

# AUDITOR'S REPORT

Financial Statements  
In Compliance With IAS

**ČESKÁ NÁRODNÍ BANKA**

Year Ended 31 December 1997

May 1998



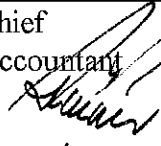

Coopers  
& Lybrand

# ČESKÁ NÁRODNÍ BANKA

## FINANCIAL STATEMENTS

### IN COMPLIANCE WITH IAS

YEAR ENDED 31 DECEMBER 1997

Date of issue:	Stamp and Singnatures of the Statutory Bodies	Chief Accountant	Executive Accountant
31.3.1998	 Ing. P. Kysilka, CSC.  Ing. J. Hampl	 V. Hubner tel. 2441 3404	 V. Vicořský tel. 2441 4424

**CZECH NATIONAL BANK  
FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 1997  
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## **AUDITORS' REPORT TO THE BANK COUNCIL OF THE CZECH NATIONAL BANK**

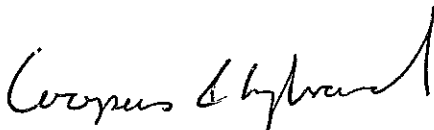
We have audited the financial statements of the Czech National Bank ("the Bank") set out on pages 4 to 26. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 present fairly, in all material aspects, the financial position of the Bank at 31 December 1997, the results of its operations and changes in its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion on financial statements as at 31 December 1997 we draw attention to Note 5 to the financial statements. 'Due from banks' as at 31 December 1997 includes amounts totalling CZK 26,122 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 cannot, at this time, be determined with reasonable certainty.

Prague, May 13, 1998



Coopers & Lybrand Praha, s.r.o.  
Chartered Accountants

ZMR72136.SAM

**INCOME STATEMENT**  
**YEAR ENDED 31 DECEMBER 1997**

	Notes	1997 CZK mil.	1996 CZK mil.
<b>INTEREST INCOME</b>			
Interest income	2	40,295	34,091
Interest expenses	3	<u>(33,451)</u>	<u>(30,469)</u>
<b>NET INTEREST INCOME</b>		<u><b>6,844</b></u>	<u><b>3,622</b></u>
 <b>NON-INTEREST REVENUE</b>			
Gains (losses) from securities transactions -net		(5,101)	(533)
Foreign exchange gains (losses) - net		44,651	(8,336)
Income from fees and commissions-net		451	476
Dividends from equity investments		37	178
Sale of commemorative coins		19	24
Other operating income		<u>54</u>	<u>56</u>
<b>TOTAL NON-INTEREST REVENUE</b>		<u><b>40,111</b></u>	<u><b>(8,135)</b></u>
 <b>NON-INTEREST EXPENSE</b>			
Cost of issuing bank notes and coins		(366)	(285)
Salaries and social expenses		(615)	(570)
Depreciation		(516)	(443)
Other operating expenses		<u>(6,207)</u>	<u>(1,160)</u>
<b>TOTAL NON-INTEREST EXPENSE</b>		<u><b>(7,704)</b></u>	<u><b>(2,458)</b></u>
 <b>PROVISION FOR ESTIMATED LOSSES</b>	 4	 <u><b>(28,506)</b></u>	 <u><b>(1,683)</b></u>
 <b>PROFIT (LOSS) FOR THE ACCOUNTING PERIOD</b>		 <u><b>10,745</b></u>	 <u><b>(8,654)</b></u>

**CZECH NATIONAL BANK  
BALANCE SHEET  
AS AT 31 DECEMBER 1997**

	Notes	1997 CZK mil.	1996 CZK mil.
<b>ASSETS</b>			
Cash and current accounts due from banks		13,625	7,398
Loans and placements with banks - net of provisions for loan losses	5	199,396	245,468
Gold and other precious metals	6	3,960	3,970
Debt securities	7	216,425	184,307
Commercial loans and advances-net of provisions for loan losses	8	18,916	3,852
Membership quota at the IMF	15	24,963	23,675
Interest receivable and other assets	10	9,321	10,310
Equity investments	11	3,895	3,809
Fixed assets	12	<u>4,141</u>	<u>3,962</u>
		<b><u>494,642</u></b>	<b><u>486,751</u></b>
<b>LIABILITIES</b>			
Due to banks	13	205,532	142,868
Current and deposit accounts		44,744	59,585
Bills issued and other borrowings	14	15,854	59,857
Payable to IMF	15	24,963	23,675
Due to State	9	26,038	38,433
Bonds issued	16	9,360	8,906
Long-term debt	17	2,188	2,273
Currency in circulation		139,146	137,854
Interest payable and other liabilities		3,784	6,671
Provisions for estimated losses	4	13,357	7,661
		<b><u>484,966</u></b>	<b><u>487,783</u></b>
<b>CAPITAL AND RESERVES</b>			
Capital		1,400	1,400
Reserves and other funds	18	<u>8,276</u>	<u>(2,432)</u>
		<u>9,676</u>	<u>(1,032)</u>
		<b><u>494,642</u></b>	<b><u>486,751</u></b>

**CZECH NATIONAL BANK  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 1997**

	1997	1996
	CZK mil.	CZK mil.
<b>OPERATING ACTIVITIES</b>		
Profit (loss) for the year	10,745	(8,654)
Adjustments to reconcile profit for the year to net cash provided by operating activities		
Provisions and use of funds	28,512	1,683
Depreciation of fixed assets	516	443
Foreign currency translation adjustments	1,124	(1,115)
Change in amounts due from/to State	(12,395)	14,616
Decrease/increase in IMF accounts-net	-	5
Increase in interest receivable and other assets	1,011	(1,873)
Increase in currency in circulation	1,292	17,413
Decrease in interest payable and other liabilities	<u>(2,887)</u>	<u>(1,660)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>27,918</u></b>	<b><u>20,858</u></b>
<b>INVESTING ACTIVITIES</b>		
Decrease (increase) in debt securities	(32,118)	26,446
Decrease (increase) in placements with banks	22,688	(3,412)
Increase in commercial loans	(14,555)	(3,590)
Increase in equity investments	(86)	(2,391)
Purchase of fixed assets	<u>(695)</u>	<u>(881)</u>
<b>Net cash provided by operating activities</b>	<b><u>(24,766)</u></b>	<b><u>16,172</u></b>
<b>FINANCING ACTIVITIES</b>		
Long-term debt	(745)	(10,193)
Decrease in current and deposit accounts	(14,841)	(12,744)
(Decrease) Increase in bills issued and other borrowings	(44,003)	12,507
Increase (decrease) in due to banks	<u>62,664</u>	<u>(23,530)</u>
<b>Net cash provided by (used in) financing activities</b>	<b><u>3,075</u></b>	<b><u>(33,960)</u></b>
<b>Net increase in cash and current accounts due from banks</b>	<b>6,227</b>	<b>3,070</b>
<b>Cash and current accounts due from banks at beginning of year</b>	<b><u>7,398</u></b>	<b><u>4,328</u></b>
<b>Cash and current accounts due from banks at end of year</b>	<b><u>13,625</u></b>	<b><u>7,398</u></b>
<b>Interest paid during the year</b>	<b><u>33,451</u></b>	<b><u>30,469</u></b>
<b>Interest received during the year</b>	<b><u>40,295</u></b>	<b><u>34,091</u></b>

**1. Accounting policies and general information**

The Czech National Bank ("ČNB") is the Central bank of the Czech Republic. ČNB 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 Col., "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.

**a) Basis of presentation of financial statements**

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.

ČNB as the Central bank does not prepare consolidated financial statements in compliance with IAS, although it is the sole owner of Česká finanční, s.r.o. The reasons for non-consolidation, are the degree of difference between the business of Česká finanční, s.r.o. and ČNB, and the fact that ČNB's investment in this company is for a limited period only.

**b) Interest, fees and commissions**

Interest income from assets with a fixed interest rate is recorded in the periods in which it is earned or incurred. Interest receivable 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. Income and expense from fees and commissions are recorded in the periods in which they are earned or incurred.



## **Czech National Bank**

### **Notes to financial statements for the year ended 31 December 1997**

#### **c) 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 profit and loss 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 31 December 1997 were:

German Marks	("DEM")	1:	19,320
U.S.Dollars	("USD")	1:	34,636
Japanese Yens	("JPY")	100:	26,743

Assets are concentrated mostly within OECD countries.

#### **d) Provisions for estimated losses**

Placements with banks and commercial loans are stated net of specific and general provisions for estimated losses on receivables. Specific provisions are made for certain loans based on a detailed assessment of the borrower's ability to repay the loan 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 been specifically identified.

Provisions are made for potential losses arising from commitments, guarantees and contingencies. Such provisions are recorded in liabilities.

Changes to provisions for commitments and guarantees are recorded in the profit and loss statement.

#### **e) Gold and other precious metals**

Gold and other precious metals are stated at historical cost, as management consider these assets to be long-term investments.

**f) Debt securities**

Debt securities are classified by 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 assert that all debt security holdings are current investments, and are therefore recorded at the lower of amortised cost or market value, in the aggregate. A provision is created for the 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 bonds, the difference between the net proceeds and the security's weighted average cost is recorded as a gain or loss from securities transactions in the profit and loss statement.

Securities sold under repurchase agreements (REPO transactions) except bills issued by ČNB, continue to be recorded in securities and are 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 from banks. Interest arising from security repurchase and security resell agreements is accrued as earned or incurred.

**g) 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 to CZK at the most recent rate advised by the IMF. At 31 December 1997 the rate was CZK 46.937 for 1 SDR.

**h) Equity investment**

Equity investments are stated at cost. If there is any decline in value, the provision made is recorded in the financial statements.

**i) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation. Land is not depreciated. Other fixed assets are depreciated using the straight-line method over the expected useful lives of the assets, which are estimated to be 50 years for buildings, 4-8 years for furniture and equipment and 4 years for software.

Assets on the account of acquisition of fixed assets are stated at cost. Depreciation commences when the asset is placed into service.

**j) 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.

**k) 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 in the profit and loss account. A similar procedure applies for swap operations with gold. ČNB enters into options and forward operations also.

**l) 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.

**m) Capital**

ČNB's capital is comprised of a statutory fund of CZK 1,400 million. In addition to the statutory fund ČNB maintains capital and reserve funds in the total value of CZK 6,185 million and profit and loss reserve of CZK 2,091 million.

**Czech National Bank**  
**Notes to financial statements for the year ended 31 December 1997**

**2. INTEREST INCOME**

	1997 CZK mil.	1996 CZK mil.
Placements with banks	17,467	30,187
Due from State	-	99
Debt securities and gold deposits	21,309	3,395
Commercial loans and advances	<u>1,519</u>	<u>410</u>
	<u><b>40,295</b></u>	<u><b>34,091</b></u>

**3. INTEREST EXPENSE**

	1997 CZK mil.	1996 CZK mil.
Due to State	3,949	4,430
Bills issued and other borrowings	15,026	16,445
Bonds issued and other long-term debt	1,033	1,014
Due to banks	10,697	5,671
Current and deposit accounts	<u>2,746</u>	<u>2,909</u>
	<u><b>33,451</b></u>	<u><b>30,469</b></u>

**4. PROVISIONS FOR LOAN LOSSES AND OTHER ESTIMATED LOSSES**

Specific provisions	Placements with banks CZK mil.	Commercial loans CZK mil.	Other provisions CZK mil.	Total CZK mil.
Balance at 1 January 1997	11,462	1,238	182	12,882
Increase in provisions	23,384	114	326	23,824
Decrease in provisions	-	(623)	(391)	(1,014)
Foreign exchange difference	<u>-</u>	<u>-</u>	<u>43</u>	<u>43</u>
Balance at 31 December 1997	<u><b>34,846</b></u>	<u><b>729</b></u>	<u><b>160</b></u>	<u><b>35,735</b></u>

The balance as at 1 January 1997 in column other provisions was adjusted for provisions to securities in amount of CZK 156 million (see Note 7).

General provisions	CZK mil.
Balance at 1 January 1997	7,661
Increase in general provisions	5,992
Decrease in general provisions	<u>(296)</u>
Balance at 31 December 1997	<u><b>13,357</b></u>

## 5. LOANS AND PLACEMENTS WITH BANKS

	1997		
	Local banks CZK mil.	Foreign banks CZK m.l.	Total CZK mil.
Term deposits with foreign banks	-	59,169	59,169
Security resell agreements	-	60,148	60,148
Short-term rediscount bills of exchange	467	-	467
Other short-term loans	7,300	-	7,300
Long-term redistribution loans	52,985	-	52,985
Other long term loans	4,167	-	4,167
Other interbank loans and advances	<u>23,884</u>	<u>26,122</u>	<u>50,006</u>
	88,803	145,439	234,242
Less: provisions (note 4)	<u>(21,112)</u>	<u>(13,734)</u>	<u>(34,846)</u>
	<u><u>67,691</u></u>	<u><u>131,705</u></u>	<u><u>199,396</u></u>

Management consider it necessary to create provisions in respect of loans and placements with banks of CZK 36,496 million as at 31 December 1997. The actual amount of provisions is CZK 34,846 million. The balance of CZK 1,650 million is covered by the guarantee issued by the Government of the Czech Republic in respect of the banking consolidation programme.

	1996		
	Local banks CZK mil.	Foreign banks CZK mil.	Total 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 loans and advances	<u>11,022</u>	<u>26,123</u>	<u>37,145</u>
	75,344	181,586	256,930
Less: provisions (note 4)	<u>(362)</u>	<u>(11,100)</u>	<u>(11,462)</u>
	<u><u>74,982</u></u>	<u><u>170,486</u></u>	<u><u>245,468</u></u>

Long-term redistribution loans were originally provided in 1990 and as at 31 December 1997 consist of CZK 36,761 million due from Konsolidační banka, s.p.ú. (KOBP) and CZK 16,224 million due from Investiční a Poštovní banka, a.s. (IPB).

## Czech National Bank

### Notes to financial statements for the year ended 31 December 1997

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

	CZK mil.
1997	9,000
1998	10,500
1999	<u>17,261</u>
	<u><u>36,761</u></u>

The repayment of CZK 9,000 million, originally planned for the year 1997, was settled in January (CZK 5,000 million) and February (CZK 4,000 million) 1998.

The loan to IPB consists of a balance of CZK 16,224 million as at 31 December 1997 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 and has no specified maturity.

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

Other interbank advances - foreign total CZK 26,122 million due from the National Bank of Slovakia. The total comprises:

CZK 24,522 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 from 1 January 1993 on the formation of separate successor central banks in the Czech and Slovak Republics; and

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.

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

## 6. GOLD AND OTHER PRECIOUS METALS

	1997 CZK mil.	1996 CZK mil.
Gold	3,922	3,942
Other precious metals	<u>38</u>	<u>28</u>
	<u><u>3,960</u></u>	<u><u>3,970</u></u>

The market value of gold was CZK 20,050 million as at 31 December 1996 and CZK 20,838 million as at 31 December 1997.

The gold includes gold for repo transactions in amount of CZK 1,960 million. In the last period it was stated in the amount of CZK 200 million in other assets. The cash flow statement was adjusted by the same amount.

**Czech National Bank****Notes to financial statements for the year ended 31 December 1997****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.

	1997 CZK mil.		1996 CZK mil.	
	Book value	Market value	Book value	Market value
Foreign government treasury bills	40,293	40,293	8,261	
Bank for International Settlements bills	<u>101,577</u>	<u>101,604</u>	<u>116,950</u>	<u>        </u>
	<u>141,870</u>	<u>141,897</u>	<u>125,211</u>	<u>125,237</u>
Foreign government bonds	74,555	74,739	58,802	58,968
Bonds	<u>        </u>	<u>        </u>	<u>294</u>	<u>237</u>
	<u>216,425</u>	<u>216,636</u>	<u>184,307</u>	<u>184,442</u>

Provisions in the amount of CZK 156 million (Note 4) are created to debt securities.

The ČNB further issued CZK 150,000 million of its own bills, from which CZK 102,624 million were used in repo operations. These repurchased bills are recorded as a reduction of ČNB's outstanding liability for bills issued.

Debt securities are denominated in the following currencies:

	1997 CZK mil.	1996 CZK mil.
Czech Crowns	-	294
German Marks	127,847	120,818
American Dollars	61,576	62,608
Dutch Guilders	-	468
Japanese Yen	<u>27,002</u>	<u>119</u>
	<u>216,425</u>	<u>184,307</u>

See analysis of the currency position of the debt securities in Note 21 to the financial statements.

**8. COMMERCIAL LOANS AND ADVANCES**

	1997 CZK mil.	1996 CZK mil.
Commercial loans	19,645	5,090
Less: provisions (Note 4)	<u>(729)</u>	<u>(1,238)</u>
	<u><b>18,916</b></u>	<u><b>3,852</b></u>

The portfolio of commercial loans and advances consists of:

	1997 CZK mil.	1996 CZK mil.
Banks in liquidation	8,774	-
Česká finanční	9,638	-
Other	<u>1,233</u>	<u>5,090</u>
	<u><b>19,645</b></u>	<u><b>5,090</b></u>

Management consider it necessary to create provisions in respect of commercial loans and advances in amount of CZK 9,728 million as at 31 December 1997. The actual amount of provisions is CZK 729 million. The balance of CZK 8,999 million is covered by the guarantee issued by the Government of the Czech Republic in respect of the banking consolidation programme.

**9. DUE FROM AND DUE TO STATE**

Due to State consists of the following:

	1997 CZK mil.	1996 CZK mil.
State assets	25,714	38,433
State budget surplus	<u>324</u>	<u>-</u>
	<u><b>26,038</b></u>	<u><b>38,433</b></u>

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



**10. INTEREST RECEIVABLE AND OTHER ASSETS**

	1997 CZK mil.	1996 CZK mil.
Interest receivable	1,638	1,614
Other receivables	3,983	4,957
Deferred expenses on the ČNB bills issued	3,703	3,745
Less: provisions (note 4)	<u>(3)</u>	<u>(6)</u>
	<u><u>9,321</u></u>	<u><u>10,310</u></u>

The item other receivables was for the year 1996 adjusted for gold repo transaction in amount of CZK 200 million (see Note 6).

**11. EQUITY INVESTMENTS**

	1997 CZK mil.	1996 CZK mil.
Československá obchodní banka	1,353	1,353
Bank for International Settlement	49	49
Česká finanční	2,481	0
Other	<u>12</u>	<u>2,407</u>
	<u><u>3,895</u></u>	<u><u>3,809</u></u>

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, none of which has a quoted market price. 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 held as at 31 December 1997 and 1996 was CZK 1,246 million and CZK 1,256 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.

In 1997, the ČNB became a 100% owner of Česká finanční s.r.o. The investment represents CZK 2,481 million (see Note 24).

Investments in Československá obchodní banka and in the Institut bankovního vzdělávání are stated at acquisition price (cost) as opposed to treatment as associates, because ČNB is not trying to influence these institutions in any way other than within its role as the Central bank.

**Czech National Bank**  
**Notes to financial statements for the year ended 31 December 1997**

**12. FIXED ASSETS**

	Land and buildings	Furniture and Equipment	Other	Intangible fixed assets	Total CZK mil.
<b><u>Book value</u></b>					
Balance as at 1.1.1997	2,252	1,706	179	216	4,353
Additions	448	525	56	205	1,234
Disposals	<u>5</u>	<u>39</u>	<u>20</u>	<u>1</u>	<u>65</u>
Balance as at 31.12.1997	2,695	2,192	215	420	5,522
<b><u>Accumulated depreciation</u></b>					
Balance as at 1.1.1997	193	919	159	121	1,392
Balance as at 31.12.1997	240	1,178	195	180	1,793
<b><u>Net book value</u></b>					
Balance as at 31.12.1997	<u>2,455</u>	<u>1,014</u>	<u>20</u>	<u>240</u>	<u>3,729</u>

Acquisition of assets represents costs associated principally with reconstruction of buildings. The balance was CZK 412 million as at 31 December 1997 and CZK 1,001 million as at 31 December 1996.

Expected payable relating to completion of reconstruction of ČNB buildings is, as at 31 December 1997, CZK 2,087 million.

**13. DUE TO BANKS**

	1997 CZK mil.	1996 CZK mil.
<b>Due to domestic banks:</b>		
Obligatory minimum reserves	89,830	113,108
Demand deposits	13,747	8,656
Security repurchase agreements	101,500	20,643
Term deposits	44	44
<b>Due to foreign banks:</b>		
Term deposits from non-OECD banks	<u>411</u>	<u>417</u>
	<u>205,532</u>	<u>142,868</u>

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.

**Czech National Bank****Notes to financial statements for the year ended 31 December 1997****14. BILLS ISSUED AND OTHER BORROWINGS**

	1997 CZK mil.	1996 CZK mil.
Czech National Bank bills	3,703	53,531
Other borrowings	<u>12,151</u>	<u>6,326</u>
	<u><u>15,854</u></u>	<u><u>59,857</u></u>

Czech National Bank bills are issued with original maturities up to six months and are stated net of bills repurchased of CZK 146,297 million and CZK 60,000 million as at 31 December 1997 and 1996, respectively.

Other borrowings include security repurchase agreement arising from gold repo transactions in the amount of CZK 11,072 million.

**15. RELATIONSHIP WITH THE IMF**

	1997 CZK mil.	1996 CZK mil.
IMF membership quota	<u>24,963</u>	<u>23,675</u>
Payable to the IMF	24,900	23,613
IMF current account	<u>63</u>	<u>62</u>
Total payable to the IMF	<u><u>24,963</u></u>	<u><u>23,675</u></u>

ČNB administrates a membership in the IMF, denominated in special drawing rights, which was funded through the issuance of bills of exchange, payable upon demand. Pursuant to this membership the amounts of CZK 24,963 million and CZK 23,675 million as at 31 December 1997 and 1996, respectively are maintained at IMF (Note 1).

**16. BONDS ISSUED**

The following bonds, denominated in foreign currencies, were outstanding as at 31 December 1997 and 1996:

Issue date	Currency (billions)	Interest rate	Maturity	1997 CZK mil.	1996 CZK mil.
November 1991	JPY 2.8	8.5%	November 1997	-	660
August 1993	JPY 35	6.6%	August 2000	<u>9,360</u>	<u>8,246</u>
				<u><u>9,360</u></u>	<u><u>8,906</u></u>

The increase of CZK values was caused by the decline of CZK exchange rate.

**17. LONG TERM DEBT**

**Export - Import Bank of Japan**

Long-term debt represents advances under the 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 providing funding export activity by commercial banks in the Czech Republic. This loan agreement appoints ČNB as the loan administrator. The loan facility provides for advances under three tranches. Their balances as at 31 December 1997 and as at 31 December 1996 were as follows:

<b>Tranche Amount (JPY)</b>	<b>Advance date</b>	<b>Advance amount (JPY)</b>	<b>Balance at 31.12. 1997 CZK mil.</b>	<b>Interest rate</b>	<b>Balance at 31.12.1996 CZK mil.</b>
1.5 billion	9 March 1993	4,366 billion	1,168	4.7%	1,232
7.5 billion	1 February 1995	1,455 billion	389	4.7%	410
7.5 billion	17 July 1995	1,455 billion	389	2.5%	410
			<u>1,946</u>		<u>2,052</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 billion commenced on 15 March 1997 and were 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 commitment fee on the unused portion of the loan facility of 0.5% p.a.

**European Investment Bank (EIB)**

The remaining balance of long-term borrowings of CZK 242 million as at 31 December 1997 and CZK 221 million as at 31 December 1996 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 1997.

Loans advanced by ČNB to commercial banks under the EXIM Bank and EIB loan facilities totalled CZK 2,347 million and CZK 1,973 million as at 31 December 1997 and 1996, respectively.

**Czech National Bank****Notes to financial statements for the year ended 31 December 1997****18. RESERVES AND OTHER FUNDS**

	1997 CZK mil.	1996 CZK mil.
Legal reserve fund	5,759	5,759
Social fund	1	1
Bonuses fund	7	9
Other capital fund	259	294
Other reserve funds	159	159
Loss for the year	(8,654)	(8,654)
Profit for the year	10,745	-
	<u>8,276</u>	<u>(2,432)</u>

**19. COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ITEMS**

	1997 CZK mil.	1996 CZK mil.
Guarantees provided	75,170	74,541
Provision	(12,258)	(7,365)
Accepted bills of exchange	790	740
Receivables under swaps	9,360	9,625
Receivables under options	22,539	-
Receivables under forward operations	32,810	-
Payables under swaps	10,777	11,235
Payables under options	22,408	-
Payables under forward operations	32,900	-

Contingencies and commitments are recorded at the amount of CZK 75,170 million, of which CZK 74,657 million stand for guarantees relating to contingent liabilities in respect of the bank industry consolidation programme. It is considered necessary to create provisions for contingencies from provided guarantees in the amount of CZK 19,274 million. Actual provisions created amount to CZK 12,258 million and the remaining amount of provisions required is covered by guarantees provided by the Government of the Czech Republic. Other risks are provided for by creation of a reserve of CZK 1,100 million.

The guarantee provided to Česká finanční s.r.o. in the amount of CZK 4,709 million is included in provided guarantees, for which full provision was created.

The Bank accepted in 1996 a guarantee provided by the Government of the Czech Republic in the amount of CZK 22,500 million for securing potential losses due to implementing the bank industry consolidation programme (Note 23).

The Bank concluded in 1997 options for the sale of 30.85 tonnes of gold with maturity in 1998.

## Czech National Bank

### Notes to financial statements for the year ended 31 December 1997

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 on 8 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. Interest rates were agreed at 8,6% (for the amount of DEM 239 million) and 6m LIBOR + 2,13% (for the amount of DEM 318 million) and at 6,6% for JPY.

Within the current maintenance of the foreign currency position the Bank has entered into forward purchases and sales of foreign currencies in the total amount of CZK 24 billion as at 31 December 1997:

- purchased	DEM 963 million	JPY 5,874 billion	USD 103 million
- sold	DEM 67 million	JPY 44 billion	USD 314 million

The Bank entered in 1997 into a forward deal with maturity in 1998 for a sale of 24.88 tonnes of gold in purchase price CZK 1,508 million. Profit in the amount of CZK 7,438 million realised on this operation is included in the result of 1998.

ČNB also entered into various short-term swap contracts to hedge foreign currency exchange risk related to loans received from the EXIM Bank of Japan and to the issuance of bonds.

## Czech National Bank

### Notes to financial statements for the year ended 31 December 1997

#### 20. LIQUIDITY RISK

The table below provides an analysis of assets and liabilities in relevant maturity groupings based on the remaining due period at 31 December 1997. 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.
<b>Assets</b>							
Cash and current accounts due from banks	12,755	-	870	-	-	-	13,625
Placements with banks - net of provisions	132,024	-	-	36,761	2,347	28,264	199,396
Gold and other precious metals	3,770	-	-	-	-	190	3,960
Debt securities	29,472	96,609	30,052	47,732	12,560	-	216,425
Commercial loans and advances - net of provisions	9,036	9,643	133	72	32	-	18,916
Membership quota at the IMF	-	-	-	-	-	24,963	24,963
Interest receivable and other assets	4,175	-	5,146	-	-	-	9,321
Equity investments	-	-	-	-	-	3,895	3,895
Fixed assets- net	-	-	-	-	-	4,141	4,141
<b>Total Assets</b>	<b>191,232</b>	<b>106,252</b>	<b>36,201</b>	<b>84,565</b>	<b>14,939</b>	<b>61,453</b>	<b>494,642</b>
<b>LIABILITIES</b>							
Due to banks	205,488	-	-	-	44	-	205,532
Current and deposit accounts	23,173	-	16,703	3,313	1,555	-	44,744
Bills issued and other borrowings	15,854	-	-	-	-	-	15,854
Payable to IMF	63	-	-	-	-	24,900	24,963
Due to State	2,496	-	12,456	11,086	-	-	26,038
Bonds issued	-	-	-	9,360	-	-	9,360
Long-term debt	-	-	6	35	2,147	-	2,188
Currency in circulation	-	-	-	-	-	139,146	139,146
Interest payable and other liabilities	1,900	1,097	-	-	-	787	3,784
Reserves	-	-	-	-	-	13,357	13,357
Capital	-	-	-	-	-	1,400	1,400
Provisions for estimated losses	-	-	-	-	-	8,276	8,276
<b>Total liabilities</b>	<b>248,974</b>	<b>1,097</b>	<b>29,165</b>	<b>23,794</b>	<b>3,746</b>	<b>187,866</b>	<b>494,642</b>
<b>Liquidity risk at 31.12.1997</b>	<b>(57,742)</b>	<b>105,155</b>	<b>7,036</b>	<b>60,771</b>	<b>11,193</b>	<b>(126,413)</b>	<b>-</b>

# Czech National Bank

## Notes to financial statements for the year ended 31 December 1997

### 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.

	CZK CZK mil.	USD CZK mil.	DM CZK mil.	JPY CZK mil.	ECU CZK mil.	Other CZK mil.	Total 31.12. 1997 CZK mil.
<b>Assets</b>							
Cash and current accounts due from banks	12,651	878	5	3	18	70	13,625
Placements with banks - net of provisions	51,323	36,382	83,783	1,786	26,122	-	199,396
Gold and other precious metals	3,960	-	-	-	-	-	3,960
Debt securities	-	61,576	127,847	27,002	-	-	216,425
Commercial loans and advances - net	18,916	-	-	-	-	-	18,916
Membership quota at the IMF	24,963	-	-	-	-	-	24,963
Interest receivable and other assets	7,876	406	774	265	-	-	9,321
Equity investments	3,845	-	-	-	-	50	3,895
Fixed assets - net	4,141	-	-	-	-	-	4,141
<b>Total Assets</b>	<b>127,675</b>	<b>99,242</b>	<b>212,409</b>	<b>29,056</b>	<b>26,140</b>	<b>120</b>	<b>494,642</b>
<b>LIABILITIES</b>							
Due to banks	205,532	-	-	-	-	-	205,532
Current and deposit accounts	43,128	5	1,555	-	56	-	44,744
Bills issued and other borrowings	3,703	11,072	1,079	-	-	-	15,854
Payable to IMF	24,963	-	-	-	-	-	24,963
Due to State	26,038	-	-	-	-	-	26,038
Bonds issued	-	-	-	9,360	-	-	9,360
Long-term debt	-	-	242	1,946	-	-	2,188
Currency in circulation	139,146	-	-	-	-	-	139,146
Interest payable and other liabilities	3,115	-	353	277	-	39	3,784
Reserves	13,357	-	-	-	-	-	13,357
Capital	1,400	-	-	-	-	-	1,400
Provisions for estimated losses	8,276	-	-	-	-	-	8,276
<b>Total liabilities</b>	<b>468,658</b>	<b>11,077</b>	<b>3,229</b>	<b>11,583</b>	<b>56</b>	<b>39</b>	<b>494,642</b>
<b>Net Assets (Liabilities)</b>	<b>(340,983)</b>	<b>88,165</b>	<b>209,180</b>	<b>17,473</b>	<b>26,084</b>	<b>81</b>	<b>-</b>

	1997 CZK mil.	1996 CZK mil.
Assets denominated in foreign currencies	366,967	369,789
Liabilities denominated in foreign currencies	25,984	35,906



## 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	Without interest	Total
	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.	CZK mil.
<b>Assets</b>							
Cash and current accounts due from banks	12,755	-	870	-	-	-	13,625
Placements with banks - net of provisions	184,661	-	-	-	2,347	12,388	199,396
Gold and other precious metals	3,770	-	-	-	-	190	3,960
Debt securities	29,472	119,150	28,858	32,637	6,308	-	216,425
Commercial loans and advances - net of provisions	9,036	9,643	133	72	32	-	18,916
Membership quota at the IMF	-	-	-	-	-	24,963	24,963
Interest receivable and other assets	4,175	-	5,146	-	-	-	9,321
Equity investments	-	-	-	-	-	3,895	3,895
Fixed assets- net	-	-	-	-	-	4,141	4,141
<b>Total Assets</b>	<b>243,869</b>	<b>128,793</b>	<b>35,007</b>	<b>32,709</b>	<b>8,687</b>	<b>45,577</b>	<b>494,642</b>
<b>LIABILITIES</b>							
Due to banks	205,488	-	-	-	44	-	205,532
Current and deposit accounts	43,189	1,555	-	-	-	-	44,744
Bills issued and other borrowings	15,854	-	-	-	-	-	15,854
Payable to IMF	63	-	-	-	-	24,900	24,963
Due to State	26,038	-	-	-	-	-	26,038
Bonds issued	-	-	-	9,360	-	-	9,360
Long-term debt	-	-	6	35	2,147	-	2,188
Currency in circulation	-	-	-	-	-	139,146	139,146
Interest payable and other liabilities	1,900	1,097	-	-	-	787	3,784
Reserves	-	-	-	-	-	13,357	13,357
Capital	-	-	-	-	-	1,400	1,400
Provisions for estimated losses	-	-	-	-	-	8,276	8,276
<b>Total liabilities</b>	<b>292,532</b>	<b>2,652</b>	<b>6</b>	<b>9,395</b>	<b>2,191</b>	<b>187,866</b>	<b>494,642</b>
<b>Interest rate risk at 31.12.1997</b>	<b>(48,663)</b>	<b>126,141</b>	<b>35,001</b>	<b>23,314</b>	<b>6,496</b>	<b>(142,289)</b>	<b>-</b>

**23. BANK CONSOLIDATION PROGRAMME**

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 1997 ČNB has assumed certain assets and liabilities or guaranteed certain liabilities of various commercial banks. The Government of the Czech Republic has extended a guarantee in the amount of CZK 22,500 million to offset the Bank's exposure, of which CZK 17,665 million has been allocated to the receivables and guarantees given as at 31 December 1997. 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. Provisions and reserves created as at 31 December 1997 and allocation of the guarantee issued by the Government is stated in Note 5, 8 and 19.

	Book value CZK mil.	Need for provisions CZK mil.
Receivables from former banks	9,045	9,045
Loans of banks	23,272	22,400
Guarantees issued	74,657	19,274
Other risk	1,100	1,100
<b>Total estimated risk</b>	<b>108,074</b>	<b>51,819</b>
Government allocated guarantee		(17,665)
Previously created reserves and provisions		(7,406)
Creation of reserves and provisions in 1997		(26,748)

During 1997 the Bank transferred and sold certain assets with nominal value of CZK 7,321 million to Česká finanční, s.r.o., for CZK 1,172 million. The Bank granted a loan to Česká finanční, s.r.o., in the same amount. The loss resulting from that transfer and sale is recorded in profit and loss statement for year ended 31 December 1997.

**24. ČESKÁ FINANČNÍ, S.R.O.**

Česká finanční, s.r.o. was purchased by ČNB in 1997 in order to implement the Bank industry stabilisation programme, which is focused on small and middle banks and was approved by Czech government in 1996. According to this approval, a bank included in this programme can sell to Česká finanční, s.r.o. its classified assets. The sale of assets is being effected at their book value with the bank's liability to repurchase these assets after seven years. This programme is financed by Konsolidační banka, s. p. ú. and possible losses are covered by National Property Fund.

Česká finanční, s.r.o. also does some transactions in respect of the consolidation programme, which was announced by the Czech National Bank. One of the aims of this programme is to

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**Notes to financial statements for the year ended 31 December 1997**

achieve higher stability, especially that of small banks. The consolidation programme is financed by Czech National Bank. Losses occurred to Česká finanční, s.r.o. in respect of this programme will be covered from means of ČNB.

In December 1997 the equity of Česká finanční, s.r.o. increased from CZK 0,5 million to CZK 2,480.5 million.

In the company's audited financial statements as at 31 December 1997, there is included equity at the amount of CZK 106 million and operating result (loss) of CZK 2,375 million.