

CZECH NATIONAL BANK

**FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

YEAR ENDED 31 DECEMBER 1995

**CZECH NATIONAL BANK
FINANCIAL STATEMENTS 1995
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**AUDITORS' REPORT TO THE BANK BOARD OF THE
CZECH NATIONAL BANK**

We have audited the accompanying balance sheet of the Czech National Bank ("CNB") as of 31 December 1995, and the related income statement and cash flow statement for the year then ended. These financial statements are the responsibility of the Bank Board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Czech National Bank as of 31 December 1995, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion, we draw attention to Note 5 to the financial statements. Placements with banks at 31 December 1995 includes amounts totaling Kč 26,172 million due from the National Bank of Slovakia which arose upon the division of assets and liabilities of the former State Bank of Czechoslovakia and upon the subsequent dissolution of the federal currency. The ultimate collectibility of these amounts is dependent upon the outcome of negotiations between the parties and, at this time, cannot be determined with reasonable certainty.

Deloitte & Touche
20 June 1996

**CZECH NATIONAL BANK
INCOME STATEMENT
AS OF 31 DECEMBER 1995**

	Notes	1995 Kč million	1994 Kč million
Interest income	2	30,670	22,617
Interest expense	3	<u>22,517</u>	<u>13,725</u>
NET INTEREST INCOME		8,153	8,892
NON-INTEREST REVENUE			
Gains (losses) from securities transactions-net		1,175	(1,670)
Foreign exchange gains-net		1,001	1,545
Income from fees and commissions-net		398	79
Dividends from equity investments		167	27
Sale of commemorative coins		9	2
Other operating income		<u>234</u>	<u>182</u>
TOTAL NON-INTEREST REVENUE		<u>2,984</u>	<u>165</u>
NON-INTEREST EXPENSE			
Cost of issuing bank notes and coins		317	502
Salaries and benefits		473	387
Depreciation		360	260
Other operating expenses		<u>640</u>	<u>482</u>
TOTAL NON-INTEREST EXPENSE		1,790	1,631
PROVISIONS	4	<u>8,345</u>	<u>5,988</u>
PROFIT FOR THE YEAR		<u><u>1,002</u></u>	<u><u>1,438</u></u>

See Notes to Financial Statements.

**CZECH NATIONAL BANK
BALANCE SHEET
AT 31 DECEMBER 1995**

	Notes	1995 Kč million	1994 Kč million
ASSETS			
Cash and current accounts due from banks		4,134	2,110
Placements with banks-net of provision for loan losses	5	244,848	155,684
Gold and other precious metals	6	3,775	3,700
Debt securities	7	212,543	118,735
Commercial loans and advances-net of provision for loan losses	8	568	4,676
Due from State	9	12,532	32,356
Membership quota at the IMF	15	23,875	24,674
Interest receivable and other assets	10	7,933	2,964
Equity investments	11	1,418	1,412
Fixed assets-net	12	3,524	2,900
		515,150	349,211
LIABILITIES			
Due to banks	13	166,398	75,619
Current and deposit accounts		72,329	25,678
Bills issued and other short term borrowings	14	47,350	41,815
Payable to the IMF	15	23,870	24,674
Due to State	9	36,349	47,068
Bonds issued	16	19,776	21,150
Long-term debt	17	2,491	1,696
Currency in circulation		120,441	96,325
Interest payable and other liabilities		10,114	6,215
General reserves	4	8,378	2,300
		507,496	342,540
CAPITAL AND RESERVES			
Capital		1,400	1,400
Reserves	18	6,254	5,271
		7,654	6,671
		515,150	349,211

The financial statements, which include the accounting policies and notes, were approved by the Bank Board on 20 June 1995 and signed on its behalf by:

P. Kysilka
Vice Governor



J. Hampl
Executive Director



See Notes to Financial Statements.

**CZECH NATIONAL BANK
CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 1995**

	1995 Kč million	1994 Kč million
OPERATING ACTIVITIES		
Profit for the year	1,002	1,438
Adjustments to reconcile profit for the year to net cash provided by operating activities:		
Provisions	8,345	5,988
Depreciation and amortisation of fixed assets	360	260
Foreign currency translation adjustments	(1,468)	(3,999)
Change in amounts due from/ to State	9,105	28,685
Decrease (increase) in IMF membership quota	799	(890)
Increase in interest receivable and other assets	(4,970)	(58)
Increase in currency in circulation	24,116	27,790
Increase in interest payable and other liabilities	3,899	3,002
Net cash provided by operating activities	<u>41,188</u>	<u>62,216</u>
INVESTING ACTIVITIES		
Net increase in debt securities	(93,808)	(22,995)
(Increase) decrease in placements with banks	(90,771)	19,590
Decrease (increase) in commercial loans and advances	3,468	(2,804)
Increase in equity investments	(24)	(10)
Purchases/ dispositions of fixed assets-net	(985)	(1,281)
Net cash used in investing activities	<u>(182,120)</u>	<u>(7,500)</u>
FINANCING ACTIVITIES		
Long-term debt	795	-
Increase in current and deposit accounts	46,651	13,561
Increase in bills issued and other short-term borrowings	5,535	11,613
Increase (decrease) in due to banks	90,779	(19,214)
Decrease in payable to IMF	(804)	(62,897)
Net cash provided by (used in) financing activities	<u>142,956</u>	<u>(56,937)</u>
Net increase (decrease) in cash and current accounts due from banks	2,024	(2,221)
Cash and current accounts due from banks at beginning of year	2,110	4,331
Cash and current accounts due from banks at end of year	<u>4,134</u>	<u>2,110</u>
Interest paid during the year	<u>22,611</u>	<u>14,278</u>
Interest received during the year	<u>30,091</u>	<u>22,608</u>

See Notes to Financial Statements.

**CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995**

1. ACCOUNTING POLICIES AND GENERAL INFORMATION

The Czech National Bank ("CNB") is the central bank of the Czech Republic ("the State"). CNB was established on 1 January 1993 following the dissolution of the Czech and Slovak Federal Republic as the successor, in the Czech Republic, to the State Bank of Czechoslovakia, the central bank of the former federal republic.

Established as an independent institution under Act No. 6/1993, "The Czech National Bank Act", the principal functions of CNB are to ensure the stability of the Czech currency and to supervise the banking sector. CNB is responsible for determining monetary policy, issuing bank notes and coins, controlling the money supply and supervising and examining the banking sector. CNB provides banking services to the State, including the maintenance of the accounts of the state budget, state funds and state financial assets and liabilities. CNB also extends credit to domestic commercial banks by re-discounting bills of exchange and, on a limited basis, to selected government-owned enterprises.

CNB operates from its headquarters in Prague and seven branches located throughout the Czech Republic.

The significant accounting policies adopted by CNB are set out below.

BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis of accounting, in accordance with International Accounting Standards. The financial statements are reported in Czech Crowns (Kč) and all amounts are stated in millions.

Certain prior year amounts have been reclassified to conform to the current year presentation. Comparative balances are presented for information purposes.

INTEREST, FEES AND COMMISSIONS

Interest income and income from fees and commissions are recorded in the periods in which they are earned. Interest earned on non-performing assets is recorded concurrently with a specific provision. Interest earned on assets denominated in foreign currencies is translated at the official rates of exchange ruling when earned.

FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into Kč at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities, and commitments for the purchase and sale of foreign currencies, are translated at the appropriate spot or forward rates of exchange ruling on the balance sheet date. All resulting gains and losses are recorded in the income statement. CNB does not trade in foreign currencies in a speculative capacity.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

1. ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Major foreign exchange rates used to translate monetary assets and liabilities to Kč at 31 December 1995 were:

German marks	(DEM)	1: 18.537
U.S. dollars	(USD)	1: 26.602
Japanese yen	(JPY)	100: 25.928

The Bank's net currency position at 31 December was:

	1995	1994
	Kč million	Kč million
Foreign currency assets	468,141	232,782
Foreign currency liabilities	<u>125,632</u>	<u>52,994</u>
	<u><u>342,509</u></u>	<u><u>179,788</u></u>

PROVISIONS FOR LOAN LOSSES

Placements with banks and commercial loans and advances are stated net of specific and general provisions for loan losses. Specific provisions are made for certain loans based on a detailed assessment of the borrower's ability to repay the loan or advance and the value of the pledged collateral. In addition, general provisions are made to cover inherent losses which are present but which have not yet been specifically identified.

Provisions are made, as necessary, for potential losses arising from commitments, guaranties and contingencies. Such provisions are recorded in other liabilities.

Changes to provisions for loan losses and commitments and guaranties are recorded in the income statement.

GOLD AND OTHER PRECIOUS METALS

Gold and other precious metals are stated at historical cost, as management considers these assets to be long-term investments. Gold used in swap transactions is included in other assets.

DEBT SECURITIES

Debt securities are classified by management as either current investments or long-term investments, based on management's intended holding period. Current investments are intended to be held less than one year and are readily convertible into cash, whereas long-term investments are intended to be held for more than one year.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

1. ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

Management asserts that all debt security holdings are current investments, and are therefore recorded at the lower of cost or market value, in the aggregate. Provision is recorded for any reduction in aggregate market value below cost. Long-term investments, should there be any, will be recorded at cost.

Treasury bills and similar debt securities are recorded at nominal value with the related purchase price discount recorded in other liabilities. This discount is amortised to interest expense on a straight line basis over the life of the bill.

Bonds are recorded at cost.

Upon maturity or sale of debt securities, the difference between the net proceeds and the security's weighted average cost, including any purchase discount or premium, is recorded in gain or loss from securities transactions.

Securities sold under repurchase agreements, except bills issued by CNB and repurchased, which are shown net to bills issued, continue to be recorded in debt securities and accounted for based on the nature of the security. The related payment obligation under the security repurchase agreement is recorded in liabilities on the balance sheet. Amounts loaned under security resell agreements are recorded in placements with banks. Interest arising from security repurchase and security resell agreements is accrued as earned or incurred.

MEMBERSHIP QUOTA AT THE INTERNATIONAL MONETARY FUND

The membership quota at the International Monetary Fund ("IMF") is denominated in Special Drawing Rights and is translated into Kč at the most recent rate advised by the IMF. The prevailing rates for 1995 and 1994 were Kč 40.49 and Kč 41.85 to 1 SDR, respectively.

EQUITY INVESTMENTS

Equity investments are held as long-term investments and are stated at historical cost. Provision is made for any decline in value that is considered by management to be other than temporary.

FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation and amortisation. Provision for depreciation and amortisation is computed using the straight line method over the expected remaining useful lives of the assets, which are estimated to be 50 years for buildings, four to eight years for furniture and equipment and four years for software. Land is not depreciated.

Assets under construction are stated at cost. Depreciation commences when the asset is placed into service.

**CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995**

1. ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

BILLS ISSUED AND OTHER SHORT-TERM BORROWINGS

Bills issued by CNB are recorded at their nominal value upon issuance. Any related discount or premium is recorded net in other assets, and charged to interest expense over the life of the bills issued. The balance of bills issued is reduced by the cost of bills repurchased.

FINANCIAL INSTRUMENTS

Foreign currency and interest rate swap agreements are entered into solely in connection with the management of CNB's foreign currency and interest rate risks arising from borrowings denominated in foreign currencies. Income or expense from interest rate and foreign currency swap agreements is recorded in interest expense over the lives of the agreements.

INCOME TAXES

CNB is exempt from the payment of income tax under the provisions of section 17 § 2 of CNR Act No. 586/92 Coll., as amended.

CAPITAL

CNB's capital is comprised of a statutory fund of Kč 1,400 million.

GENERAL RESERVE

CNB maintains a general reserve for monetary policy of up to 1% of total assets. This general reserve has been approved by the Bank Board to be used for expenses incurred related to monetary policy, including expenses related to currency fluctuations.

2. INTEREST INCOME

	1995	1994
	Kč million	Kč million
Placements with banks	24,718	15,245
Due from State	2,573	4,820
Debt securities and gold deposits	3,213	2,282
Commercial loans and advances	166	270
	<hr/>	<hr/>
	30,670	22,617
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CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

3. INTEREST EXPENSE

	1995 Kč million	1994 Kč million
Due to State	5,513	4,331
Bills issued and other short-term borrowings	10,975	6,022
Bonds issued and other long-term debt	1,605	2,227
Payable to the IMF	-	614
Due to banks	2,359	460
Current and deposit accounts	2,065	71
	<u>22,517</u>	<u>13,725</u>

4. PROVISIONS AND RESERVES

	Placements with Banks Kč million	Commercial Loans and Advances Kč million	Other Provisions Kč million	Total Kč million
Provisions				
Balance at 1 January 1995	7,261	291	506	8,058
Increase in specific provisions	2,672	184	19	2,875
Decrease in specific provisions	(468)	(394)	-	(862)
Increase in general provisions	-	254	-	254
Transfers	(597)	597	-	-
Balance at 31 December 1995	<u>8,868</u>	<u>932</u>	<u>525</u>	<u>10,325</u>

General Reserve	Kč million
Balance at 1 January 1995	2,300
Increase in specific reserves	3,566
Decrease in specific reserves	(11)
Increase in general reserves	<u>2,523</u>
Balance at 31 December 1995	<u>8,378</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

5. PLACEMENTS WITH BANKS

	1995		
	Domestic Banks Kč million	Foreign Banks Kč million	Total Kč million
Term deposits with foreign banks	-	86,787	86,787
Security resell agreements	-	69,161	69,161
Short-term rediscounted bills of exchange	6,104	-	6,104
Long-term redistribution loans	61,774	-	61,774
Other long-term loans	1,964	-	1,964
Other inter-bank advances	1,754	26,172	27,926
	<u>71,596</u>	<u>182,120</u>	<u>253,716</u>
Less: provisions (note 4)	<u>(403)</u>	<u>(8,465)</u>	<u>(8,868)</u>
	<u>71,193</u>	<u>173,655</u>	<u>244,848</u>
	1994		
	Domestic Banks Kč million	Foreign Banks Kč million	Total Kč million
Term deposits with foreign banks	-	32,319	32,319
Security resell agreements	-	29,295	29,295
Short-term rediscounted bills of exchange	8,128	-	8,128
Emergency loans	571	-	571
Long-term redistribution loans	65,020	-	65,020
Other long-term loans	1,290	-	1,290
Other inter-bank advances	150	26,172	26,322
	<u>75,159</u>	<u>87,786</u>	<u>162,945</u>
Less: provisions (note 4)	<u>(1,413)</u>	<u>(5,848)</u>	<u>(7,261)</u>
	<u>73,746</u>	<u>81,938</u>	<u>155,684</u>

Long-term redistribution loans were originally advanced in 1990 and consist of Kč 38,760 million due from Konsolidacni Banka Praha, s.p.u. ("KOBP") and Kč 23,014 million (1994: Kč 26,260 million) due from Investicni a Postovni Banka, a.s. ("IPB").

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

5. PLACEMENTS WITH BANKS (continued)

The loan to KOBP, which is guaranteed by the state, matures on 31 December 1999 and is repayable as follows:

	Kč million
1997	11,000
1998	10,500
1999	<u>17,260</u>
	<u><u>38,760</u></u>

The loans to IPB consist of a balance of Kč 18,414 million at 31 December 1995, which was provided to fund advances for the construction of cooperative housing. This loan is repayable in annual instalments based on payments received from clients of IPB and has no specified maturity. The remaining balance of long-term redistribution loans provided by CNB to IPB is Kč 4,600 million which is repayable in semi-annual instalments of Kč 1,150 million and matures on 15 December 1997.

The interest rate charged on these loans is based upon the CNB discount rate and ranged from 8.0 to 9.5 percent and between 7.0 and 8.5 percent for the years ended 31 December 1995 and 31 December 1994, respectively.

Other inter-bank advances-foreign total Kč 26,172 million due from the National Bank of Slovakia. This total comprises:

Kč 24,572 million which arose from the division of the assets and liabilities of the former State Bank of Czechoslovakia. The assets and liabilities were divided effective 1 January 1993 on the formation of separate successor central banks in the Czech Republic and the Slovak Republic; and

Kč 1,600 million representing the loss incurred by CNB on the dissolution of the federal currency. This amount is repayable by the National Bank of Slovakia upon division of the overall surplus arising from the federal currency.

The ultimate collectibility of these amounts is dependent on the outcome of negotiations between the respective parties.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

6. GOLD AND OTHER PRECIOUS METALS

	1995 Kč million	1994 Kč million
Gold	3,750	3,677
Other precious metals	<u>25</u>	<u>23</u>
	<u><u>3,775</u></u>	<u><u>3,700</u></u>

The market value of gold and other precious metals was Kč 23,831 and Kč 24,766 million at 31 December 1995 and 1994, respectively. Realisation of the above stated market value of gold and other precious metals may not be attainable upon an immediate sale of CNB's entire holdings.

7. DEBT SECURITIES

CNB's policy is to purchase only debt securities that are readily realisable and, therefore, qualify for classification as current investments. Management's intent is to hold all securities for no more than one year. Following is a detail of debt securities by type:

	1995 Kč million Recorded value	Market value	1994 Kč million Recorded value	Market value
Current investments				
State and other treasury bills	<u>93</u>	<u>91</u>	<u>3,359</u>	<u>3,251</u>
Foreign government treasury bills	26,056		15,064	
Bank for International Settlement bills	<u>118,903</u>		<u>64,479</u>	
	144,959	143,191	79,543	77,677
Foreign government bonds	67,491	67,885	32,397	32,397
Commercial bank bonds	<u>-</u>	<u>-</u>	<u>3,436</u>	<u>3,436</u>
	<u><u>212,543</u></u>	<u><u>211,167</u></u>	<u><u>118,735</u></u>	<u><u>116,761</u></u>

Market values are based on quoted market prices.

CNB held Kč 90,709 million and Kč 45,233 million of bills at 31 December 1995 and 1994, respectively, previously issued by CNB. These repurchased securities are recorded as a reduction of debt securities issued. At 31 December 1995, Kč 78,173 million of these repurchased securities were used in repurchase transactions.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

7. DEBT SECURITIES (continued)

Debt securities are denominated in the following currencies:

	1995 Kč million	1994 Kč million
Czech crowns	93	3,724
German marks	132,857	70,403
US dollars	79,593	44,608
	<u>212,543</u>	<u>118,735</u>

See maturity analysis of debt securities at Note 20 to these financial statements.

8. COMMERCIAL LOANS AND ADVANCES

	1995 Kč million	1994 Kč million
Commercial loans and advances	1,500	4,967
Less: provisions (note 4)	(932)	(291)
	<u>568</u>	<u>4,676</u>

The portfolio of commercial loans and advances consists of:

	1995 Kč million	1994 Kč million
Steel, engineering and electronics	177	94
Agriculture and forestry	588	466
National Property Fund	-	3,742
Other	735	665
	<u>1,500</u>	<u>4,967</u>

9. RELATIONSHIP WITH STATE

Due from State consists of loans related to the acceptance of government loans resulting from exchange rate differences and the transfer of State loans as follows:

	1995 Kč million	1994 Kč million
Loan for transfer of State loans	-	16,761
Loan for exchange rate differences	12,532	15,595
	<u>12,532</u>	<u>32,356</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

9. RELATIONSHIP WITH STATE (continued)

The repayment of the loan for exchange rate differences is set out in agreements between CNB and the State. No periodic payments are required and full repayment is due in 2001, however management expects to receive repayment during 1996. Interest is charged at a rate approved by the Bank Board which varies according to CNB's discount rate.

Due to State consists of:

	1995	1994
	Kč million	Kč million
State assets	29,118	36,165
State budget surplus	<u>7,231</u>	<u>10,903</u>
	<u><u>36,349</u></u>	<u><u>47,068</u></u>

State budget surplus funds are maintained with CNB, on which the State earns a preferential rate of interest.

CNB contributes any unallocated profit to the State budget; no such amount was contributed in 1995 or 1994. CNB participates with the Ministry of Finance in the stabilisation of the banking system by providing funding to certain banks.

10. INTEREST RECEIVABLE AND OTHER ASSETS

	1995	1994
	Kč million	Kč million
Interest receivable	1,932	1,353
Other receivables	2,263	622
Deferred interest on CNB bills issued	4,244	1,495
Less: provisions (note 4)	<u>(506)</u>	<u>(506)</u>
	<u><u>7,933</u></u>	<u><u>2,964</u></u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

11. EQUITY INVESTMENTS

	1995	1994
	Kč million	Kč million
Ceskoslovenska Obchodni Banka	1,353	1,353
Bank for International Settlements	49	49
Other	16	10
	<u>1,418</u>	<u>1,412</u>

The investment in Ceskoslovenska Obchodni Banka, a commercial bank incorporated in the Czech Republic, consists of 3,532 shares of Kč 100,000 each and 200 shares of Kč 5 million each, neither of which has quoted market prices. This investment represents 26.5% of the issued shares.

The investment in the Bank for International Settlements, an international financial institution incorporated in Switzerland, consists of 5,330 shares of 2,500 gold francs each, representing 1.1% of the issued shares. Based on the market price of gold francs, the nominal value of the shares was Kč 1,406 million and 1,468 million at 31 December 1995 and 1994, respectively.

Other equity investments includes primarily an investment in Institut Bankovniho Vzdelavani, a company incorporated in the Czech Republic which provides bank training. The investment comprises 131 shares of Kč 100,000 each which have no quoted market price. This investment represents 29.9% of the issued shares.

The investments in the Ceskoslovenská Obchodní Banka and in Institut Bankovniho Vzdelavani are carried at cost as CNB does not seek to influence these associate enterprises other than in its role as a central bank, as applicable.

12. FIXED ASSETS

A summary of fixed assets follows:

	1995	1994
	Kč million	Kč million
Land and buildings	1,927	1,087
Furniture and equipment	1,326	981
Software	172	142
Assets under construction	969	1,257
	<u>4,394</u>	<u>3,467</u>
Less accumulated depreciation	<u>(870)</u>	<u>(567)</u>
Fixed assets-net	<u>3,524</u>	<u>2,900</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

13. DUE TO BANKS

	1995 Kč million	1994 Kč million
Due to domestic banks:		
Obligatory minimum reserves	75,179	51,285
Demand deposits	15,957	17,645
Security repurchase agreements	74,640	6,063
Term deposits	44	44
Due to foreign banks:		
Term deposits from non-OECD banks	578	582
	<u>166,398</u>	<u>75,619</u>

Payment obligations under repurchase agreements arise from the sale of foreign and state treasury bills, bonds and gold under agreements to repurchase on a demand and fixed maturity basis. Interest is not paid on obligatory minimum reserves.

14. BILLS ISSUED AND OTHER SHORT-TERM BORROWINGS

	1995 Kč million	1994 Kč million
Czech National Bank bills	46,258	39,767
Other short-term borrowings	1,092	2,048
	<u>47,350</u>	<u>41,815</u>

Czech National Bank bills are issued with original maturities up to six months and are stated net of bills repurchased of Kč 90,709 million and Kč 45,233 million in 1995 and 1994, respectively.

15. RELATIONSHIP WITH THE IMF

	1995 Kč million	1994 Kč million
Membership quota with the IMF	<u>23,875</u>	<u>24,674</u>
Payable to the IMF	23,813	24,611
IMF current account	<u>57</u>	<u>63</u>
Total payable to the IMF	<u>23,870</u>	<u>24,674</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1995

15. RELATIONSHIP WITH THE IMF (continued)

CNB has a membership in the IMF, denominated in special drawing rights, which was funded through the issuance of a bill of exchange, payable upon demand. As a condition of membership, a cash deposit is also maintained at the IMF in the amount of Kč 23,875 million and Kč 24,674 million at 31 December 1995 and 1994, respectively, which must be maintained at no less than 0.25% of the membership quota equivalent.

16. BONDS ISSUED

The following bonds, denominated in foreign currencies, were outstanding at 31 December 1995 and 1994:

<u>Issue Date</u>	<u>Currency</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>1995 Kč million</u>	<u>1994 Kč million</u>
April 1993	USD 375 million	7%	April 1996	9,975	10,518
November 1991	JPY 2.8 billion	8.5%	November 1997	726	788
August 1993	JPY 35 billion	6.6%	August 2000	9,075	9,844
				19,776	21,150

As part of the bond indentures, CNB has agreed not to pledge assets as collateral for any reason.

CNB retired the bonds denominated in USD upon the redemption date in April 1996.

17. LONG-TERM DEBT

Export-Import Bank of Japan

Long-term debt represents advances under a loan facility between the Czech and Slovak Federal Republic and the Export-Import Bank of Japan ("the EXIMBANK") entered into on 9 December 1991. This loan facility is advanced under a USD 450 million loan agreement with the World Bank, available in various currencies, for the purpose of funding export activity by commercial banks in the Czech Republic. The loan facility agreement designates CNB as the administrator of this facility.

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17. LONG-TERM DEBT (continued)

This loan facility provides for advances under three tranches. Their amounts and balances at 31 December 1995 and 1994 were as follows: -

Tranche Amount (JPY)	Advance Date	Advance Amount (JPY)	Balance due 31.12.95 Kč million	Interest Rate	Balance due 31.12.94 Kč million
15 billion	9 March 1993	5.226 billion	1,355	4.7%	1,470
7.5 billion	1 February 1995	1.742 billion	452	4.7%	
7.5 billion	17 July 1995	1.742 billion	452	2.5%	
			2,259		1,470

The interest rate on advances under this facility is the Japanese long-term prime lending rate prevailing on the disbursement date minus 0.2%. Required semi-annual repayments of JPY 1,289 million commence 15 March 1997 and are based on the total amount advanced. Prepayments in multiples of JPY 1 million may be made upon 30 days notice with payment of a penalty of 0.5% of the amount prepaid. CNB pays a commitment fee on the unutilised portion of this loan facility of 0.5% per year.

European Investment Bank ("EIB")

The remaining balance of long-term borrowings of Kč 232 million and Kč 226 million at 31 December 1995 and 1994, respectively consists of an advance from the European Investment Bank denominated in ECU under a loan agreement allowing for advances of up to ECU 57 million. This agreement provided for funding of specific projects approved by CNB and expired February 1996. Repayment is due semi-annually commencing 15 August 1998 at a rate of 5% of the total balance advanced, with the final payment due 15 February 2008. The interest rate of this loan was 7.05% at 31 December 1995.

Loans advanced by CNB to commercial banks under the EXIMBANK and EIB loan facilities totaled Kč 1,908 million and Kč 1,264 million at 31 December 1995 and 1994, respectively.

18. RESERVES

	1995	1994
	Kč million	Kč million
At 1 January	5,271	3,754
Profit for the year	1,002	1,438
Translation adjustment	(19)	79
At 31 December	6,254	5,271

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19. COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET

	1995 Kč million	1994 Kč million
Guaranties provided	7,960	9,025
Accepted bills of exchange	47	246
Receivables under Swap agreements	9,842	12,957
Payables under Swap agreements	11,212	13,243

Guaranties provided consist of Kč 7,014 million and Kč 7,025 million on 31 December 1995 and 1994, respectively, for potential liabilities arising from the transfer of the net assets between certain commercial banks based on joint agreements with the Ministry of Finance. Remaining guaranties represent Kč 946 million and Kč 2,000 million on 31 December 1995 and 1994, respectively, with respect to guaranties provided to other banks on behalf of customers.

CNB has entered into swap transactions to hedge foreign currency exchange and interest rate risk related to bonds issued in JPY, totaling JPY 35 billion. CNB pays interest in DEM and receives a fixed amount of semi-annual interest in JPY, which is used to pay interest payments on CNB's bonds denominated in JPY. These swap transactions mature August 2000, concurrent with the maturity of CNB's bonds. At maturity of these swap transactions, CNB receives JPY 35,070 million and pays DEM 534 million. Notional amounts and the basis for interest payments and receipts are as follows:

Notional Amount	Semi-Annual Interest Payments	
	Payments	Receipts
20 billion JPY 318 million DEM	DEM LIBOR 6 mos. + 2.13%	JPY Fixed 6.6%
15 billion JPY 239 million DEM	DEM Fixed 8.6%	JPY Fixed 6.6%

CNB has also entered into various short-term swap contracts, with maturities ranging from 4 to 6 months, to hedge foreign currency exchange risk related to loans received from EXIMBANK totaling JPY 8.7 billion. These borrowed funds are then lent to certain domestic commercial banks in foreign currencies of DEM and USD. CNB hedges foreign currency exchange risk on these loans by entering into short-term swap contracts calling for the receipt of a specified amount of JPY on a specified future date and payment of a specified amount of DEM and USD. The currency swaps call for the following exchanges:

Purchase		Sell	
2,957,992,727	JPY	3,018,086,157	JPY
31,100,680	DEM	31,100,680	DEM
10,309,550	USD	10,309,550	USD

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20. MATURITY ANALYSIS

The remaining period to maturity of monetary assets and liabilities at 31 December 1995 was as follows:

	Within 1 year Kč million	1-4 years Kč million	More than 4 years Kč million	Total Kč million
Monetary assets				
Cash and current accounts due from banks	4,134			4,134
Placements with banks	181,165	43,360	20,323	244,848
Gold and other precious metals	-	-	3,775	3,775
Debt securities	212,543	-	-	212,543
Commercial loans and advances	424	126	18	568
Due from State	12,532	-	-	12,532
IMF membership quota	23,875	-	-	23,875
Interest receivable and other assets	7,933	-	-	7,933
Equity investments	-	-	1,418	1,418
	442,606	43,486	25,534	511,626
Monetary liabilities				
Due to banks	166,354	-	44	166,398
Current and deposit accounts	60,053	12,276	-	72,329
Bills issued and other short-term borrowings	47,350	-	-	47,350
Payable to the IMF	23,870	-	-	23,870
Due to State	36,349	-	-	36,349
Bonds issued	9,975	726	9,075	19,776
Long-term debt	-	-	2,491	2,491
Interest payable and other liabilities	10,114	-	-	10,114
	354,065	13,002	11,610	378,677

21. SUBSEQUENT EVENTS

CNB, under its supervisory responsibility, advanced Kč 6 billion to commercial banks after year end.