primary deposits volume grew by about 5 %.

The range of products was broadened to include various modifications of deposit-related products and mortgage loans to individuals (and also to corporate clients).

The Bank continued to extend and improve its services for VISA and Eurocard/MasterCard payment card transactions to both corporate and private customers. The Bank increased the number of payment cards issued by 30.8 % and achieved a 5 % market share. For payment cards at point-of-sale locations, the Bank's share of the market reached approximately 23 %. At the end of 1998 the Bank had 66 ATMs in the Czech Republic and 16 in the Slovak Republic.

The Bank continued to transform its distribution network by improving the quality of its existing locations and by developing electronic forms of distribution. At the end of 1998, there were 54 outlets in the Czech Republic and 14 in the Slovak Republic.

In 1998, the Bank began to operate another electronic distribution channel, **Phone Banking** with the aim to upgrade services to customers.

Preparation of IS/IT for Year 2000. All crucial systems of the Bank are now believed to be year 2000 compliant based on the Bank's year 2000 testing methodology. The Bank managed the year 2000 risks as a project headed by the risk management director in the following areas: systems that service all customer account operations, domestic and foreign payments, payment card operations, operations via electronic distribution channels and other technological equipment necessary to secure the Bank's operations and customer business. Simultaneously, the Bank has also discussed and monitors the preparation for the year 2000 issue of its partners providing banking or non-banking operational services to the Bank.

ČSOB financial group. In order to provide its customers with comprehensive services, the Bank offers its services through specialized companies of its financial group. The financial group comprises the following companies: Prager Handelsbank AG; OB Leasing, a.s., and its subsidiary OB Leasing, a.s., in the Slovak Republic; O.B. Heller, a.s., and its subsidiary OB Heller Factoring, a.s., in the Slovak Republic; O.B. Invest, a.s.; and Consilium, s.r.o.

At the end of 1998, the structure of the Bank's financial group was changed by selling the Bank's stake in OB Aval, s.r.o., which offered forfaiting services. The Bank sold its 50 % stake to a foreign partner, Standard Bank London Limited, the activities of this subsidiary are now being fully offered by the Bank's own forfaiting unit.

Prager Handelsbank AG (PHB) continued its successful support of German-based companies with Czech and Slovak capital by providing both credit and advisory services. When compared to the previous period, PHB activities in the area of financing trade between the Czech Republic, Slovak Republic and Germany increased. PHB also continued to play an indispensable role in securing foreign payments traffic for ČSOB customers, in particular with their business partners in the German market.

Measured by the amount of leased assets, OB Leasing, a.s., ranked third in the Czech Republic in 1998. Its share capital was increased to CZK 600 million in order to enable further expansion. In 1997, OB Leasing was the first leasing and finance company in the Czech Republic to begin to develop a system of quality, based on ISO 9002 standards, and since then, the development has continued successfully. Results achieved in 1998 by its daughter company, OB Leasing, a.s., seated in the Slovak Republic, confirmed further expansion of the business activities.

In 1998, OB Heller, a.s., strengthened its dominant position in the domestic factoring market. During the year, the customer base stabilized, and, due to favourable developments in interest rates in the second half of 1998, its turnover increased significantly. The company's subsidiary in the Slovak Republic, OB Heller Factoring, a.s., has established a leading position in the area of factoring services provided in the Slovak market.

In 1998, Consilium, s.r.o., strengthened its position in the market of corporate financial consulting, when they provided advisory services in connection with customer transactions, the volume of which aggregated approximately CZK 7 billion. Advisory work for České Radiokomunikace in raising share capital and subsequently issuing global deposit certificates amounting to USD 134 million in the international markets was one of the most successful transactions.

To comply with the amendment to the Act on Investment Companies and Investment Funds, O.B. Invest, s.r.o., converted into a joint-stock company, O.B. Invest, a.s., in 1998, with the same basic capital of CZK 25 million. Measured by assets under management, O.B. Invest continues to hold a significant position among Czech investment companies. The Securities Commission approved the conversion of two closed-end share funds administered by O.B. Invest into open-end funds with opening dates in January and February of 1999: Zlatý uzavřený fond Kvanto (Golden Closed-end Fund Kvanto) was converted into OB Kvanto Svět (OB Kvanto World), and 1. obchodní podílový fond Kvanto (1st Business Fund KVANTO) was converted into OB Kvanto Globální listinný (OB Kvanto Global Share Certificate Fund).

The acquisition of the Bank's own shares. In the respective accounting period, the Bank acquired 47,880 of its own shares from employees and also direct purchase based on the decision of the General Meeting of 26 May 1997 and 31,600 shares through the company Finop Holding, a.s. The total purchase price of the shares thus acquired was CZK 260,825,250. The lowest purchase price was CZK 900/share, the highest was CZK 3,410/share. There was no other activity in the Bank's own shares during the year. At the beginning of the accounting period, 1 January 1998, there were 29,520 own shares in the Bank's possession - directly or indirectly, which amounted to 0.58 % of the Bank's company's share capital, and, at the end of the accounting period, 31 December 1998, there were 109,000 own shares in the Bank's possession, which amounted to 2.13 % of the Bank's share capital.

III. CHANGE PROGRAMME

In 1998 the Bank launched a major change programme (ZIP 2000), the purpose of which is to identify new business opportunities, take advantage of those opportunities, identify weaknesses in various processes with the aim to improve them, implement new, up-to-date management models and execute a gradual change of the Bank's corporate culture.

In 1998, the process of changing administrative and executive management techniques was initiated, including the gradual optimalization of management model. The changes in the Bank's organizational structure and management, designed to enhance more its customer orientation, were carried out. Executive management functions, including the centralization of risk management and credit policies, were separated from functions dealing with infrastructure and commercial activities. Individual commercial divisions were reorganized by customer market segments. Due to these changes, the Bank created the fundamental organizational prerequisites necessary for the centralization of support and service activities. The changes in management began a transition to the application of MBO (Management by Objectives) principles and to new methods for appraising individual performance.

IV. 1998 PROFIT AND LOSS STATEMENT AND BALANCE SHEET

Continued conservative lending policies, asset quality improvement resulting from the search for good business opportunities and expansion of the range of products and distribution channels represented the principal components of the Bank's business policy in 1998. The Bank's prudent approach to risk management based on riskiness of the environment and evidenced by above average capital adequacy ratio enabled the Bank to minimize risks arising from the local economic situation and to cope with the global economy fluctuations (e.g. crises in Russia and Asia).

In 1998, the Bank had not yet managed to resolve its claim against Slovenská inkasní, which had a negative impact on the Bank's results (see detailed information in Note 10 to the 1998 Consolidated Financial Statements). Non-payment of this claim in specified maturities negatively influences the Bank's liquidity in SKK and limits the possibilities of utilization of the Bank's potential in the Slovak Republic.

All figures stated in this section are extracted from the Bank's 1998 Consolidated Financial Statements in accordance with International Accounting Standards (IAS).

PROFIT AND LOSS STATEMENT

The Bank adopted International Accounting Standard 12 (revised) which required a change in the accounting for deferred income taxes. This change had a significant impact on the Bank's net profits for 1998 and 1997 and is explained in Note 2d) of the Bank's consolidated financial statements.

Despite the unfavourable external economic environment in 1998, the Bank achieved solid results due to its prudent approach to risk and liquidity management, quality of personnel and management and superior know-how.

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Profit for the year. Profit for the year was CZK 2.8 billion in 1998 representing a year-on-year increase of 9.8 % and the Bank maintained its position as a stable domestic bank in the Czech Republic. The Bank achieved a return on average assets of 1.17 % and a return on average equity of 11.10 %. As at 31 December 1998, the equity to total assets ratio was 10.80 %.

Profit before taxation. A year-on-year decrease in operating income was caused primarily by the unfavourable economic environment. In addition, the 1997 results included exceptional gains realized from large interest rate and currency fluctuations. Despite the unfavourable economic situation, due to the Bank's historically conservative approach in credit provisioning, a lower provisioning charge was required in 1998 than in 1997. Thus, the Profit before tax increased by CZK 0.2 billion (6.0 %), in comparison with the previous year.

Net interest income. Net interest income grew by CZK 0.7 billion (9.2 %) primarily due to an increase in the proportion of non-interest-bearing funds financing interest-bearing assets from the growth in the equity of the Bank. Interest income increased by CZK 3.2 billion (13.7 %) due to, mainly, an increase in the balance of Loans and advances to banks. Growth in interest expense by CZK 2.4 billion (15.9 %) was a result of the increase in customer deposits and, to a lesser degree, the increase in interest rates on customer deposit accounts, from the larger volume, and increased proportion, of term deposits.

Net commission income. Net commission income decreased in 1998 by CZK 0.2 billion (13.9 %) in comparison with the previous year. The decrease resulted from declining commission income from traditional banking products (guarantees and documentary transactions) and from a reduction in commissions from government loans of CZK 0.1 billion, due to the lower volume of these operations. Increased income from services preferred by customers (clean payments and payment cards) was unable to compensate for these declines.

Net profit on financial operations. In 1998, the Bank was unable to duplicate the 1997 results which were favourably influenced by exceptional fluctuations of interest rates and the CZK exchange rate. A year-on-year decline of CZK 0.7 billion (20.9 %) was due primarily to the decrease in net foreign exchange gains. The higher net foreign exchange gains in 1997 were due to the high CZK exchange rate volatility and higher customer demand for foreign exchange operations.

Operating expenses. In 1998, Depreciation and amortization expense increased by CZK 0.2 billion (25.5 %) due to a reduction in the estimated useful life of information technology equipment. Management gives cost savings high priority. Such efforts were reflected in the increase in General administrative expenses by CZK 0.4 billion (10.5 %) in 1998, even though they included a provision charge for Year 2000 of CZK 100 million. The growth of total Operating expenses in 1998 was below inflation.

Income tax expense. Income tax expense was CZK 1.5 billion, which was approximately the same as in 1997. The main factors influencing the corporate income tax base were the volume of interest income subject to withholding tax, tax-exempt interest income and tax-deductible charges for provisions and reserves. The change of taxation of income from securities was the principal cause for the increase in Current tax expense.

BALANCE SHEET

In 1998, consolidated assets totalled CZK 245.5 billion, which represents an increase of 4.9 % when compared to 1997. As a substantial portion of the total assets (approximately one-third) is made up of foreign-currency items and due to the strengthening of the Czech crown (CZK) in 1998, the volume of the Czech crown equivalent of such foreign-currency assets and liabilities decreased despite their actual growth.

Cash and balances with central banks. Besides the previously mentioned impact of the CZK strengthening, total Cash and balances with central banks decreased by CZK 2.1 billion (13.0 %)

due to, among other things, a lower obligatory minimum reserves rate announced by the Czech National Bank (a decrease from 9.5 % to 7.5 %) as at 30 July 1998. This also had a favourable impact on net interest income.

Treasury bills. In 1998, the balance of Treasury bills decreased by CZK 2.5 billion (45.0 %), due to the more favourable development of interest rates on the inter-bank market.

Loans and advances to banks. The volume of Loans and advances to banks increased by CZK 21.2 billion (34.1 %) due to the expansion of reverse repurchase transactions.

Loans and advances to customers. The decrease in gross Loans and advances to customers CZK 5.3 billion (4.0 %) was primarily due to bad debt write-offs amounting to CZK 8.8 billion. At the same time the strengthening of the CZK exchange rate led to a decrease in the Czech crown equivalent of foreign-currency loans. The unfavourable economic situation increased credit risk, resulting in a slow-down in loan growth. In 1998 the Bank succeeded in improving the overall quality of its credit portfolio due to the repayments of some classified loans and, to a lesser degree, the transfer of certain loans to other banks.

Debt securities and Equity shares. Share of debt securities and equity shares in total assets decreased from 9.2 % as at 31 December 1997 to 6.7 % as at 31 December 1998. In 1998, the Bank decreased its Debt securities by CZK 4.4 billion (25.8 %) to CZK 12.5 billion as a consequence of restructuring its trading portfolio. A substantial part of the Bank's portfolio is composed of State bonds of developed economies and Central European-issued Eurobonds, which increased in 1998. Because of the development of the capital markets in the country, the Bank held Equity shares of selected companies only and reduced its portfolio by CZK 0.6 billion (13.1 %) to CZK 4.0 billion.

Property and equipment. Despite information technology additions and distribution network expansion, Property and equipment decreased by CZK 0.4 billion (3.9 %) due to cost-saving measures and depreciation.

Amounts owed to banks. An increase in Amounts owed to banks by CZK 2.8 billion (4.7 %) results from the Bank's activities on the inter-bank market. In 1998, the Bank drew its new medium-term financial credit from foreign banks in the amount of DEM 120 million, the parameters of which reflected the favourable rating of the Bank in the international money market also in the period of increasing world financial crisis. Due to the unfavourable economic situation causing a restriction in financing possibilities and due to the growth in primary sources, it was not necessary for the Bank to obtain additional funds from the inter-bank market.

Amounts owed to customers. In 1998 customer confidence in larger, stable banks continued to increase. Fear of growing costs of living in the future resulted in a higher savings rate. Amounts owed to customers increased by CZK 6.1 billion (5.3 %) also due to the competitive interest rates offered by the Bank. The composition of the Amounts owed to customers continued to change. The share of term deposits increased while the share of current accounts decreased. This had a positive impact on the Bank's liquidity, however, it negatively impacted net interest income.

Debt securities in issue. It was not necessary to issue new bonds in 1998 because of the growth of customer deposits, the ability of the Bank to raise funds on the inter-bank market under more favourable conditions and the prudent growth of assets. An increase CZK 0.2 billion (1 %) in Debt securities in issue was due to the higher volume of certificates of deposit sold.

Provisions for off-balance sheet credit risks. In spite of the unfavourable economic situation and the Bank's conservative approach to risk management, it was necessary to increase the provisions for off-balance sheet credit risk by only CZK 0.1 billion (3.6 %), due to the decrease of the level of the Bank's contingent liabilities and commitments.

Reserves. The transfer of the majority of 1997 profit to Reserves in 1998 was the main reason for the increase in Reserves by CZK 3.1 billion (25.8 %).

Contingent liabilities and commitments. In 1998, the Bank's restructuring of off-balance sheet items continued to favour credit commitments, while reducing the Bank's exposure to issued guarantees. Within off-balance sheet contingent liabilities, there was a CZK 7.0 billion (28.4 %) decrease due to customers' lower demand for these instruments, strengthening of the CZK exchange rate and also by intentional decrease of exposure to issued guarantees as the risks are better managed at balance sheet exposures. Due to the economic situation, the volume of credit commitments decreased by CZK 2.1 billion (5.9 %).

Derivative financial instruments. Notional amount of trading derivatives nearly doubled during 1998. This was connected with the development stage of the product cycle. Major part of trading derivatives form interest rate related contracts with more than 50 % share of forward interest rate related contracts in total trading derivatives. Notional amount of asset and liability management derivatives increased due to the higher volume of swaps interest raterelated contracts. These contracts are concluded on the basis of interest rate GAP analysis.

V. GOALS OF THE BANK

Strategic orientation. The Board of Directors and the Supervisory Board approved a 5-year strategic orientation which was based on complex analyses.

Fundamentals of the strategy. The Bank is currently primarily driven by its corporate business, which has a deep market penetration in the upper segments of the corporate clientele in both the Czech and Slovak Republics.

Along with its branch network designed primarily to serve corporate clients, the Bank has built a medium-sized retail operation with over 250,000 client accounts.

ČSOB's key corporate attributes which differentiate it from the other market players are namely:
- financial strength and stable high financial performance;
- rigorous risk management and efficient lending policies;
- experience in managing complex and internationally driven operations;
- reliability, brand name of a Czech institution with an international profile;
- high professional standards of its specialists and managers possessing an entrepreneurial instinct and a solution-driven mind-set.

ČSOB has been viewed traditionally as the most risk-averse Czech/Slovak financial institution focusing on its core business. The Bank avoided high-risk operations and speculative transactions abroad as well as in immature industries in the domestic market.

Being able to target key development priorities, the Bank managed successfully to clean up its troubled credit exposures inherited from its pre-1990 operations, enter new businesses (retail banking, leasing) and compete with major international banks present in the Czech and Slovak Republics whilst maintaining steady financial performance.

Development Strategies
Corporate banking:
- Further develop the Bank's market presence in the upper and middle corporate segments
- Give special emphasis on cross-selling and intensifying direct sales efforts for all product categories
- Shift the revenue structure towards more fee-based revenue. This will require increased customer-oriented servicing and enriching the Bank's offer of advisory services and new sophisticated products
- Maintain the quality of the Bank's risk management

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- Access the strategic investor’s know-how and international customer base in order to enhance the Bank’s corporate development capacity
- Use segmented approach for serving corporate customers

Retail banking:
- Develop retail banking by an organic enlargement of the current retail customer base with an increased effort for acquisition of new customers
- Increase the shift towards new distribution and service channels. Reformat retail delivery channels in line with the development requirements
- Develop mortgage, credit card, investment and non-banking financial products even if the retail services remain mainly deposit driven
- Improve branch coverage
- Upgrade the quality of customer service

A more aggressive retail development would depend on the strategic partner’s retail experience.

The Board of Directors gives risk management the highest priority and maintains a very conservative attitude towards risk. Various banking risks are monitored and controlled through comprehensive policies and periodic reviews of internal control procedures, including the establishment and monitoring of limits against respective risk exposures.

Transactions realized in the banking market are subject to various risks, such as credit, market, liquidity and operations. The Bank's primary efforts are aimed at securing financial stability and minimizing potential losses.

To improve the quality of risk management, several organizational changes took place in the Bank in 1998.

A new division, the Credit and Restructuring Division, was established in order to concentrate on credit risk management, which includes Bank's credit (customer and counterparty) and country risk. Credit risk management at the group level improved as the Bank began to co-ordinate this activity with the ČSOB's Financial Group subsidiary and associate companies. Credit risk is monitored and managed by the Credit Risk Management Department, Bad Debt Recovery Department, Credit Risk Management Committee and the Board of Directors. To further strengthen the activities of the Credit Risk Management Department, a separate unit responsible for monitoring the credit portfolio was established.

Monitoring, managing and reporting market-related risks (primarily interest rate and foreign exchange risk) faced by the Bank is the responsibility of the Risk Management Department, which was separated from the former Financial Division and became an autonomous, division-level department reporting directly to the Chief Executive Officer. The Risk Management Department is also in charge of the management of liquidity risk and operational risk. In the Bank's organizational structure, the executive body in charge of market risk management is the Risk Management Department. Decisive powers relating to market risk management rest with the Asset/Liability Committee (ALCO) and the Board of Directors. The Risk Management Department monitors risks related to the products of the banking and trading portfolios and actively manages risks connected with the banking portfolio. Direct market risk management relating to the trading portfolio is the responsibility of the Middle Office Department in the Financial Markets Division.

Credit risk management. The Bank evaluates the risks of credit customers or groups of customers on an individual and related party basis. Each potential customer is evaluated under a conservative and standardized credit rating process, which considers, among other things, financial strength and cash flow. Based on the experience gained this process is continuously enhanced. If the evaluation of a potential customer is positive, a credit proposal is prepared which includes suggested credit exposure limits and the terms and conditions that are approved or modified, where appropriate, so as to minimize the credit risk.

The decisive factors in granting a loan are the quality of the business plan and the repayment of the credit from operations or other primary sources. To reduce credit risk, the Bank obtains high-quality collateral as a supplemental financing source, which, by itself, is not a sufficient reason to extend credit. If accepted by the Bank, the collateral is valued conservatively and, during the credit relationship, the Bank performs periodic reviews and updates its value. In cases where no collateral is required, the Bank positions itself so as not to be in a disadvantageous situation compared to other creditors having the same status (the assets must not be pledged to other banking creditors). The Bank takes this fact into account in assessing credit risks and preparing the contractual documentation.

To further reduce risk in the credit portfolio, the Bank actively diversifies its customer credit exposures amongst the various industry sectors. On the basis of the existing concentration levels and through analyses of industry sector risks, the Bank, following its credit policies, manages the level of its credit exposure by setting directions for efforts to acquire new loan customers.

During the credit period, the Bank monitors its credit risk to identify potential negative trends and to take action, when necessary, to avoid possible losses. The unit monitoring the credit portfolio is focused on controlling the quality of the credit portfolio, adherence to "best practice" and the evaluation of prudence of Bank officials in assessing credit risks. The Bank's goal is to use the experience gained from the controlling process to enhance current procedures and to formulate credit policies for future periods.

In reaction to the worsening economic and financial situation of many companies in both the Czech Republic and the Slovak Republic, in 1998 the Bank further tightened monitoring standards in order to detect warning signals quicker and thus take measures faster to minimize its exposure to problem customers. This is particularly important for groups of companies tied to each other by property or business activities. In assessing new business deals, the Bank placed more emphasis on business plans, especially for investments in new technologies or for the enlargement of existing production facilities. The Bank proceeded very conservatively in performing transactions with customers possessing low levels of capital. The financing of such transactions was directed to the area of structured finance where recognized investors can participate or to venture capital provided by other financial institutions. The Bank continued to diversify its loan portfolio by expanding to less-risky areas and by reducing its exposure to former foreign trade companies.

Counterparty credit risk is the risk that a trading partner, mostly banks, will fail to perform on an obligation to the Bank. The Bank carries out regular reviews of trading partners' creditworthiness and assigns credit exposure limits down to the product level. To further reduce counterparty credit risk and strengthen legal enforceability of transactions, the Bank has executed a number of International Swap Dealers Association (ISDA) master agreements with foreign counterparties with which it carries out a significant volume of banking transactions. Those agreements contain master netting agreements enabling the Bank to offset fair value amounts with the same counterparty in the event of default or cancellation of the agreement. To mitigate this risk even further, the Bank obtains collateral where appropriate.

Market risk is the risk of loss arising from adverse movement in the level or volatility of market prices or rates, the two largest components of which are interest rate risk and foreign exchange risk. Market risks associated with the Bank's trading and other activities are managed separately to accommodate the unique risk profiles arising from each activity type.

Trading activities. The Bank is a market maker and provides binding bid/offer quotes on various CZK and SKK instruments traded on the domestic and international money and foreign exchange markets and on the local capital markets. The Bank is also active in trading derivatives and offering them to customers to satisfy their internal risk management requirements. The Bank carefully manages the range of these products it offers in accordance with its conservative approach to risk. A majority of the derivatives are traded "over-the-counter", this is, directly with a counterparty and not on a recognized stock exchange.

To manage market risks arising from its trading activities, the Bank relies mainly on a comprehensive trading limit structure. This structure determines maximum allowable exposure to market risks and incorporates both limits relating to the size of individual positions and the amount of potential losses that could arise from adverse developments in the market. The ALCO and the Financial Markets Committee inform Bank top management about the size of trading positions and the drawing of particular limits.

Calculations of potential losses from trading activities in the financial markets using the Value-at-Risk methodology have been carried out on a daily basis, together with a daily control in the Financial Markets Middle Office Department over the amount of open positions with respect to approved limits. In addition, this department regularly carries out market valuations of all products traded on financial markets.

Through departments operating on financial markets, the Risk Management Department performs active risk management by entering into offsetting deals, including financial derivatives, with counterparties. Appropriate hedging operations are realized with respect to all open positions resulting from both trading and banking activities.

Since 1997 the Bank has reported fair values for trading financial derivatives in its financial statements prepared in accordance with International Accounting Standards through mark-to-market accounting. Mark-to-market (or fair value) accounting records such trading assets and liabilities at market value in the Bank's balance sheet.

Other banking activities of the Bank involve, among other things, taking deposits, issuing debt, investing in securities and lending. Market risks arising from these activities are controlled through the Bank's asset and liability management policies and procedures. Bank asset and liability management is carried out jointly by the Risk Management Department and the Funds Allocation Management Department. Asset and liability management decision making powers rest with ALCO and the Board of Directors. The Bank's conservative approach to the management of such market risks is based on the principle that open positions are prohibited. However, since it is not always practicable to fully close all open positions, restrictive limits are established to ensure that open positions are kept at insignificant levels.

For market risk management, including trading activities, the Bank continued in 1998 to fully comply with all Czech National Bank (CNB) rules, measures and limits.

Interest rate risk is monitored and controlled based on analyses of open interest rate positions of the Bank by individual currencies reflecting differences between interest rate-sensitive assets and liabilities. Monitoring interest rate risks is carried out using an interest rate GAP analysis to ascertain mismatches between interest-earning assets and interest-bearing liabilities according to currencies within specified repricing intervals.

The assessment of interest rate positions takes place weekly and consists of comparing the open interest rate positions of the Bank with the respective prescribed limits. The limit for an interest rate position is expressed as the maximum allowable open interest rate position related to the total balance sheet assets in the specific currency. If the actual open position is higher than the prescribed limit, the position is reduced or hedged through an interest rate swap transaction. The decision to carry out such a hedging operation, based on the recommendation of the Risk Management Department, is the responsibility of ALCO.

The interest rate sensitivities of the Bank as at 31 December 1998 can be illustrated by the following analysis, which summarizes the interest rate sensitivity gaps (interest-earning assets less interest-bearing liabilities) for the major currencies:

Interest rate gap position - long/(short)

(CZKm)

Currency	Up to 1 month	1-3 months	3-12 months	Over 12 months
CZK	(14,360)	35,746	39,037	(74,753)
USD	627	4,359	(11,076)	4,687
DEM	375	7,037	(12,681)	3,822
SKK	5,489	(915)	(2,480)	(4,033)

A long gap position means assets in a particular currency will reprice more quickly or in greater proportion than liabilities during a given period and will benefit net interest income in a rising rate environment. Conversely, a short gap position means liabilities in a particular currency will reprice more quickly or in greater proportion than assets during a given period and will benefit net interest income in a declining rate environment.

Foreign exchange risks are monitored and controlled by analysing open currency positions by individual currencies and relevant currency groups. The Risk Management Department monitors the currency-related risk for the entire Bank for both the trading and banking portfolios. Open foreign currency positions of the trading portfolio are included in the limits for overall open positions of the Bank and are monitored by the Middle Office Department in the Financial Markets Division. The Risk Management Department is able to identify open foreign exchange positions throughout the day and utilizes this information to manage foreign currency-related risks in an optimum way.

The Risk Management Department manages open foreign currency positions on a daily basis by making use of data stored in the Bank's management information systems. Maximum limits for the management of open foreign currency positions have been established by the CNB. The Bank approves its own limits which cannot exceed those laid down by the CNB. The Bank adheres to a conservative policy in the area of foreign currency positions. The transactions designed to manage and hedge open foreign currency positions are carried out by way of internal deals with Bank departments trading on financial markets.

Liquidity risk is monitored and managed considering short-term (operational) liquidity management as well as medium- and long-term liquidity management.

Short-term, crown-denominated liquidity is monitored and managed on the basis of the operational management of clearing account and minimum obligatory reserve account balances with the CNB and the National Bank of Slovakia (NBS). For foreign currencies, short-term liquidity is monitored and managed through the Bank's nostro accounts. Limits for short-term liquidity management are determined by minimum obligatory reserves specified by the CNB and NBS or by minimum balance limits in nostro accounts necessary to provide sufficient coverage of payment operations in foreign currencies.

Medium- and long-term liquidity is monitored and managed separately for individual currencies through the time structure of the balance sheet and through liquidity risk management ratios. A balance sheet schedule is valid for a specific calendar year and indicates the level of matching refinancing assets and liabillities by maturity. The following ratios and trends are monitored on a weekly basis: the liquid assets ratio (liquid assets to total assets), the liquidity ratio (net customer loans to customer deposits) and the securities ratio (liquid securities to total assets).

Operational risk is composed of system risk and risk connected with human errors. Human failure risks are divided into transactions-related risks and risks stemming from errors in verifying operations.

System risks include risks due to the failure of technological, communications and information systems. Operational risks reflecting human factors include mistakes, errors, incompetence or deliberate fraud by Bank staff or its clients.

Proper management of the operational risk utilizes two areas of processes and procedures established to reduce, or to cover such risk. Plans securing the continuity of performance include measures to be taken by departments to eliminate operational risk at its inception (power failure, information/accounting system failure, etc.) and describe procedures for recovery if an abnormal interruption occurs during the performance of specific banking activities. Emergency plans describe actions to be taken to avoid predictable operational risks not only in normal situations, but also in exceptional, but planned, situations such as the introduction of a new currency, the end of the millennium, etc.

With the aim to solve *the year 2000 risks* (risks arising from automated systems not complying with the year 2000 on 1 January 2000) the Bank created in November 1996 a "Year 2000" project team, which co-ordinates, headed by risk management director, this effort of the Bank's organizational units.

Recollection of ČSOB's claim against Slovenská inkasná, s.r.o

On May 24, 1999 the Arbitral Tribunal unanimously decided that the dispute between ČSOB and the Slovak Republic represented by the Ministry of Finance of the Slovak Republic is within the jurisdiction of the International Centre for Settlement of Investment Disputes and within the competence of the Tribunal. The tribunal will continue proceedings on the merits of the case.

SUPERVISORY BOARD OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S.

Chairman:	**Karel Kouba**	Professor of Charles University, Praha (Chairman since October 27, 1998)
	Miroslav Havel	Deputy Minister Ministry of Finance of the Czech Republic (until July 31, 1998)
Vice-Chairman:	**Josef Vanžura**	Senior Executive Officer Czech National Bank, Praha
Members:	**Vladimír Šrytr**	Chief Manager of State Financial Assets and Liabilities Department Ministry of Finance of the Czech Republic
	Pavel Suchý	Member of the Executive Committee and Head of the Debt Recovery Department Natinal Property Fund of the Czech Republic, Praha
	Štefan Pavúk	Chief Manager of Department National Bank of Slovakia, Bratislava
	Stanislav Masár	Chief Manager of Department National Bank of Slovakia, Bratislava
	Jiří Koliha	Chief Manager of Department Czech National Bank, Praha
	Karel Kouba	Professor of Charles University, Praha
	Petr Pecháček	Advisor to Vice-Governor Czech National Bank, Praha
	Dušan Preisinger	Institute of Monetary and Financial Studies National Bank of Slovakia, Bratislava
	Igor Valtr	Member of the Board of Directors Czech Insurance Company, a.s., Praha (until January 25, 1998)
	Frank Farsky, M.B.A.	Head of Commmunication Dept. Auto Škoda, a.s., Mladá Boleslav (since June 15, 1998)
	Zdeněk Petříček	Deputy Minister Ministry of Finance of the Czech Republic, Praha (since October 27, 1998)

STATEMENT BY THE SUPERVISORY BOARD OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S.

1. The Supervisory Board has performed its tasks in accordance with Articles 197 - 201 of the Commercial Code as amended, ČSOB's Articles of Association and its rules of conduct. The Board of Directors has submitted regular reports on ČSOB's activities and its financial situation to the Supervisory Board.

2. The financial statements of the Bank have been prepared in accordance with International Accounting Standards. The Bank has also prepared unconsolidated financial statements in accordance with the Act on Accounting and relevant legislation of the Czech Republic.

3. The financial statements were audited by KPMG Česká republika Audit spol. s r.o., Praha. The auditors have opined that the financial statements present fairly, in all material respects, the financial position of the consolidated group and of the parent bank as at 31 December 1998, and of the consolidated group and parent bank's results of operations and cash flows for the year ended 31 December 1998 in accordance with International Accounting Standards. The auditors have also opined that the financial statements present fairly, in all material respects, the assets, liabilities and equity of ČSOB as at 31 December 1998 and the results of its operations for the year ended 31 December 1998 in accordance with the Act on Accounting and relevant legislation of the Czech Republic.

4. The Supervisory Board has reviewed the 1998 annual financial statements and the proposal for distribution of profits and has accepted the results of the audit of the 1998 annual financial statements and has recommended to the General Meeting to approve them.

Kouba

Karel Kouba
Chaiman of Supervisory Board

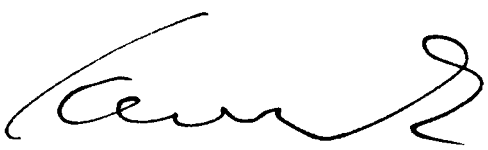
(CZKm)	Notes	1998	1997
Interest income		26,147	22,995
Interest expense		(17,805)	(15,357)
Net interest income		**8,342**	**7,638**
Net profit (loss) on investment securities and participating interests	4	(190)	111
Commission income		1,838	2,047
Commission expense		(318)	(281)
Net commission income		**1,520**	**1,766**
Net profit on financial operations	5	2,698	3,413
Other operating income		480	593
Non-interest income		**4,508**	**5,883**
Operating income		**12,850**	**13,521**
General administrative expenses	6	(3,900)	(3,528)
Depreciation and amortization		(929)	(740)
Other operating expenses		(606)	(679)
Operating expenses		**(5,435)**	**(4,947)**
Provisions for loans and advances and off-balance sheet credit risk	11	(3,637)	(4,401)
Adjustments on investment securities and participating interests	7	486	(152)
Profit before taxation		**4,264**	**4,021**
Income tax expense	8	(1,461)	(1,469)
Profit for the year		**2,803**	**2,552**

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

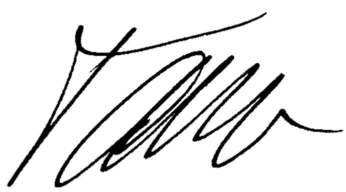
CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 1998 AND 1997
(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

(CZKm)	Notes	31.12.1998	31.12.1997
ASSETS			
Cash and balances with central banks		13,864	15,946
Treasury bills		3,057	5,555
Loans and advances to banks	9	83,435	62,197
Loans and advances to customers	10	111,686	110,917
Debt securities	12	12,491	16,843
Equity shares	13	3,969	4,568
Interests in associated companies	14	367	359
Property and equipment	15	8,603	8,956
Other assets, including tax assets	16	6,340	5,742
Prepayments and accrued income		1,691	2,862
Total assets		**245,503**	**233,945**
LIABILITIES			
Amounts owed to banks	18	62,908	60,104
Amounts owed to customers	19	122,017	115,917
Debt securities in issue	20	15,495	15,345
Other liabilities, including tax liabilities	21	11,189	11,390
Accruals and deferred income		3,477	3,428
Provisions for off-balance sheet credit risk	11	3,908	3,772
Total liabilities		**218,994**	**209,956**
SHAREHOLDERS' EQUITY			
Share capital	22	5,105	5,105
Reserves		15,190	12,070
Retained earnings		6,214	6,814
Total shareholders' equity		**26,509**	**23,989**
Total liabilities and shareholders' equity		**245,503**	**233,945**

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



Pavel Kavánek
Chairman of the Board
of Directors and General Manager



Josef Tauber
Vice-Chairman the Board
of Directors and Senior Executive Officer

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997
(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

(CZKm)	Notes	Share capital	Statutory reserve	Translation reserve	Treasury shares	Retained earnings	Total Equity
At 1 January 1997 - as previously reported		5,105	8,952	77	(19)	3,617	17,732
Effect of adopting IAS 12 revised	2d)					3,685	3,685
At 1 January 1997 - as restated		5,105	8,952	77	(19)	7,302	21,417
Currency translation differences, not recognised in profit and loss statement				2			2
Profit for the year - restated for the effect of adopting IAS 12 revised						2,552	2,552
Transfer to statutory reserve			3,040			(3,040)	0
Sales of employee shares					18		18
At 31 December 1997		**5,105**	**11,992**	**79**	**(1)**	**6,814**	**23,989**
At 1 January 1998 - as previously reported		5,105	11,992	79	(1)	4,274	21,449
Effect of adopting IAS 12 revised	2d)					2,540	2,540
At 1 January 1998 - as restated		5,105	11,992	79	(1)	6,814	23,989
Currency translation differences, not recognised in profit and loss statement				(120)			(120)
Profit for the year						2,803	2,803
Transfer to statutory reserve			3,403			(3,403)	0
Purchases of employee shares					(162)		(162)
Other aquisitions					(1)		(1)
At 31 December 1998		**5,105**	**15,395**	**(41)**	**(164)**	**6,214**	**26,509**

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

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997
(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

(CZKm)	Note	1998	1997
Cash flows from operating activities			
Profit before taxation		4,264	4,021
Adjustments for:			
Provisions for loans and advances and off-balance sheet credit risk		3,637	4,401
Depreciation and amortization		929	740
Adjustments on investment securities and participating interests		(486)	152
Net gain (loss) on sales of investment securities		206	(104)
Net loss on sale of property and equipment		44	6
Other		177	(24)
(Increase) decrease in operating assets			
Trading securities		5,589	6,564
Loans and advances to banks, non-demand		(19,449)	(26,759)
Loans and advances to customers		(4,399)	(17,826)
Other assets, including tax assets		(1,758)	1,071
Prepayments and accrued income		1,171	(488)
Increase (decrease) in operating liabilities			
Amounts owed to banks, term		3,757	2,913
Amounts owed to customers		6,100	25,285
Debt securities in issue		616	(540)
Other liabilities, including tax liabilities		(888)	(1,288)
Accruals and deferred income		49	(672)
Net cash flow from operating activities before income tax		(441)	(2,548)
Net income tax received		506	102
Net cash flow from operating activities		65	(2,446)
Cash flows from investing activities			
Purchase of investment securities		(744)	(924)
Purchase of participating interests		(19)	(292)
Purchase of property and equipment		(814)	(1,191)
Proceeds from sales of investment securities		345	192
Proceeds from sales of participating interests		3	0
Proceeds from sales of property and equipment		82	1,111
Net cash flow from investing activities		(1,147)	(1,104)
Cash flows from financing activities			
Issue of bonds		0	6,000
Repayment of bonds		0	(6,000)
Sale (purchase) of employee shares		(163)	18
Decrease in minority interests		0	(269)
Increase (decrease) in borrowings		211	(1,782)
Net cash flow from financing activities		48	(2,033)
Effect of exchange rate changes on cash and cash equivalents		(513)	234
Net decrease in cash and cash equivalents	**24**	**(1,547)**	**(5,349)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997
(ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

1. INTRODUCTION

Československá obchodní banka, a.s. ("the Bank" or "ČSOB") was incorporated in the former Czechoslovakia as a joint-stock company under the former Joint-Stock Companies Act on 21 December 1964. It is a universal bank operating in the Czech Republic, the Slovak Republic (through its foreign branch) and Germany (through its foreign subsidiary) and carries out a wide range of banking activities in Czech crowns and foreign currencies for domestic and foreign customers.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The consolidated financial statements comprise the accounts of the Bank and its wholly-owned subsidiary company (together the Group) which have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee. They have been prepared under the historical cost convention, except as modified by the revaluation of certain trading assets and liabilities to fair value, and full accrual accounting. The accounts are expressed in millions of Czech crowns (CZKm).

b) Consolidation

Consolidated financial statements include all subsidiary companies that are controlled by the Bank, other than those excluded because control is assumed to be temporary or they are immaterial, in aggregate, to the Group. Subsidiaries excluded from consolidation are presented in the accounts as "Equity shares" held for investment.

Control is presumed to exist when one of the following circumstances exists:
- more than one-half of the subsidiary company's voting power is controlled by the Bank;
- the Bank is able to govern the financial and operating policies of the subsidiary company;
- the Bank can control the removal or appointment of a majority of a subsidiary company's Board of Directors.

All significant intra-group balances and transactions have been eliminated.

The consolidated subsidiary company as at 31 December 1998 and 1997 is Prager Handelsbank AG ("PHB"), which is located in Frankfurt am Main, Germany, and is engaged in banking. For Bank reporting purposes, PHB is referred to as "Share in Group Company" and is accounted for using the equity method.

c) Interests in associated companies

An associated company is one in which the Group holds, directly or indirectly, more than 20% but less than 50% of the voting power of the company, or where the Group exercises significant influence over the company, but not control.

Interests in associated companies are accounted for using the equity method. Where interests in associated companies are acquired and held temporarily or considered immaterial, they are accounted for at cost less any permanent diminution in value.

All associated companies of the Group for 1998 and 1997 are considered immaterial.

Interests in associated companies and Share in Group company are referred to collectively as Participating interests.

d) Change in accounting policy

The Group adopted International Accounting Standard 12 (revised) which became effective in 1998 and requires a change in the accounting for deferred income taxes. Under the old IAS 12, a deferred income tax asset or liability arising from timing differences (i.e. differences between accounting profit and taxable profit that will reverse in later periods) were recognized only when there was a reasonable expectation of realization. Furthermore, deferred tax assets could only be recognized when there was assurance beyond any reasonable doubt that future taxable income would be sufficient to allow the benefit of the deferred tax asset to be realized. The Group, accordingly, did not record previously any deferred tax assets or liabilities under the old IAS 12.

IAS 12 (revised) represents a substantial change in deferred taxation calculation methodology (see accounting policy item k) below). It requires the full provision of all temporary differences (i.e. differences between the carrying amount of an asset or liability and its tax base), with limited exceptions. The threshold for deferred tax asset recognition was reduced from "assurance beyond any reasonable doubt" to being "probable" that sufficient taxable profit will be available against which the deferred tax asset can be utilized.

As required by the benchmark treatment of IAS 8, this change in policy has been adopted retrospectively, as if the new policy had always been in use. The comparative financial statements, including footnotes, for 1997 have been restated accordingly. The cumulative effects of the change are reflected as an adjustment to opening retained earnings.

The financial impact from the change in accounting policy for the year ended 31 December 1998 is an increase in income tax expense and a decrease in profit for the year, of CZK 434m.
The adjustments to the affected profit and loss statement and balance sheet captions of the Group's financial statements for the previous years arising from the accounting policy change are as follows:

(CZKm)	1997	1996	1995	1994	1993
Income tax expense, as previously reported	324	13	376	1,560	5
Restatement adjustment	1,145	326	448	1,278	(5,737)
Income tax expense (benefit), as restated	1,469	339	824	2,838	(5,732)
Other assets, including tax assets as previously reported	3,202	4,699	4,835	2,620	3,358
Restatement adjustment	2,540	3,685	4,011	4,459	5,737
Other assets, including tax assets as restated	5,742	8,384	8,846	7,079	9,095
Opening retained earnings, as previously reported	4,274	3,617	6,540	1,783	0
Restatement adjustment	3,685	4,011	4,459	5,737	0
Opening retained earnings, as restated	7,959	7,628	10,999	7,520	0

The main effect from the accounting policy change is the recognition of a net deferred tax asset arising from credit provisions recorded for accounting purposes that are expected to be tax-deductible in future periods.

e) Interest income and expense
Interest income and expense are recognized in the profit and loss statement on an accruals basis. Interest income is suspended when loans are overdue by more than 90 days and is excluded from interest income until received. Interest income includes coupons earned on fixed income securities and amortised discount.

In earlier years, the Bank included interest income and expense on inter-branch loans and deposits with the Slovak branch. Such interest has been eliminated for 1998 and the 1997 amounts have been restated. The amount of the interest income/expense restatement for 1997 was CZK 3,964m; for 1996 CZK 634m; for 1995 CZK 656m; and for 1994 CZK 664m. The restatement has no effect on net interest income or profit for the year.

f) Employee retirement benefits
Pensions are provided by the Czech Republic and Slovak Republic to resident employees financed by salary based social security contributions of the employees and their employers.

The Bank contributes to a defined contribution retirement benefit scheme for participating Czech Republic employees, which is in addition to the employer social security contributions required by the Czech Republic. Contributions are charged to the profit and loss statement as they are made.

g) Loans and advances and provisions for credit losses
Loans and advances are carried at the amount of principal outstanding, net of provisions for credit losses.

Provisions for credit losses are made against on- and off-balance sheet credit exposures representing management's estimate of credit losses. Bank management uses financial and non-financial criteria, in addition to number of days in arrears, to classify its loans and advances internally for credit risk management and prudent provisioning (as well as to comply fully with the regulatory requirements of the Czech National Bank). Pledged collateral is discounted to achieve conservative estimated net realizable values that are considered in the provisioning assessment.

Provisions raised, released and used during the year are charged against profit and loss. Outstanding credit exposures are written off when there is no realistic prospect of recovery.

h) Sale and repurchase agreements
Where securities are sold under a commitment to repurchase at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded equal to the consideration received. Conversely, securities purchased under a commitment to resell ('reverse repos') are not recorded on the balance sheet and the consideration paid is recorded as a loan. The difference between the sale price and repurchase price is treated as interest and accrued evenly over the life of the transaction.

i) Securities (treasury bills, debt securities and equity shares)
Investment securities are those management intend to hold until maturity and are stated at cost as adjusted for amortization of premiums and amortization of discounts over the period to maturity.

In previous years, the Bank carried investment securities at the lower of cost or market value on a portfolio basis by recording a value adjustment against the portfolio through the profit and loss statement. Bank management decided to change this policy to carrying investment securities at cost less permanent diminution in value because this better reflects the long-term nature of these investments. As the accounting change has an immaterial effect on the 1997 results, Bank management has accounted for this change prospectively. The effect on the 1998 profit for the year from this change is a reduction of CZK 161m.

Dividends on investment equity shares are included in "Net profit (loss) on investment securities and participating interests".

All other securities are carried at fair value, based upon quoted market prices. Realised and unrealized gains and losses are included in "Net profit on financial operations".

Interest earned on treasury bills and debt securities is reported as "Interest income". Dividends received on trading equity shares are included in "Net profit on financial operations".

j) Property and equipment
All property and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

Buildings	45 years
Furniture	8 years
Equipment	3-15 years

k) Deferred income taxation
Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from credit provisions, accelerated tax depreciation, securities valuation, derivatives valuation, share in Group company and tax losses carried forward. All deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

At 31 December 1998 and 1997, the Bank recorded a net deferred tax asset under "Other assets, including tax assets".

l) Derivative financial instruments
Derivative financial instruments include swaps, forwards, options and futures. The Bank uses various types of derivative instruments in both its trading and hedging activities.

Derivative financial instruments entered into for trading purposes or to hedge trading positions are carried at fair value. Unrealized gains and losses are reported as "Other assets, including tax assets" and "Other liabilities, including tax liabilities". Realized and unrealized gains and losses are recognized in "Net profit on financial operations".

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

Derivative financial instruments specifically designated for hedging purposes, mainly asset and liability management, are accounted for on the same basis as the underlying transactions they hedge.

m) Treasury shares
Own shares of the Bank held at the balance sheet date are designated as "Treasury shares". Treasury shares are recorded at cost and deducted from the Bank's equity.

n) Foreign currencies
Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates on the date of transaction. Assets and liabilities denominated in foreign currencies are translated at official rates of exchange effective on the balance sheet date. Realized and unrealized gains and losses on foreign exchange are recognized in the profit and loss statement.

Profit and loss statements of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and the balance sheets are translated at the year-end exchange rates ruling at 31 December. Exchange differences arising from retranslating the net investment in the foreign subsidiary and exchange differences arising from retranslating of the results of foreign entities for the year from the average rate to the exchange rate ruling at the year-end are accounted for in "Translation reserve". Other exchange differences are recognised in the profit and loss statement.

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

p) Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition including: cash and balances with central banks, treasury bills, debt securities, loans and advances to banks (demand) and amounts owed to banks (demand).

q) Early adoption of International Accounting Standard
The Bank adopted IAS 1 (revised) - Presentation of financial statements - before its effective date. Comparative figures have been adjusted, accordingly, to conform to the new requirements of that standard. The adoption of IAS 1 (revised) has no impact on current year or prior year results.

3. PRIVATIZATION

Since 31 December 1998, considerable progress has been made towards the privatization of ČSOB. From the preliminary offers submitted by a number of bidders on 22 December 1998, the Czech Bank Privatization Steering Committee (comprising representatives of the Czech Ministry of Finance, the Czech National Bank and the National Property Fund of the Czech Republic) selected four major international commercial banks to participate in the second round of bidding for the Czech State's 66.5 % shareholding in ČSOB. The shortlisted banks are KBC (Belgium), Hypo- und Vereinsbank (Germany), Deutsche Bank (Germany) and Banque Nationale de Paris (France). On 10 March 1999, Banque Nationale de Paris withdrew from ČSOB's privatization in order to focus its internal resources on its attempted takeover of Société Générale and Paribas. Binding offers are expected in April 1999. The purchase agreement is expected to be executed in June 1999.

4. NET PROFIT (LOSS) ON INVESTMENT SECURITIES AND PARTICIPATING INTERESTS

(CZKm)	1998	1997
Dividends	16	7
Net gain (loss) on sale of investment securities	(206)	104
	(190)	**111**

5. NET PROFIT ON FINANCIAL OPERATIONS

(CZKm)	1998	1997
Net foreign exchange gains	2,275	3,149
Net trading securities gains (losses)	661	(510)
Net interest rate derivative gains (losses)	(238)	774
	2,698	**3,413**

Net foreign exchange gains include results arising from foreign exchange cash and spot, forward, swap and option trading activities.

6. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	1998	1997
Analysis of general administrative expenses		
Staff costs:		
Wages and salaries	1,429	1,356
Social security costs	515	482
Other pension costs, including retirement benefits	21	18
Other administrative expenses	1,935	1,672
	3,900	**3,528**

Retirement benefits

The Bank provides its Czech Republic employees with a voluntary defined contribution retirement scheme. Participating employees can contribute 1 % or 2 % of their salaries to a pension fund to which the Bank contributes 3 % or 4 % of their salaries, respectively. The contribution percentages are agreed annually and contained within the collective agreement with the employees' union. Participating employees vest after 5 years of contribution to the retirement scheme.

The average number of Group personnel (full-time equivalents) during 1998 was 5,013 (5,068 for 1997). The Supervisory Board had 11 members as at 31 December 1998 and 1997.

7. ADJUSTMENTS ON INVESTMENT SECURITIES AND PARTICIPATING INTERESTS

(CZKm)	1998	1997
Lower of cost or market adjustment on investment securities and participating interests	0	(152)
Permanent impairment charge on interests in associated companies	(41)	0
Release of opening lower of cost or market adjustment on investment Equity shares	774	0
Permanent impairment charge on investment Equity shares	(247)	0
	486	**(152)**

The 1998 investment securities and participating interests amounts reflect the prospective change in accounting policy, which is further described in note 2i) above.

8. INCOME TAX EXPENSE

(CZKm)	1998	1997
Current tax expense	1,043	186
Previous year under (over) accrual	(16)	138
Deferred tax expense relating to the origination and reversal of temporary differences	434	767
Deferred tax expense resulting from reduction in tax rate	0	378
	1,461	**1,469**

The reasons for the differences between the Czech Republic corporate income tax rates and the Group's effective tax rates are as follows:

(%)	1998	1997
Applicable tax rates	35.0	39.0
Previous year under (over) accrual	(0.4)	3.4
Tax effect of non-taxable income	(8.7)	(29.6)
Tax effect of non-deductible expenses	3.2	10.6
Effect on opening deferred taxes due to reduction in tax rate	0.0	9.4
Effect of foreign taxes	0.3	0.4
Other	4.8	3.4
Group's effective tax rates	**34.2**	**36.6**

9. LOANS AND ADVANCES TO BANKS

(CZKm)	31.12.1998	31.12.1997
Analysed by product and bank domicile:		
Current accounts		
domestic	0	2
foreign	5,300	3,336
Term placements		
domestic	15,414	26,588
foreign	19,177	18,174
Loans and advances		
domestic	40,811	11,456
foreign	3,784	3,904
	84,486	**63,460**
Provisions	(1,051)	(1,263)
	83,435	**62,197**
Analysed by internal classification:		
Standard	83,382	62,104
Watch	593	851
Sub-standard	0	3
Doubtful	213	275
Loss	298	227
	84,486	**63,460**
Analysed by remaining maturity:		
Repayable on demand	5,363	3,705
3 months or less	70,626	50,598
1 year or less but over 3 months	6,860	6,861
4 years or less but over 1 year	1,049	1,337
over 4 years	588	959
	84,486	**63,460**

10. LOANS AND ADVANCES TO CUSTOMERS

(CZKm)	31.12.1998	31.12.1997
Analysed by category of borrower:		
Česká inkasní	16,063	19,318
Slovenská inkasná	15,192	15,520
Banka Bohemia	16,997	14,427
Trade companies	18,303	23,622
Industrial companies	29,977	32,570
Other service companies	17,524	16,628
Goverment bodies	5,406	207
Other	9,910	12,410
	129,372	**134,702**
Provisions	(17,686)	(23,785)
	111,686	**110,917**
Amounts include:		
Gross non-accrual loans and advances	7,517	15,654
Employees and directors	184	165
Unconsolidated subsidiary and associate companies	12,883	3,679

Loans to companies that were reclassified in 1998 to „Unconsolidated subsidiary and associate companies“ amounted to CZK 11,027m as at 31 December 1997.

Analysed by internal classification:
The total gross loans under the Group's classification system and the respective estimated net realisable collateral values are as follows:

	31.12.1998			31.12.1997		
(CZKm)	Gross loans	Collateral value	Net loans	Gross loans	Collateral value	Net loans
Exceptional loans with Czech-state coverage*	48,252	46,967	1,285	49,265	47,713	1,552
Standard	42,015	17,970	24,045	34,019	14,650	19,369
Watch	13,812	7,346	6,466	12,956	9,665	3,291
Sub-standard	4,348	1,861	2,487	6,585	5,638	947
Doubtful	10,639	5,237	5,402	12,921	4,580	8,341
Loss	10,306	2,658	7,648	18,956	3,462	15,494
	129,372	**82,039**	**47,333**	**134,702**	**85,708**	**48,994**

* As at 31 December 1998 and 1997: Slovenská inkasná (90% Czech-state support), Česká inkasní and Banka Bohemia.

(CZKm)	31.12.1998	31.12.1997
Analysed by remaining maturity:		
Repayable on demand	30,062	19,814
3 months or less	18,436	35,225
1 year or less but over 3 months	25,400	29,287
4 years or less but over 1 year	38,786	21,530
over 4 years	16,688	28,846
	129,372	**134,702**

The Banka Bohemia loan in 1998 moved from "1 year or less but over 3 months" to "Repayable on demand" and the Slovenská inkasná loan moved from "over 4 years" to "4 years or less but over 1 year".

1993 restructure
In 1993, the Bank's assets and capital were restructured by the governments of the Czech Republic and the Slovak Republic. As part of this restructuring, the Ministries of Finance of the Czech Republic and the Slovak Republic created separate collection companies (Česká inkasní and Slovenská inkasná, respectively) which assumed certain loans and off-balance sheet obligations of identified non-performing customers. Repayment of collection company loans is scheduled through the year 2003. The Ministries of Finance agreed to fully support their respective collection companies; however, the Slovak Ministry of Finance has not provided financial support to Slovenská inkasná, as described below.

SLOVENSKÁ INKASNÁ

Pursuant to the Agreement on Basis Principles of Financial Consolidation of ČSOB (Consolidation Agreement), on 31 December 1993 the Bank assigned and transferred to Slovenská inkasná, s.r.o. ("SI"), a wholly-owned subsidiary of Slovak Ministry of Finance ("SMoF"), certain non-performing customer credit receivables in the Slovak Republic that had arisen under the previous command economy. In exchange for the receivables so assigned and to finance their purchase the Bank extended credit in the form of loans to SI. Also pursuant to the Consolidation Agreement, the SMoF committed financial suport to SI to enable it to satisfy fully its payment obligations to the Bank.

Proceeds from the assigned receivables were not sufficient to cover SI's scheduled payment obligations to the Bank. In addition, the SMoF did not provide any of the financial support to SI that it was contractually obliged to extend under the terms of the Consolidation Agreement. Consequently, SI defaulted on its debt to the Bank. On 10 April 1997 the Bank's Board of Directors decided to exercise its right, under the applicable agreements, to call the entire SI debt immediately due and payable.

Legal proceedings
On 18 April 1997 the Bank then filed a request for arbitration under the auspices of the International Center for Settlement of Investment Disputes ("ICSID") in Washington, D.C. of its claim against the Slovak Republic arising from the Slovak Republic's failure to perform under the Consolidation Agreement. The Slovak Republic objected to ICSID's jurisdiction over the Bank's claims. In accordance with ICSID's arbitration rules, the ICSID Tribunal must rule on the question of jurisdiction as a preliminary matter. Both parties completed their written and oral submissions on the issue of jurisdiction in January 1999; the Tribunal's decision is expected to be announced sometime during the period April - June 1999. In the event of an affirmative decision on jurisdiction, the ICSID Tribunal will consider the Bank's claims on its merits in which case a final award might not be issued before the middle of 2001. Based on the opinion of its legal counsel, the Bank is confident of its position and of enforcing its claims in full.

State coverage
In 1997 the Bank's Czech-state shareholders pledged their support in principle to protect the Bank against any negative financial or regulatory impacts that may arise from the SI issue. On 14 April 1998 the Czech Government adopted resolution No. 269 specifying the form of its support. In accordance with that resolution the Czech Ministry of Finance (CMoF) agreed, in a contract dated 24 April 1998 (Coverage Agreement), to advance on 31 December 2002, 90 % of the outstanding balance of SI's debt to the Bank including interest. As a condition for receiving that support, the Bank is obliged to continue using its best efforts to enforce its rights as creditor of SI by all means available to it.

SI bankruptcy
On 6 May 1998 SI was declared bankrupt by the Bratislava Regional Court. The Bankruptcy petition had been filed in accordance with provisions of the Slovak Bankruptcy Act by SI itself. The Bank, as SI's creditor, submitted its outstanding claims to the Court in the total amount of SKK 16,676m (SKK 15,271m and CZK 1,326m). The Bank also requested the ICSID Tribunal to order a stay of the bankruptcy proceedings pending the conclusion of the ICSID arbitration. The ICSID Tribunal responded favourably to the Bank's request ordering that the bankruptcy proceedings be suspended to the extent that such proceedings might include determinations as to whether SI has a claim in the form of a right to receive funds from the Slovak Republic to cover its losses as contemplated in the Consolidation Agreement at issue in the arbitration.

In view of the legal considerations arising from the SI bankruptcy, a second coverage agreement was executed on 25 June 1998 between the Bank and the CMoF pursuant to which the CMoF agreed to provide support to the Bank as above.

Accounting treatment
Due to the Czech Government's agreement to pay 90 % of the SI loan balance in accordance with the terms of the second coverage agreement, the Bank continues to recognize 90 % of interest accruing (according to the agreed loan terms) and suspend and exclude from income the remaining 10 %.

BANKA BOHEMIA

On 15 December 1998 the four-year loan to Banka Bohemia matured with an outstanding balance of CZK 16,997m. On 21 December 1998 the Czech National Bank (CNB) increased its deposit balance pledged against this loan to CZK 14,521m and the existing deposit pledged by the CMoF amounts to CZK 2,476m. No further interest on the loan or the pledged deposits has accrued since 15 December 1998.

According to an agreement between the Bank, CNB and the CMoF, dated 15 December 1994, the deposits may be offset against the loan balance once all litigation against Banka Bohemia has been completed and after Banka Bohemia has been stricken from the Commercial Register. An amendment to that contract which eliminates this legal impediment to immediate offset is expected to be signed by the three parties in due course. In the meantime, the loan and the pledged deposits will continue to be carried on the Bank's balance sheet and no interest income or expense will be recognised.

11. PROVISIONS FOR LOANS AND ADVANCES AND OFF-BALANCE SHEET CREDIT RISK

(CZKm)	1998	1997
Movements in provisions:		
At 1 January	28,860	25,731
Exchange adjustments	(1,043)	685
Net charge against profits	3,637	4,401
Amounts written off against provisions	(8,807)	(1,957)
At 31 December	**22,647**	**28,860**
Allocation as at 31 December:		
Loans and advances to customers	17,686	23,785
Loans and advances to banks	1,051	1,263
Other assets	2	40
Provisions for off-balance sheet credit risk	3,908	3,772
	22,647	**28,860**

12. DEBT SECURITIES

(CZKm)	31.12.1998 Balance sheet	31.12.1998 Market value	31.12.1997 Balance sheet	31.12.1997 Market value
Investment securities				
Issued by:				
Financial services companies	583	671	782	865
Private companies	409	379	0	0
	992	1,050	782	865
Trading securities				
Issued by:				
Financial services companies	2,196		5,330	
Private companies	1,355		3,832	
Government bodies	7,948		6,899	
	11,499		16,061	
Total Debt securities	**12,491**		**16,843**	
Investment securities				
Listed	992	1,050	782	865
Trading securities				
Listed	11,420		15,915	
Unlisted	79		146	
	11,499		16,061	
Total Debt securities	**12,491**		**16,843**	
Due within one year	2,415		2,926	
Due one year and over	10,076		13,917	
	12,491		**16,843**	

13. EQUITY SHARES

(CZKm)	31.12.1998 Balance sheet	31.12.1998 Market value	31.12.1997 Balance sheet	31.12.1997 Market value
Investment securities				
Listed	890	1,607	715	715
Unlisted	1,120	917	1,044	1,044
	2,010	2,524	1,759	1,759
Trading securities				
Listed	0		1,605	
Unlisted	1,959		1,204	
	1,959		2,809	
Total Equity shares	**3,969**		**4,568**	
Investment securities include subsidiary companies not consolidated	**1,882**	**2,380**	**1,156**	**1,156**

Schedule of Activity in Portfolio of Investment Securities

(CZKm)	1998	1997
At 1 January	1,759	958
Exchange adjustments	(64)	(5)
Acquisitions	335	924
Disposals	(318)	(49)
Transfer from (to) Interests in associated companies	(229)	206
Change in value adjustment	527	(275)
At 31 December	**2,010**	**1,759**

Finop Holding, a.s.
At the extraordinary General Meeting of Finop Holding, a.s. (Finop) on 30 November 1998, a resolution was passed to reduce the nominal value of Finop's shares from CZK 500/share to CZK 5/share, effectively reducing its share capital by 99 %.

In accordance with the Czech Commercial Code, the share capital reduction is legally effective on the date of entry in the Commercial Register. The legally effective date for the right of shareholders to receive payment on their shares is the date of entry of the share capital reduction in the Securities Center. The earliest expected date of payment is June 1999.

As at 31 December 1998, the Bank carries its investment in Finop at original cost of CZK 872m, representing a nominal share value of CZK 1,767m. The amount of the expected proceeds less the reduction in the Bank's carrying value from the share capital reduction is expected to be CZK 887m. Although the realization of this result is probable, it is contingent upon the full completion of each of the required statutory requirements. Accordingly, no income will be recognized on this transaction until the court decides to register the share capital reduction in the Commercial Register.

14. INTERESTS IN ASSOCIATED COMPANIES

(CZKm)	31.12.1998	31.12.1997
Financial services companies	272	0
Other	95	359
Total	**367**	**359**
Listed	170	0
Unlisted	197	359
Total	**367**	**359**
Market value of listed interests in associated companies	182	0

Schedule of Activity

(CZKm)	1998	1997
At 1 January	359	145
Acquisitions	19	292
Disposals	(3)	0
Transfer from (to) Equity shares	229	(206)
Exchange differences	(8)	5
Other movements	(188)	0
Change in value adjustment	(41)	123
At 31 December	**367**	**359**

15. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	Furniture and equipment	Construction in progress	Total
Cost				
At 1 January 1998	6,906	3,933	596	11,435
Exchange adjustments	(52)	(114)	(11)	(177)
Transfers	296	711	(1,007)	0
Additions	0	11	803	814
Disposals	(65)	(191)	(16)	(272)
At 31 December 1998	**7,085**	**4,350**	**365**	**11,800**
Accumulated depreciation				
At 1 January 1998	423	2,056	0	2,479
Exchange adjustments	(4)	(61)	0	(65)
Disposals	(8)	(138)	0	(146)
Charge for the period	143	786	0	929
At 31 December 1998	**554**	**2,643**	**0**	**3,197**
Net book value				
At 31 December 1997	**6,483**	**1,877**	**596**	**8,956**
At 31 December 1998	**6,531**	**1,707**	**365**	**8,603**

16. OTHER ASSETS, INCLUDING TAX ASSETS

(CZKm)	31.12.1998	31.12.1997
Unrealised trading derivative gains (Note 28)	3,225	1,146
Net deferred tax asset (Note 17)	2,106	2,540
Current income tax receivable	0	722
Other clearing accounts	185	618
Other receivables from clients	351	271
Other debtors, net of provisions	252	199
Other taxes receivable	103	7
Items in the course of collection	87	191
Estimated receivables	31	48
	6,340	**5,742**

17. DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35 % (1997: 35 %). Deferred income tax assets and liabilities are attributable to the following items:

(CZKm)	31.12.1998	31.12.1997
Deferred income tax assets		
Credit provisions	2,106	2,091
Securities valuation	111	752
Tax loss carry-forward	0	141
	2,217	**2,984**
Deferred income tax liabilities		
Accelerated tax depreciation	69	89
Derivatives valuation	23	338
Share in Group company	19	17
	111	**444**
Net deferred income tax asset	**2,106**	**2,540**

Bank management believes it is probable that the Group will fully realise its gross deferred income tax assets as at 31 December 1998 based upon the Group's current and expected future level of taxable profits, the increasing proportion of the Group's tax-deductible credit provisions since 1993 and the expected offset from the Group's gross deferred income tax liabilities.

18. AMOUNTS OWED TO BANKS

(CZKm)	31.12.1998	31.12.1997
Analysed by product and bank domicile:		
Current accounts		
domestic	15,056	1,125
foreign	1,668	2,242
Term deposits		
domestic	18,763	27,503
foreign	8,149	10,173
Borrowings		
domestic	2,901	2,500
foreign	16,371	16,561
	62,908	**60,104**
Analysed by remaining maturity:		
Repayable on demand	16,724	3,367
3 months or less	22,533	21,267
1 year or less but over 3 months	8,397	21,944
4 years or less but over 1 year	12,461	10,751
over 4 years	2,793	2,775
	62,908	**60,104**

Included in "Current accounts - domestic" and "Repayable on demand", at 31 December 1998, are pledged deposits amounting to CZK 14,521m from the Czech National Bank collateralising the Banka Bohemia loan, see Note 10. This balance is not considered a cash equivalent for cash flow purposes.

19. AMOUNTS OWED TO CUSTOMERS

(CZKm)	31.12.1998	31.12.1997
Analysed by product:		
Current accounts	39,649	42,244
Term deposits	82,368	73,673
	122,017	**115,917**
Analysed by customer type:		
Private companies and entrepreneurs	39,490	48,395
Other financial institutions	3,626	4,181
Insurance companies	4,269	4,991
Government bodies	7,653	10,277
Individuals and households	43,483	38,969
Foreign	13,635	7,700
Other	9,861	1,404
	122,017	**115,917**
Amounts include:		
Employees and directors	1,023	817
Unconsolidated subsidiary and associate companies	1,130	414
Analysed by remaining maturity:		
Repayable on demand	39,649	42,244
3 months or less	78,559	62,549
1 year or less but over 3 months	3,191	9,374
4 years or less but over 1 year	526	1,361
over 4 years	92	389
	122,017	**115,917**

Included in "Current accounts", "Government bodies" and "Repayable on demand", at 31 December 1998, are pledged deposits amounting to CZK 2,476m from the Czech Ministry of Finance collateralizing the Banka Bohemia loan, see Note 10.

20. DEBT SECURITIES IN ISSUE

Issue date	Currency	Maturity date	Interest rate	31.12.1998 (CZKm)	31.12.1997 (CZKm)
Bonds issued:					
June 1995	CZK	June 2000	11.0%	6,000	6,000
December 1995	SKK	December 1999	12.0%	2,024	2,490
July 1997	CZK	July 2002	PRIBOR+0.1%	6,000	6,000
				14,024	**14,490**
Certificates of deposit, due in one year				**1,471**	**855**
Debt securities in issue				**15,495**	**15,345**

21. OTHER LIABILITIES, INCLUDING TAX LIABILITIES

(CZKm)	31.12.1998	31.12.1997
Items in the course of transmission	6,138	8,216
Unrealized trading derivatives losses (Note 28)	2,479	708
Current income tax payable	1,015	138
Other taxes payable	169	438
Other clearing accounts	106	595
Estimated payables	153	308
Other creditors	189	124
Payables to security clearing entities	441	153
Current accounts from which value was collected	128	134
Year 2000 provision	100	0
Other	271	576
	11,189	**11,390**

22. SHARE CAPITAL AND TREASURY SHARES

	Number of shares				
		Ordinary		Employee	
	CZK 5m	CZK 100,000	CZK 1,000	CZK 5,000	CZKm
At 31 December 1996	811	10,000	0	10,000	5,105
At 31 December 1997	811	10,000	0	10,000	5,105
Share conversion	(811)	(10,000)	5,105,000	(10,000)	0
At 31 December 1998	**0**	**0**	**5,105,000**	**0**	**5,105**

The total authorized share capital as at 31 December 1998 is CZK 5,105m made up of 5,105,000 ordinary shares with a nominal value of CZK 1,000 each and is fully paid up.

At the 26 May 1997 Annual General Meeting the following resolutions were passed in connection with the conversion of the Bank's share capital:
- to unify the nominal value of all issued shares to CZK 1,000;
- to change the nature of the shares from certificated form to book-entry form registered in the Securities Center;
- to offer to purchase from employees their employee shares for 3.41 times nominal value.

The changes from the first two resolutions were entered officially in the Commercial Register on 9 January 1998 thus effecting the Annual General Meeting decision.

In early 1998 the Bank purchased 47,605 ordinary shares at 3.41 times nominal value from employees, connected with the Bank's share capital conversion. The Bank also acquired an additional 275 ordinary shares from employees at nominal value which were not connected with the share capital conversion. Shares obtained from employees were recorded as "Treasury shares".

All shareholders are entitled to one vote for every CZK 1,000 of nominal value owned. Shares are transferable upon approval of the Bank's Supervisory Board.

The number of Treasury shares held by the Bank as at 31 December 1998 was 49,300 (1997: 284 shares at CZK 5,000 each, or a comparable 1998 year-end equivalent of 1,420 shares at CZK 1,000 each).

The aggregate number of shares held by the Bank's subsidiary and associate companies at 31 December 1998 was 170,200 shares or 3.3 % of the Bank's total shareholding.

23. CONTINGENT LIABILITIES AND COMMITMENTS

(CZKm)	31.12.1998 Contract amount	31.12.1998 Risk weighted amount	31.12.1997 Contract amount	31.12.1997 Risk weighted amount
Contingent liabilities				
Acceptances and endorsements	1,076	881	1,387	1,233
Guarantees issued	16,471	7,217	23,129	12,727
	17,547	**8,098**	**24,516**	**13,960**
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	27,758	0	25,406	73
Documentary credits	2,132	676	3,144	854
Forward deposits placed	3,261	0	6,662	0
	33,151	**676**	**35,212**	**927**

The above contractual amounts represent the maximum credit risk which would arise if the contracts are fully drawn, the customers default and the value of any existing collateral becomes worthless. Risk weighted amounts represent the on-balance sheet credit risk equivalents of the contractual amounts, weighted by customer risk factors, calculated in accordance with the Bank of International Settlements guidelines for capital adequacy measurement purposes. The calculation aims to achieve a measure of the likely occurrence of credit exposure arising from those instruments.

24. CONSOLIDATED CASH FLOW STATEMENTS

Analysis of changes in cash and cash equivalents during the year

(CZKm)	1998	1997
At 1 January	20,362	25,711
Net decrease in cash and cash equivalents	(1,547)	(5,349)
At 31 December	**18,815**	**20,362**

Analysis of the balances of cash and cash equivalents as shown in the balance sheets

(CZKm)	31.12.1998	31.12.1997
Cash and balances with central banks	13,864	15,946
Treasury bills, purchased within 3 months of maturity	1,453	3,250
Debt securites, purchased within 3 months of maturity	338	828
Loans and advances to banks, demand	5,363	3,705
Amounts owed to banks, demand	(2,203)	(3,367)
Cash and cash equivalents	**18,815**	**20,362**

25. OTHER CONTINGENT LIABILITIES

a) Litigation
The Bank is named in and defending a number of legal actions in various jurisdictions arising in the ordinary course of business. Management does not believe a material impact on the financial position of the Group will result from the ultimate resolution of these legal actions.

b) Taxation
Czech and Slovak tax legislation and interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified.

26. OPERATING LEASE COMMITMENTS

Future minimum lease payments under land and building operating leases are as follows:

(CZKm)	31.12.1998	31.12.1997
Not later than 1 year	156	109
Later than 1 year and not later than 5 years	591	380
Later than 5 years and not later than 10 years	718	416
	1,465	**905**

From the year 2009, the Group's annual perpetual commitments under land and building operating leases amount to CZK 144 million.

The above operating leases can be technically cancelled under Czech law; however, the Group is commercially bound to continue with these leases for the periods set out above.

27. NET FOREIGN EXCHANGE POSITIONS

The significant net foreign exchange asset (liability) positions were as follows:

(CZKm)	31.12.1998	31.12.1997
SKK	(77)	380
DEM	301	(537)
USD	(471)	(379)

28. DERIVATIVE FINANCIAL INSTRUMENTS

The notional principal and positive and negative fair value amounts of the Group's outstanding trading, asset and liability management and other hedging derivative contracts entered into with third parties as at 31 December 1998 and 31 December 1997 were as follows:

	31.12.1998			31.12.1997		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
TRADING						
Interest rate related contracts						
Swaps	58,691	1,062	1,124	48,355	732	444
Forwards	106,325	797	803	45,100	197	163
Futures	0	0	0	317	0	2
	165,016	**1,859**	**1,927**	**93,772**	**929**	**609**
Exchange rate related contracts						
Swaps	200	0	3	253	55	0
Forwards	6,387	167	54	4,554	46	54
Options purchased	20,514	1,199	0	5,420	116	0
Options written	15,685	0	495	3,128	0	45
Futures	2	0	0	19	0	0
	42,788	**1,366**	**552**	**13,374**	**217**	**99**
Commodity related contracts						
Futures	**1**	**0**	**0**	**14**	**0**	**0**
Total trading derivatives	**207,805**	**3,225**	**2,479**	**107,160**	**1,146**	**708**
ASSET AND LIABILITY MANAGEMENT						
Interest rate related contracts						
Swaps	28,703	0	499	5,712	1	0
Exchange rate related contracts						
Swaps	1,350	14	0	0	0	0
Total asset and liability management derivatives	**30,053**	**14**	**499**	**5,712**	**1**	**0**
OTHER HEDGING						
Equity related contracts						
Options purchased	0	0	0	1,732	816	0
Options written	0	0	0	1,732	0	0
	0	**0**	**0**	**3,464**	**816**	**0**

Notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market or credit risk of such transactions. Fair value amounts consist of unrealized gains and losses as well as accrued interest income and expense.

All derivatives are traded over-the-counter except for futures transactions which are traded on recognized exchanges.

The maximum credit exposure on the Group's outstanding derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the table above as netting and collateral have not been considered.

There are no significant concentrations of trading and asset and liability management derivative credit exposures other than with the international investment banking sector, which are the usual counterparties to transactions undertaken for trading and managing the Group's own risks.

In 1997 other hedging derivatives comprised a joint and several put option purchased from and a call option sold to Investiční a poštovní banka, a.s. and PPF burzovní společnost, a.s. against the Group's entire holding of shares in Česká pojišťovna, a.s. The put option was exercised on 15 June 1998.

The remaining maturities of the derivative counterparty transactions as at 31 December 1998 are set out below:

(CZKm)	up to 1 year	1-5 years	over 5 years	Total
TRADING				
Interest rate related contracts				
Swaps	43,221	13,470	2,000	58,691
Forwards	104,925	1,400	0	106,325
	148,146	**14,870**	**2,000**	**165,016**
Exchange rate related contracts				
Swaps	200	0	0	200
Forwards	6,387	0	0	6,387
Options purchased	20,514	0	0	20,514
Options written	15,685	0	0	15,685
Futures	2	0	0	2
	42,788	**0**	**0**	**42,788**
Commodity related contracts				
Futures	1	0	0	1
Total trading derivatives	**190,935**	**14,870**	**2,000**	**207,805**
ASSET AND LIABILITY MANAGEMENT				
Interest rate related contracts				
Swaps	28,703	0	0	28,703
Exchange rate related contracts				
Swaps	0	1,350	0	1,350
Total asset and liability management derivatives	**28,703**	**1,350**	**0**	**30,053**

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Bank management has used its best judgement in estimating the fair value of the Group's financial assets and liabilities; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial assets and liabilities, the fair value estimates presented herein are not necessarily indicative of the amounts the Group could have realised in a sales transaction at either 31 December 1998 or 1997.

The estimated fair values of the Group's financial assets and liabilities were as follows:

	31.12.1998		31.12.1997	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with central banks	13,864	13,864	15,946	15,946
Treasury bills	3,057	3,057	5,555	5,555
Loans and advances to banks	83,435	83,435	62,197	62,190
Loans and advances to customers	111,686	111,686	110,917	110,917
Debt securities	12,491	12,549	16,843	16,926
Equity shares	3,969	4,483	4,568	4,568
- related derivatives	0	0	604	604
Trading derivatives with positive fair value	3,225	3,225	1,146	1,146
Asset and liability management derivatives with positive fair value	22	14	5	1
FINANCIAL LIABILITIES				
Amounts owed to banks	62,908	63,011	60,104	60,104
Amounts owed to customers	122,017	122,035	115,917	115,845
Debt securities in issue	15,495	15,584	15,345	14,424
Trading derivatives with negative fair value	2,479	2,479	708	708
Asset and liability management derivatives with negative fair value	548	499	5	0

All financial assets and liabilities of the Group are presented above except for credit-related off-balance sheet financial assets, which include letters of credit, commitments to extend credit and guarantees issued, as their balance sheet and estimated fair values are not material.

The following methods and assumptions were used in estimating fair values of the Group's financial assets and liabilities:

Cash and balances with central banks
The carrying values of cash and balances with central banks approximate their fair value.

Loans and advances to banks
The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current interbank market rates. A majority of the loans and advances reprice within relatively short time spans; therefore, it is assumed their carrying values approximate their fair values.

Loans and advances to customers
A substantial majority of the loans and advances to customers reprice within relatively short time spans; therefore, it is assumed their carrying values approximate their fair values.

Securities (Treasury bills, debt securities and equity shares)
Estimated fair values for securities are based on quoted market prices. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market marker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments.

Derivative financial instruments (assets and liabilities)
Estimated fair values for derivative financial instruments are based upon quoted market prices or discounted cash flow models and options pricing models as appropriate.

Amounts owed to banks
The carrying values of current account balances are, by definition, equal to their fair values. For other amounts owed to banks with equal to or less than one year remaining maturity, it is assumed their carrying values approximate their fair values. The fair values of other amounts owed to banks are estimated by discounting their future cash flows using current interbank market rates.

Amounts owed to customers
The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

Debt securities in issue
Bonds issued are publicly traded and their fair values are based upon quoted market prices. The carrying values of certificates of deposit approximate their fair values.

30. ČESKOSLOVENSKÁ OBCHODNÍ BANKA - PARENT COMPANY FINANCIAL STATEMENTS (ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS)

Statements of profit and loss for the years ended 31 December 1998 and 1997

(CZKm)	1998	1997
Interest income	25,847	22,698
Interest expense	(17,612)	(15,165)
Net interest income	**8,235**	**7,533**
Net profit (loss) on investment securities and participating interests	(183)	113
Commission income	1,797	2,017
Commission expense	(321)	(288)
Net commission income	**1,476**	**1,729**
Net profit on financial operations	2,698	3,413
Other operating income	471	595
Non-interest income	**4,462**	**5,850**
Operating income	**12,697**	**13,383**
General administrative expenses	(3,801)	(3,431)
Depreciation and amortization	(926)	(737)
Other operating expenses	(606)	(671)
Operating expenses	**(5,333)**	**(4,839)**
Provisions for loans and advances and off-balance sheet credit risk	(3,600)	(4,387)
Adjustments on investment securities and participating interests	486	(152)
Profit before taxation	**4,250**	**4,005**
Income tax expense	(1,447)	(1,453)
Profit for the year	**2,803**	**2,552**

Balance sheets as at 31 December 1998 and 1997

(CZKm)	31.12.1998	31.12.1997
ASSETS		
Cash and balances with central banks	13,802	15,892
Treasury bills	3,057	5,555
Loans and advances to banks	79,819	62,189
Loans and advances to customers	109,721	108,263
Debt securities	11,908	16,061
Equity shares	3,969	4,568
Share in Group company	624	665
Interests in associated companies	367	359
Property and equipment	8,595	8,950
Other assets, including tax assets	6,326	5,741
Prepayments and accrued income	1,611	2,769
Total assets	**239,799**	**231,012**
LIABILITIES		
Amounts owed to banks	58,576	58,569
Amounts owed to customers	120,726	114,605
Debt securities in issue	15,495	15,345
Other liabilities, including tax liabilities	11,148	11,354
Accruals and deferred income	3,437	3,378
Provisions for off-balance sheet credit risk	3,908	3,772
Total liabilities	**213,290**	**207,023**
SHAREHOLDERS' EQUITY		
Share capital	5,105	5,105
Reserves	15,190	12,070
Retained earnings	6,214	6,814
Total shareholders' equity	**26,509**	**23,989**
Total liabilities and shareholders' equity	**239,799**	**231,012**

Cash flow statements for the years ended 31 December 1998 and 1997

(CZKm)	1998	1997
Cash flows from operating activities		
Profit before taxation	4,250	4,005
Adjustments for:		
Provisions for loans and advances		
and off-balance sheet credit risk	3,600	4,387
Depreciation and amortization	926	737
Adjustments on securities	(486)	152
Net gain (loss) on sales of investment securities	209	(104)
Net loss on sale of property and equipment	44	6
Other	217	5
(Increase) decrease in operating assets		
Trading securities	5,589	6,564
Loans and advances to banks, non-demand	(16,419)	(27,138)
Loans and advances to customers	(5,051)	(17,208)
Other assets	(1,745)	1 045
Prepayments and accrued income	1,158	(499)
Increase (decrease) in operating liabilities		
Amounts owed to banks, term	1,769	3,269
Amounts owed to customers	6,121	24,710
Debt securities in issue	616	(540)
Other liabilities	(893)	(1,307)
Accruals and deferred income	59	(634)
Net cash flow from operating activities before income tax	(36)	(2,550)
Net income tax received	520	121
Net cash flow from operating activities	484	(2,429)
Cash flows from investing activities		
Purchase of investment securities	(744)	(924)
Purchase of participating interests	(19)	(583)
Purchase of property and equipment	(808)	(1,187)
Proceeds from sales of investment securities	109	153
Proceeds from sales of participating interests	3	0
Proceeds from sales of property and equipment	82	1,111
Net cash flow from investing activities	(1,377)	(1,430)
Cash flows from financing activities		
Issue of bonds	0	6,000
Repayment of bonds	0	(6,000)
Sale (purchase) of treasury shares	(163)	18
Borrowings	(275)	(1,899)
Net cash flow from financing activities	(438)	(1,881)
Effect of exchange rate changes on cash		
and cash equivalents	(513)	234
Net decrease in cash and cash equivalents	**(1,844)**	**(5,506)**

SUPPLEMENTAL FINANCIAL INFORMATION

PROFITS FOR THE YEAR RECONCILIATION

A reconciliation of the Czech Accounting Standard (CAS) and the International Accounting Standard (IAS) unconsolidated profits for the years ended 31 December 1998 and 1997 is set out below:

(CZKm)	1998	1997
Profit for the year - CAS	**3,368**	**3,474**
Adjustments in respect of:		
Deferred income tax	(434)	(1,145)
Trading derivatives and securities mark-to-market differences	(149)	281
Foreign exchange differences	112	0
Social fund and Board bonuses accrual	(80)	(65)
Investment securities valuation differences	(24)	0
Equity method accounting - Share in Group company	10	7
Profit for the year - IAS	**2,803**	**2,552**

SHAREHOLDERS' EQUITY RECONCILIATION

A reconciliation of the CAS and the IAS shareholders' equities as at 31 December 1998 and 1997 is set out below:

(CZKm)	31.12.1998	31.12.1997
Shareholders' equity - CAS	**24,146**	**20,831**
Adjustments in respect of:		
Net deferred tax asset	2,106	2,540
Trading derivatives and securities mark-to-market differences	586	735
Reclassification of treasury shares to shareholders' equity	(164)	(1)
Reclassification of social fund to liabilities	(116)	(99)
Social fund and Board bonuses accrual	(75)	(65)
Translation reserve	71	79
Investment securities valuation differences	(24)	0
Equity method accounting - Share in Group company	(21)	(31)
Shareholders' equity - IAS	**26,509**	**23,989**

Annual financial statements under Czech Accounting Standards
The Bank's 1998 annual financial statements under Czech Accounting Standards are contained in the Czech language version of ČSOB annual report. Those financial statements were given an unqualified opinion by auditors KPMG Česká republika. A copy of ČSOB's annual report in Czech language can be obtained from the Bank's Corporate Communications Department.

KPMG

KPMG Česká republika Audit, spol. s r.o.

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To the Shareholders of Československá obchodní banka, a.s.

We have audited the consolidated balance sheets of Československá obchodní banka, a.s. (the Bank) as at 31 December 1998 and 1997, and the related consolidated statements of profit and loss, changes in equity and cash flows for the years then ended as set out on pages 31 to 55. These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based upon our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 1998 and 1997, and the consolidated results of operations and cash flows for the years then ended in accordance with International Accounting Standards.

KPMG Česká republika Audit

15 March 1999
Prague

ANALYSIS OF SHAREHOLDERS OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S. AS AT 31 DECEMBER 1998

Shareholder	%	Nominal value CZK 000's
CZECH REPUBLIC		
Czech National Bank	26.51	1,353,200
Ministry of Finance of the Czech Republic	19.59	1,000,100
National Property Fund of the Czech Republic	19.59	1,000,100
Other shareholders in the Czech Republic	7.66	391,200
Total Czech Republic	**73.35**	**3,744,600**
SLOVAK REPUBLIC		
National Bank of Slovakia	24.13	1,231,700
Other shareholders in the Slovak Republic	1.54	78,700
Total Slovak Republic	**25.67**	**1,310,400**
Individuals	**0.01**	**700**
Own shares held by ČSOB	**0.97**	**49,300**
Total	**100.00**	**5,105,000**
of which: National Banks, Ministries of Finance and National Property Fund	89.82	4,585,100

RESOLUTION OF THE THIRTY FOURTH ORDINARY GENERAL MEETING OF SHAREHOLDERS OF ČSOB, A. S.

The thirty fourth Ordinary General Meeting of Shareholders of Československá obchodní banka approved, pursuant to Article 13.2. item g) of the Articles of Association of the Company, its financial statements and the distribution of 1998 profit as follows:

	CZK
Allocation to the Reserve fund	3,290,000,000.00
Dividends	0.00
Allocation to the Social fund	60,000,000.00
Bonuses to the Members of the Board of Directors and Supervisory Board	18,000,000.00
Profit for distribution, total	**3,368,000,000.00**

OFFICES OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A. S. CZECH REPUBLIC

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market OBI, Pražská třída 2540, 370 01 České Budějovice		(420-38) 7750201	(420-38) 7331138
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Komenského 17 466 29 Jablonec nad Nisou	Roman Riedl	(420-428) 353111	(420-428) 26926

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OPAVA Ostrožná 17, 746 01 Opava	Miloslav Plura	(420-653) 689111	(420-653) 625687
OSTRAVA Hollarova 5, 702 37 Ostrava	Ludvík Kopel	(420-69) 6106111	(420-69) 6106400

OFFICE	DIRECTOR	TELEPHONE	FAX
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PÍSEK Velké nám. 116, 397 01 Písek	Aurora Horská	(420-362) 751111	(420-362) 751200
PLZEŇ Americká tř. 60, 305 55 Plzeň	Miloslav Hejtmánek	(420-19) 7219111	(420-19) 7237126
Kopeckého sady 8, 305 55 Plzeň	Jiřina Junová	(420-19) 7237054	(420-19) 7236824
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SVITAVY nám.Míru 97, 568 02 Svitavy	Jiří Háva	(420-461) 530678	(420-461) 23506
TÁBOR Palackého 357, 390 01 Tábor	Marek Kafka	(420-361) 251629	(420-361) 256095
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ÚPICE Regnerova 347, 542 32 Úpice	Marie Škvrnová	(420-439) 881227	(420-439) 881502
ÚSTÍ NAD LABEM Hradiště 96, 400 21 Ústí nad Labem	Jaromír Chabr	(420-47) 5259920	(420-47) 5209155
ZLÍN Interhotel Moskva, nám. Práce 2512 760 01 Zlín	Ivan Krajňanský	(420-67) 7211720	(420-67) 7213025

OFFICES OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A. S.
SLOVAK REPUBLIC

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MARTIN			
Červenej armády 1, 036 01 Martin	Dana Lacková	(421-842) 35244	(421-842) 34801
NITRA			
Fraňa Mojtu 4, 949 01 Nitra	Emília Kresanová	(421-87) 527581	(421-87) 527582
POPRAD			
ul.1. mája 23, 058 01 Poprad	Marta Feketeová	(421-92) 721045	(421-92) 721356
PREŠOV			
Hlavná 96, 080 01 Prešov	Emil Malecký	(421-91) 7721232	(421-91) 721242
PÚCHOV			
Ul. Športovcov 892, 020 01 Púchov	Ján Krutek	(421-825) 634787	(421-825) 634783
TRENČÍN			
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TRNAVA			
Starohájska 11, 917 01 Trnava	Stanislav Plevák	(421-805) 5446754	(421-805) 5446345
ŽILINA			
Legionárska 1, 012 20 Žilina	Marián Štefanec	(421-89) 623195	(421-89) 626891

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	Telephone:	(49-69) 726543
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	Telephone:	(1-312) 527 2762
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SENIOR EXECUTIVES OF ČESKOSLOVENSKÁ OBCHODNÍ BANKA, A.S.

Board of Directors:

Chairman of the Board	Pavel Kavánek
Vice-Chairman of the Board	Josef Tauber
Member of the Board	Vladimír Staňura
Member of the Board	Petr Knapp
Member of the Board	Jan Lamser
Member of the Board	Ladislav Unčovský

		Telephone	Fax
Chief Executive Officer	Pavel Kavánek	(420-2)24112000	(420-2)24225282
Strategic Development	Jan Lamser	(420-2)24112128	(420-2)24243537
Personnel and Organization	Jiří Šrámek	(420-2)24112012	(420-2)24217321
Office of the Board	Petr Blažek	(420-2)24112144	(420-2)24225282
Legal Services	Karel Kaloč	(420-2)61356002	(420-2)261228
Internal Audit	Ladislav Kopecký	(420-2)61356006	(420-2)262634
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Chief Economist	Petr Chvojka	(420-2)24112024	(420-2)24243573
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Funds Allocation Management	Eliška Činátlová	(420-2)61357101	(420-2)61357576
Management Information Systems	Vladimír Letko	(420-2)61357080	(420-2)61357520
Tax	Iva Protivová	(420-2)61357009	(420-2)61357502
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Corporate Banking	Jan Blaho	(420-2)61353020	(420-2)24230276
Corporate Banking	Jan Krob	(420-2)61353070	(420-2)24230328
Loan Syndications	Ivan Horák	(420-2)61353090	(420-2)24230310
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Project Finance	Lenka Kostrounová	(420-2)61353100	(420-2)24230355
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Custody	Radovan Tlamsa	(420-2)61356009	(420-2)61356500
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Money Market	Dušan Vaškovic	(420-2)61353510	(420-2)61353319
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Financial Markets Research	Josef Kovalovský	(420-2)61353121	(420-2)61353334
Financial Markets Back Office	Jozef Sinčák	(420-2)61353048	(420-2)61353321
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Payment Cards	Roman Kotlán	(420-2)61354507	(420-2)24218957
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Operations and Processes	Peter Mančík	(420-2)61355600	(420-2)61355300
Information Technology	James Philip Wood	(420-2)61355261	(420-2)61355353
Projects and Programming	Martin Soukup	(420-2)61355130	(420-2)61355332
System Integration	Pavel Holec	(420-2)61355000	(420-2)61355353
Information System Security	Tamara Kujalová	(420-2)61355264	
Information Centre	Jiří Forman	(420-2)61355055	(420-2)61355322
Internal Help Desk	Jana Taussigová	(420-2)61355240	(420-2)61355368
Central Services	Jiří Konečný	(420-2)61355104	(420-2)61355393
Premises	Luděk Schollar	(420-2)61355181	(420-2)61355348
Office Services	Vojtěch Kačena	(420-2)61355200	(420-2)61355373
Central Services Economics	Karel Muchna	(420-2)61355216	(420-2)61355374

PRAGER HANDELSBANK AG

Prager Handelsbank AG (PHB) was founded in 1989 as a joint venture bank of five financial institutions from Czechoslovakia, Germany and Austria. In September 1997, it became a 100 % subsidiary of ČSOB. PHB, the only Czech bank located in an EU country, is an important member of the ČSOB financial group and enables ČSOB to reach markets in these countries.

In 1998, the main activity of PHB was financing Czech-German and Slovak-German foreign trade. Average total assets of approximately CZK 7.5 billion consist primarily of the corporate credit portfolio. PHB actively supports business relations and offers its clients and banking partners a broad range of services. PHB specializes in short-term financing and granting credits, as well as in documentary and non-documentary payment transactions. Another important activity is providing advisory services and carrying out selected transactions for Czech companies in the German market.

In 1999, PHB intends to strengthen co-ordination of its business policies with ČSOB in order to maximize synergic effects for providing selected specialized activities, for example syndications and forfaiting operations.

Shareholder:	100 % ČSOB
Postal address:	Postfach 16 06 64, D-60069 Frankfurt am Main
Seat:	Gutleutstrasse 32, D-60329 Frankfurt am Main
Connection:	telephone: (49-69) 273040, fax: (49-69) 27304222

OB LEASING, a.s.

OB Leasing, a.s., was founded in 1995 as a 100 % owned subsidiary of ČSOB. OB Leasing is a universal leasing company providing financial leasing for: machines, equipment, manipulation machinery, computer hardware, office equipment, agricultural machinery, all kinds of transport equipment and selected real estate. In the area of transport equipment, the company provides brand leasing for the following importers of vehicles under commercial names: Alfa Romeo Leasing, Citroën Leasing, Fiat Leasing, Hyundai Leasing, Mazda Leasing, Kia Leasing, Leasing for BMW Vehicles and Suzuki Leasing. Business activities in the Czech Republic are executed through 13 selling points.

The company provides financial leasing services in CZK as well as in foreign currencies (EUR, USD) for all types of entrepreneurs and private customers. In co-operation with ČSOB, OB Leasing offers structured financing - loan, whereby customers choose the schedule of repayment, the amount of downpayment, and floating or fixed instalments.

During the three years of its existence, OB Leasing in the Czech Republic has leased moveable assets with a purchase price totalling CZK 13.8 billion (excluding VAT), representing more than 27,000 leasing contracts. In 1998, the company experienced positive growth despite the complicated macroeconomic situation in the Czech Republic. Sales volume grew by 18 %, or CZK 6.2 billion compared to 1997. This brought OB Leasing's share of the Czech leasing market to 10 %. OB Leasing has thus remained the third largest leasing company in the Czech Republic.

OB Leasing is the first leasing and financial company in the Czech Republic that is developing a system of quality assurance based on ISO 9002 standards. In 1998, the company was awarded the Czech Made brand for the quality of services provided.

In 1996, OB Leasing established a subsidiary, OB Leasing, a.s., based in Bratislava that manages a network of 7 branches of its own. It provides a similar range of services as its parent in the Czech Republic and, by volume of its sales totalling SKK 1.5 billion, it ranks among the five largest leasing companies in the Slovak Republic.

For 1999, OB Leasing plans to broaden its services and further develop captive leasing for machinery.

Shareholder:	100 % ČSOB
Address:	Roháčova 1148/63, 130 00 Praha 3
Connection:	telephone: (420-2) 22012122, fax: (420-2) 22012363
	e-mail: info@obleasing.cz
	http://www.obleasing.cz

O.B. HELLER, a.s.

O.B. Heller, a.s. is a joint venture of ČSOB and NMB-Heller Holding N.V., the Netherlands. The company has been operating in the Czech market since 1992 and specializes in providing factoring services. The company offers the following products:

- domestic factoring
- export factoring
- import factoring
- administration of claims

Factoring is a means of financing claims arising from the delivery of goods or services provided on credit, and includes comprehensive administration, dunning and collection. If the buyers are creditworthy companies, the factoring company assumes the default risk.

Factoring services are offered mainly to medium-sized companies, but also to small companies specializing in the delivery of products and consumer goods which do not require a higher level of security, such as letters of credit, bank bills of exchange, guarantees, and the like. In particular, customers appreciate the immediate improvement in liquidity, the elimination of doubtful receivables and the comprehensive management of accounts receivable ledgers.

O.B. Heller's turnover in 1998 was affected by a pronounced decrease in demand for consumer goods and also by significant changes in the domestic market. Despite these problems, O.B. Heller's management considers 1998 to be a successful year. During the year the customer base stabilized and, due to favourable developments of interest rates in the second half of the year, turnover grew significantly to CZK 5.6 billion, which is an increase of 3.1 % over the previous year. O.B. Heller managed to keep its dominant position among other factoring companies operating on the domestic market.

Its subsidiary, OB Heller Factoring, a.s., based in Bratislava, began operations in 1997 and maintains a leading position in the Slovak market of factoring services.

In 1999, O.B. Heller intends to expand its activities by capitalizing on its seven-year market experience and benefit from ČSOB's network of branches and its foreign shareholder's international reputation.

Shareholders:	50 % ČSOB, 50 % NMB-Heller Holding N.V., the Netherlands
Address:	Křišťanova 3, 130 00 Praha 3
Connection:	telephone: (420-2) 6273701, fax: (420-2) 6274143
	e-mail: obheller@obheller.cz
	http://www.obheller.cz

CONSILIUM, s.r.o.

Consilium, s.r.o., was established in 1994 and is a joint venture of ČSOB and the Rothschild Group. Consilium provides a full range of corporate finance advisory services in both the Czech Republic and the Slovak Republic, especially in the following areas:

- mergers and acquisitions, divestitures and inward direct investments
- capital market transactions
- privatization
- financial restructuring and debt advisory
- management and leveraged buy-outs
- project finance

Consilium utilizes Rothschild Group's experience gained worldwide and business contacts, with ČSOB's knowledge of the local market and contacts. In appropriate cases, Consilium co-operates with ČSOB and is in close touch with all working groups of the Rothschild Corporate Finance Division operating worldwide.

Consilium has built a significant track record of transactions during the period of its existence. In 1998, Consilium strengthened its leading position on the market and provided advisory services in connection with customer transactions, the volume of which aggregated approximately CZK 7 billion.

Advisory work for the joint-stock company České Radiokomunikace in raising share capital and subsequently issuing global deposit certificates amounting to USD 134 million on international equity markets was one of the most successful deals achieved in 1998.

Shareholders:	60 % ČSOB, 40 % Rothschild Group
Address:	Na příkopě 15, 110 00 Praha 1
Connection:	telephone: (420-2) 72143810, fax: (420-2) 72143800

O.B. INVEST, investiční společnost, a.s.

O.B. INVEST, investiční společnost, a.s. (O.B. INVEST, Investment Company, a.s.) was founded in 1991. Its share capital stands at CZK 25 million and ČSOB is the sole shareholder (100 % stake). To comply with the amendment to the Act on Investment Companies and Investment Funds, O.B. INVEST, s.r.o., converted into a joint-stock company, O.B. INVEST, a.s., in 1998. Measured by the volume of administered assets, amounting to CZK 2.6 billion, the company belongs among the major collective investment companies in the Czech Republic. The company administers six funds, two of which are investment-type and four are share-type. The renown rating agency Duff&Phelps granted the company AA rating (domestic currency), which means "high quality". At the same time, the agency granted AA rating to both the investment funds. ČSOB functions as a depository for all administered funds.

Shares of all funds, with the exception of OB KVANTO Globální listinný (OB KVANTO Global Share Certificate Fund), are publicly traded. The investment funds are traded on the secondary market of the Prague Stock Exchange. O.B. INVEST uses ČSOB's branch network to sell and repurchase share certificates, for the share-type funds.

Shareholder:	100 % ČSOB
Address:	Milíčova 6, 130 00 Praha 3
Connection:	telephone: (420-2) 22111511 fax: (420-2) 22781402 e-mail: obinvest@login.cz

Funds administered by O.B. INVEST, investiční společnost, a.s. (O.B. INVEST, Investment Company, a.s.):

Investment funds:	KVANTO, investiční privatizační fond, a.s. (KVANTO, Investment Privatization Fund, a.s.) Zlatý investiční fond Kvanto, a.s. (Golden Investment Fund Kvanto, a.s.)
Share funds:	OB KVANTO Globální, O.B. INVEST, investiční společnost, a.s. otevřený podílový fond (OB KVANTO Global) OB KVANTO Globální listinný , O.B. INVEST, investiční společnost, a.s. otevřený podílový fond (OB KVANTO Global Share Certificate Fund) OB KVANTO Svět , O.B. INVEST, investiční společnost, a.s. otevřený podílový fond (OB KVANTO World) OB KVANTO Českomoravský , O.B. INVEST, investiční společnost, a.s. otevřený podílový fond (OB KVANTO Českomoravský)

1998 saw the continuing development of ČSOB's support for community and civic projects. Our efforts in public relations enabled us to further raise our status within the corporate community. We launched a consistent message stressing communication which significantly enhanced the image of the Bank as well as enlarging the positive attitude shown by the public toward the Bank's privatization. In the area of corporate sponsorship, the Bank continued it's long-standing support of projects in the fields of Education, Charity, Culture and Junior Sport.

Because of the long-term, focused and tireless commitment to the community of the Bank it has earned ČSOB an unrivalled reputation as a giving member of the corporate community.

The front runner of the Bank's community activities is the successful co-operation with UNESCO. In 1998 UNESCO commemorated the 300th anniversary of the invention of the hammer-struck piano, together with ČSOB and the Museum of Czech Music a project was undertaken for the preservation of the most precious of these pianos held in Czech collections. The results of the restorers' work can be admired currently at ČSOB branch offices and at a later date at a special exhibition held in the National Museum. The hammer piano was also the subject of two other UNESCO music projects - the PONTES International Music Festival and the "Old Music" Festival in Český Krumlov.

ČSOB continued the "Memory of the World" project which is aimed at the conservation of antique Arabic manuscripts collected by the National Museum using digitalisation techniques.
ČSOB has established a new standard for financing corporate activities. In order to save a unique greenhouse at the Lednice Chateau, ČSOB contributed funds together with the American World Monuments Fund. The Bank then gathered additional support from both private American foundations and the American government.

The winter Olympic Games held in Nagano, Japan in early 1998 were watched by the world. It was not the only games to receive world wide attention however. The Paralympics also took it's own spotlight. ČSOB is a proud sponsor of the Czech Paralympic Team. The Czech team returned home with bronze, silver and gold medals. ČSOB is not however motivated by the thought of medals in giving it's support. Our main concern is that of the intergration of disabled citizens into society. With respect and admiration for inspiring displays of endurance and will. We too strive to attain the ideals embodied by the Paralympians. The Czech Paralympic team's slogan of, " We Do Not Lose." Is the perfect statement of the determination of these athletes to only overcome but extend beyond their physical disabilities.

We have further raised the level of the civic reputation of the Bank promoting Czech industry through extending our long-term partnership with the Museum of Decorative Arts in Prague. A unique exhibition in 1998 was held in CSOB branch offices and demonstrated the degree of our partnership. Called, "Birthday of the Republic", it commemorated the 80th anniversary of the foundation of the Czechoslovak Republic as an independent state. On display were art exhibits that included Czech functionalism, art deco and other styles of the period. It was more than a success, it captivated not only the media and visitors but also our staff.

ČSOB continued to support cultural exchanges between Prague and regional theatres. We were involved in the production of a series of performances called, Czech Theatre. The calibre of the performances was raised, thrilling audiences throughout the country. We are increasingly emphasising the staging of productions in regions outside Prague where our branch offices are able to participate more actively.

Our project to promote Czech Junior Tennis has undergone significant changes. This sport has enjoyed a long tradition in the Czech Republic and want to insure the longevity of this tradition by encouraging our juniors. Future stars and starlets do not simply appear on their own. They need proper training facilities. Therefore in 1998, we transferred our sponsorship from the head-office to regional programmes in order to strengthen the partnership of our branch offices with regional tennis clubs. This strategy generated positive reactions from the media, tennis clubs, players and our branch offices.

ČSOB has become an exclusive partner of The Goodwill Committee, founded by the late first lady Olga Havlova for education and charity. ČSOB is a co-founder and exclusive guarantor of the Education Fund. This fund enables young people access to high-school or university studies whom due to health disabilities or family problems would not have otherwise. Recently regions of the Czech Republic have been devastated by repeat floods. It was the Goodwill Committee that once again became our partner in providing assistance to those in need in these regions-the aged, children and those without home or hope.