

CZECH NATIONAL BANK

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS**

31 DECEMBER 1998

REPORT OF INDEPENDENT AUDITORS

TO THE BANKING BOARD OF THE CZECH NATIONAL BANK

We have audited the accompanying balance sheet of the Czech National Bank (“ČNB”) as at 31 December 1998, the related income statement and notes for the year then ended. These financial statements and underlying accounting records are the responsibility of the management of ČNB. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying financial statements present fairly, in all material respects, the assets, liabilities and equity of ČNB as at 31 December 1998, and the results of its operations for the year then ended in accordance with the Act on Accounting and other relevant accounting legislation of the Czech Republic.

Without qualifying our opinion, we draw attention to the matters described in the following paragraphs.

As set down in Note 10 f of the Notes to the Financial Statements, ČNB’s assets include CZK 26,122 million of receivables from Národní banka Slovenska resulting from the separation of the assets and liabilities of the former Státní banka československá and from the losses resulting from the split of the federal currency. The ultimate collection of this receivable depends on the result of on-going negotiations between both parties. At present, it is not possible to evaluate the outcome.

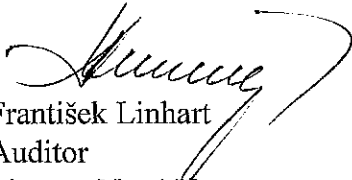
REPORT OF INDEPENDENT AUDITORS (continued)

As set down in Note 25 of the Notes to the Financial Statements, the Government has issued a guarantee to ČNB to cover potential losses on ultimate realisation of assets amounting to CZK 22,500 million which were acquired from certain commercial banks to provide stability to the banking sector. This guarantee was signed on 19 March 1997 and lasts for ten years from that date. ČNB is required to make provisions for these potential losses during the life of this guarantee in order to limit any final settlement arising from the guarantee. These provisions will be created only when sufficient income to cover the provisions is earned. However, it is not possible to ascertain the amount of provisions ČNB will create.

10 March 1999

PricewaterhouseCoopers

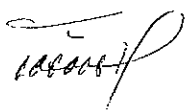

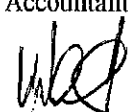
PricewaterhouseCoopers Audit, s.r.o.
Registered Auditing Company
Licence No. 21


František Linhart
Auditor
Licence No. 150

CZECH NATIONAL BANK

BALANCE SHEET AS AT 31 DECEMBER 1998 (CZK MILLION)

(Translation)

| | | | |
|---------------------------------|--|--|---|
| Date of issue: 24.2.1999 | Stamp and Signature of the Statutory Body  Doc. Ing. J. Tošovský | Chief Accountant  Ing. M. Mayer phone: 2441 4326 | Executive Accountant  V. Víčovský phone: 2441 4424 |
|---------------------------------|--|--|---|

ČESKÁ NÁRODNÍ BANKA

BALANCE SHEET AS AT 31 DECEMBER 1998

| No. | ASSETS | Line | Current accounting period | | | Previous accounting period |
|--------|--|------|---------------------------|------------------|-------------------|----------------------------|
| | | | Gross | Adjustments | Net | |
| | | | CZK million | CZK million | CZK million | CZK million |
| a | b | c | 1 | 2 | 3 | 4 |
| 1. | Gold | 1 | 541.08 | - | 541.08 | 3,921.79 |
| 2. | Receivables from International Monetary Fund | 2 | 26,319.92 | - | 26,319.92 | 24,962.55 |
| 2.1. | in foreign currency | 3 | 0.01 | - | 0.01 | 0.01 |
| 2.2. | in CZK | 4 | 26,319.91 | - | 26,319.91 | 24,962.54 |
| 3. | Receivables from abroad | 5 | 402,674.95 | 262.76 | 402,412.19 | 364,195.45 |
| 3.1. | in foreign currency | 6 | 402,674.95 | 262.76 | 402,412.19 | 364,195.45 |
| 3.1.1. | deposits with foreign banks | 7 | 16,427.11 | - | 16,427.11 | 60,391.97 |
| 3.1.2. | loans provided to foreign banks | 8 | 16,356.39 | - | 16,356.39 | 60,148.38 |
| 3.1.3. | securities | 9 | 343,733.49 | 262.76 | 343,470.73 | 217,495.89 |
| 3.1.4. | other receivables from abroad | 10 | 26,157.96 | - | 26,157.96 | 26,159.21 |
| 3.2. | in CZK | 11 | - | - | - | - |
| 4. | Receivables from domestic banks | 12 | 53,836.35 | 13.90 | 53,822.45 | 78,367.52 |
| 4.1. | receivables from refinancing | 13 | - | - | - | 7,766.58 |
| 4.2. | other receivables from domestic banks | 14 | 53,836.35 | 13.90 | 53,822.45 | 70,600.94 |
| 5. | Receivables from clients | 15 | 32,672.92 | 3,559.65 | 29,113.27 | 18,978.97 |
| 6. | Domestic securities and shares | 16 | 36,895.39 | 19,717.50 | 17,177.89 | 3,845.03 |
| | included therein: shares and other financial investments | 17 | 17,177.88 | - | 17,177.88 | 3,844.88 |
| 7. | Current result of state budget | 18 | - | - | - | - |
| 8. | Other receivables from state budget | 19 | - | - | - | - |
| 9. | Cash | 20 | 868.71 | - | 868.71 | 2,035.03 |
| 10. | Other assets | 21 | 14,052.20 | 2,251.11 | 11,801.09 | 8,777.02 |
| 10.1. | tangible assets | 22 | 8,437.30 | 1,969.21 | 6,468.09 | 5,299.21 |
| 10.2. | intangible assets | 23 | 670.11 | 278.22 | 391.89 | 344.48 |
| 10.3. | deferred expenses and accrued revenue | 24 | 574.99 | - | 574.99 | 1,038.81 |
| 10.4. | others | 25 | 4,369.80 | 3.68 | 4,366.12 | 2,094.52 |
| | TOTAL ASSETS | 26 | 567,861.52 | 25,804.92 | 542,056.60 | 505,083.36 |

ČESKÁ NÁRODNÍ BANKA

BALANCE SHEET AS AT 31 DECEMBER 1998 (continued)

| No. | LIABILITIES | Line | Current accounting period | Previous accounting period |
|--------|--|------|---------------------------------|----------------------------------|
| | | | CZK million | CZK million |
| a | b | c | 5 | 6 |
| 1. | Currency into circularisation | 27 | 146,059.74 | 139,145.56 |
| 2. | Liabilities to International Monetary Fund | 28 | 26,319.91 | 24,962.54 |
| 2.1. | in foreign currency | 29 | - | - |
| 2.2. | in CZK | 30 | 26,319.91 | 24,962.54 |
| 3. | Liabilities to abroad including securities | 31 | 11,382.72 | 24,112.52 |
| 3.1. | in foreign currency | 32 | 10,952.13 | 23,699.44 |
| 3.1.1. | loans taken from abroad | 33 | 1,883.28 | 14,339.33 |
| 3.1.2. | bond issues | 34 | 9,068.85 | 9,360.05 |
| 3.1.3. | other liabilities to abroad in foreign currency | 35 | - | 0.06 |
| 3.2. | in CZK | 36 | 430.59 | 413.08 |
| 4. | Liabilities to domestic banks | 37 | 275,927.47 | 205,119.12 |
| 4.1. | bank monetary reserve | 38 | 86,605.68 | 89,829.51 |
| 4.2. | other liabilities | 39 | 189,321.79 | 115,289.61 |
| 5. | Deposits from clients | 40 | 31,811.84 | 40,828.26 |
| 6. | Domestic securities issued | 41 | - | - |
| 7. | Current result of state budget | 42 | - | - |
| 8. | Other liabilities to state budget | 43 | 28,370.49 | 26,825.21 |
| 9. | Reserves | 44 | 54,369.66 | 27,501.38 |
| 10. | Share capital | 45 | 1,400.00 | 1,400.00 |
| 11. | Funds | 46 | 8,234.12 | 6,185.65 |
| 12. | Retained profits / (accumulated losses) | 47 | - | (8,653.84) |
| 13. | Profit / (loss) for accounting period | 48 | (50,740.07) | 10,744.57 |
| 14. | Other liabilities | 49 | 8,920.72 | 6,912.39 |
| 14.1. | deferred revenue and accrued expenses | 50 | 1,060.94 | 1,096.74 |
| 14.2. | others | 51 | 7,859.78 | 5,815.65 |
| | included therein: settlement accounts of local authorities resources | 52 | 4,840.83 | 3,896.71 |
| | | | | |
| | TOTAL LIABILITIES | 53 | 542,056.60 | 505,083.36 |

ČESKÁ NÁRODNÍ BANKA

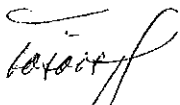
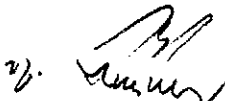

OFF-BALANCE SHEET AS AT 31 DECEMBER 1998

| No. | | Line | Current period | Prior period |
|-----------|--|------|------------------|------------------|
| | | | CZK million | CZK million |
| a | b | c | 7 | 8 |
| 1. | Contingent liabilities | 54 | 79,423.34 | 75,960.65 |
| 1.1. | accepted bills of exchange and endorsed bills | 55 | - | 790.22 |
| 1.2. | issued guarantees | 56 | 79,423.34 | 75,170.43 |
| 1.3. | obligation from collaterals | 57 | - | - |
| 2. | Other irrevocable liabilities | 58 | - | - |
| 3. | Receivables from spot, term and option operations | 59 | 75,006.05 | 64,708.87 |
| 4. | Liabilities from spot, term and option operations | 60 | 77,379.21 | 66,084.62 |
| 5. | Guarantees received | 61 | 52,100.28 | 22,500.00 |

CZECH NATIONAL BANK

PROFIT AND LOSS ACCOUNT AS AT 31 DECEMBER 1998 (CZK MILLION)

(Translation)

| Date of issue: | Stamp and Signature of the Statutory Body | Chief Accountant | Executive Accountant |
|----------------|--|---|--|
| 24.2.1999 | -  Doc. Ing. J. Tošovský | -  Ing. M. Mayer | -  O. Štéglová |
| | | phone: 2441 4326 | phone: 2441 3112 |

ČESKÁ NÁRODNÍ BANKA

PROFIT AND LOSS FOR PERIOD ENDED 31 DECEMBER 1998

| No. | ITEM | Line | Current period | Prior period |
|------------|--|------|--------------------|------------------|
| | | | CZK million | CZK million |
| a | b | c | 1 | 2 |
| 1. | Interest income | 1 | 57,449.86 | 40,908.81 |
| 1.1. | interest from securities with fixed income | 2 | 37,883.70 | 21,309.49 |
| 1.2. | other | 3 | 19,566.16 | 19,599.32 |
| 2. | Interest expense | 4 | 55,881.11 | 34,065.42 |
| 2.1. | interest from securities with fixed income | 5 | 27,461.59 | 15,693.84 |
| 2.2. | other | 6 | 28,419.52 | 18,371.58 |
| 3. | Income from securities with variable income | 7 | - | 36.55 |
| 3.1. | income from shares | 8 | - | 36.55 |
| 3.2. | income from shares in subsidiaries | 9 | - | - |
| 3.3. | income from shares in associates | 10 | - | - |
| 3.4. | income from shares in affiliates | 11 | - | - |
| 4. | Income from fees and charges | 12 | 512.65 | 551.78 |
| 5. | Expenses from fees and charges | 13 | 52.25 | 100.65 |
| 6. | Profit / (loss) from financial operations | 14 | (41,301.87) | 39,610.73 |
| 7. | Other income | 15 | 68.05 | 95.31 |
| 7.1. | income from money issue | 16 | 19.84 | 19.43 |
| 7.2. | other | 17 | 48.21 | 75.88 |
| 8. | Administration expenses | 18 | 2,073.33 | 1,962.98 |
| 8.1. | personnel expenses | 19 | 613.58 | 608.32 |
| 8.1.1. | wages and salaries | 20 | 441.32 | 443.61 |
| 8.1.2. | social security | 21 | 131.19 | 124.11 |
| 8.1.3. | health insurance | 22 | 41.07 | 40.60 |
| 8.2. | other operating expenses | 23 | 1,459.75 | 1,354.66 |
| 9. | Charge to specific and general provisions for tangible and intangible assets | 24 | - | - |
| 9.1. | charge to general provisions for tangible assets | 25 | - | - |
| 9.2. | charge to specific provisions for tangible assets | 26 | - | - |
| 9.3. | charge to specific provisions for intangible assets | 27 | - | - |
| 10. | Release of specific and general provisions for tangible and intangible assets | 28 | - | - |
| 10.1. | release of general provisions for tangible assets | 29 | - | - |
| 10.2. | release of specific provisions for tangible assets | 30 | - | - |
| 10.3. | release of specific provisions for intangible assets | 31 | - | - |
| 11. | Other expenses | 32 | 436.08 | 5,766.56 |
| 11.1. | expenses for issuing bank notes and coinage | 33 | 296.44 | 366.28 |
| 11.2. | other | 34 | 139.64 | 5,400.28 |

ČESKÁ NÁRODNÍ BANKA

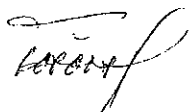


PROFIT AND LOSS FOR PERIOD ENDED 31 DECEMBER 1998 (continued)

| No. | ITEM | Line | Current period | Prior period |
|-----|--|------|----------------|--------------|
| | | | CZK million | CZK million |
| a | b | c | 1 | 2 |
| 12. | Charge to specific and general provisions for loans and guarantees | 35 | 13,739.40 | 20,864.44 |
| 13. | Release of specific and general provisions for loans and guarantees | 36 | 31,597.52 | 922.68 |
| 14. | Charge to specific and general provisions for investments and other financial investments | 37 | - | - |
| 15. | Release of specific and general provisions for investments and other financial investments | 38 | - | - |
| 16. | Charge to other specific and general provisions | 39 | 27,052.73 | 8,626.30 |
| 17. | Release of other specific and general provisions | 40 | 183.00 | - |
| 18. | Tax on results from ordinary activities | 41 | - | - |
| 19. | Ordinary profit / (loss) after taxation | 42 | - | - |
| 20. | Extraordinary income | 43 | 3.33 | 14.24 |
| 21. | Extraordinary expenses | 44 | 17.71 | 9.18 |
| 22. | Tax on extraordinary result | 45 | - | - |
| 23. | Extraordinary profit / (loss) after taxation | 46 | - | - |
| 24. | Profit / (loss) for accounting period | 47 | (50,740.07) | 10,744.57 |

CZECH NATIONAL BANK

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 1998 (CZK MILLION)

(Translation)

| | | | |
|---------------------------------|---|---|--|
| Date of issue: 24.2.1999 | Stamp and Signature of the Statutory Body  Doc. Ing. J. Tošovský | Chief Accountant  Ing. M. Mayer phone: 2441 4326 | Executive Accountant  V. Vicořský phone: 2441 4424 |
|---------------------------------|---|---|--|

CZECH NATIONAL BANK

**Notes to financial statements
As at 31 December 1998**

1. GENERAL INFORMATION

The Czech National Bank (hereinafter the Bank) is the central bank of the Czech Republic. The Bank is an independent institution reporting directly to the Parliament of the Czech Republic.

The Bank was established under the Act No. 6/1993 Col. on the Czech National Bank and its principal function is to ensure the stability of the Czech currency in compliance with the above act.

The Bank was established on 1 January 1993 following the dissolution of the former State Bank of Czechoslovakia to the Czech National Bank and the National Bank of Slovakia.

The financial statements are reported in millions of Czech crowns and are presented to two decimal places.

2. INFORMATION ON ACCOUNTING METHODS, GENERAL ACCOUNTING PRINCIPLES AND METHODS OF VALUATION

a) The following accounting principles and methods of valuation of assets and liabilities and foreign currencies and exchange rates for the translation of foreign currencies into Czech crowns were used for the preparation of 1998 financial statements:

aa) The financial statements of the Bank were prepared on the basis of accounting data maintained in compliance with the Act on accounting and other legal regulations in force. The valuation of assets and liabilities was carried out according to the provisions of Art 22 and 24 of the Act on accounting No. 563/91 Col. The Bank maintains its accounts on the basis of the chart of accounts and accounting procedures for banks according to the MF CR provision No. 282/41 410/1993 dated 9 July 1993, registered in volume 52/1993 Col. as amended by later provisions.

ab) Gold and other precious metals

Gold and other precious metals are stated at historical cost (acquisition price). Gold used in repurchase transactions is included in the gold account at historical cost and the related liability from the security concerning foreign payables is valued at the contractual price. Gold deposits are maintained on the gold account and the related accrued interest is recorded in accrued income.

ac) Cash

The cash figure on the balance sheet consists of cash denominated in Czech crowns only. Cash in foreign currencies is included in receivables from abroad after revaluation into Czech crowns at the year end exchange rate.

ad) Securities

Treasury bills and similar securities are recorded at purchase price and the discount income is released to the profit and loss account over the life of the security on the basis of interest rates calculated from the discounts obtained on purchase. Purchases of bonds are recorded at acquisition cost. Interest income is deferred.

Specific provisions are created for relevant securities or ownership interests in the amount of the difference between the acquisition price and the market price of the security, if the market valuation is lower than the acquisition price. Specific provision are not created against high quality securities or against securities with maturity under 6 months and which are held till their maturity or against securities which are part of an agreed term deal.

Securities transferred as security for loans received or provided within repurchase transactions are recorded in assets in the balance sheet and are valued at the weighted arithmetical average cost according to the type of security under the purchase agreement. The relevant loan received or provided is recorded in the balance sheet at nominal value. Accrued / deferred interest earned from REPO transactions is reflected as appropriate in costs or revenues.

Upon maturity or sale of securities the difference between the revenue and the weighted average arithmetical cost is included in revenues or costs related to securities transactions.

ae) Capital investments with significant and controlling influence

Capital investments with controlling influence are ownership interests in entities in which the Bank holds directly or indirectly more than 50% of the registered capital of the entity, or whose activity the Bank fully controls for other reasons. Capital investments with significant influence are ownership interests in entities in which the Bank holds directly or indirectly 20 to 50% of the registered capital.

Capital investments are valued at cost. If their value decreases, a provision is created.

According to Art I, para 1 of the Provision by which procedures for consolidated financial statements of banks are laid down (No. 182/9090/1994 dated 18 February 1994 as amended by later provisions), the Bank does not have to prepare consolidated financial statements.

If any of the Bank's financial assets are sold, the difference between revenues and their book value will be reflected in the profit/loss of the Bank.

af) Loans and other receivables from banks and clients

Loans and other receivables from clients are classified in compliance with the classification principles of the Bank. Receivables from banks and clients are recorded after the deduction of the provision for doubtful recoverability. General provisions for loan losses are recorded in liabilities in the balance sheet. The creation of provisions and reserves for classified loans related to the consolidation programme of banks was partially substituted by a guarantee issued for the purpose by the Czech government in 1996 (for more detail see note number 25).

The Bank created 100% provisions for receivables due from debtors in bankruptcy and settlement proceedings asked by the court to claim its receivables from the debtor.

The Bank created provisions against other assets in 1998 when the value of these assets in the books was higher than their market value and this was not considered to be a temporary condition.

Receivables from banks based on foreign currency repurchase agreements are recorded in assets at the nominal value of the receivable.

Provisions are created against the risks related to commitments and guarantees. In 1996 the creation of provisions for guarantees issued by the Bank was partially substituted by the guarantee provided for the purpose by the Czech government (for more detail see note No. 25).

ag) Securities issued

Treasury bills are recorded in the balance sheet at nominal value. The related purchase price discount is recorded initially as an asset and is expensed as interest on a straight-line basis over the life of the bill.

Treasury bills, which the Bank repurchased, are posted to assets in the balance sheet at acquisition cost increased by the interest accrued. The amount of treasury bills is presented in the balance sheet after offsetting treasury bills bought back, in REPO operations together with the related accrued interest. Interest income and interest expense relating to treasury bills of the Bank's own portfolio are disclosed in the profit and loss account separately.

Bonds are recorded at nominal value. The interest expense is accrued over the period to the due date of the coupon.

ah) Foreign currencies transactions

Transactions denominated in foreign currencies are translated into CZK at the exchange rates ruling on the dates of the transactions.

Assets and liabilities, including commitments for the purchase or sale of foreign currencies for spot or forward foreign currency transactions are translated at the appropriate exchange rates ruling in the foreign exchange market on the date of the financial statements.

Exchange rate gains and losses are reflected in the profit and loss account.

ai) Revenues from interests, fees and commissions

Interest earned on assets is recorded on accruals basis. Uncollected interest earned on classified and non-liquid assets is reflected in the profit and loss account and a provision is created against it. Interest earned on assets denominated in foreign currencies is translated into CZK at the exchange rates ruling on the dates of the transactions.

b) Depreciation of tangible and intangible fixed assets

Fixed assets are stated at cost net of VAT, including freight and installations costs less accumulated depreciation. Land and buildings are recorded at acquisition or replacement cost; land, works of art and collections are not depreciated. Fixed assets are depreciated using the straight-line method over the expected useful lives of the assets.

As of 1 January 1998 new tangible and intangible fixed assets having a cost in excess of CZK 40,000 are capitalised and depreciated over their estimated useful lives. Fixed assets placed into service before this date continue to be depreciated in compliance with the former classification. The value of tangible fixed assets was increased by the value of technical improvement.

Low value intangible fixed assets at the acquisition cost of CZK 1,000 to CZK 40,000 are fully expensed when placed into use, and recorded in tangible and intangible fixed assets including accumulated depreciation.

Intangible fixed assets are valued at acquisition cost and depreciated for the period of 4 years, if the use is not limited by contract. Otherwise they are depreciated for the period laid down by contract, for 5 years as a maximum.

The Bank's payments for assets under lease contracts are accounted for as expenses and in the case of a financial lease the relevant value of a leased asset is capitalised at the end of a lease period and the opportunity to purchase is taken. All lease payments without regard to whether they relate to an operational or financial lease are accrued and expensed during the lease contract.

Repair and maintenance costs are expensed as incurred.

- c) The Bank accounts are maintained on the basis of the chart of accounts and accounting procedures for banks in force in the Czech Republic. The financial statements are prepared in compliance with the Measure for the arrangement and contents specification of financial statements items (No. 286/64050/1997 dated 9 October 1997) published by the Ministry of Finance and adjusted for the conditions of the central bank. In 1997 the Bank set out in compliance with article XI of the general provisions of accounting procedures for banks, the adjusted principles for performing accruals/deferrals with the objective to minimise the demanding procedures in calculating insignificant or regular amounts which do not materially influence the overall financial results of the Bank.

3. DEFERRED TAX LIABILITY

The Bank does not have any deferred tax liability.

The Bank is, in accordance with Section 17, subsection 2 of ČNB Act no. 586/92 Coll. on Income Taxes as amended, exempt from tax. Its relation to the state budget is stipulated in Section 47, subsection 2 of ČNR Act no. 6/1993 Coll., on ČNB.

The input VAT on the assets and services acquired in 1998 was charged to costs compliant with the regulation by the Ministry of Finance.

4. GOLD AND OTHER PRECIOUS METALS

| | |
|-----------------------|--------|
| Gold – line 1 | 541.08 |
| Other precious metals | 37.33 |

The market value of gold held as at 31 December 1998 amounted to CZK 2,488.33. During 1998 the Bank decreased its gold reserves by 55.78 tonnes (by CZK 3,380.71 in book value).

5. RELATIONSHIP WITH INTERNATIONAL MONETARY FUND (IMF)

| | |
|---|-----------|
| Receivables from IMF (subscription) – line 4 | 26,319.91 |
| Payables to IMF (bills of exchange) – line 30 | 26,253.95 |
| Payables to IMF (current account) – line 30 | 65.96 |

The subscription is denominated in „special drawing rights“ (SDR). The subscription is paid by bills of exchange on demand.

6. SECURITIES AND SHARES

a) Domestic securities and shares (line 16 – line 17)

| | Nominal value | Acquisition cost | Market price |
|---------------|-------------------|-------------------|-------------------|
| ČNB bills | 181,739.00 | 176,646.23 | 181,738.92 |
| Bills in REPO | 168,261.00 | 163,546.08 | 168,261.08 |
| Total | 350,000.00 | 340,192.31 | 350,000.00 |

| | | | |
|--------------------|--------------|-------------|-------------|
| Bonds | 0.01 | 0.01 | 0.01 |
| Shares | 10.00 | 19,717.50 | 0.00 |
| Specific provision | | (19,717.50) | |
| Total | 10.01 | 0.01 | 0.01 |

b) **Foreign securities and shares (line 9)**

| With discount | Nominal value | Acquisition cost | Market price |
|---------------------------------|----------------------|-------------------------|---------------------|
| State treasury bills | 91,879.42 | 91,606.67 | 91,607.79 |
| Other short-term treasury bills | 76,504.40 | 75,825.96 | 75,824.17 |
| Specific provision | | (1.86) | |
| Total | 168,383.82 | 167,430.77 | 167,431.96 |
| Securities in reverse REPO | 9,557.60 | 9,557.60 | |

| With a coupon | Nominal value | Acquisition cost | Market price |
|-----------------------------|----------------------|-------------------------|---------------------|
| Other foreign bonds | 154,670.32 | 166,213.60 | 166,462.16 |
| Bonds with external manager | | 5,607.64 | 5,668.72 |
| Specific provision | | (260.90) | |
| Total | | 171,560.34 | 172,130.88 |
| Securities in reverse REPO | | 6,798.79 | |

| | Nominal value | Acquisition cost | Market price |
|---------|----------------------|-------------------------|---------------------|
| Coupons | - | 4,429.93 | 4,429.93 |

| Shares | Ownership interest in the registered capital | Acquisition cost |
|------------------------------------|---|-------------------------|
| S.W.I.F.T. | 0.0 % | 0.22 |
| Bank for International Settlements | 1.1 % | 49.47 |
| Total | | 49.69 |

| | |
|------------------------------------|-------------------|
| Foreign securities in total | 343,470.73 |
|------------------------------------|-------------------|

7. SHARES AND OTHER FINANCIAL INVESTMENTS (line 17)

| Name | No. of shares | Interest in the registered capital | Acquisition costs | Specific provision |
|--------------------------------------|---------------|------------------------------------|-------------------|--------------------|
| Institut bankovního vzdělávání a. s. | 131 | 29.9 % | 10.76 | |
| ČSOB a. s. | 3,732 | 26.5 % | 1,353.20 | |
| Česká finanční s. r. o. | 0 | 100 % | 15,813.92 | |
| | | | 17,177.88 | |

8. CAPITAL AND OTHER FUNDS (line 45, line 46)

| | |
|---------------------|-----------------|
| Statutory fund | 1,400.00 |
| Legal reserve fund | 7,772.74 |
| Social fund | 8.75 |
| Bonuses fund | 1.95 |
| Other capital funds | 291.56 |
| Other reserve funds | 159.12 |
| Total equity | 9,634.12 |

The loss generated in 1998 totalled CZK 50,740.07 (line 48). The Bank expects to cover the loss by future revenues.

9. BONDS AND ČNB BILLS ISSUED

Bonds issued by ČNB abroad (line 34)

| | |
|----------------|-----------------|
| Place of issue | Japan |
| Currency | JPY |
| Date of issue | 9.8.1993 |
| Maturity | 9.8.2000 |
| Interest | 6.6% |
| Total | 9,068.85 |

These bonds are secured by swaps, which are described in the note no. 22.

ČNB bills (line 41)

| Date of issue | Maturity date | Nominal value total | Listing |
|---------------|---------------|---------------------|---------|
| 10.7.1998 | 8.1.1999 | 50,000.00 | 12.63 |
| 31.7.1998 | 29.1.1999 | 50,000.00 | 12.63 |
| 21.8.1998 | 19.2.1999 | 50,000.00 | 12.63 |
| 25.9.1998 | 26.3.1999 | 100,000.00 | 12.43 |
| 18.12.1998 | 18.6.1999 | 100,000.00 | 12.63 |
| Total | | 350,000.00 | |

The Bank repurchased bills in the amount of CZK 340,192.31, out of which bills in the total amount of CZK 163,546.08 were sold in REPO transactions and bills in the total amount of CZK 176,646.23 are recorded in the assets (securities) of the Bank (line 16). The accrued interest amounts to CZK 9,807.69. The above mentioned items are compensated in the balance sheet and therefore are stated at zero value.

10. LOANS PROVIDED TO CLIENTS AND BANKS

Breakdown of loans provided to clients and banks in accordance with due date:

a) In accordance with the contractual maturity period (line 8, 12, 15)

| | Maturity | | | | | |
|----------------------------|------------------|-----------------|------------------|---------------|------------------|------------------|
| | Up to 1 month | Up to 3 months | Up to 1 year | Up to 4 years | Over 4 years | Total |
| BANKS: | | | | | | |
| Redistribution loans | | | | | 32,441.58 | 32,441.58 |
| Non-liquid loans | | | | | 13.90 | 13.90 |
| EXIM and EIB loans granted | | | | | 1,962,62 | 1,962,62 |
| Other | 19,418.25 | | | | | 19,418.25 |
| Reverse REPO loans | 12,275.41 | 4,080.98 | | | | 16,356.39 |
| Specific provisions | | | | | (13.90) | (13.90) |
| Total | 35,774.64 | 4,080.98 | | | 34,404.20 | 70,178.84 |
| | | | | | | |
| CLIENTS: | | | | | | |
| Classified loans | | | 13,339.63 | 685.85 | 32.50 | 14,057.98 |
| Standard loans | 0.66 | | 18,567.19 | 4.79 | 42.30 | 18,614.94 |
| | 0.66 | | 31,906.82 | 690.64 | 74.80 | 32,672.92 |
| Specific provisions | | | (3,196.74) | (362.91) | | (3,559.65) |
| Total | 0.66 | | 28,710.08 | 327.73 | 74.80 | 29,113.27 |

In the case of non-liquid loans the amount of CZK 13.90 is covered by 100 % provisions.

In respect of classified loans the total provisions required are CZK 13,907.99. Provisions actually created totalled CZK 3,559.65 and the remainder is covered by a guarantee provided by the Czech Government.

b) In accordance with remaining maturity

| | Maturity | | | | | |
|----------------------------|------------------|-----------------|------------------|---------------|------------------|------------------|
| | Up to 1 month | Up to 3 months | Up to 1 year | Up to 4 years | Over 4 years | Total |
| BANKS: | | | | | | |
| Redistribution loans | | | 17,260.60 | | 15,180.98 | 32,441.58 |
| Non-liquid loans | 13.90 | | | | | 13.90 |
| EXIM and EIB loans granted | | 103.30 | 103.30 | 619.77 | 1,136.25 | 1,962.62 |
| Other | 19,418.25 | | | | | 19,418.25 |
| Reverse REPO loans | 12,275.41 | 4,080.98 | | | | 16,356.39 |
| Specific provisions | (13.90) | | | | | (13.90) |
| Total | 31,693.66 | 4,184.28 | 17,363.90 | 619.77 | 16,317.23 | 70,178.84 |
| | | | | | | |
| CLIENTS: | | | | | | |
| Classified loans | 13,674.45 | 21.20 | 339.33 | 23.00 | | 14,057.98 |
| Standard loans | 0.66 | | 18,567.19 | 4.79 | 42.30 | 18,614.94 |
| | 13,675.11 | 21.20 | 18,906.52 | 27.79 | 42.30 | 32,672.92 |
| Specific provisions | (3,326.11) | (2.83) | (228.81) | (1.90) | | (3,559.65) |
| Total | 10,349.00 | 18.37 | 18,677.71 | 25.89 | 42.30 | 29,113.27 |

Long-term redistribution loans were provided in the year 1990 and as at 31 December 1998 they comprised CZK 17,260.60 (redistribution loan) and CZK 15,180.988 (a redistribution loan under special conditions). This redistribution loan under special conditions was provided for funding the co-operative housing scheme. It is repayable by annual instalments based on payments received from clients and its final maturity has not been specified. The redistribution loan is being repaid and it will mature in 1999.

e) The Bank has no credit balances on the loan accounts.

d) Loan collaterals

The loans to clients and banks were secured as follows:

| Type of guarantee/security | Amount |
|--|------------------|
| State guarantees for the consolidation programme | 22,500.00 |
| Guarantee received from GECIH | 29,600.28 |
| Total | 52,100.28 |

Reverse REPO loans granted were secured by securities of CZK 16,356.39 recorded in the assets of the Bank.

e) Special nature loans (subordinated debt)

The Bank has no subordinated debt to any clients or to other banks.

f) A receivable from Národní banka Slovenska

Line 10 in the balance sheet contains a receivable in the total amount of CZK 26,122.41 from Národní banka Slovenska („NBS“). This receivable arose from the division of assets and liabilities of the former Státní banka Československá between the central banks in the Czech and Slovak Republics (CZK 24, 522.64) and from the loss incurred on the dissolution of the federal currency (CZK 1,599.77). The settlement of these amounts is subject to continuous negotiations between the governments. The end date is not known. The Bank has not submitted to NBS 9.12 tonnes of gold out of which 4.12 tonnes arose from the above mentioned division of assets and liabilities and out of which 5.00 tonnes the Bank is prepared to sell in the event of the conclusion of an inter-governmental agreement) of book value of CZK 552.75.

11. LOANS RECEIVED

Breakdown of loans received by maturity date:

a) **In accordance with the original contractual maturity period (line 33, from line 39 GECIH, REPO in CZK)**

| | Maturity | | | |
|--------------------------|-------------------|------------------|-----------------|-------------------|
| | Up to 1 month | Up to 4 years | Over 4 years | Total |
| Loan received from GECIH | | 14,788.13 | | 14,788.13 |
| REPO loans received | 154,056.00 | 10,400.00 | | 164,456.00 |
| Other (EXIM, EIB) | | | 1,883.28 | 1,883.28 |
| Total | 154,056.00 | 25,188.13 | 1,883.28 | 181,127.41 |

REPO transactions with ČNB treasury bills are performed exclusively with banks.

b) **In accordance with residual maturity period**

| | Maturity | | | |
|--------------------------|-------------------|------------------|---------------|-------------------|
| | Up to 1 month | Up to 4 years | Over 4 years | Total |
| Loan received from GECIH | | 14,788.13 | | 14,788.13 |
| REPO loans received | 154,056.00 | 10,400.00 | | 164,456.00 |
| Other (EXIM, EIB) | | 949.43 | 933.85 | 1,883.28 |
| Total | 154,056.00 | 26,137.56 | 933.85 | 181,127.41 |

c) **Special nature loans (subordinated debt)**

The Bank has no subordinated debt to any clients or to other banks.

12. CONSORTIUM LOANS

The Bank is not engaged in any consortium loans.

13. OTHER LIABILITIES TO BANKS AND CLIENTS

a) According to original contractual maturity period (line 38,40,43,52)

| | Maturity | | | | | Total |
|---------------------------|-------------------|----------------|-----------------|------------------|------------------|-------------------|
| | Up to 1 month | Up to 3 months | Up to 1 year | Up to 4 years | Unspecified | |
| Current accounts | 8,640.11 | | | | | 8,640.11 |
| Minimal reserves accounts | 86,605.68 | | | | | 86,605.68 |
| Term deposits | | | 274,14 | 351.96 | 15,703.80 | 16,329.90 |
| State Budget accounts | 21,682.71 | | 7,190.12 | 11,180.32 | | 40,053.15 |
| Total | 116,928.50 | | 7,464.26 | 11,532.28 | 15,703.80 | 151,628.84 |

b) According to the residual maturity period

| | Maturity | | | | | Total |
|---------------------------|-------------------|------------------|-----------------|---------------|------------------|-------------------|
| | Up to 1 month | Up to 3 months | Up to 1 year | Up to 4 years | Unspecified | |
| Current accounts | 8,640.11 | | | | | 8,640.11 |
| Minimal reserves accounts | 86,605.68 | | | | | 86,605.68 |
| Term deposits | | | 274.14 | 351.96 | 15,703.80 | 16,329.90 |
| State budget accounts | 21,682.71 | 11,030.00 | 7,190.12 | 150.32 | | 40,053.15 |
| Total | 116,928.50 | 11,030.00 | 7,464.26 | 502.28 | 15,703.80 | 151,628.84 |

14. WRITE-OFFS OF NOT STATUTE-BARRED AND NON-ASSIGNED RECEIVABLES

The Bank did not either write off any not statute-barred receivables or collect any amounts that had been written-off in prior periods.

15. RESERVES AND PROVISIONS

a) Analysis of the creation and use of provisions (line 44)

| Type of provision | Balance at 1. 1.1998 | Creation | Use | Balance at 31.12.1998 |
|-----------------------------------|----------------------|------------------|---------------|-----------------------|
| For standard loans and guarantees | 62.58 | 9.56 | 11.02 | 61.12 |
| For redistribution loans | 347.98 | | | 347.98 |
| For consolidation | 13,356.97 | 24,418.44 | 183.00 | 37,592.41 |
| Other | 13,733.85 | 2,634.30 | | 16,368.15 |
| Total | 27,501.38 | 27,062.30 | 194.02 | 54,369.66 |

b) Analysis of creation and use of provisions (column 2)

| Type of provision | Balance at 1.1.1998 | Exchange rate differences | Creation | Use | Balance at 31.12.1998 |
|-------------------|---------------------|---------------------------|------------------|------------------|-----------------------|
| Classified loans | 666.68 | | 2,928.97 | 36.00 | 3,559.65 |
| Non-liquid loans | 20,764.04 | | 10,800.00 | 31,550.14 | 13.90 |
| Securities | 155.68 | (17.66) | * 20,007.42 | * 165.18 | 19,980.26 |
| Other | 3.17 | | 0.87 | 0.36 | 3.68 |
| Total | 21,589.57 | (17.66) | 33,737.26 | 31,751.68 | 23,557.49 |

* the charge to expenses is disclosed in line 14 of profit and loss account

16. INCORPORATION COSTS

The Bank does not record any incorporation costs.

17. TANGIBLE AND INTANGIBLE FIXED ASSETS (line 22,23)

a) Tangible fixed assets (TFA)

| Acquisition cost | Buildings and land | Machinery and equipment | Vehicles | Fixtures and fittings | Other | Acquisition of TFA | Total |
|---------------------------------|--------------------|-------------------------|----------|-----------------------|--------|--------------------|----------|
| Balance at 31.12.1997 | 2,695.08 | 1,897.15 | 126.92 | 165.24 | 217.44 | 1,810.72 | 6,912.55 |
| Additions | 940.00 | 202.00 | | 13.17 | 51.57 | 1,930.18 | 3,136.92 |
| Disposals | 730.24 | 117.21 | 2.76 | 2.63 | 10.57 | 748.76 | 1,612.17 |
| Balance at 31.12.1998 | 2,904.84 | 1,981.94 | 124.16 | 175.78 | 258.44 | 2,992.14 | 8,437.30 |
| | | | | | | | |
| Accumulated depreciation | | | | | | | |
| Balance at 31.12.1997 | 239.67 | 1,070.73 | 53.43 | 54.18 | 195.32 | | 1,613.33 |
| Additions | 115.42 | 340.75 | 18.15 | 20.47 | 50.69 | | 545.48 |
| Disposals | 59.41 | 114.91 | 2.75 | 1.96 | 10.57 | | 189.60 |
| Balance at 31.12.1998 | 295.68 | 1,296.57 | 68.83 | 72.69 | 235.44 | | 1,969.21 |
| | | | | | | | |
| Book value | | | | | | | |
| At 31.12.1997 | 2,455.41 | 826.42 | 73.49 | 111.06 | 22.12 | 1,810.72 | 5,299.22 |
| At 31.12.1998 | 2,609.16 | 685.37 | 55.33 | 103.09 | 23.00 | 2,992.14 | 6,468.09 |

The amount of low-value tangible fixed assets expensed directly to costs at their acquisition amounted to CZK 0.87 in 1998.

b) Intangible fixed assets (ITFA)

| | Software | Other | ITFA Acquisition | Total |
|---------------------------------|-----------------|--------------|-----------------------------|--------------|
| Acquisition cost | | | | |
| Balance at 31.12.1997 | 417.96 | 1.96 | 104.20 | 524.12 |
| Additions | 427.25 | | 171.42 | 598.67 |
| Disposals | 331.15 | | 121.53 | 452.68 |
| Balance at 31.12.1998 | 514.06 | 1.96 | 154.09 | 670.11 |
| | | | | |
| Accumulated depreciation | | | | |
| Balance at 31.12.1997 | 179.60 | 0.04 | | 179.64 |
| Additions | 306.99 | 0.49 | | 307.48 |
| Disposals | 208.90 | | | 208.90 |
| Balance at 31.12.1998 | 277.69 | 0.53 | | 278.22 |
| | | | | |
| Book value | | | | |
| At 31. 12.1997 | 238.36 | 1.92 | 104.20 | 344.48 |
| At 31.12.1998 | 236.37 | 1.43 | 154.09 | 391.89 |

The amount of low-value intangible fixed assets charged directly to costs at their acquisition amounted to CZK 1.72 in 1998.

18. TANGIBLE FIXED ASSETS PURCHASED THROUGH FINANCIAL LEASE AGREEMENT

The Bank had no financial lease contracts as at 31 December 1998.

19. ANALYSIS OF COSTS AND REVENUES

a) Interest income

| Line 17 | Amount |
|----------------------------------|------------------|
| Deposits in other banks | 13,949.56 |
| Receivables from clients | 2,675.29 |
| Bonds and gold deposits | 37,883.70 |
| Commercial loans and receivables | 2,941.31 |
| Total | 57,449.86 |

b) Interest expense

| Line 4 | Amount |
|---------------------|------------------|
| Payables to state | 2,930.11 |
| Bills issued | 26,894.94 |
| Payables to banks | 22,149.26 |
| Payables to clients | 2,097.96 |
| Other | 1,808.84 |
| Total | 55,881.11 |

c) Profit / loss from financial operations

| Line 14 | Amount |
|--------------------------------------|--------------------|
| Income from gold sold | 16,432.76 |
| Income from securities trading | 605.25 |
| Release of provisions to securities | 165.18 |
| Other income | 414.97 |
| FX losses | - 38,013.51 |
| Creation of provisions to securities | - 20,007.42 |
| Loss from securities trading | - 899.10 |
| Total | - 41,301.87 |

The FX losses were primarily affected by foreign currency rate fluctuations (revaluation of DM at 1.46 CZK, revaluation of USD at 4.781 CZK).

d) Other income

| Line 17 | Amount |
|--|---------------|
| Revenues from sale of tangible fixed assets | 12.21 |
| Accepted fines and penalties | 1.69 |
| Material and merchandise activation | 5.33 |
| Contributions from the social fund | 5.03 |
| Revenues from sale of merchandise and material | 10.24 |
| Rent | 13.71 |
| Total | 48.21 |

e) Other operating expenses

| Line 23 | Amount |
|--|-----------------|
| Depreciation of tangible fixed assets | 469.58 |
| Depreciation of in-tangible fixed assets | 101.82 |
| Rent paid | 393.72 |
| Other | 494.63 |
| Total: | 1,459.75 |

f) Total extraordinary revenues (line 43): 3.33

g) Other expenses

| Line 34 | Amount |
|---------------------------------------|---------------|
| Receivables written off | 0.03 |
| Costs on fixed assets sold | 16.70 |
| VAT | 119.54 |
| Insurance paid | 1.95 |
| Other contributions to legal entities | 0.92 |
| Contractual fines and penalties | 0.22 |
| Material sold | 0.28 |
| Total: | 139.64 |

d) Extraordinary costs

| Line 44 | Amount |
|---------------------|---------------|
| Extraordinary costs | 11.36 |
| Other damages | 6.35 |
| Total: | 17.71 |

20. ALLOCATION OF PROFIT/LOSS FOR THE YEAR 1997 (line 48)

The profit for 1997 was allocated as follows:

| | Total for allocation | Allocation to legal reserve fund | Settlement of loss for 1996 | Transfer to 1998 | Social fund 1997 | Social fund 1998 |
|------------------------|-----------------------------|---|------------------------------------|-------------------------|-------------------------|-------------------------|
| Profit for 1997 | 10,744.57 | 2,013.55 | 8,653.84 | 0.00 | 32.18 | 45.00 |

21. CLIENT ASSETS MANAGED

The Bank does not manage assets on behalf of clients.

22. FUTURES IN PROGRESS, CONTINGENT PAYABLES AND RECEIVABLES (line 54 to 61)

| | |
|----------------------------------|-----------|
| SWAP receivables | 9,068.85 |
| SWAP payables | 9,962.08 |
| Forward transactions receivables | 60,286.62 |
| Forward transactions payables | 61,767.37 |
| Option transactions receivables | 4,450.94 |
| Option transactions payables | 4,450.94 |
| Spot transactions receivables | 1,199.64 |
| Spot transactions payables | 1,198.82 |
| Provided guarantees payables | 79,423.34 |
| Accepted guarantees | 52,100.28 |

a) Long-term swaps

The Bank signed swap contracts in order to hedge against risks resulting from foreign currency differences and the changes in interest rates relating to bonds issued in Japanese Yen (JPY) of JPY 35,000.00. The Bank pays interest in Deutschmarks (DEM) and earns a fixed interest in JPY payable every six months, which is used to pay interest on the bonds issued in JPY. The described swap transactions mature as at 8 August 2000, which is also the due date of the bonds. At maturity of the swap transactions, the Bank will receive JPY 35,070.00 and it will pay DEM 534.33.

| Basis for interest calculation | Rate for interest paid | Rate for interest received |
|---------------------------------------|-------------------------------|-----------------------------------|
| JPY 20,000.00 | | JPY 6.6% |
| DEM 318.40 | DEM 6M LIBOR + 2.13% | |
| JPY 15,000.00 | | JPY 6.6% |
| DEM 239.39 | DEM 8.6% | |

b) Forwards

The following forward purchases and sales in foreign currencies were opened as at 31 December 1998 as a part of continuous maintenance and securing of the foreign currency position:

| Receivables in CZK | Receivables in foreign currencies |
|---------------------------|--|
| 31,357.08 | 1,755.72 DEM |
| 27,761.53 | 929.88 USD |
| 1,168.01 | 4,507.78 JPY |

| Payables in CZK | Payables in foreign currencies |
|------------------------|---------------------------------------|
| 653.14 | 36.57 DEM |
| 331.69 | 11.11 USD |
| 60,782.54 | 234,581.98 JPY |

c) Options

At 31 December 1998 the Bank recorded in its balance sheet accounts a receivable and a put option deed totalling CZK 4,450.94, where shares represented the supporting assets.

d) Contingent payables and receivables

The contingent payables and receivables are shown in the off-balance sheet accounts. Payables from issued guarantees (line 56) are shown in the amount of CZK 79,423.34. These include guarantees for deposits and loans by banks and clients and the guarantee for Česká finanční s. r. o. (CF). The identified need to increase provisions for the contingent loss on the issued guarantees amounts to CZK 45,263.53. The actual increase in provisions amounts to CZK 37,653.53 and the remainder has been covered by the Czech Government guarantee. The guarantee issued for deposits in the amount of CZK 29,771.12 (part of the line 56) relates to a guarantee accepted from GE Capital international Holding Corporation (GECIH) in the amount of CZK 29,600.28 (part of the line 61).

The above amounts include also a guarantee in favour of CF in the amount of CZK 28,030.15.

In 1996, the Bank obtained a guarantee from the Czech Government of CZK 22,500.00 for the purpose of covering contingent losses relating to the implementation of the consolidation programme (part of the line 61).

23. GENERAL OPERATING EXPENSES AND NUMBER OF EMPLOYEES

a) **At 31 December 1998 the general operating costs represented amounts as follows:**

| Personnel costs | Amount |
|-----------------------------------|---------------|
| Wages and bonuses | 441.32 |
| Social costs and health insurance | 172.26 |
| Total | 613.58 |

b) **The total number of employees at 31 December 1998 was as follows:**

| | |
|--|-------|
| Number of members of Bank Council | 7 |
| Number of members of the business management (excluding Banking Board members) | 17 |
| Other employees | 1,487 |
| Average total number of bank employees | 1,511 |

24. TOTAL AMOUNTS OF ASSETS AND LIABILITIES IN FOREIGN CURRENCIES CONVERTED TO CZK

a) Assets and liabilities

| | |
|--|------------|
| Total amounts of assets in foreign currencies | 404,679.06 |
| Total amounts of liabilities in foreign currencies | 13,853.19 |

b) Distribution of assets and liabilities by currencies

| | USD | DEM | JPY | ITL | ECU | Other | Total |
|-------------|---------------|----------------|---------------|---------------|---------------|----------|----------------|
| Assets | 86,958.0 4 | 134,426. 02 | 61,823.2 9 | 56,642.5 3 | 62,176.8 6 | 2,652.32 | 404,679. 06 |
| Liabilities | 0.33 | 2,818.42 | 11,002.1 5 | | 31.64 | 0.65 | 13,853.1 9 |

c) The basic exchange rates used as at 31 December 1998 for the conversion of cash assets and liabilities to CZK were as follows:

| | | |
|--------------------|------|--------|
| German marks (DEM) | 1: | 17.860 |
| US dollars (USD) | 1: | 29.855 |
| Japanese Yen (JPY) | 100: | 25.911 |

25. BANKING SECTOR CONSOLIDATION

As a part of its role in supporting and maintaining the stability of the banking sector and monitoring the security of deposits in the Czech Republic, the Bank has assumed certain assets and liabilities and provided loans and guarantees to various commercial banks. In order to cover the risks of loss on such assets, the Czech Government has issued a guarantee of CZK 22,500.00, of which CZK 17,958.35 was allocated to receivables and issued guarantees existing as at 31 December 1998.

The guarantee has been provided for the period of 10 years and will be due in 90 days after the expiration of the guarantee if not otherwise agreed. The Bank has decided to cover in full the estimated net risks of the loss relating to the consolidation programme and it has accounted for all existing and estimated future liabilities up to the amounts which are currently possible to determine.

The related provisions (legal reserves and provisions) and allocation of the guarantee issued by the Ministry of Finance are described in note no. 10 and 22.

26. ČESKÁ FINANČNÍ

CF was acquired by the Bank in 1997 as a special purpose vehicle to administer the Banking industry stabilisation and consolidation programmes which focused on small and medium sized banks. The stabilisation program was approved by the Government of the Czech republic in 1996.

The stabilisation programme involved sale of certain doubtful assets of banks taking part in this programme to CF. The banks involved are obliged to buy the above mentioned assets back in seven year's time from the date of the transfer of assets to CF. The stabilisation programme is financed by Konsolidacni banka, s. p. u. and the National Property Fund has issued a guarantee in favour of CF covering any potential losses borne by CF as a result of repayment delinquency of any of the banks involved.

The consolidation programme involved transfers of certain doubtful assets of banks taking part in this programme to CF. In exchange CF paid an irrecoverable cash advance to the Bank and other banks taking part in the above described transaction. The aim of this programme was to increase the stability of Czech banking sector. The consolidation programme is financed by the Bank. In this respect the Bank provided CF with a loan of CZK 18,567 (1997: CZK 9,638). During 1998 the Bank increased the share capital of CF by CZK 13,333. The net book amount of the consolidation programme assets net of provisions created administered by CF was CZK 32,677 million as at 31 December 1998 (1997: CZK 10,731).

On 3 February 1998 CF and the Bank entered into a guarantee agreement whereby the Bank agreed to cover all losses borne by CF in respect of the consolidation programme as well as all other costs of operation of CF. Pursuant to this agreement the Bank has created a provision of CZK 28,030 as at 31 December 1998 (1997: CZK 4,709). When arriving at this provision the Banking Board of CNB took into consideration the expected recoverability of assets at risk covered by the guarantee as well as the expected level of operational costs of CF. The calculation of the provision as at 31 December 1998 is as follows:

| Assets | Nominal value | Expected recovery | Provision |
|---|----------------------|--------------------------|------------------|
| Receivables in consolidation programme | 29,731 | 8,318 | 21,413 |
| Securities in consolidation programme | 2,946 | 363 | 2,583 |
| Sub-total | 32,677 | 8,681 | 23,996 |
| Operating expenses – year 1997 and 1998 | - | - | 4,033 |
| Totals | | | 28,030 |

In accordance with Section 1 of Measure of the Ministry of Finance no. 282/9090/1994 the Bank does not prepare consolidated financial statements.