

CZECH NATIONAL BANK
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

**CZECH NATIONAL BANK
FINANCIAL STATEMENTS 1996
CONTENTS**

	PAGE
AUDIT REPORT	3
BALANCE SHEET	4
INCOME STATEMENT	5
CASH FLOW STATEMENT	6
NOTES TO THE FINANCIAL STATEMENTS	7



**AUDITORS' REPORT TO THE BANK COUNCIL OF THE
CZECH NATIONAL BANK**

We have audited the accompanying balance sheet of the Czech National Bank ("the Bank") as at 31 December 1996 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Bank's Council. 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, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessment of 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 at 31 December 1996, and the results of its operations and its cash flows for the year then ended in conformity with International Accounting Standards.

Without qualifying our opinion, we draw attention to Note 5 to the financial statements. Due from banks as at 31 December 1996 includes amounts totalling CZK 26,123 million due from the National Bank of Slovakia which arose on the division of assets and liabilities of the former State Bank of Czechoslovakia and on the subsequent dissolution of the federal currency. The ultimate collectability of these amounts is dependent on the outcome of negotiations between the parties and, at this time, cannot be determined with reasonable certainty.

Prague, June 5, 1997


Deloitte & Touche

**CZECH NATIONAL BANK
BALANCE SHEET
AT 31 DECEMBER 1996**


	Notes	1996 CZK mil.	1995 CZK mil.
ASSETS			
Cash and current accounts due from banks		7,398	4,328
Loans and placements with banks - net of provisions for loan losses	5	245,468	244,650
Gold and other precious metals	6	3,770	3,775
Debt securities	7	184,307	210,760
Commercial loans and advances - net of provisions for loan losses	8	3,852	568
Due from State	9	-	12,532
Membership quota at the IMF	15	23,675	23,875
Interest receivable and other assets	10	10,510	7,937
Equity investments	11	3,809	1,418
Fixed assets - net	12	3,962	3,524
		<u>486,751</u>	<u>513,367</u>
LIABILITIES			
Due to banks	13	142,868	166,398
Current and deposit accounts		59,585	72,329
Bills issued and other borrowings	14	59,857	47,350
Payable to IMF	15	23,675	23,870
Due to State	9	38,433	36,349
Bonds issued	16	8,906	19,776
Long-term debt	17	2,273	2,491
Currency in circulation		137,854	120,441
Interest payable and other liabilities		6,671	8,331
Provisions for estimated losses	4	7,661	8,378
		<u>487,783</u>	<u>505,713</u>
CAPITAL AND RESERVES			
Capital		1,400	1,400
Reserves(deficit)	18	(2,432)	6,254
		<u>(1,032)</u>	<u>7,654</u>
		<u>486,751</u>	<u>513,367</u>

See Footnotes to the Financial Statements

The financial statements, which include the accounting policies and notes, were approved by the Bank Board on June 5, 1997 and signed on its behalf by:



Ing. Pavel Kysilka, CSc.
Vice Governor



Ing. Jan Hampel
Executive Director

**CZECH NATIONAL BANK
INCOME STATEMENT
YEAR ENDED 31 DECEMBER 1996**

	Notes	1996 CZK mil.	1995 CZK mil.
INTEREST INCOME			
Interest income	2	34,091	30,670
Interest expense	3	<u>(30,469)</u>	<u>(22,517)</u>
NET INTEREST INCOME		<u>3,622</u>	<u>8,153</u>
NON-INTEREST REVENUE			
Gains (losses) from securities transactions - net		(533)	1,175
Foreign exchange gains(losses) - net		(8,336)	1,001
Income from fees and commissions - net		476	398
Dividends from equity investments		178	167
Sale of commemorative coins		24	9
Other operating income		<u>56</u>	<u>234</u>
TOTAL NON-INTEREST REVENUE		<u>(8,135)</u>	<u>2,984</u>
NON-INTEREST EXPENSE			
Cost of issuing bank notes and coins		(285)	(317)
Salaries and benefits		(570)	(473)
Depreciation		(443)	(360)
Other operating expenses		<u>(1,160)</u>	<u>(640)</u>
TOTAL NON-INTEREST EXPENSE		<u>(2,458)</u>	<u>(1,790)</u>
PROVISIONS FOR ESTIMATED LOSSES	4	<u>(1,683)</u>	<u>(8,345)</u>
PROFIT (LOSS) FOR THE ACCOUNTING PERIOD		<u><u>(8,654)</u></u>	<u><u>1,002</u></u>

See Footnotes to the Financial Statements

**CZECH NATIONAL BANK
CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 1996**

	1996 CZK mil.	1995 CZK mil.
OPERATING ACTIVITIES		
Profit (loss) for the year	(8,654)	1,002
Adjustments to reconcile profit for the year to net cash provided by operating activities:		
Provisions	1,683	8,345
Depreciation of fixed assets	443	360
Foreign currency translation adjustments	(915)	(1,468)
Change in amounts due from/ to State	14,616	9,105
Decrease (increase) in IMF accounts - net	5	(5)
Increase in interest receivable and other assets	(2,073)	(4,973)
Increase in currency in circulation	17,413	24,116
(Decrease) increase in interest payable and other liabilities	(1,660)	3,899
Net cash provided by operating activities	20,858	40,381
INVESTING ACTIVITIES		
Decrease (increase) in debt securities	26,446	(93,808)
Increase in placements with banks	(3,412)	(90,574)
(Increase) decrease in commercial loans	(3,590)	3,468
Increase in equity investments	(2,391)	(24)
Purchase of fixed assets	(881)	(985)
Net cash provided by (used in) investing activities	16,172	(181,923)
FINANCING ACTIVITIES		
(Decrease) increase long-term debt	(10,193)	795
(Decrease) increase in current and deposit accounts	(12,744)	46,651
Increase in bills issued and other borrowings	12,507	5,535
(Decrease) increase in due to banks	(23,530)	90,779
Net cash provided by (used in) financing activities	(33,960)	143,760
Net increase in cash and current accounts due from banks	3,070	2,218
Cash and current accounts due from banks at beginning of year	4,328	2,110
Cash and current accounts due from banks at end of year	7,398	4,328
Interest paid during the year	30,645	22,611
Interest received during the year	33,002	30,091

See Footnotes to the Financial Statements

**CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996**

1. ACCOUNTING POLICIES AND GENERAL INFORMATION

The Czech National Bank ("ČNB") is the central bank of the Czech Republic. ČNB was established on January 1, 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 the Act No. 6/1993 Coll., "The Czech National Bank Act", the principal functions of ČNB are to ensure the stability of the Czech currency and to supervise the banking sector. ČNB is responsible for determining monetary policy, issuing bank notes and coins, controlling the money supply and supervising and examining the banking sector. ČNB provides banking services to the State, including the maintenance of the accounts of the state budget, state funds and state financial assets and liabilities. ČNB also extends credit to domestic commercial banks by re-discounting bills of exchange and, on a limited basis, to selected enterprises.

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

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

BASIS OF PREPARATION

The financial statements have been prepared on the accrual basis of accounting, in accordance with International Accounting Standards. The financial statements are reported in Czech Crowns ("CZK") 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, income from fees and commissions, and related expenses are recorded in the periods in which they are earned or incurred. Interest earned on doubtful assets is reported in revenue and related provisions are recorded in expenses. 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 CZK at the exchange rates ruling on the dates of the transactions. 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, realised or unrealised, are recorded in the income statement. ČNB does not trade in foreign currencies in a speculative capacity.

Major foreign exchange rates used to translate monetary assets and liabilities to CZK at December 31, 1996 were:

German Marks	("DEM")	1 :	17.574
U.S. Dollars	("USD")	1 :	27.332
Japanese Yens	("JPY")	100 :	23.560

1. ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

PROVISIONS FOR ESTIMATED LOSSES

Placements with banks and commercial loans and advances are stated net of specific and general provisions for estimated losses on receivables. Specific provisions are made for certain loans and advances 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 accrued and charged to expense 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, guarantees and contingencies. Such provisions are recorded in liabilities and charged to expense. Changes to provisions for commitments and guarantees 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 for less than one year and are readily convertible into cash, whereas long-term investments are intended to be held for more than one year.

Management asserts that all debt security holdings are current investments, and are therefore recorded at the lower of amortised cost or market value, in the aggregate. Provision is created for any reduction in aggregate market value below cost.

Treasury bills and similar debt securities are recorded at nominal value less the related purchase price discount. This discount is amortised to interest income 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 is recorded in gain or loss from securities transactions in the income statement.

Securities sold under repurchase agreements ("REPO" transactions) except bills issued by ČNB, continue to be recorded in securities and accounted for based on the nature of the security. The related payment obligations under the security repurchase agreements are recorded in liabilities. Amounts loaned under security resell agreements (reverse REPO transactions) are recorded in receivables to 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 CZK at the most recent rate advised by the IMF. The prevailing rates for 1996 and 1995 were CZK 39.24 and CZK 40.49 for 1 SDR, respectively.

1. ACCOUNTING POLICIES AND GENERAL INFORMATION (continued)

EQUITY INVESTMENTS

Equity investments which are held as long-term investments are stated at historical cost. Provision is made for any decline in value that is considered to be permanent.

Equity investments acquired as part of the consolidation of the banking sector are held as short-term investments and are carried at historical cost. Provisions for decline in market values are protected by guarantee by the government of the Czech Republic or the provision is recorded in the financial statements.

FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation, except that land is not depreciated. Fixed assets are depreciated using the straight line method over the expected remaining useful lives of the assets, which are estimated to be 45 years for buildings, 4 - 15 years for other material assets and 4 years for software.

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

BILLS ISSUED AND OTHER BORROWINGS

Bills issued by ČNB are recorded at their nominal value. 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 ČNB'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 as interest income or expense over the lives of the agreements. All significant hedging instruments are structured to ultimately correlate with the underlying asset or liability at maturity. This includes such variables as notional (principal) amount, interest timing and rate, currency, and term to maturity. As such, any fluctuations between market values of the instrument and the underlying hedged asset are strictly temporary differences and are therefore not recorded as unrealised gains or losses.

INCOME TAXES

ČNB is exempt from the payment of income tax under the provisions of article 17 section 2 of the ČNR Act No. 586/92 Coll., as amended.

CAPITAL

ČNB's capital is comprised of a statutory fund of CZK 1,400 million.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

2. INTEREST INCOME

	1996 CZK mil.	1995 CZK mil.
Placements with banks	30,187	24,718
Due from State	99	2,573
Debt securities and gold deposits	3,395	3,213
Commercial loans and advances	410	166
	34,091	30,670

3. INTEREST EXPENSE

	1996 CZK mil.	1995 CZK mil.
Due to State	4,430	5,513
Bills issued and other borrowings	16,445	10,975
Bonds issued and other long-term debt	1,014	1,605
Due to banks	5,671	2,359
Current and deposit accounts	2,909	2,065
	30,469	22,517

4. PROVISIONS FOR LOAN LOSSES AND OTHER ESTIMATED LOSSES

Provisions	Placements with banks CZK mil. (Note 5)	Commercial loans and advances CZK mil. (Note 8)	Other provisions CZK mil. (Note 10)	Total CZK mil.
Balance at 1 January 1996	8,868	932	525	10,325
Increase in specific provisions	-	394	-	394
Decrease in specific provisions	-	(128)	(500)	(628)
Increase in general provisions	2,634	-	-	2,634
Transfers	(40)	40	-	0
	11,462	1,238	25	12,725

Provision for estimated losses

	CZK mil.
Balance at 1 January 1996	8,378
Increases	1,825
Decreases	(2,542)
	7,661

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

5. LOANS AND PLACEMENTS WITH BANKS

	1996		Total CZK mil.
	Local banks CZK mil.	Foreign banks CZK mil.	
Term deposits with foreign banks	-	81,662	81,662
Security resell agreements	-	73,801	73,801
Short-term rediscounted bills of exchange	5,439	-	5,439
Other short-term loans	400	-	400
Long-term redistribution loans	56,488	-	56,488
Other long-term loans	1,995	-	1,995
Other interbank advances	11,022	26,123	37,145
	<u>75,344</u>	<u>181,586</u>	<u>256,930</u>
Less: provisions (note 4)	(362)	(11,100)	(11,462)
Balance at 31 December 1996	<u>74,982</u>	<u>170,486</u>	<u>245,468</u>

	1995		Total CZK mil.
	Local banks CZK mil.	Foreign banks CZK mil.	
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 interbank advances	1,556	26,172	27,728
	<u>71,398</u>	<u>182,120</u>	<u>253,518</u>
Less: provisions	(403)	(8,465)	(8,868)
Balance at 31 December 1995	<u>70,995</u>	<u>173,655</u>	<u>244,650</u>

Term deposits and security resell agreements with foreign banks are maintained at banks in various countries according to ČNB's internal counterparty and country limits for risk diversification. These limits are reviewed and approved by management.

Long-term redistribution loans were originally provided in 1990 and consist of CZK 36,761 million due from Konsolidační banka, s.p.ú. (KOBP) and CZK 19,727 million due from Investiční a Poštovní banka, a.s. (IPB).

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

	CZK mil.
1997	11,000
1998	10,500
1999	15,261
	<u>36,761</u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

5. LOANS AND PLACEMENTS WITH BANKS (continued)

The loans to IPB consist of a balance of CZK 17,427 million at 31 December 1996, which was provided to fund the advances for the construction of co-operative 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 the ČNB to IPB is CZK 2,300 million, which is repayable in two semi-annual instalments of CZK 1,150 million on 15 June and 15 December 1997.

The interest rate charged on these loans is based upon the ČNB discount rate.

Other interbank advances - foreign total CZK 26,123 million due from the National Bank of Slovakia. The ultimate collectibility of these amounts is dependent on the outcome of negotiations between the respective parties. The total comprises:

CZK 24,523 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 and Slovak Republics.

CZK 1,600 million representing the loss incurred by the ČNB 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.

6. GOLD AND OTHER PRECIOUS METALS

	1996 CZK mil.	1995 CZK mil.
Gold	3,742	3,750
Other precious metals	28	25
	<u>3,770</u>	<u>3,775</u>

The market value of gold and other precious metals was 20,455 million as at 31 December 1996 and CZK 20,613 million as at 31 December 1995. Realisation of the above stated market value of gold and other precious metals may not be attainable upon an immediate sale of the ČNB's entire holdings.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

7. DEBT SECURITIES

The ČNB'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:

	1996		1995	
	Book Value CZK mil.	Market Value CZK mil.	Book Value CZK mil.	Market Value CZK mil.
Short-term investments				
State and other treasury bills	-	-	93	91
Foreign government treasury bills	8,261		25,524	
Bank for International Settlement bills	116,950		117,652	
	<u>125,211</u>	<u>125,237</u>	<u>143,176</u>	<u>143,191</u>
Foreign government bonds	58,802	58,968	67,491	67,885
Bonds	294	237	-	-
	<u>59,096</u>	<u>59,205</u>	<u>67,491</u>	<u>67,885</u>
	<u><u>184,307</u></u>	<u><u>184,442</u></u>	<u><u>210,760</u></u>	<u><u>211,167</u></u>

Market values are based on quoted market prices.

The ČNB further holds CZK 60,000 million of its own issued bills. These purchases are recorded as a reduction of ČNB's outstanding liability for bills issued (Note 14).

Debt securities are denominated in the following currencies:

	1996 CZK mil.	1995 CZK mil.
Czech Crowns	294	93
German Marks	120,818	131,337
American Dollars	62,608	79,330
Dutch Guilders	468	-
Japanese Yen	119	-
	<u><u>184,307</u></u>	<u><u>210,760</u></u>

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

8. COMMERCIAL LOANS AND ADVANCES

	1996 CZK mil.	1995 CZK mil.
Commercial loans	5,090	1,500
Less: provisions (note 4)	(1,238)	(932)
	3,852	568

The portfolio of commercial loans and advances consists of:

	1996 CZK mil.	1995 CZK mil.
Steel, engineering and electronics	164	177
Agriculture and forestry	642	588
Loans from various sectors acquired from commercial banks	3,560	-
Other	724	735
	5,090	1,500

9. DUE FROM AND DUE TO STATE

Due from State consists of loans related to the acceptance of government loans resulting from exchange rate differences from devaluation during 1990:

	1996 CZK mil.	1995 CZK mil.
Loans for exchange rate differences	-	12,532

The repayment of the loan for exchange rate differences was set out in agreements between the ČNB and the State. No periodic payments were required nor was there a specific maturity date. The loan was fully repaid during 1996.

Due to State consists of the following:

	1996 CZK mil.	1995 CZK mil.
State assets	38,433	29,118
State budget surplus	-	7,231
	38,433	36,349

The State budget surplus funds are maintained with the ČNB at preferential rates.

The ČNB contributes any unallocated profit to the State budget; no such amount was contributed in 1996. The ČNB participates with the Ministry of Finance in the consolidation of the banking system by providing funding to certain banks (see Note 23).

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

10. INTEREST RECEIVABLE AND OTHER ASSETS

	1996 CZK mil.	1995 CZK mil.
Interest receivable	1,614	1,932
Other receivables	5,157	2,267
Deferred interest on the ČNB bills issued	3,745	4,244
Less: provisions (note 4)	(6)	(506)
	10,510	7,937

11. EQUITY INVESTMENTS

	1996 CZK mil.	1995 CZK mil.
Československá obchodní banka	1,353	1,353
Bank for International Settlement	49	49
Other	2,407	16
	3,809	1,418

The investment in Československá obchodní banka, a commercial bank incorporated in the Czech Republic, consists of 3,532 shares of CZK 100,000 each and 200 shares of CZK 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 market value of the shares held as at 31 December 1996 and 1995 was CZK 1,256 million and CZK 1,281 million, respectively.

Other equity investments include an investment in the Institut bankovního vzdělávání, a company incorporated in the Czech Republic, which provides bank training. The investment comprises 131 shares of CZK 100,000 each, and represents 29.9% of the issued shares. The remaining investments in this category consist of various shares presented at purchase price. These shares were acquired by ČNB pursuant to the liquidation or re-structuring of various commercial banks, and have been guaranteed by the government of the Czech Republic.

At the beginning of 1997, the ČNB became a 100% owner of Česká finanční s.r.o. The mission of this company is to provide stabilisation program of small banks. Assets acquired in support of the banking sector are to be transferred to this company (see Note 23).

12. FIXED ASSETS

	1996 CZK mil.	1995 CZK mil.
Land and buildings	2,252	1,927
Furniture and equipment	1,712	1,326
Software	343	172
Assets under construction	887	969
	5,194	4,394
Less accumulated depreciation	(1,232)	(870)
Fixed assets - net book value	3,962	3,524

**CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996**

13. DUE TO BANKS

	1996 CZK mil.	1995 CZK mil.
Due to domestic banks		
Obligatory minimum reserves	113,108	75,179
Demand deposits	8,656	15,957
Security repurchase agreements	20,643	74,640
Term deposits	44	44
Due to foreign banks		
Term deposits from non-OECD banks	417	578
	142,868	166,398
	142,868	166,398

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

14. BILLS ISSUED AND OTHER BORROWINGS

	1996 CZK mil.	1995 CZK mil.
Czech National Bank bills	53,531	46,258
Other borrowings	6,326	1,092
	59,857	47,350
	59,857	47,350

Czech National Bank bills are issued with original maturities up to six months and are stated net of bills repurchased of CZK 60,000 million and CZK 90,709 million as at 31 December 1996 and 1995, respectively.

15. RELATIONSHIP WITH THE IMF

	1996 CZK mil.	1995 CZK mil.
IMF membership quota	23,675	23,875
Payable to the IMF	23,613	23,813
IMF current account	62	57
	23,675	23,870
	23,675	23,870

ČNB 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. Pursuant to this membership, a current account from the IMF is maintained at ČNB.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

16. BONDS ISSUED

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

Issue date	Currency (millions)	Interest rate	Maturity	1996 CZK mil.	1995 CZK mil.
04/1993	USD 375	0%	04/1996	-	9,975
11/1993	JPY 2,800	8.5%	11/1997	660	726
08/1993	JPY 35,000	6.6%	08/2000	8,246	9,075
				<u>8,906</u>	<u>19,776</u>

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

ČNB retired the bonds denominated in USD upon the maturity date in April 1996. Interest on the remaining bonds is paid semi-annually in February and August.

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 "EXIM" Bank) 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 ČNB as the administrator of this facility. The loan facility provides for advances under three tranches. Their amounts and balances at 31 December were as follows:

Tranche Amount (JPY)	Advance date	Advance Amount (JPY)	Balance at 12/31/96 CZK mil.	Interest Rate	Balance at 12/31/95 CZK mil.
1.5 billion	March 9, 1993	5.226 billion	1,232	4.7%	1,355
7.5 billion	February 1, 1995	1.742 billion	410	4.7%	452
7.5 billion	July 17, 1995	1.742 billion	410	2.5%	452
EIB advance (details below)			<u>221</u>		<u>232</u>
			<u>2,273</u>		<u>2,491</u>

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 on 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. ČNB pays a commitment fee on the unutilised portion of the loan facility of 0.5% p.a. The first payment due was paid according to the payment schedule.

European Investment Bank (EIB)

The remaining balance of long-term borrowings of CZK 221 million as at 31 December 1996 and CZK 232 million as at 31 December 1995 consists of an advance from the European Investment Bank ("EIB") denominated in the ECU under a loan agreement allowing for advances of up to ECU 57 million. This agreement provided for funding of specific projects approved by ČNB and expired in February 1996. Repayment is due semi-annually commencing on 15 August 1998 at a rate of 5% of the total balance advanced, with the final payment due on 15 February 2008. The interest rate of this loan was 7.05% as at 31 December 1996.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

17. LONG TERM DEBT (continued)

Loans advanced by ČNB to commercial banks under the EXIM Bank and EIB loan facilities totalled CZK 1,973 million and CZK 1,908 million as at 31 December 1996 and 1995, respectively.

18. RESERVES AND OTHER FUNDS

	1996 CZK mil.	1995 CZK mil.
As at 1 January 1996	6,254	5,271
Profit (loss) for the year	(8,654)	1,002
Translation adjustment	(32)	(19)
	(2,432)	6,254
As at 31 December 1996	(2,432)	6,254

19. COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ITEMS

	1996 CZK mil.	1995 CZK mil.
Guarantees provided	74,541	7,960
Accepted bills of exchange	16	47
Receivables under Swap agreements	9,625	9,842
Payables under Swap agreements	11,235	11,212

Guarantees provided consist of CZK 18,366 million and CZK 7,014 million at 31 December 1996 and 1995, respectively, for potential liabilities arising from the transfer of net assets between certain commercial banks based on joint agreements with the Ministry of Finance. Remaining guarantees represent CZK 56,175 million and CZK 946 million at 31 December 1996 and 1995, respectively, with respect to guarantees provided to other banks on behalf of customers.

ČNB has entered into swap transactions to hedge foreign currency exchange and interest rate risk related to bonds issued in JPY, totalling JPY 35 billion. The ČNB pays interest in DEM and receives a fixed amount of semi-annual interest in JPY which is used to pay interest on the ČNB's bonds denominated in JPY. These swap transactions mature in August 2000, concurrent with the maturity of the ČNB's bonds. At the maturity of these swap transactions, ČNB 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	Receipts
	Payments	JPY 6.6 %
JPY 20 billion		
DEM 318 million	DEM 6m LIBOR + 2.13 %	
		JPY 6.6 %
JPY 15 billion		
DEM 239 million	DEM 8.6 %	

ČNB 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 the EXIM Bank of Japan totalling JPY 8.71 billion and related to the issuance of bonds totalling JPY 2.8 billion.

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

20. LIQUIDITY RISK

The table below provides an analysis of assets and liabilities in relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "Undefined" category.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 4 years	Over 4 years	Undefined	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
ASSETS							
Cash and current accounts due from banks	7,398	-	-	-	-	-	7,398
Placements with banks - net of provisions	150,532	11,693	23,393	26,331	1,417	32,102	245,468
Gold and other precious metals	2,447	1,046	-	-	-	277	3,770
Debt securities	91	26,500	105,837	39,900	11,979	-	184,307
Commercial loans and advances - net of provisions	-	-	3,820	10	22	-	3,852
Membership quota at the IMF	-	-	-	-	-	23,675	23,675
Interest receivable and other assets	1,122	785	8,603	-	-	-	10,510
Equity investments	-	-	-	-	-	3,809	3,809
Fixed assets - net	-	-	-	-	-	3,962	3,962
Total Assets	161,590	40,024	141,653	66,241	13,418	63,825	486,751
LIABILITIES							
Due to banks	142,822	-	-	-	44	2	142,868
Current and deposit accounts	16,016	-	16,569	14,692	12,308	-	59,585
Bills issued and other borrowings	24,270	26,178	9,409	-	-	-	59,857
Payable to IMF	62	-	-	-	-	23,613	23,675
Due to State	8,934	-	5,453	24,046	-	-	38,433
Bonds issued	-	-	660	8,246	-	-	8,906
Long-term debt	-	304	607	1,196	166	-	2,273
Currency in circulation	-	-	-	-	-	137,854	137,854
Interest payable and other liabilities	883	529	2,746	1,610	-	903	6,671
Provisions for estimated losses	-	-	-	-	-	7,661	7,661
Total Liabilities	192,987	27,011	35,444	49,790	12,518	170,033	487,783
CAPITAL AND RESERVES							
Capital	-	-	-	-	-	1,400	1,400
Reserves	-	-	-	-	-	(2,432)	(2,432)
Total Liabilities, Capital & Reserves	192,987	27,011	35,444	49,790	12,518	169,001	486,751
Liquidity risk at 31.12. 1996	(31,397)	13,013	106,209	16,451	900	(105,176)	-

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

21. NET CURRENCY POSITION

Management of currency positions is largely based on economic and not accounting exposures. Treasury policy is implemented and monitored within limits approved by senior management, and is designed to support the exchange rate of the Czech currency. This rate is calculated based on a weighted average of the respective USD and DEM exchange rates, which is reflected in the table presented below. The only other significant currency position maintained comprises the receivable from the National Bank of Slovakia, denominated in ECU (see Note 5).

	CZK CZK mil.	USD CZK mil.	DM CZK mil.	JPY CZK mil.	ECU CZK mil.	Other CZK mil.	Total 31.12.96 CZK mil.
ASSETS							
Cash and current accounts due from banks	6,663	696	12	7	6	14	7,398
Placements with banks - net of provision for	61,910	48,780	106,957	1,698	26,123	-	245,468
Gold and other precious metals	3,770	-	-	-	-	-	3,770
Debt securities	294	62,608	120,818	119	-	468	184,307
Commercial loans and advances - net	3,852	-	-	-	-	-	3,852
Membership quota at the IMF	23,675	-	-	-	-	-	23,675
Interest receivable and other assets	9,077	241	952	240	-	-	10,510
Equity investments	3,759	-	-	-	-	50	3,809
Fixed assets - net	3,962	-	-	-	-	-	3,962
Total Assets	116,962	112,325	228,739	2,064	26,129	532	486,751
LIABILITIES							
Due to banks	142,866	2	-	-	-	-	142,868
Current and deposit accounts	43,413	4,283	11,835	-	53	1	59,585
Bills issued and other borrowings	53,531	1,071	5,255	-	-	-	59,857
Payable to IMF	23,675	-	-	-	-	-	23,675
Due to State	38,433	-	-	-	-	-	38,433
Bonds issued	-	-	-	8,906	-	-	8,906
Long-term debt	-	-	221	2,052	-	-	2,273
Currency in circulation	137,854	-	-	-	-	-	137,854
Interest payable and other liabilities	4,444	336	10,317	(8,897)	-	471	6,671
Reserves	7,661	-	-	-	-	-	7,661
Capital	1,400	-	-	-	-	-	1,400
Provisions for estimated losses	(2,432)	-	-	-	-	-	(2,432)
Total Liabilities	450,845	5,692	27,628	2,061	53	472	486,751
Net Assets (Liabilities)	(333,883)	106,633	201,111	3	26,076	60	0
Short term ccy swaps to receive	54	-	470	908	-	-	1,432
Short term ccy swaps to pay	-	-	(626)	-	-	(806)	(1,432)
Long term ccy swaps to receive	1,557	-	-	8,246	-	-	9,803
Long term ccy swaps to pay	-	-	(9,803)	-	-	-	(9,803)
NET POSITION	(332,272)	106,633	191,152	9,157	26,076	(746)	-

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

22. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The table below provides information on the degree to which ČNB is exposed to interest rate risk by stating either the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Debt securities are classified in the "Up to 1 month" category, as this portfolio is used for short term currency management. ČNB's assets and liabilities are actively managed within authorised limits approved by senior management.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 4 years	Over 4 years	Non- interest bearing	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
ASSETS							
Cash and current accounts due from banks	5,875	-	-	-	-	1,523	7,398
Placements with banks - net of provisions	206,672	11,692	1,822	556	1,417	23,309	245,468
Gold and other precious metals	2,447	1,046	-	-	-	277	3,770
Debt securities	184,307	-	-	-	-	-	184,307
Commercial loans and advances - net of provisions	-	-	3,820	10	22	-	3,852
Due from State	-	-	-	-	-	-	-
Membership quota at the IMF	-	-	-	-	-	23,675	23,675
Interest receivable and other assets	200	-	-	-	-	10,310	10,510
Equity investments	-	-	-	-	-	3,809	3,809
Fixed assets - net	-	-	-	-	-	3,962	3,962
Total Assets	399,501	12,738	5,642	566	1,439	66,865	486,751
LIABILITIES							
Due to banks	26,117	-	-	-	45	116,706	142,868
Current and deposit accounts	15,730	-	16,569	14,692	12,308	286	59,585
Bills issued and other borrowings	24,270	26,178	9,409	-	-	-	59,857
Payable to IMF	-	-	-	-	-	23,675	23,675
Due to State	2	8,934	5,451	24,046	-	-	38,433
Bonds issued	-	-	660	8,246	-	-	8,906
Long-term debt	-	304	608	1,196	165	-	2,273
Currency in circulation	-	-	-	-	-	137,854	137,854
Interest payable and other liabilities	-	-	-	-	-	6,671	6,671
Provisions for estimated losses	-	-	-	-	-	7,661	7,661
Total Liabilities	66,119	35,416	32,697	48,180	12,518	292,853	487,783
CAPITAL AND RESERVES							
Capital	-	-	-	-	-	1,400	1,400
Reserves	-	-	-	-	-	(2,432)	(2,432)
Net Assets (Liabilities)	333,382	(22,678)	(27,055)	(47,614)	(11,079)	(224,956)	-
Off-balance sheet instruments	-	4,261	-	(2,650)	-	(1,611)	-
Interest rate risk at 31.12.1996	333,382	(18,417)	(27,055)	(50,264)	(11,079)	(226,567)	-
Cumulative interest rate risk at 31.12. 1996	333,382	314,965	287,910	237,646	226,567	-	-

CZECH NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 1996

23. EXPOSURES TO BANKING SECTOR

Pursuant to its role in supporting and maintaining a stable financial market and monitoring the safe custody of the Czech Republic's deposit base, during 1996 ČNB has assumed certain assets and liabilities or guaranteed certain liabilities of various financial institutions. The Government of the Czech Republic has extended a guarantee in the amount of CZK 22.5 billion to offset the Bank's exposure, of which CZK 22 billion has been allocated to the current year's exposure. This guarantee is provided for ten years. After this period the government is obliged to agree with ČNB as to how uncollected amounts of these assets will be paid. Provisions for losses have been recorded to reflect Management's estimate as to the ultimate collectibility or net realisable value of the assets assumed. Additionally, Management has elected to relieve the balance of the reserve for General Banking Risks against the estimated net exposure. As at 31 December 1996 these amounts are as follow:

	Nominal Value CZK Mil.	Provision Required CZK Mil.
Loans assumed	4,153	3,901
Security portfolios assumed	2,724	2,408
Loans extended to banks	12,334	7,961
Other liabilities and losses assumed or guaranteed	<u>18,366</u>	<u>15,744</u>
 Total estimated exposure	 <u><u>37,577</u></u>	 30,014
 Less Government guarantee allocated		 (22,000)
Less reserves and provisions previously accrued		<u>(6,189)</u>
 Net estimated exposure provided for during 1996		 <u><u>1,825</u></u>

The Bank has classified all loans extended to and assumed from banks as short term. This classification reflects Managements' intent to fully dispose of these loans within one year to a newly formed subsidiary, Česká finanční (see Note 11). All other balances assumed are classified in the balance sheet based on the contractual maturity of the asset.